

The elimination of Giovannini Barrier 1

Conclusions of the high-level gap analysis

The protocol recommendation for the elimination of Giovannini Barrier 1 was issued in March 2006. It tasked SWIFT Standards and the SMPG to complete an analysis to identify gaps in the ISO messages that support the requirements of participants in the clearing, settlement and asset servicing business in Europe.

An interim report was published in December 2006, which was followed by a period of market consultation. This paper presents conclusions and incorporates the feedback received from the market.

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1 Executive summary

In December 2006, SWIFT Standards published an interim report on the progress of the Giovannini high-level gap analysis. High-level gaps are cases where there is no ISO message to meet the needs of a particular business process. The market was asked to review the report and provide feedback on whether or not they agreed with the gaps identified.

SWIFT reviewed the feedback and incorporated it into the inventories of business processes in attachment 3. The purpose of this report is to:

- Communicate the conclusions of the high-level gap analysis.
- Outline how SWIFT Standards will progress with the detailed gap analysis by looking at the detailed requirements for ISO messages.
- Advise on plans to eliminate the gaps identified.

Feedback – The key messages from market feedback were:

- The coverage of business processes in the inventories was accurate in terms of the scope of business areas covered.
- The market agrees with the preliminary observations regarding the appropriate ISO message to use for a given process.
- Detailed analysis is needed to identify any detailed requirements in the ISO messages recommended for the different business processes.
- SWIFT is encouraged to make this exercise more international in its scope (in particular, to involve the US and in general, to go beyond European borders).

Conclusions – The conclusions on the high-level gaps have not changed significantly from the interim report. In summary, the high-level gaps per business area are:

- CCP clearing – Communication between a central counterparty (CCP) and its clearing members on post-trade management (for example, give-up/take-up) and risk management (for example, clearing fund contributions).
- Settlement and reconciliation (S&R) – There are very few high-level gaps in this area as most of the business processes are supported by existing ISO 15022 messages.
- Asset servicing – Whilst all high-level processes for corporate actions (CA) and proxy processes are covered by ISO, there are some high-level gaps in the area of tax reclaims processing.
- Collateral limits management – ISO messages exist for bi-party and tri-party collateral management but these messages do not meet the high-level requirements of managing collateral limits.
- Cash management – Whilst most of the cash forecasting and reporting needs are supported by the ISO 20022 messages developed for the Single European Payments Area (SEPA) and Target2, one high-level gap was identified as regards status reporting in relation to the setting of cash limits.
- Securities reference data – There are numerous high-level gaps relating to the absence of ISO messaging in this space. In particular, there are no ISO messages related to the creation of new securities identifiers and the communication of the reference data related to those securities (for example, price).

- Some additional high-level gaps have been identified relating to the processing of Initial Public Offerings (IPOs) and the account opening and maintenance process.

Next steps – SWIFT Standards will organise workshops to identify any detailed requirements missing from the existing ISO messages. Change requests will be drafted and incorporated into future standards releases. These change requests will also be incorporated into the development of appropriate ISO 20022 messages.

Where high-level gaps have been identified, SWIFT Standards, together with the Securities Market Practice Group (SMPG), will work with the market through the ISO process to prioritise these and have market participants submit the required business justifications to develop new messages for the most pressing gaps. SWIFT Standards' ability to identify further gaps and to help eliminate them is dependent on the continued input and co-operation of market participants.

SWIFT Standards will publish a development roadmap for ISO messages, showing the likely availability of new and amended standards as identified in this report.

2 Background

At the end of March 2006, SWIFT, through the establishment of an Independent Advisory Group, published the [Final Protocol Recommendation for the Elimination of Giovannini Barrier 1](#). One of its key recommendations was that the SWIFT Standards department should conduct a gap analysis of clearing, settlement and asset servicing business processes against ISO 15022 and ISO 20022 messages.

In December 2006, SWIFT Standards published the interim report “Preliminary Observations from the Barrier 1 Protocol Gap Analysis” (http://www.swift.com/index.cfm?item_id=61064).

