



Identification of Securities Financing Transactions Using Standard Message Formats

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Executive summary

Regulators are asking the industry to become 'safer' and 'more transparent'. For the Securities Financing industry this has significant implications for the processing of their transactions. Securities Financing Transactions (SFTs) will need to become more transparent for compliance with upcoming reporting requirements, but also to ensure they benefit from partial exemptions from new EU regulatory requirements covering settlement discipline. It will be increasingly essential to be able to properly identify SFTs as they are passed on for settlement purposes from one financial institution to the next.

In the past the industry has created ISO message standards to correctly pass on transaction details between financial parties. These stipulate the usage of field tags and code words in message formats. Such field tags and code words have been developed for SFTs in ISO settlement messages along with market practice documentation to illustrate the correct usage of the standards. Effective tools to correctly identify SFTs exist today in commonly used trade confirmation and settlement message standards.

This document illustrates the correct usage of these standards and particularly how to identify SFTs. Compliance with the standards needs to be verified and corrective actions might need to be taken. Equally service providers need to ensure proper acceptance and processing of the information contained in the correctly applied standards.

Introduction

Recent regulatory developments have significant implications for SFTs. New regulation covering settlement procedures in the EU (the CSD Regulation) will have significant impacts on repo trades and other SFTs. Partial exemptions for SFTs in the standard buy-in procedures of the CSD Regulation mean that it is important that SFTs are clearly identified in post trade processes. It is essential that SFTs are clearly identified in communication with counterparties (for confirmations), and with service providers such as custodians, settlement agents and market infrastructures (for clearing and settlement). Proper identification of SFTs will enable the partial exemptions included in the regulation to be leveraged.

Regulators also want more transparency on SFTs, as outlined in recent papers from the FSB and in the upcoming EU Regulation on the reporting and transparency of SFTs. Proper identification of SFTs in the post trade process will also ensure easier implementation of new reporting requirements when these start to apply at a later stage.

How message standards can help

Securities transaction communications between financial institutions increasingly involve the use of standard message formats (e.g. FIX for price discovery and trading).

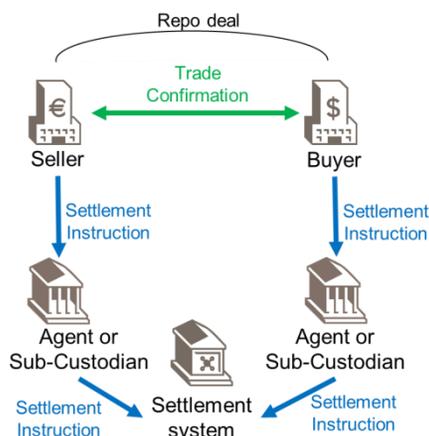
Standard message formats under ISO 15022 and ISO 20022 are also available, and are used for trade confirmation and settlement processes. These standards are particularly relevant to the settlement discipline aspects of the CSD Regulation. They can be leveraged to provide a standard structured methodology for the identification of repo and other SFTs in trade confirmation and settlement message flows.

ISO 15022 and ISO 20022 formats include field-tags and code-words, which are specifically designed to enable the sender of the message (e.g. a financial institution confirming a repo to a counterparty, or a settlement agent instructing the settlement system/CSD when settling the first 'leg' of a buy-sell-back) to specify the settlement transaction type. Upon receipt of the message, the receiver may initiate the appropriate processing of the transaction type (e.g. a settlement system/CSD will know the instruction may be partially exempted from the buy-in process because it is identified as an SFT).

This document describes the mechanisms that are in place today to identify SFTs focusing particularly on the widely used existing ISO 15022 standards. These mechanisms rely on the correct usage of pre-agreed standard code words.

Message flows

We distinguish two main business flows between the trading parties and the settlement intermediaries: the trade confirmations and the settlement instructions. The former are exchanged between two trading parties to electronically confirm trade details and (potentially) settlement data. The latter are used by trading parties to instruct the settlement system/CSD to settle the trade or to instruct the financial intermediaries (or agents) that will instruct for settlement on their behalf.



Trade confirmation

The trade confirmation process is typically handled through a bilateral message exchange (preferably automated, sometimes manually (e.g. via fax or Email)), or through a central matching mechanism such as Xtrakter or Accord.

