



*Helping brokers to
reduce cost and risk*

Benefits

- Rapid error detection
- Reduced operational costs
- Reduced operational risk
- Better reporting to clients

Accord for Securities

*Extending the proven benefits of Accord
matching to equity and fixed income trades*

SWIFT has extended its established Accord application to cover MT515 securities confirmation messages, enabling brokers, prime brokers and custodians to reduce the costs and risks involved in processing securities trades globally.

SWIFT's Accord for Securities was initially developed to support SWIFT's work with a group of major prime and executing brokers (including Citi, Credit Suisse, Goldman Sachs, Deutsche Bank and Bank of America Merrill Lynch) to create and operate a centralised pre-settlement solution for equity and fixed income trades executed by the global hedge fund community. This solution enables prime and executing brokers to automate trade-date matching, for quicker identification and speedier resolution of errors and a reduction in costly settlement failures.

MT515 matching on Accord can also be used in other process flows, to replace faxed trade confirmations with electronic confirmations that can be automatically matched, further reducing the costs and risks for market participants of securities trade processing.

Why do I need Accord for Securities?

Discrepancies between trade details submitted by hedge funds to their prime brokers on one hand, and to their executing brokers on the other (or by investment managers to custodian banks and executing brokers), are a source of considerable operational risk. Accord for

Securities provides timely pre-settlement matching of securities trades. Any errors likely to cause settlement failures are identified sooner, reducing both risk and the cost of the manual processing required to fix breaks.

In addition, it is estimated that up to 30 per cent of all fixed income and equity trades between investment banks are made directly between two such institutions, rather than via an exchange or trading platform. Current industry practice is to send a fax confirmation once a trade has been agreed, but not to check these faxes, and to instead rely on the pre-settlement matching services provided by the local settlement agents. This creates unnecessary costs and risk.

Using Accord for Securities, each investment bank can send trade and settlement details for its OTC trades in an MT515 message to Accord to be matched with an MT515 sent by the counterparty to the trade – automating the process and reducing costs and risk.

Any type of institution that wants to replace faxes with automated electronic confirmations can benefit from this solution.

What benefits does Accord for Securities bring?

Accord for Securities offers a single, central matching solution for the entire community. Existing Accord customers can re-use their existing investment in Accord, SWIFT connectivity and SWIFT messages to quickly and easily take advantage of Accord for Securities.

The solution addresses the needs of

prime brokers by:

- Improving the timeliness of the pre-settlement matching process between executing and prime brokers;
- Automating the pre-matching process between executing and prime brokers, reducing the costs of manual exception processing; and
- Reducing the settlement failure rate for prime brokerage clients, and enabling prime brokers to improve their reporting to their hedge fund clients.

Accord for Securities enables executing brokers to:

- Retain and attract new hedge fund clients that want the solution to be used to improve service;
- Eliminate fax confirmations, reducing costs and settlement failure rates;
- Improve on local settlement agents' pre-settlement matching;
- Remove the risk of fraud with trade amends;
- Better control of settlement risks such as a client claim to not know a trade.

Who can use Accord for Securities?

Accord matching of MT515 confirmations can be used:

- Between prime brokers and executing brokers to confirm equity and fixed income trades originating from hedge funds. It can also be used between custodians and executing brokers, for the confirmation of equity and fixed income trades originating from investment managers.
- Between two executing brokers, to confirm over-the-counter (OTC) fixed income and equity trades that are not automatically cleared by an exchange.
- Between two prime brokers, to support the transition of a hedge fund manager from one prime broker to another.

Matching of trades between prime brokers and executing brokers

The end-to-end flow of the Accord matching process for trades between a prime broker and an executing broker covers (see Figure 1):

Trading - a hedge fund manager and an executing broker close a deal to trade securities.

Executing broker notifies Accord — the executing broker sends an MT515 confirmation directly to Accord. Executing brokers send confirmations for individual trades throughout the business day.

Hedge fund manager notifies prime broker — at the end of the business day, the prime broker receives a file from the hedge fund manager that contains all the trades of the day.

Prime broker notifies Accord — for each trade in the file received from the hedge fund manager, the prime broker sends an MT515 confirmation to Accord.

Processing — when the Accord central server receives the confirmations, it processes them in real time to produce matching results for the confirmations.

Monitoring and exception handling — the two parties consult the matching results and details of the confirmations, using the Graphical User Interface (GUI). Accord will also be able to generate matching status updates via MT messages. The user can perform actions on the confirmation using the GUI, or, if necessary, can cancel and

re-submit a MT 515 to correct a confirmation. The user can also send free-format messages (chasers) to the counterparty. At any time, the user can consult any changes to the matching results in real time.