The community was given until 6 April 2007 to review the interim report and provide feedback. The purpose of this consultation was to identify:

- Activities missing from the inventories
- Activities incorrectly defined or misunderstood
- Activities where the identified ISO message was inappropriate
- The priorities of the market for detailed analysis and the elimination of the gaps

This report reflects the feedback received and outlines the conclusions of the high-level gap analysis. It also defines what actions will be taken to ensure that the most important gaps are eliminated by the March 2011 Giovannini Protocol implementation deadline.

3 Feedback on the interim report

3.1 Who responded?

The majority of responses were received from those market infrastructures that had taken part in the preliminary exercise. SWIFT Standards also communicated, in the interim report, a desire to broaden the audience for this exercise beyond the market infrastructure community and EU borders. This has already been partly achieved by soliciting feedback from a number of National Market Practice Groups (NMPGs) both inside and outside the EU.

The full list of organisations that responded can be found in attachment 2.

3.2 General comments

- The coverage of business processes described in the inventories is accurate and very few new processes were identified.
- Where a particular process is “not a high-level gap” or that the gap is “being filled”, detailed analysis is essential to confirm that this is indeed the case.
- Business processes that are unique to one or two markets need to be clearly highlighted to enable the market to focus on the most common gaps.
- The focus of removing Giovannini Barrier 1 is clearly European but the harmonisation process will bring maximum benefit if the scope is extended to include counterparties outside of Europe.
- Opinion was divided as to whether or not the ISO 15022 standard should be broadened to cover all areas where high-level gaps were identified or whether gaps should be eliminated through the creation of new ISO 20022 messages.

3.3 The priorities

To ensure that SWIFT’s efforts are concentrated in the areas that the market considers to be the highest priorities for removing Barrier 1, SWIFT Standards asked each Central Securities Depository (CSD) and relevant industry working groups (for example, ECSDA, WG6, HWGSS) to advise their priorities. All agreed that the core activities of clearing, settlement, corporate actions, collateral and cash management are considered high priority.

Within a given business area, SWIFT Standards is encouraged to focus on processes which are common across a number of markets.

4 Conclusions

The majority of clearing, settlement and asset servicing processes are supported by existing ISO 15022 and ISO 20022 messages.

A few changes have been made to the gap analysis inventories that were distributed as part of the interim report and the revised versions can be found in attachment 3. Some changes are merely enhancing the definition of the scope of a process. Other changes have identified new gaps or eliminated those which SWIFT Standards previously identified as gaps but which closer analysis found were not.

The following is a summary of the conclusions on the high-level gaps by business area:

4.1 CCP clearing

The key high-level message gaps exist in the support of processes between a CCP and its clearing members. In summary these are:

- Post-trade management – There are no ISO messages that cover posting, give-up/take-up, internal and external corrections, transfer, exercises and assignments.
- Risk and collateral management – Existing collateral messages do not fit market requirements, especially when referring to clearing fund contributions.

For areas where existing ISO messages can potentially be re-used, such as CCP-CSD communication and corporate actions management, detailed analysis will confirm that the proposed messages are appropriate.

4.2 Settlement and reconciliation

Only a small number of changes have been made since the December report and these do not affect the overall conclusion. Whilst there are very high-level gaps in this area, detailed analysis is needed to ensure the messages contain the required business data.

The following are examples of flows that are not supported by ISO:

- Allegements – Enabling the market infrastructure participant to reject an allegation made against it.
- Intra-position movements – ISO 15022 messages exist for the instruction of intra-position movements but there is no message to report the status of these movements (similar to the function of an MT 548 for settlement instructions).
- Reporting of purchasing power (the provision of a combined cash and securities statement) – There are a number of messages for reporting positions (cash or securities) and transactions (pending and settled) but there is no message that combines all of these elements to provide the total purchasing power of a participant.

4.3 Collateral limits management

The existing ISO 15022 messages for bi-party and tri-party collateral do not meet the needs of market infrastructures for managing limits linked to their auto-collateralisation process. Some examples of high-level gaps relating to this area are:

- Setting collateral limits – notification from a participant to its CSD of the maximum quantity of each security it wishes to be taken into consideration during the auto-collateralisation process.
- Collateral limits acknowledgement and reporting – the CSD needs to acknowledge the receipt of a collateral limit notification and needs to report the information it has in its system relating to the collateral limits that have been set.

