



SWIFT Response to Basel
Committee on Banking
Supervision consultative report:

“Haircut floors for non-centrally
cleared securities financing
transactions”

05 January 2016

SWIFT welcomes the Basel Committee on Banking Supervision (BCBS) consultative report on haircut floors for non-centrally cleared securities financing transactions and thanks BCBS for providing the opportunity to give comments.

SWIFT is a member-owned, cooperative society headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholding users, comprising more than 3,000 financial institutions. We connect more than 10,800 connected firms, across more than 200 countries and territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

SWIFT plays an important role in standardisation, notably by creating and maintaining financial messaging standards and reference data standards. Our Standards group helps financial organisations develop and use financial messaging and reference data standards, as part of SWIFT's mission of supporting the continuous evolution and improvement of standards, as well as related products and tools.

SWIFT Standards is neutral; most of its work is done pro-bono in support of industry working groups. Beyond the definition of base standards, SWIFT Standards collaborates with its communities to define, formalise and publish market practice guidelines, which describe how messages should be used in particular business contexts, and to specify common recommended implementations.

SWIFT again thanks the BCBS for the opportunity to comment and would be happy to discuss our response further in whatever way BCBS would see fit.



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SWIFT has no observations to make on the high-level principles of haircuts, haircut levels, or the risks associated with haircuts. We do, however, wish to point out some arising operational issues associated with the proposed requirements which will require global, market-wide solutions if the Committee's proposals are to be implemented successfully. In particular, for instance, we note, the importance of developing and implementing common automation standards regarding the communication of disclosure requirements.

The securities financing markets are global in nature and include a multiplicity of participants. For the requirements to be successfully implemented and meet the Committee's objectives, it will be necessary to develop supporting communications that can be uniformly adopted across participants and geographies. This would enable participants of all kinds to communicate and process the required information seamlessly, regardless of where they operate, where the assets might be held or loaned, or where their counterparts and asset services are located.

The disclosure requirements set out in section 4.1 of annex 1 state that agent lenders should frequently disclose to their clients (the beneficial owners of securities) the composition and valuation of their portfolio of securities on loan and their cash collateral reinvestment portfolio. Currently there is no single global standard that is widely used and which would enable all affected participants to seamlessly meet these requirements and exchange the necessary information in order to comply with the new requirements.

The development of a single global open standard under the ISO umbrella to support the new information exchanges would go some way to streamline the process and avoid participants having to implement a multiplicity of potentially costly and time-consuming changes to meet individual market requirements.

Standards created under the ISO process are guaranteed to be open and accessible to all parties, leading to inclusiveness and transparency. Open standards bring great value to common business processes as they allow for a common implementation that has been discussed and agreed by all affected parties and which can be implemented uniformly by all participants across multiple geographies.

SWIFT is a strong advocate of the use of open standards throughout many areas of the financial industry. Where open standards have been implemented in financial markets, they have brought substantial benefits in terms of straight through processing, transparency regulatory compliance and interoperability; open standards have also reduced costs and frictions, and facilitated the roles of regulators and supervisors thus helping to ensure the development of stronger, safer financial markets.

ISO 20022 is an open standard, which is not controlled by a single interest and is open to participation from its user community. Its scope covers the entire financial industry, so end-to-end business processes can be realised via a single standard. ISO 20022 implementations make use of mainstream, well-supported technology and can adapt to new technologies as they emerge. These technologies offer important technical advantages over older proprietary equivalents, such as support for non-Latin character sets.

Although there is no ISO standard that meets the exact requirements set out in the report, the ISO 20022 'Statement of Holdings message semt.003' could be extended, for instance, to meet the new disclosure requirements. The scope of the standard today is as follows:

An account servicer sends a Securities Balance Accounting Report to an account owner to provide, at a moment in time, valuations of the portfolio together with details of each financial instrument holding.

The account servicer/owner relationship may be:

- an accounting agent acting on behalf of an account owner, or*
- a transfer agent acting on behalf of a fund manager*
- or an account owner's designated agent.*

ISO 20022 has already been widely adopted in the global 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 implementing ISO 20022. In the US, the Fed has declared an intention to implement ISO 20022 for US payments, and DTCC is using it for its Corporate Actions service. In Asia, ISO 20022 is used by the Chinese domestic payments system, CNAPS. It is also used by the Japanese securities depository, JASDEC, the Singapore stock exchange (SGX), the Australian stock exchange (ASX), and it has been chosen as the standard for the forthcoming Australian real-time payments system. It is also the standard used for messaging by strategic initiatives such as the Single Euro Payments Area (SEPA), the ECB's TARGET2-Securities, upcoming migrations of TARGET2 and EBA (EURO1/STEP1). ISO 20022 standards have been developed across many financial business processes including retail and wholesale payments, foreign exchange, securities lending, repo transactions, collateral management, securities settlement and asset reconciliation.

ISO 20022 is increasingly being adopted as a standard reporting format, because the data model which lies at the heart of ISO 20022 is the ideal reference point to help regulators, market overseers and reporting firms to harvest, aggregate and interpret data which is unambiguous, clear and equivalent irrespective of its source. In the context of regulatory reporting and data aggregation, it is critical that all reporting entities interpret the specification of the data to be reported in the same way. Without this consistency, data from different entities cannot be meaningfully compared or aggregated, and the policy goals of the regulation can become difficult or impossible to achieve. The more precisely each data element in a report is specified, the more likely it is that implementers of the regulation will submit consistent data – and the easier it is for the supervisory community to examine the data.

Should you wish to discuss how the current ISO 20022 'Statement of Holdings message semt.003' standard and other open standards could be extended and adapted to support the necessary operational processes, please do not hesitate to contact us. We thank the BCBS again for the opportunity to comment on this consultation and would be glad to contribute to any further work in this area.

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