A. **Name of the request:**

Demand Guarantees and Standby Letters of Credit

B. **Submitting organisation(s):**
SWIFT SCRL
Avenue Adèle, 1 - 1310 La Hulpe – Belgium
Standards Department

C. **Scope of the new development:**

Demand ~~or bank~~ guarantees ~~or~~ and standby letters of credit are independent undertakings that provide financial assurance, to be ~~collected~~ paid on the presentation of documents that comply with ~~its~~ their terms and conditions. ~~When used, the guarantee becomes a "payment undertaking" that~~Such undertakings can be used in multiple situations; assuring performance, repayment of advance fees, in connection with bids, to assure payment for the delivery of goods, or to assure repayment of financial obligations. Their use arises where money-like dependable promises from neutral third parties are important. At any given point in time, it is conservatively estimated that there is more than USD 1.5 trillion outstanding under these undertakings.

The guarantee process is typically governed by either local law and local procedures, or alternatively, by one of three sets of international rules, published by the International Chamber of Commerce (ICC) namely:

- Uniform Rules for Demand Guarantees (latest version, URDG 758)
  ICC Publication No. 758

- International Standby Practices (latest version, ISP-98)
  ICC Publication No. 590

- Uniform Customs and Practice for Documentary Credits (latest version UCP 600)
  ICC Publication No. 600

URDG 758 defines a demand guarantee as any undertaking, however named or described, providing for payment upon the presentation of a complying demand.

ISP-98 ~~defines~~ characterises a standby letter of credit (standby) as an irrevocable, independent, documentary, and binding undertaking when issued.

UCP 600 defines a "Credit" (including a standby) as any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.

While the demand guarantee and standby are similar instruments, the practices surrounding them often differ, differences that are typically reflected in the various rules which themselves create additional differences. The scope of the new development will need to

factor these differences into the development effort and cater for information exchanges in support of either of these instruments.

An estimated 25 new ISO 20022 messages are foreseen, subject to confirmation as the project progresses.

The business scope could cover the following functionality:

- Support for the processing (application, amendment, issuance, advising, demand, presentation, settlement, extension, reduction, expiration, transfer, assignment of proceeds) of both demand guarantees and standby letters of credit, as appropriate,

- Support for a range of applicable rules, including provision to indicate local rules and support for rules published by the ICC (International Chamber of Commerce), notably URDG (Uniform Rules for Demand Guarantees), ISP (International Standby Practices), and UCP (Uniform Customs and Practice for Documentary Credits),

- Support for processing of ~~direct~~ guarantees or standbys (~~guarantee~~ issued by the applicant's bank directly to beneficiary or via an advising bank - three corner model) or ~~indirect~~ counter-guarantees or counter-standbys (on instruction of the applicant's bank, ~~the guarantee~~a local undertaking issued through a local bank in the beneficiary's country – four corner model or local bank guarantee), including support for confirmation of standbys,

- ~~Support the processing of sureties, as appropriate,~~

- Exchange of guarantee / standby and related information between applicant/instructing party and guarantor /issuing bank or counter-guarantor/counter-issuer,

- ~~Exchange of the undertaking and related information between the counter-guarantor or counter-issuer and the local beneficiary where a counter-guarantee or counter-standby is involved or where a confirmation of a standby letter of credit is involved,~~

- Exchange of guarantee / standby and related information between issuing bank or guarantor and beneficiary,

- Support for cross border and domestic guarantees, including catering for local language content,

- Support for a range of guarantee types, ~~notably~~such as (not exhaustive):
    - Tender or bid guarantee or standby
    - Performance guarantee or standby
    - Advance payment guarantee or standby
    - Retention guarantee or standby
    - Warranty guarantee or standby
    - Payment guarantee or standby
    - Financial guarantee or standby
    - Shipping guarantee or standby
    - Maintenance guarantee or standby
    - Insurance guarantee or standby
    - Commercial guarantee or standby
    - Direct pay guarantee or standby
    - Customs guarantee or standby

