BUSINESS JUSTIFICATION
FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

CCP Clearing

B. Submitting organization(s):

S.W.I.F.T. Scrl
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B1310 – La Hulpe, BE
and
FIX Protocol Limited (FPL)
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C. Scope of the new development:

This registration request covers the Central Counterparty (CCP) clearing as shown below.

Clearing generally refers to the processes which happen after a trade is matched until its submission to settlement, and comprises various actions such as novation, netting and risk management (in particular, making use of collateral). The clearing service is provided either by a Central Counterparties or in some cases this clearing role is performed by the Central Securities Depository (CSD).

Processes and flows in scope. Green boxes are areas of initial focus; blue boxes will be addressed afterwards.
The results of the Giovannini gap analysis conducted by SWIFT Standards in 2006 highlighted that while existing standards cover some of the CCP flows, there is a need to create ISO standards in the clearing space to enable the removal of Giovannini Barrier 1.

While the gap analysis performed by SWIFT Standards focused on fixed income and equities, the Futures Industry Association and Futures Options Association (FIA/FOA) have also concluded that standards are needed to cover clearing of listed derivatives. In addition, there is also the need for CCP’s to comply with the Code of Conduct (supporting pricing transparency, service segregation and requiring interoperability between different EU CCPs).

The scope of central counterparties clearing is broad and SWIFT does not anticipate delivering the entire solution in one phase. Instead, in Phase 1, SWIFT will initially focus on the communication flow between the central counterparties (CCP’s) and general/individual clearing members (GCM’s and ICM’s) for fixed income and equity business processes (the green boxes in above diagram). However, although the modeling will focus on those processes applicable to equities and fixed income as shown in the green boxes above, it will also include listed derivatives related requirements applicable to these processes. This would be delivered in a first phase (Phase 1).

Phase 2 will focus on listed derivatives specific processes (the blue boxes in above diagram), but will also include the communication between non-clearing members (NCM’s) and GCM’s members. It should be noted that the scope of Phase 2 encompasses the processes and flows described in the SMPG market practice 2008, “Listed Derivatives Trade Notification and Management Flow”.

ICM: Individual Clearing Member
GCM: General Clearing Member
NCM: Non Clearing Member
(see definitions below, § E)
In a second phase (Phase 2), this will be expanded to include listed derivatives as well as the communication between non-clearing members (NCM’s) and GCM’s.

It can also be noted that certain business processes performed in this space are specific to certain instruments i.e., postings are done for derivatives but not equities. Therefore, in Phase 1, the modelling will focus on those processes applicable to equities and fixed income as shown in the green boxes in the diagram above. Phase 2 will expand to listed derivatives and other processes as shown in the blue boxes in the diagram above.

Also, the CCP to CCP communication flow is currently not very developed; it is expected that more links between CCPs will be built in the future, where ISO standards will bring their full benefits. As a consequence, the CCP to CCP communication will be covered by this business justification: additional requirements will be taken on board after Phase 2.

The following table outlines the overall scope of this business justification (for both Phase 1 and Phase 2).

<table>
<thead>
<tr>
<th>Financial instruments</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed income</td>
</tr>
<tr>
<td></td>
<td>Listed derivatives</td>
</tr>
<tr>
<td>Business areas</td>
<td>Securities clearing (secl)</td>
</tr>
</tbody>
</table>

### Business processes

- Trade Leg Reporting
- Margining
- Collateral Management processes covered by CCP’s
- Buy in
- Default Fund Contributions
- Settlement Netting
- Margining enquiries (Derivatives specific)
- GiveUps / TakeUps (Derivatives specific)
- Postings / Splitting (Derivatives specific)
- Trade Transfer (Internal & External - Derivatives specific)
- Position Transfer (Derivatives specific)
- Exercises Assignments (Derivatives specific)
- Corrections (Derivatives specific)
- Offset (Derivatives specific)
Out of scope  | Collateral processes not conducted by CCP’s ie  
| Tri-party collateral management  
| Trade capture  
| Settlement  
| Asset servicing  
| Borrowing

In view of the scope, we recommend that the Securities SEG be assigned the evaluation of the candidate ISO 20022 models and messages. FPL fully intends to generate FIX syntax messages from the ISO 20022 models where there is overlap with existing FIX messages. This is needed to continue FIX’s support of CCP implementations that exists today as well as any CCP who chooses to support FIX for their members.

D. Purpose of the new development:

Current communication flows:

There are a number of objectives supporting this business justification:
The following diagram further illustrates the scope and the actors involved:
The actors who will directly benefit from the introduction of standards for clearing are:

A Central Counter Party (CCP) is an infrastructure which clears securities trades executed by its members. It guarantees these trades against the counterparty's failure by becoming a seller to every buyer and a buyer to every seller. It nets transactions and manages risks by making use of margining and collateral procedures.

