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*SWIFT  
Messaging  
Solutions*

# Meeting the dual challenge of regulatory compliance and operational efficiency

Securities markets participants are currently facing the dual challenge of complying with major regulatory change and improving operational efficiency in demanding market conditions.

The following key drivers are making the efficient management of collateral a strategic priority for market participants.

**Counterparty credit risk** remains a prime concern following the financial crisis. Also, more firms are transacting cross-border with more counterparties, further increasing the need for careful management of credit exposures.

Increasing transaction volumes mandates the collateral management process, historically manual, to be more automated and standardized to cope with **operational risk**.

**Liquidity** is under pressure across complex organisations and transaction chains - and the cost of liquidity directly affects an organisation's bottom line. This pressure will increase as a consequence of new **capital rules for banks** (Basel III), which will make some forms of collateral scarcer and more expensive.

**Regulation of the OTC derivatives markets** through The European Market Infrastructure Regulation (EMIR) in Europe and The Dodd-Frank Act in the US is imposing significant change, with the aim of improving

transparency and reducing risk. Changes to market infrastructure and process flows include **clearing of standardised OTC derivatives with Central Counterparties (CCPs) and reporting to trade repositories**. The regulations impose rigorous collateral and margin requirements for uncleared OTC derivative trades and will also make collateral management of cleared trades more demanding.<sup>1</sup>

As a consequence, today's market is more fragmented, with more players (including CCPs, triparty agents and trade repositories) and more process steps involved in every transaction, increasing the need for an effective and standardised means of communication for collateral exchanges.

Different estimates suggest that across all market participants, the regulatory changes (Dodd-Frank, EMIR and Basel III) will require some USD trillions of additional unencumbered collateral.<sup>2</sup>

## Improving the collateral management process is a strategic priority

All these changes are putting collateral, and collateral managers, under pressure. A previously routine, back/middle office task has become a strategic business priority. Collateral managers must deliver on three imperatives: risk reduction, capital efficiency and regulatory compliance.

At the same time, the new regulatory requirements, and the scarcity and cost of collateral, are leading to more and more frequent collateral exchanges and demanding more complex and precise margin calculation and risk management processes.

For example, as counterparties look to manage scarce collateral tightly, CCPs may more frequently be asked to accept bonds and equities as collateral for swaps transactions in addition to cash. Equities in particular can be volatile, requiring repeated marking to market and variation margin calls.

This increase in activity makes it vital that information about collateral movements is fully in synch and easily reconciled with the settlement process. In this environment, manual processes for collateral management, based on fax, phone and email are inefficient, error prone and lack transparency. Given the increasingly complex operational requirements for collateral management, market participants require a more efficient way to communicate, reconcile, track and report collateral movements, margins and limits.

(1) As at January 2014. In Europe, it is still to be decided which OTC derivatives will be affected by mandatory clearing.

(2) For example, see The SWIFT Institute Working Paper: New Regulations and Collateral Requirements – Implications for the OTC Derivatives Market, Manmohan Singh, October 2013.

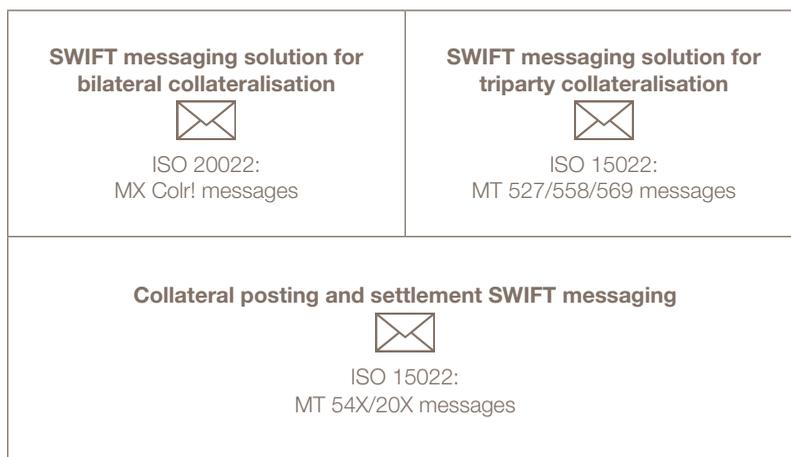
## SWIFT offers a standardised, cross-industry solution

SWIFT offers an easy-to-implement, cross-industry solution for automating the information flow (the margin negotiation, information and reporting movements) for collateral management which meets the needs of collateral managers in the new regulatory environment.

By using SWIFT, participants are able to link collateral management messages to collateral movement messages (collateral postings).

