SWIFT Response to European Commission

Consultation on OTC derivatives, central counterparties and trade repositories (EMIR)

13 August 2015

Question 2.3: Are there any significant ongoing impediments or unintended consequences with respect to meeting trade reporting obligations in accordance with Article 9 of EMIR?

It is our understanding that the lack of one standard message format for the EMIR reporting obligations is hindering the exchange and interpretation of the information exchanged between the reporting counterparties and the trade repositories. For reporting counterparties this creates ambiguity on how to submit the requested information and on the trade repository side this creates interpretation risk. While the EMIR RTS contain information about the data elements to be reported, the RTS do not always specify the format in which each individual element should be submitted. For instance, the RTS: specify that there must be a date field, but do not specify the separator format; do not specify which elements are mandatory and which optional or conditional; state that trade reports must contain a Collateral Portfolio Code, but the only thing which is specified is that this code can be up to 52 alpha-numeric characters, but not the specific length or composition of these characters. Further, there is not one standard format concatenating all the required information. As a result each trade repository in operation today has its own version of what and how they want to receive the trade reporting data. This lack of specification gives rise to differences between the different trade repositories' reports and fields, compromising the aggregation and subsequent comparability of the reported data by regulators. Indeed, as the Financial Stability Board (FSB) noted in its OTC Derivatives Market Reforms: Fifth Progress Report, "There is a risk of data fragmentation across TRs, with different data fields and formats used by TRs for collecting data resulting in challenges to aggregating and comparing data." This lack of specification also creates a burden for reporting counterparties and creates an additional cost for those considering changing trade repository provider.

If your answer is yes, please provide evidence or specific examples. How could these be addressed?

As the FSB and other public sector bodies have noted, regulators have encountered difficulties in handling some existing trade reporting data. Differences between reporting formats and the resulting ambiguity and lack of consistency has complicated the task of public authorities seeking to aggregate and compare the reported data to identify anomalies and potential dangers. As noted by the Bank of England's Andy Haldane in his March 2012 speech, "The full benefits of this deeper and richer array of financial network information will only be realised if these data can be simply aggregated within and across firms. That calls for common data describers and standards."

SWIFT respectfully recommends that the Commission considers introducing a requirement for the use of specific message standards for future EMIR reporting. This will not only eliminate ambiguities, but also reduce the reporting burden for affected counterparties and remove barriers to interpretation both by firms, and by their competent authorities.

In considering the characteristics that any specified messaging standard should comprise, we believe that the following considerations should be taken into account - the standard’s:

- scope;
- feasibility of its implementation for the required reports;
- extensibility;
- governance and change management processes;
- accessibility (ie whether it is “open” or proprietary);
- re-usability;
- adoption levels, particularly for other reporting purposes;

One such messaging standard we believe that the Commission should consider for EMIR reporting is ISO 20022. We have set out below the key characteristics of the ISO 2022 standard:

Scope of standard

ISO 20022 - Universal Financial Industry Message Scheme - is the international standard that defines the ISO platform (methodology, process, repository) for the development of financial message standards and data sets. Its scope includes international (cross-border) and domestic financial communication between financial institutions, their clients and the international or domestic 'market infrastructures' involved in the processing and reporting of financial transactions.

The ISO 20022 business modelling approach allows users and developers to represent financial business processes and underlying transactions in a formal but syntax-independent notation. These business transaction data and process descriptions (called the Business Model) are the "real" business standards. They can be converted into physical messages in the desired syntax.

ISO 20022 covers all financial business areas. Standards have been developed across many financial business processes including retail and wholesale payments, cards, trade, foreign exchange, clearing, collateral management, settlement, asset reconciliation and transaction reporting. ISO 20022 is widely adopted in the financial industry. Central banks and market infrastructures across the world are increasingly using the standard, with around 70 payments and securities clearing and settlement systems adopting ISO 20022 today.

Further information about can be found on http://www.iso20022.org/.

