SR 2017 – NDF changes

Post-cutover guidance

December, 2017

The SR 2017 NDF changes were designed and implemented in order to improve confirmation of non-deliverable and cash-settled forwards.

Post-cutover feedback

Whilst the changes have largely been successful and implemented correctly, certain parties appear to be misusing fields, which has led to:

- **Matching errors**
- **Spurious matches**
- **Breakdown in STP**

This slide-pack provides firm guidance on correct usage of the new fields, in light of post-cutover experience.

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You must be familiar with the SWIFTSmart training module for NDFs, before reading the guidance in this document.
www.swift.com/swiftsmart - search for NDF

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Fields 77D and 72

- **Prior to SR 2017, the SWIFT User Handbook stipulated that NDFs were to be described using codes in fields 77D**
  - /VALD/
  - /SETC/
  - /SRCE/
  - /FIX/

- **As of SR 2017, messages that contain any of these codes at the start of a line in fields 77D or 72 are NAK'd, with error code T70**

- *It is unhelpful to circumvent SWIFT network validation, by continuing to use the previous codes, but not at the start of a line, or by using codes such as /.VALD/ or /VALDATE/ as these codes are <u>undefined</u> and therefore have <u>no legal meaning</u> and lead to <u>confirmation breaks</u>.*

Openings and Valuations – NDF and cash-settled FX trades

- **The NDF post-trade lifecycle consists of**
  - An opening confirmation that is sent at time of trade and
  - A valuation (also known as fixing or closing) confirmation that is sent on valuation date prior to settlement
- **Both the opening and valuation confirmations <u>must</u> be sent as MT 300 messages that contain specific NDF fields. Otherwise, <u>matching and settlement will fail.</u>**

Opening fields	
17F: Non-Deliverable Indicator	'Y' - this is an NDF or other cash-settled trade
17O: NDF Open Indicator	'Y' - this is the opening
32E: Settlement Currency	The currency in which the trade will be settled
30U: Valuation Date	The date on which the trade will be valued
14S: Settlement Rate Source	The rate source that will be used to value the trade for settlement

Valuation fields	
17F: Non-Deliverable Indicator	'Y' - this is an NDF or other cash-settled trade
17O: NDF Open Indicator	'N' - this is the valuation
21A: Reference to Opening Confirmation	This is a link to the opening confirmation

Field 14S – settlement rate source

- **Normal practice is that the exchange rate source to be used for valuation is agreed at the time of trade. The agreed rate source must be included in the opening confirmation.**
- **ISDA and EMTA have produced a document 'Annex A' that defines codes for most commonly used rate sources**
    - https://www.isda.org/book/annex-a-to-the-1998-fx-and-currency-option-definitions-amended-and-restated-as-of-november-19-2017/.
    - The codes are in the form of 3 characters and 2 numbers – e.g. BRL02 or WMR01
    - Codes from the November 2017 version of this document must be used in confirmations.
- **Where one of the codes from Annex A is used in 14S, the time and location for valuation must also be specified. E.g.**
    - :14S:WMR01/1000/USNY
    - For valuation at 10:00 a.m. New York time
    - The SWIFT User Handbook defines the rules for encoding the location

Field 14S – settlement rate source - unknown

- **Normal practice is that the exchange rate source to be used for valuation is agreed at the time of trade. The agreed rate source must be included in the opening confirmation.**

- **For situations where the rate source has not been agreed, ISDA have defined the following codes:**

CUR01
The valuation rate, will be agreed upon by the parties on or prior to that Rate Calculation Date

CUR02
The valuation rate will be determined on the basis of quotations provided by Reference Dealers

- **CUR01 and CUR02 may be used in 14S, but only when the rate source is actually unknown at time of confirmation.**

- **Codes such as UNK00 are <u>not defined</u> and may only be used if there is <u>bilateral agreement</u> to do so.**

14S - trades that are executed under EMTA terms

- **Many NDF trades are executed under EMTA terms (see www.emta.org).**
- **This means that**
  - an EMTA master confirmation agreement is in place between the parties; and
  - There is an EMTA template for the currency pair (e.g. BRL/USD, PHP/USD)
- **In this situation, the code EMT00 must be used in 14S, to indicate that the terms of the relevant EMTA template apply to the trade.**
  - Time and location should not be specified together with EMT00, as these are defined within the template

EMT00 may not be used under any other circumstances

- **In the exceptional situation that there are 2 EMTA templates for a currency pair (e.g. NGN/USD)**
  - EMT01 must be used to refer to the first template for the currency pair on the EMTA website
  - EMT02 must be used to refer to the second template for the currency pair on the EMTA website.
    - The version of the EMTA website is as of the day of confirmation.

14S for currency crosses

- **Currency crosses are typically NDF trades which do not settle in USD – e.g. GBP/BRL or EUR/PHP**

- **In this case 2 rate sources are generally required in order to value the NDF.**
  - One for the 'reference' currency – e.g.. USD/BRL or USD/PHP
  - The other for the 'settlement currency' – e.g. GBP/USD, EUR/USD

- **Two instances of 14S must be included in the opening confirmation.**
  - The 1st is for the reference currency
    - It must be EMT00, where applicable (see previous slide)
  - The 2nd is for the deliverable currency
    - E.g. WMR01/1500/GBLO

Settlement fields

- **Only one currency in an NDF or cash-settled FX trade is settled.**
  - This is the currency that is specified in field 32E in the NDF Opening confirmation
- **Settlement fields must be specified as follows in the MT 300 opening and valuation confirmations**
  - :57D:NET must be used in both the opening and the valuation confirmations for the currency that will not be settled.
  - Full settlement instructions should be included for the currency that will be settled, in both the opening and valuation confirmations.

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General guidelines

- **In order to promote STP and automated matching, it is important that guidelines in this set of slides and elsewhere are followed accurately and precisely. E.g.**

  - EMT00 is not a 'default value' for 14S
  - Codes from previous versions of ISDA Annex A must not be used
  - Both the opening and valuation must be confirmed using MT 300s
  - Opening and Valuation fields must be used as appropriate.
  - EMT00 is correct and is not the same as EMT0, which is incorrect.
  - BRL09 is correct and is not the same as BRL9, which is incorrect.
  - CUR01 is not the same as UNK00
  - :57D:NET is not the same as :57D:NDF

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