If bilateral messages are used, the following ISO 15022 standard message formats can be used:

MT 515: client confirmation

MT 518: market confirmation

These message formats contain a specific 'Settlement Instruction Type' field. This field is used to identify the underlying transaction type. In the confirmation process both counterparties need to ensure that the correct transaction type identification is applied on either side. That way the underlying message information can be passed on automatically to the settlement agents or settlement system.

Settlement instruction

Settlement instructions are sent 'downstream' from a buyer and seller (or trading parties) towards their respective agents or directly to their settlement system (if such a direct relationship exists). These instructions can be sent as proprietary formats used by the receiver or through standard message types.

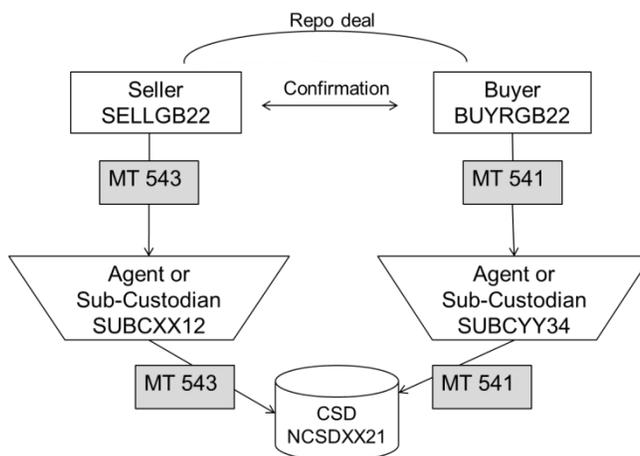
If, for example, the ISO 15022 standard message format is chosen then the following message types would be used:

MT 540 or MT 541: receive free or against payment

MT 542 or MT 543: deliver free or against payment

These message formats also contain the 'Settlement Instruction Type' field. Again, this field is used to identify the underlying transaction type. In the settlement process it allows the instructing party to correctly identify the underlying trade so the receiving party can adapt its processing (if necessary).

The message flow for a repo transaction is illustrated as shown below:



Use of message formats and code-words

In the ISO 15022 message types shown above, the 'Settlement Instruction Type' field is located in the 'Settlement Details' sequence (this is a part of the message). Within this messaging sequence this field is mandatory (i.e. must be completed).

The correct fieldtag is :22F::SETR//xxxx. The xxxx section identifies the specific type.

For example :22F::SETR//REPU indicates the settlement related to a Repo transaction and :22F::SETR//RVPO indicates the settlement related to the Reverse Repo transaction (the opposite view).

Putting this into context, the completed message would be as shown below:

MT 543 from SELLGB22 to SUBCXX12		MT 541 from BUYRGB22 to SUBCYY34
:16R:GENL		:16R:GENL
:20C::SEME//REPOINSTR123	Message reference	:20C::SEME//REPOINSTR456
:23G:NEWM	Function of the message	:23G:NEWM
:16S:GENL		:16S:GENL
:16R:TRADDET		:16R:TRADDET
:98A::TRAD//20150302	Trade date 2 nd March 2015	:98A::TRAD//20150302
:98A::SETT//20150304	Repo Opening Settlement date	:98A::SETT//20150304
:35B:ISIN XX0000294034	ISIN	:35B:ISIN XX0000294034
:16S:TRADDET		:16S:TRADDET
:16R:FIAC		:16R:FIAC
:36B::SETT//FAMT/100050000,	Quantity of securities	:36B::SETT//FAMT/100050000,
:97A::SAFE//111111111	Safekeeping account	:97A::SAFE//333333333
:16S:FIAC		:16S:FIAC
:16R:REPO		:16R:REPO
:98A::TERM//20150311	Repo Closing date. If the date is open, 98B::TERM//OPEN must be used.	:98A::TERM//20150311
:20C::REPO//REPO12345	Repo reference	:20C::REPO//REPO12345
:19A:: TRTE//EUR9910780,	Termination transaction amount	:19A:: TRTE//EUR9910780,
:16S:REPO		:16S:REPO
:16R:SETDET		:16R:SETDET
:22F::SETR//REPU	Identification of the settlement instruction type	:22F::SETR//RVPO
:16R:SETPRTY		:16R:SETPRTY
:95P::BUYR//BUYRGB22		:95P::SELL//SELLGB22
:16S:SETPRTY		:16S:SETPRTY
:16R:SETPRTY		:16R:SETPRTY
:95P::REAG//SUBCYY34		:95P::DEAG//SUBCXX12
:16S:SETPRTY		:16S:SETPRTY
:16R:SETPRTY		:16R:SETPRTY
:95P::PSET//NCSDXX21	Place of settlement	:95P::PSET//NCSDXX21
:16S:SETPRTY		:16S:SETPRTY
:16R:AMT		:16R:AMT
:19A::SETT//EUR9900000,	Opening settlement amount	:19A::SETT//EUR9900000,
:16S:AMT		:16S:AMT
:16S:SETDET		:16S:SETDET