- Support for recognised guarantee form templates, notably those ~~defined~~ designed for URDG 758 and ISP 98,

- Handling of presentations and demands (complying and non-complying, extend or pay), including provision for electronic processing and submission of supporting documentation,

- Provision for reporting of settlement details (payments, charges, and fees)~~ related to guarantees~~,

- Provision for referencing ~~of~~ the underlying contract, counter-indemnity, ~~and~~ or counter-guarantee/standby, as appropriate,

- Consideration of undertakings issued on stamp paper (e.g. in India), as appropriate,

- Consideration of participations, syndications and secondary market flows, as appropriate.

- Inclusion of the ISO 20022 Business Application Header (head.001) in all messages.

Based on the scope, the Trade Services Standards Evaluation Group (Trade SEG) should be assigned the evaluation of the candidate ISO 20022 messages as the lead SEG, with participation by the Payments SEG should the level of interest warrant direct input from the Payments SEG.

The related ISO 20022 Business Areas are those covered by Trade Services Initiation (tsin) and Trade Services (tsrv), possibly Trade Services Management (tsmt).

An alternative syntax other than ISO 20022 XML is not required at this time.

D. **Purpose of the new development:**

The current Category 7 messages for demand guarantees were implemented on the SWIFT network in the 1980s and have remained largely unchanged, changes in response to regulation excepted. There are 4 existing MT message types that cover the bank-to-bank flows (excluding the MT common group messages) and a further 18 MT 798 sub-message types that cater for the corporate-to-bank and bank-to-corporate flows (excluding the common group sub-message types). Given the generic nature of the bank-to-bank messages, and with the increasing need to support more granular content for the full end-to-end cycle, along with the need to support local language content, a new development project is envisaged that leverages ISO 20022.

The MT 760 (Guarantee / Standby Letter of Credit) has been likened to "secure e-mail", its structure has a single text block (tag 77C - Details of Guarantee - 150*65x) for all data content, issue date and applicable rules excepted.

The creation of this new set of ISO 20022 messages will ensure coverage of the full end-to-end (applicant-bank(s)-beneficiary) flows for this important segment of the trade business and support the exchange of both demand guarantees and standby letters of credit information in a more structured and granular format. It will facilitate STP improvements and allow the process to be monitored and managed in a more effective and efficient manner. A complete set of ISO 20022 messages for demand guarantees and standby letters of credit will enable corporations to industrialise the independent undertaking process through integration with their internal systems and to enhance business communications with their bank(s). It will

enable banks to better add value to this business area and to further automate the processing and handling of their guarantee / standby business.

The following table illustrates the number of Category 7 demand guarantee and standby letters of credit messages exchanged over the SWIFT network in 2009. These figures represent a fraction (possibly only 5%) of the actual guarantees and standby letters of credit issued, most issued are still paper based, others do not use the SWIFT network.
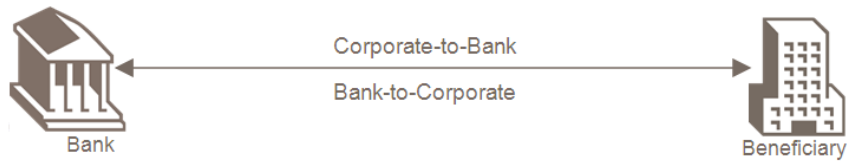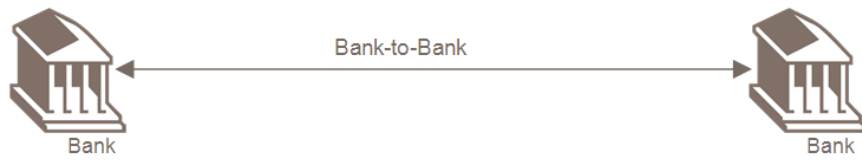
Category 7 Message Types	2009
MT760 – Guarantee / Standby Letter of Credit	260,628
MT767 - Guarantee Amendment / Standby Letter of Credit	168,000
MT768 - Acknowledgement of a Guarantee / Standby Message	107,353
MT769 - Advice of Reduction or Release	60,361
Total	**596,342**

The number of Financial Institutions using SWIFT Category 7 guarantee messages for 2009 was represented by some 3600 different BICs (Business Identifier Codes).

