



SWIFT Response

European Commission:

Building a Capital Markets Union

13 May 2015

27) What measures could be taken to improve the cross-border flow of collateral? Should work be undertaken to improve the legal enforceability of collateral and close-out netting arrangements cross-border?

Cross-border flows of collateral would benefit from the further standardisation of the processes involved, the formulation of effective market practice, and the further development of international collateral management service models such as tri-party agents. Clearing of standardised OTC derivatives paves the way for cross-border close-out netting, but work is still required to standardise netting arrangements for all players across all instruments. Encouraging steps are being taken in that direction but more remains to be done.

Both public and private initiatives will be essential to create a framework for better mobilisation and management of collateral, better visibility on available collateral and easier movement across markets. The adoption of open industry standards, such as ISO 20022, will be a key factor enabling the success of such initiatives.

ISO 20022 is an open standard, which is not controlled by a single interest, and is open to participation from its user community. Its scope covers the entire financial industry, so end-to-end business processes can be realised via a single standard. ISO 20022 implementations make use of mainstream, well-supported technology and can adapt to new technologies as they emerge. These technologies offer important technical advantages over older proprietary equivalents, such as support for non-Latin character sets.

The EU-wide adoption of ISO 20022 could substantially alleviate the ongoing collateral management challenges facing market participants by enabling higher levels of automation, the systematic capture and transmission of information between multiple different end points and infrastructures, and by facilitating the processing of vastly increased messaging flows.

We describe the benefits of using open standards in our response to question 32.

31) How can the EU best support the development by the market of new technologies and business models, to the benefit of integrated and efficient capital markets?

SWIFT advocates the development and use of open standards to ensure interoperability of solutions and to reduce technology switching costs for market participants. A general requirement for the use of open industry standards would bring substantial benefits in terms of interoperability, unleashing the potential of an integrated digital financial services market, enhancing competition, eliminating costs and frictions, and improving access to markets and capital. Additionally, it would improve transparency and consistency, facilitate the roles of regulators and supervisors, and help to ensure the development of a stronger, safer EU financial marketplace.

We describe the benefits of using open standards in our response to question 32.

32) Are there other issues, not identified in this Green Paper, which in your view require action to achieve a Capital Markets Union? If so, what are they and what form could such action take?

SWIFT welcomes the European Commission's green paper on Capital Markets Union, which we believe is a timely and appropriate response to the need to strengthen the role capital markets play in supporting European business, pension provision and society at large.

The paper makes several references to the need for standardisation of information, processes and regulation to drive industrialisation of pan-European capital markets and remove barriers to participation. Areas referenced in the paper that would benefit from further standardisation include company prospectuses, securitisation, credit scoring, corporate bond issuance, fund management, electronic voting and collateral management.

SWIFT strongly supports the view that standardisation should be a key point of focus if CMU is to achieve its policy aims. We would also point out that the creation of open industry standards is an area where the market has a strong track-record of delivering solutions, particularly where supported by regulation. One clear example is the Single Euro Payments Area (SEPA), where public and private sector worked together to deliver a harmonised payments landscape for Europe, with an implementation based on standards developed by the industry under the authority of the International Organization for Standardization (ISO). Standards required by SEPA include ISO 20022 (Universal Financial Messaging), ISO 9362 (Business Identifier Code - BIC) and ISO 13616 (International Bank Account Number – IBAN). SWIFT Standards played a key role in the development of these standards and continues to maintain all three on behalf of the industry under contract to ISO.

Some areas discussed in the paper are already the focus of industry standardisation efforts. The Investment Funds business is well supported by ISO 20022 messaging standards which are gaining strong traction in the European funds business. ISO 20022 standards also exist for proxy voting and collateral management. However, in all these areas there is much further to go in the direction of standardisation, and all would benefit from the redoubling of effort implied by CMU.

Open access to Market Infrastructures is also acknowledged as a critical component of CMU, and again standards play a key role in increasing automation and process efficiency and lowering entry barriers. TARGET2-Securities specifies ISO 20022 for all participant access, and ISO 20022 and its predecessor ISO 15022 are used by CSDs and CCPs to provide their services. Both standards are actively maintained by the market to ensure that they continue to meet industry needs, with SWIFT playing a pivotal role enabling the maintenance process.

The green paper refers to technology and digitalisation as a key enabler of CMU and SWIFT also supports this view. Again, we would draw the Commission's attention to the critical role that open standards play in the development of technology solutions, from driving commoditisation of common components to ensuring interoperability between solutions, lowering switching costs and generally removing friction from the technology market.

SWIFT is happy to be consulted on all aspects of CMU where standards play a role.

About open standards:

The use of open industry standards in CMU would bring substantial benefits in terms of interoperability, unleashing the potential of an integrated digital financial services market, enhancing competition, eliminating costs and frictions, and improving access to markets and capital. Additionally, it would improve transparency and consistency, facilitate the roles of regulators and supervisors, and help to ensure the development of a stronger, safer EU financial marketplace.

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 would, in comparison:

- Reduce efficiency in data collection;
- Prevent a comprehensive analysis of financial data by authorities;
- Create unnecessary extra costs for end-users;
- Create 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 ignored the practicalities of implementation and failed to specify industry standards – such as MIFID, EMIR – has run into intractable difficulties on implementation, caused by incompatible data formats, codes and representations leading to system incompatibilities and serious problems reconciling and aggregating data.

About ISO 20022:

ISO 20022 is an open industry standard that is being adopted globally in the financial industry. Central banks and market infrastructures across the world are increasingly using the standard, with around 70 payments and securities clearing and settlement systems implementing ISO 20022. In the US, the Fed has declared an intention to implement ISO 20022 for US payments, and DTCC is using it for its Corporate Actions service. In Asia, ISO 20022 is used by the Chinese domestic payments system, CNAPS. It is also used by the Japanese securities depository, JASDEC, the Singapore stock exchange (SGX), the Australian stock exchange (ASX), and it has been chosen as the standard for the forthcoming Australian real-time payments system. It is also the standard used for messaging by strategic initiatives such as the Single Euro Payments Area (SEPA), the ECB's TARGET2-Securities, and upcoming migrations of TARGET2 and EBA (EURO1/STEP1).

ISO 20022 standards have been developed across many financial business processes including retail and wholesale payments, foreign exchange, securities lending, repo transactions, collateral management, securities settlement and asset reconciliation.

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