The SWIFT messaging solutions for bilateral and triparty collateralisation are part of our portfolio of post-trade services for the securities industry, built on international standards. This means you can connect directly and easily to your counterparties, triparty agents and other market participants using your existing SWIFT infrastructure and be up and running with a fully automated solution in no time at all.

**Read on** for details of how SWIFT's collateralisation solutions can help you to communicate, reconcile, track and report your collateral movements.

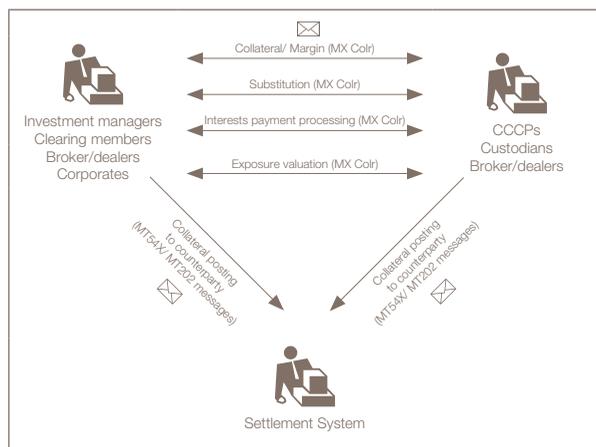


SWIFT's solutions for bilateral and triparty collateralisation keeps the information flow in synch with settlement (collateral posting)

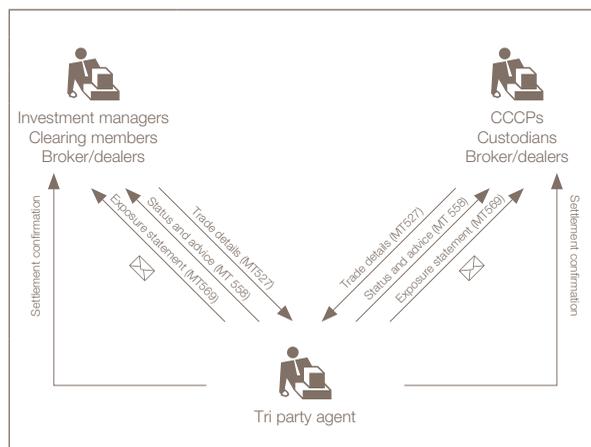
At SWIFT, we have been connecting financial institutions for more than forty years and serving the securities industry since 1987. Our global secure network and internationally agreed messaging and standards reach across markets and geographies, delivering a true common shared infrastructure, which is extensively used by the securities industry to connect market counterparties and intermediaries worldwide.

### SWIFT's collateral management solutions cater for:

- All parties (collateral giver/taker, agents and service providers)
- All trade-generated exposures (eg OTC derivatives, REPO and securities lending)
- All types of collateral (cash, securities, bank guarantees and others)
- All major instruments and markets
- All business models (bilateral, triparty, central counterparty clearing)



▲ SWIFT's solution for bilateral collateralisation uses ISO 20022 messages



▲ SWIFT's solution for tri-party collateralisation

## In-house or outsourced collateral management – SWIFT has the solution for your needs

Whether managing collateral bilaterally, or via a triparty agent, SWIFT has a solution to suit all market participants, across all major instruments, asset classes and markets.

### In-house: SWIFT messaging solution for bilateral collateralisation

This solution, based on ISO 20022 XML standards, automates margin call negotiation, dispute and agreement, substitution, interest payment processing and reporting for bilateral collateralisation processes.

It is suitable for brokers, clearing members, investment managers, hedge funds, custodians, corporates, service providers, CCPs and central banks, enabling standardised data exchange between counterparties,

facilitating straight through processing and improving the efficiency and transparency of communications. It is especially valuable for managing high volumes of transactions.

### Outsourced: SWIFT messaging solution for tri party collateralisation

Increasingly, collateral givers (on the buy-side) and CCPs as receivers of collateral, are choosing to outsource the management of their collateral obligations to triparty agents to achieve greater flexibility and cost-effectiveness while reducing the pressure on in-house resources.

Already, more than 350 institutions, including leading triparty agents and Central Securities Depositories (CSDs) globally, use the SWIFT triparty collateral management suite of messages to ensure the efficiency of their communications in an increasingly complex environment.

This solution, based on ISO 15022

standards, facilitates the exchange of information between a triparty agent (CSD/ICSD/ clearing bank) and its service participants (ie banks, broker/dealers, investment managers) around:

- Exposure notifications
- Information on trade matching
- Collateralisation status
- Exchange of statements covering Collateral and exposure positions

The parties to a triparty transaction agree the terms and conditions of the transaction outside the triparty environment. Following the agreement, both sides instruct the designated triparty agent to process, collateralise and service their transaction within the triparty environment during the transaction lifecycle.