Executing broker notifies agent — the executing broker sends a notification of the trade to the agent, using an MT 540-series settlement instruction.

Prime broker and agent inform CSD — the prime broker and the executing broker's agent send settlement instructions to the CSD. It is possible that the prime broker also uses an agent. In that case, the prime broker notifies the agent, and the agent sends the settlement instructions to the CSD.

Matching of trades between custodians and executing brokers

Figure 2 shows the matching process for trades involving a custodian and an executing broker. This flow is identical to the flow for trades between prime brokers and executing brokers, except that the asset manager takes the role of the hedge fund manager, and the custodian takes the role of the prime broker.

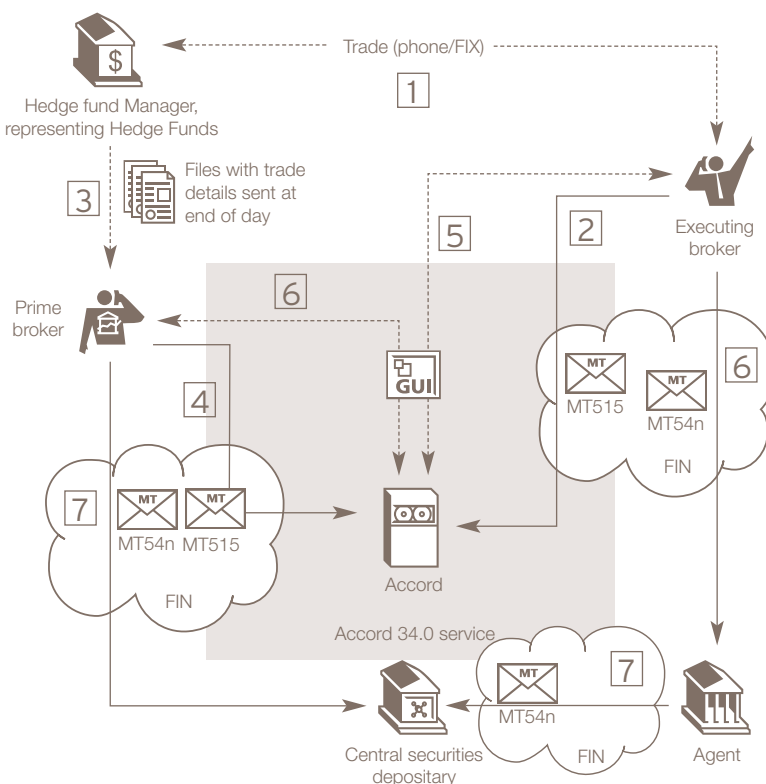


Figure 1

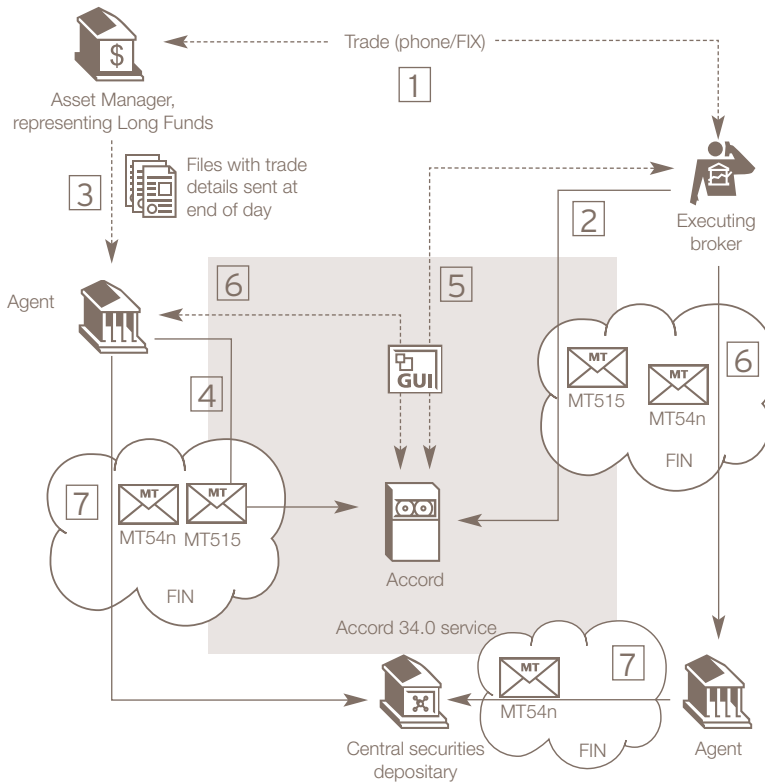


Figure 2

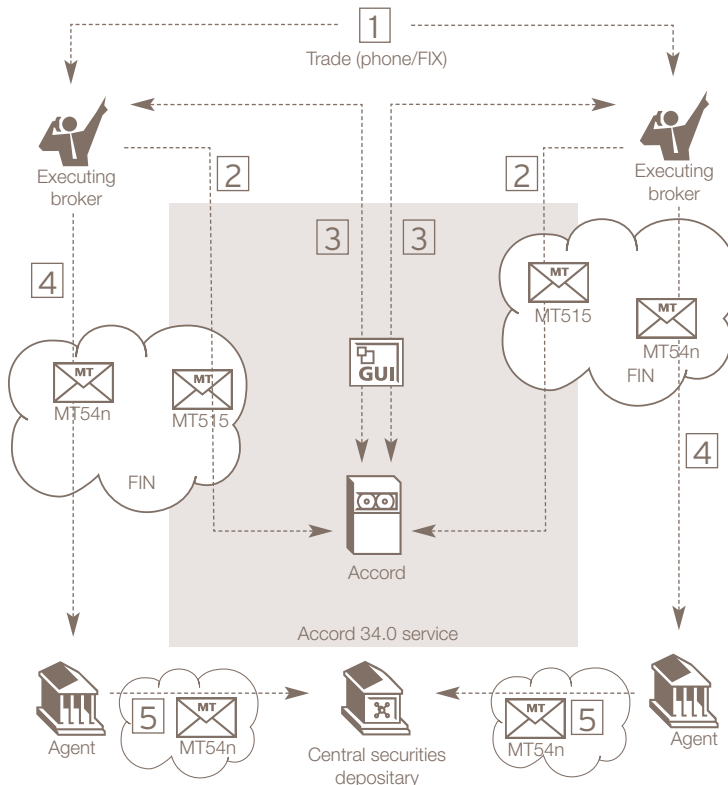


Figure 3

Matching of trades between two executing brokers

Figure 3 shows the matching process for trades involving two executing brokers. In this model, matching of trades can take place throughout the business day, because both parties submit MT515 confirmations to Accord whenever they make a trade.

What are the other key features of Accord for Securities?

MT515s are sent direct to Accord and are not exchanged.

MT515s have to be populated according to the requirements of the community.

This ensures that a much higher quality of matching can be expected, and the whole community agrees to a central match status. No local matching alternatives are possible.

Accord matches trade and settlement details

The MT515 is populated with the details of the trade made as well as the settlement details (the standing settlement instructions (SSIs) of both brokers. Accord is therefore effectively matching all the data that could be included in an MT54n Settlement Instruction. However, users can choose if they want to match both trade and SSIs, or just trade details.

Rule Book