4.4 Asset servicing

Whilst most high-level CA and proxy voting processes are supported by ISO messages, there are two primary high-level gaps:

- Initial Public Offering's (IPOs) – This can be broken into two areas:
 - Creation of the security that is subject to an IPO – covered in more detail under the securities reference data business area
 - Announcement of the IPO and subsequent subscription process.
- Tax – The initial observation was that this could be covered through an extension of functions within existing corporate actions messages. Feedback indicates that CA messages are already complex and that the changes to support tax reclaims and certification would make them unwieldy. The conclusion is, therefore, that tax services should be considered a high-level gap with dedicated messaging.

4.5 Cash management

ISO 20022 messages developed for SEPA and Target2 should be adapted to meet the cash forecasting and reporting requirements of securities players. Detailed analysis will identify business elements that need to be added to these messages to accommodate the needs of the securities industry.

Feedback to the interim report has suggested one high-level gap:

- Status of cash limits – Existing ISO 20022 messages can be used to support the creation and management of cash limits. There is, however, no message to report the status at the CSD on the creation or modification of cash limits based on an instruction from the participant.

4.6 Securities reference data

The feedback received about the interim report has had no impact on the preliminary observations in this business area. There are extensive high-level gaps with little or no existing ISO messaging that could be used to cater for the creation of new securities and the communication of the associated reference data. Details of all the gaps in this area can be found in the settlement inventory in attachment 3.

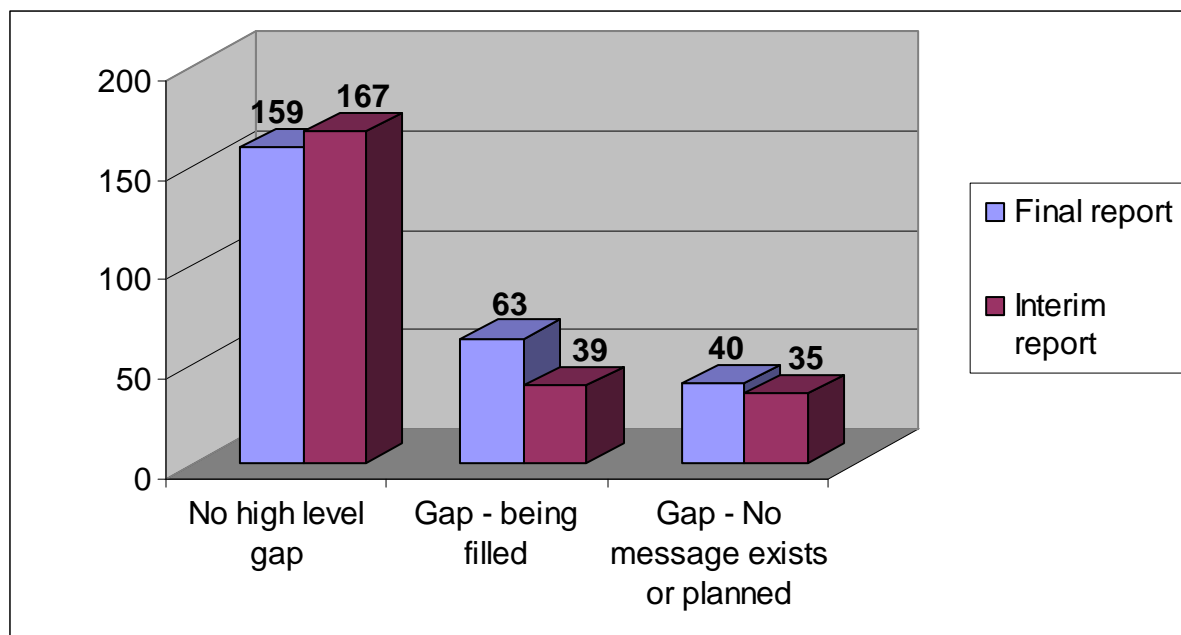
4.7 Other gaps

Again, feedback to the interim report has not significantly impacted the preliminary observations. There are high-level gaps for client reference data as well in the area of bilateral financing, where some ISO 7775 messages (MT 526) are still being used. Details of these gaps can also be found in the settlement inventory in attachment 3.