The Code of Conduct requests that CCPs invest in interoperability and easy access to their services. The introduction of ISO 20022 standard will support CCPs in being compliant with this request.

A CCP has two customer types, typically called Members: an Individual Clearing Member (ICM) which will only clear on its own behalf (also called 'self-clearing' member), and a General Clearing member (GCM), which will also clear on behalf of its own customers.

Clearing members will benefit from the ISO 20022 standard from an interoperability and access point of view. They will be able to access to and communicate with several CCPs using a single set of messages. Also, the ISO 20022 business model will support discussions to harmonize the processes and flows, which will reduce complexity for the clearing members willing to diversify their access to CCPs. Another benefit is for clearing members active in other business areas (such as settlement, custody and funds management) and using (or planning to use) ISO 20022 messages in these areas: they will be able to leverage their knowledge and investment.

A Non Clearing Member (NCM) is typically a broker-dealer member of an exchange or other type of trading venue that is not able to clear transactions, and so must use the services of a GCM to carry out its clearing operations.

It is expected that some messages (to be defined in Phase 2) exchanged between a CCP and a GCM can be reused between a GCM and a NCM. As a consequence, NCMs will also benefit from the ISO 20022 standard to communicate with several GCMs, have more flexibility in selecting their service provider(s) and leverage ISO 20022 implementation in other areas.
The community of users who would utilize the FIX message syntax are in the listed derivatives clearing from clearing house to clearing firm, who have already chosen to standardize on FIX to service their clearing customers. In addition, within listed derivatives, many firms currently use FIX message syntax between clearing firm and customer.

F. Timing and development:

The availability of ISO 20022 XML securities clearing messages is important to enable the removal of Giovannini Barrier 1, which states that all participants involved in European cross-border transactions must be able to exchange either ISO 15022 or ISO 20022 standards by 31 March 2011.

As almost no ISO standards are available today for the clearing space, participants will implement directly ISO 20022 messages and hence be compliant on due date with the Giovannini recommendations.

The current plan is to have ISO 20022 models and messages for Phase 1 of this project (ie, communication flow between CCP and (G)(I)CM for fixed income and equity) ready for submission to the RA by Q1 2010. This would represent approximately 20 messages.

Phase 2 (ie, communication flow between CCP and (G)(I)CM for listed derivatives and communication flow between NCM and GCM) submission date will be defined after further consultation with the market, once Phase 1 is delivered; discussions will take place in 2010. A similar number of messages is expected for Phase 2 delivery.

This development will include the reverse engineering of the FIX Protocol model and messages that support the business flows between CCPs and their clearing members.

To build these models and messages, SWIFT and FPL will establish a working group including experts from European CCP’s, GCM’s and NCM’s and will leverage on the work completed by the FIA/FOA standards Post-trade Working Group.

In addition, the second phase will consider the specific requirements of NCM and will involve more largely these players.

By including FPL and leveraging the work of FIA/FOA during Phase 2, the specific requirements of non European CCPs and their members will be largely addressed.

G. Commitments of the submitting organization:

SWIFT is committed to
- Undertake the development of the candidate ISO 20022 business models and message models that it will submit to the RA (Registration Authority) for compliance review and evaluation. The submission will include Business Process Diagram (activity diagram), Message Flow Diagram (sequence diagram) and Message Definition Diagram (class diagram), as well as other descriptive material that will be used by the RA to generate the Message Definition Report;
- Address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.
SWIFT intends to organize pilot testing of the resultant message schemas.
SWIFT is also committed to initiate and/or participate in future message maintenance.

**FPL is committed to**

Providing resources to work jointly with SWIFT on the reverse engineering of existing FIX post-trade-clearing messages, FIA post trade working group requirements, and development of the new candidate ISO 20022 messages.

FPL will assist in addressing any queries related to the descriptions of the models and messages as published by the RA on the ISO 20022 website.

FPL will initiate and or participate in future message maintenance.

**SWIFT and FPL acknowledge and accept the following:**

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free license to use the published information”.

**H. Contact persons:**

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**FIX Protocol Limited**

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177 Industry Standards Liaison
178 FIX Protocol Ltd.
I. Comments from RMG members and disposition of comments by SWIFT and FPL

Changes to the original text of the business justification are highlighted in track change mode.

**Comments from France and disposition of comments:**

France welcomes the submission of an ISO business justification from FIX Protocol Limited (FPL) and SWIFT in relation to the CCP Clearing. We are indeed in favour of the adoption of international standards for the communication flows between the central counterparties (CCPs) and general / individual clearing members (GCMs / ICMs) for fixed income and equities.

However we have a certain number of comments to the request which we set out below.

