16th August 2010

Committee of European Securities Regulators
11-13 avenue de Friedland
75008
Paris
France

CESR Consultation 10-610 - Standardisation and Exchange Trading of OTC Derivatives

Thank you for the opportunity to respond to the consultation on the standardisation and exchange trading of OTC derivatives. This response from SWIFT is focused on a number of the questions related to standardisation, together with some commentary on the issue of electronic trade confirmation. We have, therefore, not attempted to answer all the questions in the consultation.

Please find below our response to the questions on which we would like to comment:

Q1. Do you agree with CESR's assessment of the degree of standardisation of OTC derivatives? Is there any other element that CESR should take into account?

We agree with the definitions of the three elements to standardisation identified in the paper. The first two elements; legal uniformity and process uniformity, can be important enablers of greater straight through processing (STP) throughout the whole transaction chain.

Q3. Do you agree that greater standardisation is desirable? What should the goal of standardisation be?

Greater legal uniformity is an enabler for process uniformity, and as a consequence for STP from pre-trade all the way through to settlement, including collateral management.

If standardization is truly to address risk, then one of the key goals of standardization should be to make operational processes more efficient by increasing the standardization of downstream post trade processes.

SWIFT supports standardization efforts across the full range of post trade activity in the securities markets in order to help the industry to be more operationally efficient.

The table below demonstrates how standard messages used on the SWIFT network support the various processes in the transaction chain in the OTC derivatives space. It also shows how our (central) matching solution complements the confirmation process in some asset classes.

SWIFT
6th floor - The Corn Exchange - 55 Mark Lane - London EC3R 7NE – UK - United Kingdom
Telephone: +44 (020) 7762 2000 - Fax: +44 (020) 7762 2222 - www.swift.com
VAT: GB 447 002086

Asset class Process	Credit	Interest rate	Equity	Commodities	FX
Trade Confirmation	FpML	FpML FIN	FpML	FpML FIN	FpML FIN
Matching (Accord)	-	FIN matching	-	*FIN metals trade matching by Dec 2010*	FIN matching
Notifications to 3rd party	FpML	FpML	FpML	FpML	FpML FIN
Collateralisation	*ISO20022 by Dec 2010*	*ISO20022 by Dec 2010*	*ISO20022 by Dec 2010*	*ISO20022 by Dec 2010*	*ISO20022 by Dec 2010*
Cash Clearing	ISO20022	ISO20022	ISO20022	ISO20022	ISO20022
Settlement	FIN ISO20022	FIN ISO20022	FIN ISO20022	FIN ISO20022 Metal: FIN	FIN ISO20022
(Settlement) Reporting	ISO20022	FIN ISO20022	ISO20022	FIN ISO20022	FIN ISO20022

Note: FIN messaging refers to ISO7775 and/or ISO15022.

A key process which underpins efficient OTC derivatives processing is collateral management. We believe that in this process (and others) open standards should be encouraged to improve process efficiency and increase transparency.

In this regard, SWIFT is currently developing, in collaboration with FPL (FIX Protocol Ltd), FpML (Financial products Markup Language) and ISITC US, ISO 20022 standards for bilateral collateral management.

These open standards will cover the business requirements established by ISDA for OTC derivatives (Standards for the Electronic Exchange of OTC Derivatives Margin Calls, dated November 12, 2009) as well as all other exposure types (e.g., securities lending). Within the framework of this effort SWIFT has ensured that candidate ISO 20022 XML messages will be available for piloting on its network as early as August 2010. This timing has been welcomed by the industry as it will contribute to better risk management, and enable more efficient processes (margin calls, substitutions, interest payment, etc.) which are largely manual and/or non-standardised today.

SWIFT would also like to encourage the use, where possible, of open industry standards for business data identification in OTC derivatives processing (and for other asset classes). There are a number of ISO standards available today for this purpose, the use of which should be encouraged such as:

- Business Identifier Codes [BIC] (ISO 9362)

- Country Codes (ISO 3166)

- Currency Codes (ISO 4217)

- International Securities Identification Number [ISIN] (ISO 6166)

- International Bank Account Number [IBAN] (ISO 13616)

- Market Identifier Code [MIC] (ISO 10383).

- Classification of Financial Instrument [CFI] (ISO 10962)

- Date/Time (ISO 8601)

Q4 How can the industry and regulators continue to work together to build on existing initiatives and accelerate their impact?

One area that would benefit from closer industry and regulatory collaboration would be in respect of the legal status of electronic confirmations (for OTC derivatives and indeed other asset classes). It would be helpful in increasing the use of e-confirms, if regulators would publicly state that standard confirmation messages (ISO, FpML standards) are legally binding, in line with the action recently taken by the US SEC for equity and fixed income trade confirmations.

The legally binding aspect of electronic trade confirmations should be enforceable throughout the whole European community and supersede national legislation, especially for cross-border transactions.

In addition to the legally binding aspect, we recommend that regulators promote the electronic matching of confirmations, and support the standardisation of basic matching criteria, ensuring that counterparties have the same view on at least the basic economic terms of the transaction.
The list of (matched) economic terms should ideally be in line with the data required for regulatory reporting, facilitating transparency and increasing the value of the data reported.

Q5 Are there any obstacles to standardisation that could be removed by regulatory action?

In the area of standardisation, one obstacle could be the emergence of new proprietary communication protocols when existing industry open standards cover close to 100% of the needs. Competition in the standards space does not make sense and is costly to the industry. The SCG (Standards Coordination Group), on which SWIFT (as a standards setting body) sits with FPL (FIX Protocol Ltd), FpML (Financial products Markup Language), ISITC US, FISD (Financial Information Service Division) and XBRL (eXtensible Business Reporting Language), recommends through its Investment Roadmap, the emergence of one ISO 20022 business model for the whole securities industry.

The ISO 20022 business model (already well advanced in many areas) enables the set up of standardised business processes, communication flows and business terms. The SCG recognises the need for multiple syntaxes and identifies, for every process, what syntax(es) users should invest in. Such a collaboration between these standards setting bodies should be encouraged by Regulators through the recognition of the

ISO 20022 business model and the associated communication protocols, as the recommended tool box for Straight Through Processing in the area of OTC derivatives processing and beyond.

As mentioned above we also think that regulators should continue promoting the use of industry standards for business data identification where these can be applied.

Q7. CESR is exploring recommending to the European Commission the mandatory use of electronic confirmation systems.

Standardised post trade processes bring benefits in terms of increased efficiency, a decrease in risk, and can also enhance transparency. Such processes only work effectively if the data they contain is correct. Electronic trade confirmation is important in bringing agreed trade details into the post-trade processes, and as such we believe that electronic trade confirmation brings significant benefits in terms of risk reduction across asset class. This is why we mention in answer to Q4 that the industry and regulators should work together to encourage the use of electronic confirmation in OTC derivatives (and other asset classes), and legal barriers to the acceptance of electronic confirms should be removed. We believe that removal of such legal obstacles, coupled with the processing benefits derived from electronic confirmations, will be sufficient to move the vast majority of transactions onto electronic confirmation processes without the need for mandatory regulatory action.

We trust that the above suggestions and comments are found to be of help. If we can offer clarification or further help on any of the topics covered in this response please let us know.

Yours sincerely

Richard Young
Securities Market Management
SWIFT
+44 207 762 2029
richard.young@swift.com

Marie-Paule Dumont
Securities Market Management
SWIFT
+322 655 3732
marie-paule.dumont@swift.com