4.8 Summary

The graphs below illustrate how the feedback has impacted our observations from the interim report in terms of the number of gaps:

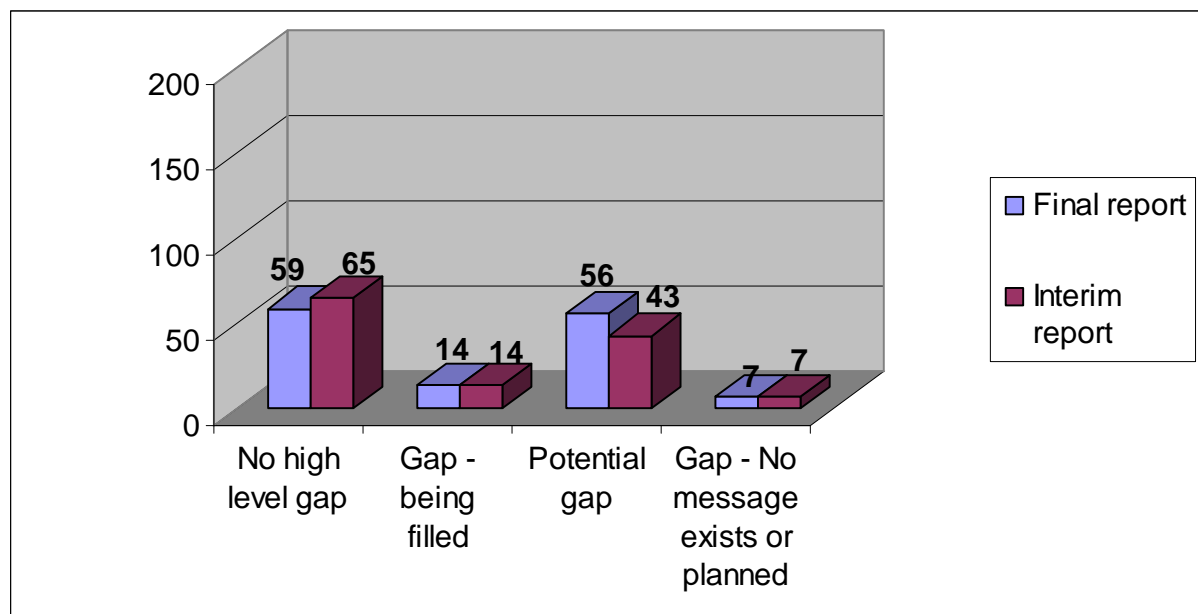
Settlement spreadsheet



The overall number of processes captured has increased from 241 to 260. There is also a notable increase in the number of processes for which ISO 20022 messages are now planned based on business justifications submitted to the ISO Registration Management Group (RMG)

since the interim report (details can be found on www.ISO20022.org). Only four additional high-level gaps have been identified.

Clearing spreadsheet



The overall number of processes captured for CCP clearing has increased from 129 to 136. This is mainly due to the fact that a new clearing activity, DBV, is now supported by some CCPs. There is an increase in the number of potential gaps (from 43 to 56) and a slight decrease of the number of the “no high-level gaps” (from 65 to 59).

5 Next steps

5.1 Detailed analysis phase

Detailed analysis refers to the identification of detailed gaps in existing ISO messages and to the design and development of new messages. As defined in section 4.8, SWIFT Standards has identified ISO messages that potentially meet the business needs of specific business processes. The proposed detailed analysis will validate that those messages contain all of the business data needed to support the identified processes. SWIFT Standards will host workshops starting in July 2007 to complete the necessary detailed analysis of existing messages. These workshops will be business area specific and will focus on those processes identified as a high priority. The objectives are:

1. Identify which business elements are needed for a given process and confirm their presence or absence in the appropriate ISO message.
2. Where a detailed gap is identified, draft a formal change request to be included in the annual standards release cycle. The change may also be captured as a requirement in the development of any new ISO standards to cover that particular process.
3. Provide direction on the priority for the changes identified, as it may not be appropriate to make all the changes within one standards release cycle.