**Scope of the new development (part C, line 23 and following)**

We understand that after a phase 1 - where a solution will be delivered for the communication flows between the CCPs and GCM / ICMs, a second phase will expand to include listed derivatives as well as communication between non clearing members (NCMs) and GCMs.

Taking into account that a market practice [Title : Listed Derivatives Trade notification and management flow] has been validated in 2008 by the SMPG, a clarification is needed here.

This market practice (MP) has the scope to 'describe the trade notification and management flow for the opening, monitoring and closing of listed derivatives position'. This document covers trade notification, give-up / allocations, exercise/abandon instructions, booking/exercise/abandon/assignment confirmations, outstanding transaction advice and statements.

Could the submitters of the CCP clearing BJ make it clearer for the international community what is the scope which will be covered with the phase 2?

*This was made clearer in the business justification.*

Could the submitters also confirm that the definitions proposed in lines 70 and following for CCPs, GCMs and ICMs are consistent with the definitions of the same authors in the MP? These definitions should be in the end ISO 20022 compliant.

*As a general comment, terms and definitions will be aligned with the SMPG Market Practice “Listed Derivatives Trade Notification and Management Flow” during the design phase. We completely agree that definitions should be in the end ISO 20022 compliant. However, looking at the MP, only Clearing Member has been defined (where the differentiation between general and individual clearing member is not made at the level of the actor). Additional definition for CCP and non clearing members will be proposed.*

**Commitments of the submitting organization (Part G, line 130 and following)**

Here again, we would appreciate some clarification on a more 'technical' area.
It is indicated (line 130 and following) that FPL is committed to provide resources to work on the reverse engineering of existing FIX post trade messages, FIA post trade working requirements, and the development of the new candidate ISO 20022 messages.

In which syntax will these new messages be developed? Is it XML or FIX?

Again, taking into account that the Listed derivatives MP describes scenarios, where the flows are covered with MT messages (MT 54-0,1,2,3,8 and 548) it is key to specify for the CCP clearing what is the syntax which will be used.

For the GCM/ICMs actors, it is now well known that the cost to maintain multiple syntaxes is major, even if the modelisation is done in all cases in compliance with ISO 20022.

The project will deliver ISO 20022 business and message definition models that will be submitted to the RA and SEG for approval. These models will be used by the RA to generate ISO 20022 XML message schemas.

FPL intends to use the same ISO 20022 business and message definition models to generate messages in the FIX syntax (whether in the tradition tag=value or FIXML Schema syntax) where relevant to support the community of users who choose to implement FIX syntax.

Today there is an existing community of users that have implemented FIX to support the clearing processes, in particular non-European users.

Comments from ISITC and disposition of comments:

ISITC which represents the interests of a large number of investment managers, custodians, and broker/dealers welcomes the opportunity to provide feedback on this business justification.

We raise the following observations for additional clarification in the document:

- In lines 23 and 24 of the document, it stats that Listed Derivatives will be part of Phase 2 of the initiative, however in the scope table (line 34) Listed Derivatives are included. Will any portion of Listed Derivatives be covered in Phase 1, or will the BJ be modified to clarify the scope of Phase 1?

This was made clearer in the business justification.

- In lines 52 – 54 the BJ notes that the existing MT 503-MT507 messages will be leveraged for development of new collateral management messages. As these are minimally supported by the industry today, what benefit is expected to be realized from their re-engineering?

The ISO 15022 collateral messages can be leveraged by analyzing their weaknesses (ie, why are these messages not so used by the industry today) in terms of processes, flows and content and how can this be improved for the ISO 20022 set of collateral messages. The purpose is not to reverse-engineer the MT messages, although some of the work done could surely be reused to develop such ISO 20022 collateral messages (eg, definitions, key message elements, etc).

Additionally FIX also has collateral management messages in place that are currently used by CCPs, investment banks, and inter-broker dealer communities.
In lines 63 and 64, it is noted that the work of the FIA Post-Trade working group will be incorporated into the ISO 20002 standard. An overview of the past work of the FIA working group should be included here, as well as defining the scope of what will be leveraged from their efforts.

At the end of 2006, SWIFT Standards conducted a gap analysis as part of its efforts to remove Giovannini barrier One for fixed income and equities. In the meantime, the Futures Industry Association and the Futures and Options Association committed to improving the efficiency of post-trade processing for exchange-traded derivatives. FIA/FOA created a Global Standards Working Group that was committed to define a new standard that would address Giovannini Barrier One and benefit listed derivatives market participants around the world. Additional information can be found on the FIA website (www.futuresindustry.org). However, the work of the FIA Post-trade Working Group is still on-going and their documents are not in the public domain. Therefore, we suggest you to contact Mary Ann Burns from the FIA to get such information.

