Standards

Standards MT Release 2018

Discussion paper and Minutes

Settlement and Reconciliation

Distribution: <Business Area> Maintenance Working Group

Author: <Type your name here>

Date Issued: <Date that you send the DP/minutes to the MWG>

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# Introduction

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| Maintenance working group members:<Member 1>  | Representing:<Country 1> SWIFT User Group  |
| <Member 2> | <Country 2> SWIFT User Group  |

# Overview of User Change requests

## CR 001295: Add codes for investment funds switch orders in 22F SETR

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| --- |
| **Origin of request** |
| Requesting Country:  |   |
| Requesting Group:  | Clearstream |
| **Sponsors** |
| Clearstream |
| **Complies with regulation** |
| None |
| **Business impact of this request** |
| LowIt's an addition of two indicator codes to an existing qualifier |
| **Commitment to implement the change** |
| Commits to implement and when: Clearstream 2018 |
| **Business context**  |
| Participants of securities settlement systems that handle primary market settlement of investment funds orders stand to benefit from this change.The settlement of primary market investment fund transactions is commonly identified using SETR//TRAD. Some markets have found it necessary to distinguish such transactions from other types of transactions in the same securities, and the codes REDM and SUBS were therefore introduced to indicate settlement of redemption and subscription orders respectively. This is insufficient because it doesn't allow the user to indicate the settlement of switch orders. The omission of switch orders has hindered more securities settlement systems and their participants from using the codes REDM and SUBS. |
| **Nature of change** |
| Add two new codes to the SETR qualifier, proposed values and definitions:SWIF - Switch From - Relates to a redemption-leg of a switch order (Funds Industry ONLY).SWIT - Switch To - Relates to a subscription-leg of a switch order (Funds Industry ONLY). |
| **Workaround** |
| Use a DSS. |
| **Message type(s) impacted** |
| MT 536, MT 540, MT 541, MT 542, MT 543, MT 544, MT 545, MT 546, MT 547, MT 548, MT 549, MT 537, MT 576 |
| **Examples** |
| 1. A Fund Distributor (FD) sends a 1-to-1 switch order to a Transfer Agent (TA), for example using the setr.013 message.2. The TA executes the order and returns the switch order confirmation (setr.015) the the FD.3. The parties instruct the settlement in a CSD;a) the FD sends an MT540 with SETR//SWIT and an MT542 with SETR//SWIFb) the TA sends an MT542 with SETR//SWIT and an MT540 with SETR//SWIF4. The CSD finalises the settlement and reports the SETR codes as instructed by the parties in their respective pair of MT544 and MT546. |

**Standards Illustration**

##ILLUSTRATION##

**SWIFT Comment**

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**Working Group Meeting**

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| **Discussion** |
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| **Decision** |
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## CR 001296: Add a code word to identify that the Agent Order Status is COMMITTED

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| **Origin of request** |
| Requesting Country:  | ZA South Africa |
| Requesting Group:  |  |
| **Sponsors** |
| SA securities group |
| **Complies with regulation** |
| None |
| **Business impact of this request** |
| LOW |
| **Commitment to implement the change** |
| Commits to implement and when: SA securities group 2018 |
| **Business context**  |
| 1. Clients and IS Operations team2. Numerous clients have complained that the MATCH advice does not provide them with much information and that the committed message gives them an assurance that the trade is committed in the market.The MATCH trades do not guarantee that the trade will settle, which results in an increased amount of emails from clients requesting the actual status of the trades.This message will reduce the number of email traffic and also various clients have indicated that this message is used in a number of markets across the globe. |
| **Nature of change** |
| Add a new code word to qualifier PEND in field 24B when Agent Order Status is COMMITED |
| **Workaround** |
| Increased amount of emails from clients requesting the actual status of the trades. |
| **Message type(s) impacted** |
| MT 548, MT 537 |
| **Examples** |
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**Standards Illustration**