The proposed workshop schedule is as follows:

- Settlement and reconciliation (11/12th July)

- Corporate actions and asset servicing (3/4th July)
- Collateral management (date to be determined)
- Cash management (date to be determined)
- CCP clearing activities (date to be determined)

5.2 Elimination of gaps

As indicated in section 5.1, detailed gaps in existing ISO messages will be eliminated through the maintenance of existing ISO messages in accordance with the ISO 15022/20022 standards release cycle.

The elimination of high-level gaps will require the development of new ISO messages. Where ISO 20022 messages are to be developed, SWIFT Standards will work with the market to ensure that the required business justifications are submitted to the RMG. The initial focus will clearly be the high priority business areas outlined earlier in this report. The development of new messages will require detailed analysis as part of the business modelling process.

The core S&R, tri-party collateral management and CA processes are well supported by ISO 15022 messages (see attachment 4 for the list of core ISO 15022 messages). There is, however, a desire to develop ISO 20022 equivalents to the existing ISO 15022 message library for core services. This will be the first step towards consolidation of all standards on the ISO 20022 platform. This has been taken into consideration in SWIFT's development plan for ISO messages and will be reflected in the development roadmap referred to in the executive summary. Since it does not affect the process of gap identification, it is out of scope of this report.

6 Attachments

6.1 Glossary

EU	European Union
SMPG	The Securities Market Practice Group
ISO	International Organization for Standardization
SWIFT	Society for Worldwide Interbank Financial Telecommunication
HWGSS	The Harmonisation Working Group for Securities Standards
ECSDA	European Central Securities Depository Association
CSD	Central Securities Depository
CCP	Central Counterparty
ICSD	International Central Securities Depository
IPO	Initial Public Offering
RMG	Registration Management Group

6.2 List of organisations that responded to the interim report

MI type or Association	Infrastructure Name/Association Name	Countries
(I)CSD	Euroclear	Belgium, Holland, France, United Kingdom & Ireland

(I)CSD	Clearstream	Germany, Luxembourg
Association	ECSDA WG 6	EU
Association	Americas' Central Securities Depositories Association	Americas
Association	SIFMA x-border SubCommittee	Global
Association	Harmonisation working group (HWGSS)	Global
Association	European credit sectors association (ECSA)	Europe
CCP	Oesterreichische Kontrollbank Aktiengesellschaft Central Counterparty	Austria
CCP	X-Clear	Switzerland, United Kingdom
CCP	LCH.Clearnet Group	United Kingdom, France
CCP/CSD	Keler	Hungary
CSD	Oesterreichische Kontrollbank Aktiengesellschaft	Austria
CSD	Univyc	Czech Republic
CSD	VP	Denmark
CSD	APK (NCSD Group)	Finland
CSD	Monte Titoli	Italy
CSD	Central Depository	Latvia
CSD	VPS	Norway
CSD	Interbolsa	Portugal
CSD	KDD	Slovenia
CSD	VPC (NCSD Group)	Sweden
CSD	SIS Sega InterSettle	Switzerland
Financial institution	BVI German Investment and Asset Management Association	Germany
Financial institution	Citigroup	Global
National bank	Central Bank	Czech Republic
National bank	Bank of Latvia (Latvijas Bank)	Latvia
National bank	National bank	Poland
NMPG	South African NMPG	South Africa
NMPG	French NMPG	France
NMPG	UK & IE NMPG	United Kingdom & Ireland
NMPG	Austrian NSMPG	Austria
NMPG	Spain	Spain
NMUG	SWIFT Switzerland NMUG	Switzerland
NMUG	US National Group	US

6.3 Gap analysis inventories

The Clearing Gaps spreadsheet: http://www.swift.com/index.cfm?item_id=62394

The Settlement Gaps spreadsheet: http://www.swift.com/index.cfm?item_id=62395

6.4 Core and non-core ISO 15022 messages

Business area	Core MTs	Non-core MTs
Settlement	508, 524, 530, 540-549, 578	
Reconciliation	535-538, 586, 575, 586	

Corporate actions	564-568	
Tri-party collateral	527, 558, 569	
Bi-party collateral		503-507
Depository		587-589
Registration		500, 501, 510, 519
TIC		502, 509, 513-515, 517, 518, 528, 529, 576, 584
Others (ref data, lending ..)		516, 519, 520-522, 526, 527, 559, 577, 579, 582...