Level of compliance (with EMIR)

ISO 20022 is the ISO-approved standardisation methodology for financial messages and data sets. It includes precise definitions for key financial industry concepts. These definitions are maintained in the Business Model which has the ability to capture the relationships between terms. For example, the ISO 20022 Business Model defines the term ‘account’, but also captures that there are different types of account (cash, securities, etc.) that nevertheless share some common attributes; that an account has an account owner, and an account servicer, that the account servicer is a financial institution, and so on. The business model also defines the format or data type of individual data items, be they dates, amounts, text, codes or larger structures such as name and address.

A recent mapping exercise with the reporting fields required for EMIR transaction reporting confirmed that more than 90% of the data elements required in ESMA’s Implementing Technical Standards are already catered for in the ISO 20022 repository. The ISO 20022 Business Model can cater for the missing functionalities, including further changes to EMIR reporting requirements, as the remaining gaps can be filled using the highly structured approach for ongoing maintenance of the business model.

The content of the Business Model is defined and maintained by the users of the standard, subject to a strong registration and governance process that ensures consistency and quality. The precision of the definitions found in ISO 20022, combined with the open but rigorous process for adding new content, makes it an excellent resource for ensuring that data elements specified in the context of EMIR reporting are maintained in a disciplined way, in order to reduce the chances of ambiguity.

Implementation feasibility (e.g. cost)

As mentioned above ISO 20022 is now widely used, particularly in the context of market infrastructures, and many financial firms have considerable expertise and experience in the implementation of ISO 20022 projects. Basing EMIR transaction reporting on ISO 20022 will enable industry players to further recoup their investment in supporting the standard.

ISO 20022 messages can be implemented on any network or communication channel, by any messaging provider. ISO 20022 implementations make use of mainstream, well-supported technology and can adapt to new technologies as they emerge.

Finally, the existence of a common business model accepted by other standards ensures a level of semantic interoperability. A common business model also means there is an agreement about the precise definition of data elements exchanged, irrespective of message syntax. This simplifies data mapping from these other standards to ISO 20022 for reporting purposes. FPL (for FIX), ISDA (for FpML) and other standards bodies have committed to support ISO 20022 via the Standards Coordination Group. This commitment should ensure that the use of ISO 20022 as the single reporting standard for EMIR will facilitate industry implementation, as it provides a common business model accepted by other standards bodies.

Non-functional requirements (e.g. extensibility)

ISO 20022 offers significant extensibility. As already indicated ISO 20022 is very much the definitive standard for financial messaging, and it is not identified exclusively with any one sector of the financial industry. We have seen ISO 20022 adopted in payments for SEPA, and by an increasing number of payment market infrastructures. At the same time it has also become more prevalent in securities e.g. with T2S and as the standard for collective investment vehicles (mutual funds or unit trusts) processing.

ISO 20022 has extensive market practice associated with it to ensure a disciplined approach to the use of the standard. This is again something which would contribute to the integrity of EMIR transaction reporting, reduce the scope for ambiguity and ensure that the data submitted can be aggregated by regulatory authorities. A number of software-based tools are available to test and calibrate firms' compliance with accepted market practice for the use of the standard in various messaging flows, and these could also be leveraged in the reporting context.

Openness

ISO 20022 offers a valuable common process and model for defining and structuring financial data, and an open governance process that ensures a level playing field for standardisers and users. It also offers expert international scrutiny of submitted content. ISO 20022 is not controlled by a single interest. It is open to anyone in the industry who wants to participate, and ISO 20022 messages can be implemented on any network or communication channel, by any messaging provider.

The methodology and supporting e-Repository are free for anyone to implement in any business or software environment, or on any network.

Reusability

ISO 20022 is being adopted rapidly in both payments and securities messaging for market initiatives, regulatory requirements and for a range of financial industry processes. We therefore believe that opportunities to re-use the investment in ISO 20022 will both be there at the outset, and continue to grow significantly over time.