The current Category 7 guarantee message flows are depicted below:

Bank-to-Bank

Bank   Bank

| GUARANTEE | MT 760 |
| GUARANTEE AMENDMENT | MT 767 |

MT 768   ACKNOWLEDGEMENT

MT 769   REDUCTION / RELEASE ADVICE

Corporate-to-Bank

Bank-to-Corporate

Bank   Beneficiary

| ADVICE | MT 760 |
| AMENDMENT ADVICE | MT 767 |

PAYMENT CLAIM

CLAIM ACKNOWLEDGEMENT

The following activity diagram illustrates the high level guarantee/standby process, applicable to both existing MT message flows as well as the proposed ISO 20022 developments.
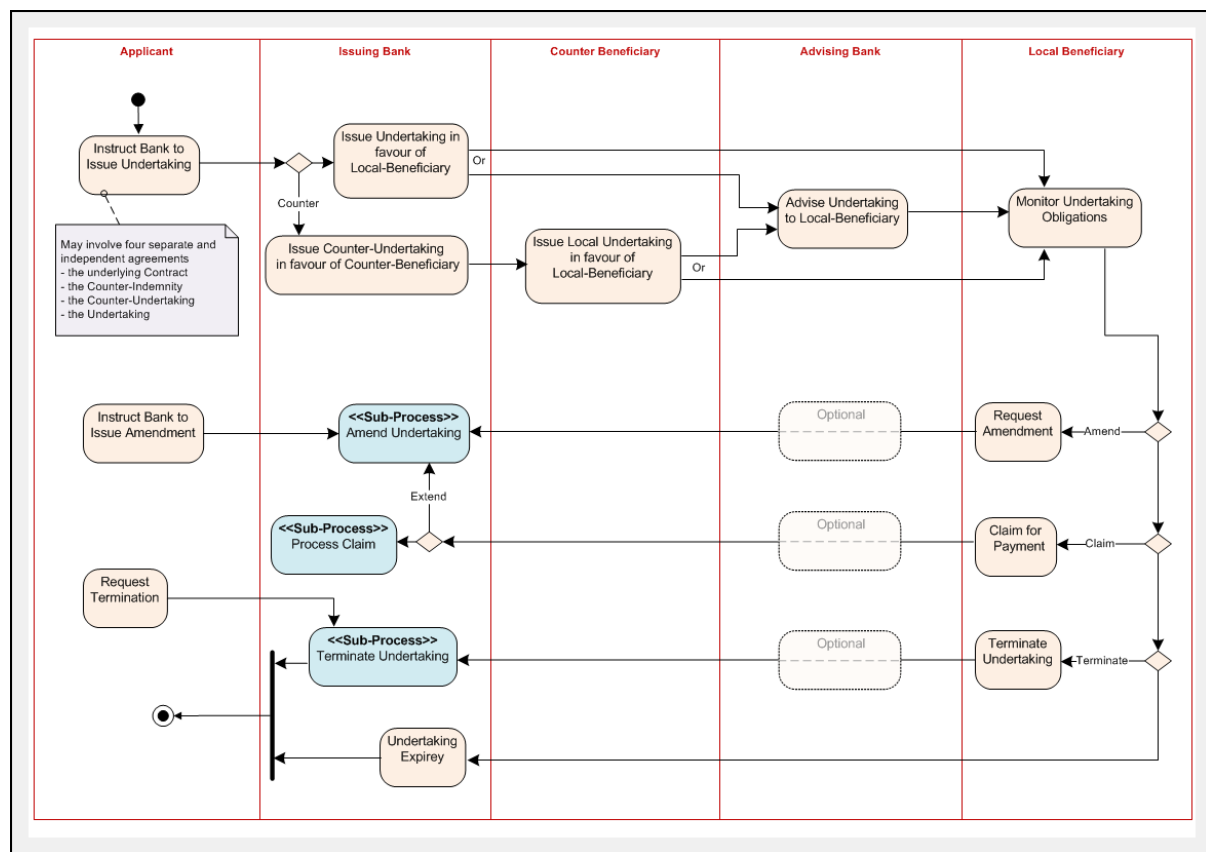
E. Community of users and benefits:

The community of users covers trade banks and their corporate customers (exporters and importers, buyers and suppliers, contractors, and others) where there is a commercial requirement to mitigate the risk when the counterparty defaults, for example, if the counterparty fails to deliver a project within the contracted time. As such, the guarantee/standby transfers the ~~creditworthiness~~ risk of the applicant/instructing party ~~of~~ under the guarantee to a designated bank (the guarantor/issuer).

The proposed development is end-to-end, from applicant via one or more financial institutions through to the beneficiary. The benefits and savings are largely the same across this chain rather than specific to a certain group of users.
 Benefits/savings: The creation of this new set of ISO 20022 will ensure coverage of the full end-to-end (applicant-bank(s)-beneficiary) flows for this important segment of the trade business and support the exchange of information in a more structured and granular format thereby further facilitating standardised language, forms, and reducing operational risk to all parties.

It will facilitate STP improvements and allow the demand guarantee and standby process to be monitored and managed in a more effective and efficient manner. A complete set of ISO 20022 messages for demand guarantees and standbys will enable corporations to industrialise

the demand guarantee and standby process through integration with their internal systems and to streamline business communications with their bank(s). It will better facilitate the transition from paper to electronic formats. A further longer term benefit is that the introduction of new and extended functionalities to the demand guarantee and standby process will serve as a catalyst for the development and innovation of new products and services. Of note is support for domestic demand guarantees and standbys in local language.

Adoption scenario: The expectation is that in-country implementations would precede cross-border implementations, with limited implementation occurring during 2012 and commercialisation starting in 2013.

Volumes: The current number of Category 7 bank-to-bank guarantee messages carried on the SWIFT network is around 600,000 messages per annum. On the assumption that this figure represents 5% of the potential market and with the additional corporate-to-bank and bank-to-corporate message flows, this could increase maybe four fold, say to 2.4 million messages.

Sponsors and adopters: The current Category 7 guarantee message flows are implemented by all major trade banks. Customers of these banks, notably large exporters and importers would number in the thousands, potential guarantee corporate users, globally, likely number in the tens of thousands.

SWIFT in consultation with the community established in November 2010 a group whose terms of reference has as its scope to agree the business content and information flows, and to validate and confirm through testing a new set of ISO 20022 messages, covering the full end-to-end (applicant – financial services provider(s) – beneficiary) flows for guarantees and standby letters of credit. Specific expectations of group participation are:

1. To actively contribute to defining and agreeing the business content and information flows for the development of ISO 20022 messages in support of the Guarantee/Standby business
2. To actively participate in the testing of the resulting ISO 20022 messages
3. To demonstrate the relevance of the ISO 20022 messages to the business process
4. To facilitate industry dialogue in order to raise community awareness of the project objectives and outcomes
5. To promote the implementation of the ISO 20022 messages
6. To take a lead role in defining ongoing market practice for the use of the ISO 20022 messages

To date the following organisations have participated; BAML, BNP Paribas, Bank of Montreal, CITI, CommerzBank, Credit Agricole CIB, Deutsche Bank, HSBC, Hua Wei, IIBLP, JPM Chase, Johnson Controls, Royal Bank of Canada, SCB, UBS, and Wells Fargo. Others have expressed an interest.