##ILLUSTRATION##

**SWIFT Comment**

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**Working Group Meeting**

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| **Discussion** |
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| **Decision** |
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## CR 001307: Add Fail/Pending code due to priority

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| **Origin of request** |
| Requesting Country:  | CH Switzerland |
| Requesting Group:  |  |
| **Sponsors** |
| SCFS - Swiss Commission for Financial Standardisation (Credit Suisse) |
| **Complies with regulation** |
| None |
| **Business impact of this request** |
| MEDIUMMT 537 and MT 548 reason codes are already implemented, so a new one does not require an overall change. |
| **Commitment to implement the change** |
| Commits to implement and when: CH, SCFS Swiss Commission for Financial Standardisation 2018 |
| **Business context**  |
| We, as a local custodian bank, face the situation that an instruction is matched at the CSD and we have enough shares in the account at the CSD. However it remains open due to the fact that another open trade with a higher priority (PRIR) is blocking us.Due to the absence of a proper SWIFT reason code the CSD is sending an MT548 with keywords :25D::SETT//PEND and :24B::PEND//NARR. Further information is given in narrative field :70D::REAS// 'Overdue, higher or equal priority order not settled'This information must be forwarded by the custodian to its client. The client expects a proper reason code in field :24B:PEND// |
| **Nature of change** |
| Introduction of a new reason code 'BPRI' in field :24B: for qualifier PEND and PENF. Description of the new code: 'Blocked by order with higher or equal priority - Instruction is blocked by another order that has a higher or equal priority' |
| **Workaround** |
| Client can only be informed by using:25D::SETT//PEND and :24B::PEND//NARR. Further information is given in narrative field :70D::REAS// 'Overdue, higher or equal priority order not settled'. However, this usually requires manual intervention on the client side.In case we would not send these MT537 and MT548 message to our clients, they would call or write in asking why their instruction is not settled even they have enough shares. |
| **Message type(s) impacted** |
| MT 537, MT 548 |
| **Examples** |
| MT537Subsequence B1 Reason for pending settlement:16R:REAS:24B::PEND//BPRI:16S:REASSubsequence B1 Reason for pending settlement:16R:REAS:24B::PEND//BPRI:16S:REASMT548Subsequence A2 Status for pending settlement:16R:STAT:25D::SETT//PEND:16R:REAS:24B::PEND//BPRI:16S:REAS:16S:STATSubsequence A2 Status for pending/failing settlement:16R:STAT:25D::SETT//PENF:16R:REAS:24B::PENF//BPRI:16S:REAS:16S:STAT |

**Standards Illustration**

##ILLUSTRATION##

**SWIFT Comment**

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**Working Group Meeting**

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| **Discussion** |
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| **Decision** |
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# Overview of SWIFT Change requests