Reusability is possible at the technology, but also at the business level.

At the technology level, ISO 20022 supports re-use of software applications and components, SOA services, Middleware/Enterprise Service Bus, message and data modelling and governance tooling, network interfaces. ISO 20022 implementations make use of mainstream, well-supported technology and can adapt to new technologies as they emerge. ISO 20022 messages can be implemented on any network or communication channel, by any messaging provider.

At the business level, the ISO 20022 business model provides a single, reusable way to describe financial business concepts - the open and consistent methodology and documentation make it much easier for business analysts to re-use their expertise within and across domains.

Level of adoption in other regulatory frameworks

ISO 20022 is the standard used for messaging by strategic initiatives such as the Single Euro Payments Area (SEPA), in the ECB's TARGET2-Securities initiative, the upcoming migrations of TARGET2 and EBA EURO1/STEP1. Therefore ISO 20022 is already used by thousands of corporates and banks throughout Europe, and is being implemented by all CSDs and direct members of T2S, as well as by all banks using TARGET2 and EBA EURO1/STEP1. The ISO 20022 standard has also been widely adopted by the common investment vehicle (mutual funds/ unit trusts) industry.

Recently, ISO 20022 has been adopted also in the context of regulatory reporting by the ECB for the Money Market Statistics Regulation reporting and by the Central Bank of Russia for Cross-border Transaction Currency Control Reporting.

Governance and change management

ISO 20022 is subject to a transparent and open governance process and a structured methodology for change management that is described in detail on the ISO 20022 website, and specifically covers the addition of new messages and the update of existing messages.

ISO 20022 should not be thought of as static but as a constantly evolving standard. The evolution, however, occurs in a controlled and structured way, to avoid any ambiguity and to ensure that stability is never compromised; changes are made to provide certainty and clarity for users as to what the changes are, and how and when they will be implemented

Question 2.5: Are there any significant ongoing impediments or unintended consequences anticipated with respect to meeting obligations to exchange collateral in accordance with Article 11(3) under EMIR?

The bilateral exchange of collateral is an important risk mitigation tool for reducing the counterparty exposures resulting from OTC derivatives trading. Notwithstanding this, the processes which deal with collateralisation are cumbersome and error-prone and by and large remain un-automated. For instance, the calculation of the outstanding exposure, collateral proposals, dispute resolution, re-pricing or re-valuation of collateral posted, collateral substitution and reconciliation and interest processing, are very often undertaken manually.

Further automation in this area would support the growing use of collateralisation and to ensure it does not give rise to undue operational risks. Again the use of standardised communications would assist the move to automation.

If your answer is yes, please provide evidence or specific examples. How could these be addressed?

A number of ISO 20022 messages have been developed to support the above mentioned processes and information exchanges. We believe the use of standard message types between financial institutions will reduce operational issues, further minimise risk of misinterpretation, and allow automation of the labour intensive work required to reconcile collateral positions and agree on the collateral to be exchanged. The benefits of using ISO 20022 as a standard have been listed extensively in section 2.3 above. Below we have listed the ISO 20022 standard message types specifically developed for this process.

- Margin Call Request: colr.003.001.03
- Margin Call Response: colr.004.001.03
- Collateral Management Cancellation Request: colr.005.001.03
- Collateral Management Cancellation Status: colr.006.001.03
- Collateral Proposal: colr.007.001.03
- Collateral Proposal Response: colr.008.001.03
- Margin Call Dispute Notification: colr.009.001.03
- Collateral Substitution Request: colr.010.001.03
- Collateral Substitution Response: colr.011.001.03
- Collateral Substitution Confirmation: colr.012.001.03
- Collateral And Exposure Report: colr.016.001.03
- Interest Payment Request: colr.013.001.03
- Interest Payment Response: colr.014.001.03
- Interest Payment Statement: colr.015.001.03

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