E. **Timing and development:**

- SWIFT commenced the development Q3 2010 with an initial community consultation exercise to define the potential scope and to provide a basis to conduct more detailed analysis of requirements via workshops, working groups, conference calls and the like;

- SWIFT expects to have the new candidate ISO 20022 business and message models developed and ready for submission to the ISO Registration Authority (RA) Q3 2011;

- SWIFT will involve in the development process, the broad community of users and vendors through workshops, working groups, conference calls and the like. Workshops have been conducted in La Hulpe, New York and Hong Kong with representatives from the following organisations; BAML, BNP Paribas, Bank of Montreal, CITI, CommerzBank, Credit Agricole CIB, Deutsche Bank, HSBC, Hua Wei, IIBLP, JPM Chase, Johnson Controls, Royal Bank of Canada, SCB, UBS, and Wells Fargo.

- No other known standards initiative(s) are involved in an effort to address the same requirements.

F. **Commitments of the submitting organisation:**

- SWIFT will undertake the development of the candidate ISO 20022 message models for submission to the RA for compliance review and evaluation, target Q3 2011. The submission will include Business Process Diagrams (activity diagrams), Message Flow Diagrams (sequence diagrams), Message Definition Diagrams (class diagrams), and an example of valid XML instances of each candidate message and other descriptive material that will be used by the RA to generate the Message Definition Report;

- SWIFT will address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website;

- SWIFT confirms that it will endeavour to promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

- SWIFT is also committed to initiate and participate in the future message maintenance.

- SWIFT confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organizations, as follows.

"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".

G. **Contact persons:**

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H. **Comments from the RMG members and relevant SEG(s) and disposition of comments by the submitting organisation:**

This section includes the comments received from RMG members and the SEGs and the response given to each of these comments by the submitting organisation.

Country/ Organisation	Comment	Disposition of comments by the submitting organisation
USA	In principle, this is a sound idea. The end-to-end finalization of a Guaranteed Letters exchange includes a significant amount of variable back-and-forth communication among different entities. By definition, this will potentially involve a diverse set of systems that have no direct connection with one another, with the only common factor being the data that is exchanged. Having to continue to rely upon SWIFT messages, although they have a long history of successful and effective use, as the only protocol alternative to this inter-entity exchange, will continue to place an artificial legacy constraint on the systems involved. As new services are developed, modern technologies are increasingly based on XML formatted information exchange, because modern application programs can intuitively understand XML constructs. This facilitates, and even encourages, the rapid development of applications for new services, because there is less reliance on lowest-common-denominator legacy constraints that must be incorporated in the design stage. The Guaranteed Letters process has obvious international cross-border application as trade and commerce continues to become increasingly more global. This fact will of necessity cause new application services to be devised and developed. Having modern technology constructs such as XML as a core part of the solution can only serve to increase the expansion of these applications that underpin the effective use of international trade protocols such as Guaranteed Letters.	SWIFT welcomes the support of the USA.
Switzerland	*Page 1 – item "C. Scope .." para 2:* A large number of guarantees are issued subject to local law and not subject to ICC rules. This fact should be reflected: "The guarantee process is typically governed by either local law and local procedures or alternatively by one of three international rules, published by the International Chamber of Commerce (ICC) namely:…"	SWIFT welcomes the support of Switzerland. More explicit reference to local law added, as per proposed wording.