The 'Settlement Instruction Type' field (22F::SETR) may contain a number of code words to identify transactions (in addition to just repos). The complete list of types (and related code words) can be found in the addendum.

Market practice for message standards

Usage of ISO message standards, such as those under ISO 15022, is optimised by adherence to market practice. Market practice for securities ISO 15022 messages is documented at www.smpg.info. Market practice includes the usage of the 'Settlement Instruction Type' field as described for Repos above. The following extract from the market practice covers repos:

Market practice for repo settlement instructions in standard messages:

- Each party (buyer, seller) should instruct using **one and only one message type** for ALL repo information throughout the WHOLE process
- The party receiving cash in exchange of the securities collateral (the seller) will always release the delivery messages (MT 542 or 543)
- The party receiving securities collateral and delivering cash (the buyer) will always release the receive messages (MT 540 or 541)
- The instruction will be identified as being the settlement of a repo operation by using field **:22F::SETR//REPU**
- The instruction will be identified as being the settlement of a reverse repo operation by using field **:22F::SETR//RVPO**
- The repo sequence is used to provide the closing information. The minimum business elements needed in the repo sequence are:
 - closing date; repo deal reference; necessary info to calculate the repurchase amount (repo rate, etc.) or the repurchase amount itself; the total number of collateral instructions (for multiple pieces of collateral)

Way forward

The industry needs to take steps to correctly implement the standards. While the relevant field is already mandatory in the messages, some institutions might have hard-coded a default value for all transactions. Compliance with the standard needs to be verified and corrective actions might need to be taken to ensure the correct code words are used.

Equally service providers need to ensure proper acceptance and processing of the information. In some cases this might just mean passing on the information to the next party in the settlement chain. Others, however, will need to change their processing based on the transaction type specified in the message/field.

Conclusion

To ensure proper handling of SFT transactions in the new regulatory environment these transactions must be properly identified in the communication between financial institutions. The ISO message standards for trade confirmation and settlement contain the specific fields to provide this information. Market practice illustrating the correct usage of these message types with the relevant code words exists, and is public.

If implemented correctly the usage of these identifiers in the settlement process will enable appropriate and automatic handling of repos and other SFTs, including the opportunity to benefit from partial exemptions in the CSD Regulation settlement discipline measures.

Usage of the same identifiers in the 'Settlement Details' fields of the trade confirmation messages will further optimise processing, and ensure that the parties capture the correct transaction identification at the earliest possible stage of post trade processing.

Addendum – complete list of Settlement Instruction Types

Code Word	Settlement Instruction Type
BSBK	Buy Sell Back
CLAI	Market Claim
CNCB	Central Bank Collateral Operation
COLI	Collateral In
COLO	Collateral Out
CONV	DR Conversion
ETFT	Exchange Traded Funds
FCTA	Factor Update
INSP	Move of Stock
ISSU	Issuance
MKUP	Mark Up
NETT	Netting
NSYN	Non Syndicated
OWNE	External Account Transfer
OWNI	Internal Account Transfer
PAIR	Pair Off
PLAC	Placement
PORT	Portfolio Move
REAL	Realignment
REDI	Withdrawal
REDM	Redemption (funds)
RELE	DR Release/Cancellation
REPU	Repo
RODE	Return of Delivery Without Matching
RVPO	Reverse Repo
SBBK	Sell Buy Back
SBRE	Borrowing Reallocation
SECB	Securities Borrowing
SECL	Securities Lending
SLRE	Lending Reallocation
SUBS	Subscription (funds)
SYND	Syndicate of Underwriters
TBAC	TBA Closing
TRAD	Trade
TRPO	Triparty Repo
TRVO	Triparty Reverse Repo
TURN	Turnaround

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