A fully defined market practice has been developed that applies to the community of users. This describes business and operational rules that determine how to populate the MT515 to ensure the highest of matching rates. There is also a dedicated private user forum established on www.swiftcommunity.net that serves as a discussion forum and document repository.

A proven, reliable matching algorithm

Accord uses a reliable matching algorithm, proven in the FX and money markets and OTC derivatives businesses.

The algorithm uses primary matching fields (fields that define a transaction and which all must match for the system to consider two confirmations as definitely concerning the same transaction) and

secondary matching fields (fields that are about an aspect of the transaction, rather than defining it: the system will highlight discrepancies in these fields).

For both, Accord uses sophisticated matching styles, market-specific rounding algorithms and an intelligent system to handle matching of the meaning of messages, even where there are variations in the way in which the same content is conveyed in different messages.

Tables for static data

Included in Accord are tables used by the matching algorithm that a) set the settlement amount tolerance by Place of Settlement, and b) match a BIC of a settlement agent to a proprietary identifier used at a Place of Settlement.

Integrating matching statuses in your back office application

To allow human operators to directly access the service, Accord for Securities provides a Graphical User Interface. In addition, for parties that want to integrate their matching results into their own back office applications, to handle exceptions and automate settlement of matched trades, a customer of Accord for securities can be configured to receive MT messages containing the latest status of a confirmation (for example, matched, mismatched, cancelled, alleged), a reason code and key data elements from the counterparty's confirmation.

*For more information visit swift.com.
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