It should be noted that the FIA Post-trade Working Group has submitted their gap analysis to FIX for inclusion into the FIX Protocol. Gap analysis areas that have been submitted include enhanced support for trade reporting, collateral management and margining requirements.

In lines 65 – 66, the ‘relevant FPL post-trade clearing messages’ should be listed, along with the current business use of each message.

This is listed in Annex 1. We have updated Annex 1 to include message descriptions.

The description ‘Post-Trade messages’ is used throughout the document to define FIA and FPL messages. ISITC recommends these be changed to accurately reflect the scope of this Business Area, specifically Securities Clearing messages, or Clearing messages. Wherever relevant, post-trade has been replaced by clearing.

In lines 134 - 136, in states that FPL will ‘assist in addressing any queries related to the descriptions of the models and messages’, however it does not mention the syntax. Will FPL be producing ISO 20022 and FPL models and syntaxes?

The project will deliver ISO 20022 business model and message definition models that will be submitted to the RA and SEG for approval. These models will be used by the RA to generate ISO 20022 XML message schemas.

FPL intends to use the same ISO 20022 business and message definition models to generate messages in the FIX syntax (whether in the traditional tag=value or FIXML Schema syntax) where relevant to support the community of users who choose to implement FIX syntax. Today there is an existing community of users that have implemented FIX to support the clearing processes, in particular non-European users.

Comments from ECB and disposition of comments:
The ECB, would like to make the following comments:

- It generally supports initiatives aiming at removing Giovannini Barrier 1, and welcomes the idea that ISO 20022 standards expand further along the trade communication flow.

- In order to reduce the overall effort, it recommends that FPL and SWIFT ensure that the development of this message category is in line with existing as well as ongoing developments in the field of settlement or reference data, where relevant.

Wherever relevant, existing and ongoing developments will be considered to ensure consistence and leverage the work done in the above mentioned fields.
### 320 Annex 1 Inventory of related FIX messages

#### 321 Trade Capture

<table>
<thead>
<tr>
<th>Message</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TradeCaptureReportRequest</td>
<td>Query or subscribe for TradeCapture Report messages</td>
</tr>
<tr>
<td>TradeCaptureReportRequestAck</td>
<td>Response to the TradeCaptureReportRequest message</td>
</tr>
<tr>
<td>TradeCaptureReport</td>
<td>Used for both reporting by firm into clearing house and by clearing house to firm to report and process trades.</td>
</tr>
</tbody>
</table>

#### 322 Settlement Instructions

<table>
<thead>
<tr>
<th>Message</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SettlementObligationReport</td>
<td>Report from clearing house to clearing firm indicated settlement obligations.</td>
</tr>
</tbody>
</table>

#### 323 Position Maintenance (Phase 2)

<table>
<thead>
<tr>
<th>Message</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>RequestForPositions</td>
<td>Query or subscribe for position reports.</td>
</tr>
<tr>
<td>RequestForPositionsAck</td>
<td>Response to a RequestForPositions.</td>
</tr>
<tr>
<td>PositionReport</td>
<td>Report on the current position (long and short, gross or net) from a clearing house to a firm.</td>
</tr>
<tr>
<td>PositionMaintenanceRequest</td>
<td>Transaction to request a change to a position.</td>
</tr>
<tr>
<td>PositionMaintenanceReport</td>
<td>Can be used as a response to the PostionMaintenanceRequest from clearing house to firm or from broker to customer</td>
</tr>
<tr>
<td>AdjustedPositionReport</td>
<td>Position adjustment report from clearing house to firm or from broker to customer.</td>
</tr>
<tr>
<td>AssignmentReport</td>
<td>Used by clearing house to firm or from broker to customer to report an assignment has occurred.</td>
</tr>
<tr>
<td>ContraryIntentionReport</td>
<td>Used to report when a position that can be exercised will not be exercised due to customer request.</td>
</tr>
</tbody>
</table>

#### 324 Collateral Management

<table>
<thead>
<tr>
<th>Message</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CollateralRequest</td>
<td>Used to request collateral to be assigned from the counterparty.</td>
</tr>
<tr>
<td>CollateralAssignment</td>
<td>Response to the CollateralRequest message.</td>
</tr>
<tr>
<td>CollateralResponse</td>
<td>Used as a response message by the party receiving the CollateralAssignment message.</td>
</tr>
<tr>
<td>CollateralReport</td>
<td>Used to report on collateral status when responding to the CollateralInquiry message.</td>
</tr>
<tr>
<td>CollateralInquiry</td>
<td>Query for collateral status being held on requestors behalf by the message recipient.</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>CollateralInquiryAck</td>
<td>Response to the CollateralInquiry when the inquiry resulted in no information found or is an invalid inquiry (based on business rules).</td>
</tr>
</tbody>
</table>

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Any messages reverse engineered from FIX Protocol will be made available in the FIX Protocol syntaxes.