



SWIFT Response to  
the European Commission's

Call for evidence: EU regulatory  
framework for financial services

16 January 2015

SWIFT supports the European Commission's move to gather evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis, and we appreciate the opportunity to provide feedback.

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 approximately 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.

We thank the Commission again for the opportunity to comment. Please do not hesitate to contact us should you wish to discuss our comments further.



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SWIFT supports the European Commission's move to gather evidence on the benefits, unintended effects, consistency and coherence of the financial legislation adopted in response to the financial crisis, and we appreciate the opportunity to provide feedback.

In its response SWIFT would like to focus on one important gap which we believe may be leading to unintended consequences – not least to the unintended retention of a barrier that is impeding cross-border investment in the EU. In particular we would like to focus on the gap in standards – specifically data communication and identification standards which are critical for the seamless exchange of information, liquidity and the mobilisation and free-flow of capital and securities. Few of the legislative proposals in recent years have addressed this important issue with the result that a plethora of standards remain in use.

We believe that by more widely specifically requiring the adoption of open standards, the Commission could make it easier for companies to get the finance they need, regardless of where they are located and to foster a more resilient financial system, with deeper integration and more competition. We believe such measures could lead to more cross-border risk-sharing and more liquid markets which will deepen financial integration, lower costs and increase European competitiveness.

Whilst we recognise that the Commission would not want to hardwire the use of any *specific* standard in Level 1 texts, lest they become obsolete or outdated during the life of the legislation, we believe it is of paramount importance that the Commission include requirements stipulating the use and acceptance of *open* standards for communication and identification purposes in its proposals. Such standards are rigorously maintained by the industry with the result that they remain fit for purpose and can be readily adapted by the industry to suit new requirements and accommodate innovations. Without requirements for open standards, legislative and regulatory initiatives may only partially solve the fragmentation, barriers and frictions within the EU financial marketplace that the Commission is seeking to address.

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.

Common standards are essential for the effective operation of the financial industry. The correspondent banking system, for example, provides the means to reach almost any beneficiary for payments, even if multiple international and local banks are required to complete the processing chain. This is only possible because the industry has implemented a common standard for international payments. Maintaining the interoperability of this standard provides comes at no small cost to the industry. The standard is maintained annually to ensure that it caters for new business and regulatory requirements as they emerge. These changes require all users of the standard to implement an annual change programme that impacts numerous software applications and operational processes.

Anecdotally, the largest banks spend from 10 MEUR to 20 MEUR annually to stay up-to-date with this standard; a medium-sized bank would expect to spend 3 MEUR to 4 MEUR; smaller banks spend proportionately less, but still significant amounts. Banks accept this state of affairs because they understand that the cost of providing their services would be orders of magnitude greater if there were no common standard and every jurisdiction imposed its own local standards and maintenance regimes.

The benefits of common standards go beyond reducing operational costs, however. Common standards enable automation leading to faster, more efficient and safer business processes. Adoption of common standards also leads to significant economies in overall technology spending as institutions can easily re-use technology created for one market in another. Furthermore, technology vendors are incentivised by consistent requirements across a large market to provide high quality, cost-effective implementations. Finally, common standards allow service providers to be easily compared and substituted, with low switching costs for service users, leading to an overall much more competitive and dynamic financial services market.

Replacing a standard once it is entrenched is a time-consuming and expensive process. In the late 1990s to early 2000s, SWIFT managed a migration of securities settlement processing from ISO 7775 to the similar but more sophisticated ISO 15022 standard. This migration took several years despite the significant superiority of the newer standard for straight-through processing. Currently, the investment funds market is undergoing a similar migration to the latest ISO 20022 standard. This migration has been in progress for almost seven years and is still not complete. A long period of standards coexistence is far from ideal as it is expensive to maintain multiple standards, and it is difficult for banks to take advantage of the improved features of the new standard if not all their counterparties are using the same.

For these reasons, SWIFT believes it is vital that adoption of common standards is given the highest priority in the planning of the regulatory framework for financial services in the EU. Without strong direction towards the industry to require common standards to be identified, developed and adopted from the outset, legislators risk ignoring one of the most powerful tools at their disposal to achieve the policy goals of open and efficient cross-border markets.

#### **About open standards:**

Standards are either open meaning that they are “free of levy” and can be used by all, or they are proprietary, meaning that they are subject to usage restrictions and/or that they can be subject to some sort of usage charge or fee.

Open standards support the free interchange of information, whilst proprietary standards can be (and often are) used to restrict information interchange and/or access to infrastructures. Open standards are defined by the industry for the industry in a collaborative way. They are free of charge, facilitate investor choice and provide cost-effective tools to achieve the policy objectives of market resiliency and transparency, as well as sustainable compliance with such objectives. As an important tool for longstanding, robust recovery and for growth, we believe that regulators and policy-makers should expressly require at least the option to use them in the context of the regulatory reforms now underway.

Open standards can enable:

- The transport of financial data using standardised processes and languages that cannot be misinterpreted or manipulated by users;
- The standardisation of reporting, enabling supervisors to more efficiently monitor markets and facilitate the exchange of information;
- Easier data capture and better transparency of data delivery;
- Greater cost efficiency for most data exchange, collection and dissemination requirements, including for processing as a whole.

The use of proprietary formats, in comparison:

- Reduces efficiency in data collection;
- Prevents a comprehensive analysis of financial data by authorities;
- Creates unnecessary extra costs for end-users;
- Creates barriers to access.

Open standards play a key role in enabling desired regulatory outcomes, whilst delivering cost efficiency and fair competition in the industry. The requirement to use open standards has a strong track-record in Europe facilitating implementation of complex financial regulation. For example, the legislation around the Single Euro Payments Area (SEPA) mandated the use of ISO 20022, ISO 9362 (BIC) and ISO 13616 (IBAN), leading to a successful technical rollout of the SEPA schemes.

By contrast, legislation which has not taken into account the practicalities of implementation and not specified industry standards – such as MiFID, EMIR – has run into difficulties on implementation, caused by a incompatible data formats, codes and representations leading to system incompatibilities and serious problems reconciling and aggregating data.

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