	Page 2 – item "C. Scope .." 4th bullet point It is contradictory to name the request "Demand Guarantees and Standby Letters of Credit" and to open the scope also for sureties which are not independent undertakings.		The overall scope has been retained, it relates only to independent undertakings (demand guarantees and standbys). As a consequence, bullet point 4 has been deleted. Handling of dependant undertakings, such as sureties, will be considered under a separate Business Justification, if required.
	Page 6 – activity diagram The communication from the issuing bank to the beneficiary is shown only via advising bank. Many instruments are sent directly from the issuing bank to the beneficiary. To show that the advising bank is an optional party we suggest to show it in a dotted field or to include a decision field (advising bank – yes/no). The communication flow can go both ways, i.e. a beneficiary also communicates with the issuing bank. This happens usually the same way as the bank-to-beneficiary communication but in the opposite direction. In the 3 sub-processes the advising bank should thus appear as optional party.		Activity diagram adjusted to reflect comments.
Demark	1: It is not correct to say that the guarantee process is typically governed by URDG, ISP or UCP. For Denmark is it so that almost all standby LCs are governed by ISP or UCP - however for demand guarantees less than 20 per cent are issued subject to URDG. The rest is subject to local law.		SWIFT welcomes the support of Denmark. Wording modified (Section C - Scope, para 2) to reflect comments with respect to local law.
	2: What will be the consequence for MT760's after the development of those new messages?		The MT760s will continue to be supported by SWIFT while there is market demand. The market will determine if and when the MT760 will be retired.
	3: What is the "relevance" of this development - i.e. how many messages in number and percentage does it cover per year of the SWIFT traffic?		Detailed in part in Section E (Community of users and benefits), under volumes. The current Category 7 messages related to guarantees (MT760s) represent some 2% of the Category 7 traffic (this excludes MT700 and MT799 messages related to guarantees/standbys), and some 0.01% of the total SWIFT traffic. The "relevance" of this development is that the guarantee/standby is an important and widely used

		commercial instrument for risk mitigation and as such, it is expected to lead to a traffic increase in the corporate-to-bank space.
Netherlands	There is general acceptance that there is a requirement to enhance the SWIFT message types available for use with Bonds and Guarantees to reduce the number of messages currently transmitted as 799 messages.	SWIFT welcomes the support of the Netherlands.
	The Standby Letters of Credit we issue are subject to either UCP600 or ISP98. However the number of Guarantees issued subject to URDG758 and its predecessor is very limited with the majority of Guarantees issued on our own paper being subject to either the law of the country of the issuing office, the country of the beneficiary or may even be silent on law. Accordingly any new message types would require an option of "Other" as the governing rules	Wording modified (Section C - Scope, para 2) to reflect comments with respect to local law. Scope adjusted accordingly.
	In certain countries, particularly India, Guarantees are issued on stamp paper. The proposed functionality would need to address this issue.	Scope adjusted.
	Again in certain countries where local practice and indeed the wording of the issued instrument would require the return of the original instrument. New functionality would need to address this issue.	Covered by scope.
	Mention is made of standard texts which in theory is good. However in practice beneficiaries have their preferred texts and are not prepared to consider any other text. Not providing the required text would/could put customers in an uncompetitive position. Accordingly there must be scope for free form text guarantees which by there nature would reduce the percentage of work processed on a STP basis.	Covered by scope, provision required for standard and/or free form text.
	Currently when requesting other banks to issue guarantees against a counter-guarantee there is no accepted standard wording for the counter-guarantee with all banks/countries having differing requirements and on many occasions amendments are requested to the counter-guarantee text which delays the issuance of the requested Guarantee. The agreement/creation of standard counter-guarantee wording would be a massive improvement.	Project scope is concerned with the development of standardized message formats. Development of standarised text for counter-undertakings is considered out of scope and should be considered by the respective industry associations and groups with the appropriate expertise. URDG 758 provides a form of counter-guarantee.
	One overriding fact is that any change to SWIFT formatting and the delivery of	Comments noted. The migration to the ISO 20022 formats will be

		messages from banks between both applicant and beneficiary will have a very significant impact on both front end delivery systems together with back office processing systems and a considerable cost implications to accommodate any new processing strategy. The costs incurred here will determine both the timing and take-up/implementation of any new functionality.	determined by industry, not enforced by SWIFT.