## CR 001319: Add sequence for penalties information

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| **Origin of request** |
| Requesting Country:  |   |
| Requesting Group:  | SWIFT |
| **Sponsors** |
| SWIFT |
| **Complies with regulation** |
| Regulation - CSDR |
| **Business impact of this request** |
| HIGHIt is the addition of a whole sequence in the MT 537 (MT 548?) and an addition of a new function of the message in MT 537. |
| **Commitment to implement the change** |
| Commits to implement and when: Institutions that are impacted by CSDR; settlement platforms trading venues, CCPS, CSDs and all their participants and their clients. 2018 |
| **Business context**  |
| The European Central Securities Depositories Regulation (CSDR) is one of the key regulations adopted in the aftermath of the 2008 financial crisis. Among many things CSDR requires participants to settle their transactions on intended settlement date, and requires CSDs to take measures to:• encourage and incentivise the timely settlement of transactions by its participants through different settlement features• monitor settlement fails and provide regular reporting to the competent and relevant authorities• prevent and address settlement fails through mandatory cash penalties and buy-in mechanismCSDs will implement a penalty mechanism for settlement fails which will serve as an effective deterrent for participants that cause settlement fails. Cash penalties will be calculated and reported on a daily basis for each business day that a transaction fails to be settled after its intended settlement date until the moment of the actual settlement date or until the end of buy-in processCSDR Articles related to penalties are:Article 16.5. A CSD shall charge and collect at least monthly the net amount of cash penalties to be paid by each participant. On a daily basis, the CSD shall provide to participants the details of the calculation of the penalties for every failed settlement instruction, indicating the account to which each failed settlement instruction refers. Article 17.1. The CSD shall redistribute to the receiving participants that suffered from a settlement fail the net amount of cash penalties that it has collected in accordance with Article 16, at least monthly. Article 17.2.  On a daily basis, a CSD shall provide the receiving participants with the details of the calculation of the cash penalties for each failed settlement instruction, indicating the account to which the failed settlement instruction refers to.Article 30 1. The receiving participant, through its clients, shall inform without undue delay the receiving trading party of the existence of a settlement fail. The receiving trading party shall verify, on the business day following the expiry of the extension period, whether the buy-in is not possible in accordance with Article 21(b).Article 324. The market value referred to in paragraph 2 [ ‘‘reference price’ ] shall be determined as follows:for financial instruments referred to in Article 3(1) of Regulation (EU) No 600/2014 admitted to trading on a trading venue within the Union, the value determined on the basis of the closing price of the most relevant market in terms of liquidity referred to in Article 4(6)(b) of Regulation (EU) No 600/2014;for financial instruments admitted to trading on a trading venue within the Union other than those referred to in point (a), the value determined on the basis of the closing price of the trading venue within the Union with the highest turnover;for financial instruments other than those referred to in points (a), and (b), the value determined on the basis of a price calculated using a pre-determined methodology approved by the competent authority of the CSD that refers to criteria related to market data, including market prices available across trading venues or investment firms. |
| **Nature of change** |
| Add a Penalty/Penalty Redistribution sequence in the MT 537 (Statement of Pending Transactions) and potentially the MT 548 ( Securities Settlement Status Advice) for Penalties reporting - This sequence should be mandatory only if sub-function is PENA (Penalties) - NEW qualifier- Fields required in the Penalty / Penalty Redistribution sequence: Days since Intended Settlement Date Basis Points penalty applicable (i.e. a numeric value 1, 0.5,0.25, etc) allow alternative types of calculation to be represented here to be future proof and global Reference Price (at end of trading date of today for instrument that failed) Trading Venue (as used for the reference price) Reference Market Price Penalty Amount applied on today’s date Aggregate Amount Penalty or Penalty Redistribution  SWIFT comments: - MT 548 is included (to be discussed during the MWG) in the CR even though the reporting of the penalties to both the failing party and the receiving party must be done on a daily basis and not real time. Including the information in the MT 548 might be more efficient and easy when charging the appropriate account with the penalty amount, however as this message is widely used impact will be important.- the MT 536 is not considered either as the final aggregate amount will be included in the last MT 537 sent out overnight.- need to refine the definition of the LATE reason code to mirror the definition of the code CLAT. This would cater for the scenario of late matching which is a T2S requirement but seems to be a market practice within the MIs. - A CSDR market practice should be created to clarify the penalties and buy-in process.The changes will not be implemented in the corresponding ISO 20022 messages as a new semt message will be created for this specific purpose by the 4CBsAs there are still discussions at the industry level on the technical requirements, some attribute might be missing (or updated) from the current illustrations of this CR. The final alignment with the technical requirement will be done when it is approved by the industry |
| **Workaround** |
| No workaround currently exists due to the number of additional fields required. |
| **Message type(s) impacted** |
| MT 537, MT 548 (?) |
| **Examples** |
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**Standards Illustration**

##ILLUSTRATION##

**SWIFT Comment**

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**Working Group Meeting**

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| **Discussion** |
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| **Decision** |
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