# Supporting your business, connecting communities

Our messaging solutions for collateralisation are part of our suite of post-trade services for securities industries participants, built on international standards and delivered across our global network.

As a cooperative, SWIFT connects communities and provides a common shared infrastructure which allows for secure, reliable, cost-effective, standardised communications. Our technology and industry knowledge and reach is deep and broad - more than 10,000 financial institutions and corporates in 212 countries use SWIFT to exchange messages. All this makes us a little different from other suppliers. Because we know the industry and technology so well, there are many ways we can help with strategic advice and support for your business.

## Reporting to trade repositories

At SWIFT, we are also supporting the industry to meet the regulatory requirements of Dodd-Frank and EMIR by providing solutions for reporting to trade repositories which allow market participants to leverage existing SWIFT infrastructure and messaging to meet regulatory requirements cost-effectively.

## Intraday liquidity reporting

Real time aggregation of collateral data (cash and securities) by asset class, location, currency and by legal entity is becoming crucial in order to gather sufficient information to meet business, counterparty and regulatory needs. Using SWIFT to process your collateral movement enables accurate reporting of cash balances and securities positions. Intraday liquidity reporting is essential to maximise liquidity, comply with regulations and eliminate over-collateralisation.

## Certification programme for collateral management applications

Market participants planning to invest in collateral management solutions should look for SWIFT's Certified Application label. This recently launched collateral certification programme is available to suppliers who wish to gain certification for their applications against specific criteria, including, for example, compliance with current regulatory requirements and suitability for use in a SWIFT environment. Criteria are reviewed on an annual basis. Please contact SWIFT for more information.

## Collaborating across communities

An important part of SWIFT's role is to act as a catalyst that brings the financial community together to work collaboratively to shape market practice, define standards and consider solutions of mutual interest.

We fulfil this role in a number of ways, for example, by participating in cross-industry working groups and facilitating discussion at events such as Sibos and the activities of the SWIFT Institute.

Specifically in the area of collateral management, SWIFT is represented in several working groups under the auspices of the Industry Standardisation for Institutional Trade Communication Committee, the Association for Financial Markets in Europe (AFME), the International Securities Services Association (ISSA) and the International Securities Association for Institutional Trade Communication (ISITC).

Finally SWIFT, through the Securities Market Practice Group (SMPG), is constantly focused on enhancing the current securities industry practices. As such, there is active dialogue between the SMPG and other industry groups/ organizations to ensure alignment with market's needs<sup>3</sup>.



(3) For collateral management, market practices are available for tri party and bilateral transactions.

# Why SWIFT for securities?

There are many reasons to choose SWIFT as your key partner for securities messaging and solutions.

## SWIFT is the ideal common shared infrastructure for the securities industry

We have been supporting the securities communities since 1987 with standards, solutions and post-trade processing services. A large portion of our members are securities industry participants.

- 6000 securities industry users - more than half of our members are securities industry participants
- 300 + market infrastructure members (securities MIs)
- 2 billion securities messages annually

## Our network offers unrivalled reliability and cost effectiveness

Our range of connectivity options is designed to suit your precise needs, from the Alliance Messaging Hub – suitable for multi-entity, multinational, global financial institutions – to our Alliance Lite2 cloud-based solution, which requires minimum equipment and upfront investment on your side.

- We strive for 99.999% network reliability at all times, and achieved 100% in 2013.
- In 2013, FIN message traffic over the SWIFT network reached a record high of five billion messages a year, a growth rate of over 10%.
- This robust growth, combined with innovative financial efficiencies, means SWIFT will deliver a 10% rebate to users in 2014.

## Our expertise spans payments, trade finance and treasury as well as securities

You can make use of our infrastructure right across your business and operations and get up and running with new solutions quickly, with minimal extra cost.

## Leading and supporting standardisation

As the leading standards-making body for the financial services industry, SWIFT has led the development of ISO 15022 and more recently, the XML-based ISO 20022 standards for electronic trade confirmations, clearing and settlement, and collateral management.

SWIFT is a member-owned cooperative through which the financial world conducts its business operations with speed, certainty and confidence. More than 10,000 financial institutions and corporations in 212 countries trust us every day to exchange millions of standardised financial messages. This involves the secure exchange of proprietary data while ensuring its confidentiality and integrity.

For more information about any of the products or services mentioned, or to discuss how we can help meet your business needs, contact your account manager or visit [www.swift.com](http://www.swift.com).



