

# Foreign Exchange Programme

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# Agenda (20.5.08)

- Overview of « FX forward programme »
  - SWIFT's role in FX today
  - 3 strategic initiatives
  - FX Advisory Group (FXAG)
- Reference Data - FX SSI
- Corporates - confirmations/affirmations
- Q&A



# SWIFT's role in FX today

- Processed 177mio FX confirmations (MT 300s) in 2007
- **SWIFTNet Accord** – central matching engine for confirmation messages (FX, MM & OTC derivatives) – used by >425 matching entities in 65 countries; 15.8mio messages in 2007
- **CLS** – supports CLS/community in its communication flow for both core FX and NDFs (& for DTCC-CLS credit derivative flows)
- **CLS Third Party Service** - SWIFT provides solution to support the communication flow between CLS settlement members and Third parties (offered by 22 CLS members to >250 Third Parties live; around 1mio transactions per month)
- **Affirmations** offering (when matching is not possible)
- Industry representation – FX JSC, CLS TPS WG, CLS NDF Steering Group



# FX services

## Current SWIFT post-trade market space

Asset classes	Segments						
	Banks	Custod.	MI - back	Sell-side	Buy-side	Corporat.	MI - front
« Traditional » FX	√				≈	≈	≈
FX derivatives	≈				≈	×	×
Low value, high volume FX	×						



# FX post-trade processing

## Key pain areas



### Allocations

- No industry consistency regarding allocations
- ECNs and multibank portals complicating workflows



### FX Settlement

- Hedge Funds' FX volumes stressing Prime Brokers' processing
- Overall settlement costs considered too high
- No single source of Standing Settlement Instructions
- New flows creating additional exceptions processing



### Buy-side/Hedge fund workflows

- Increasing volumes causing processing bottlenecks
- Limited solution available for Prime Brokers
- No industry standard available



### Front-end fragmentation

- Proliferation of portals fragments eco-system
- Front and Back office speak different languages
- Breaks in flows hamper end-to-end STP



# FX post-trade processing

## Three key initiatives



Allocations



FX Settlement



Buy-side/ Hedgefund  
workflows



Front-end  
fragmentation

1

**Middle-office (& Back-office) services**

2

**Buy-side / prime broker flows**

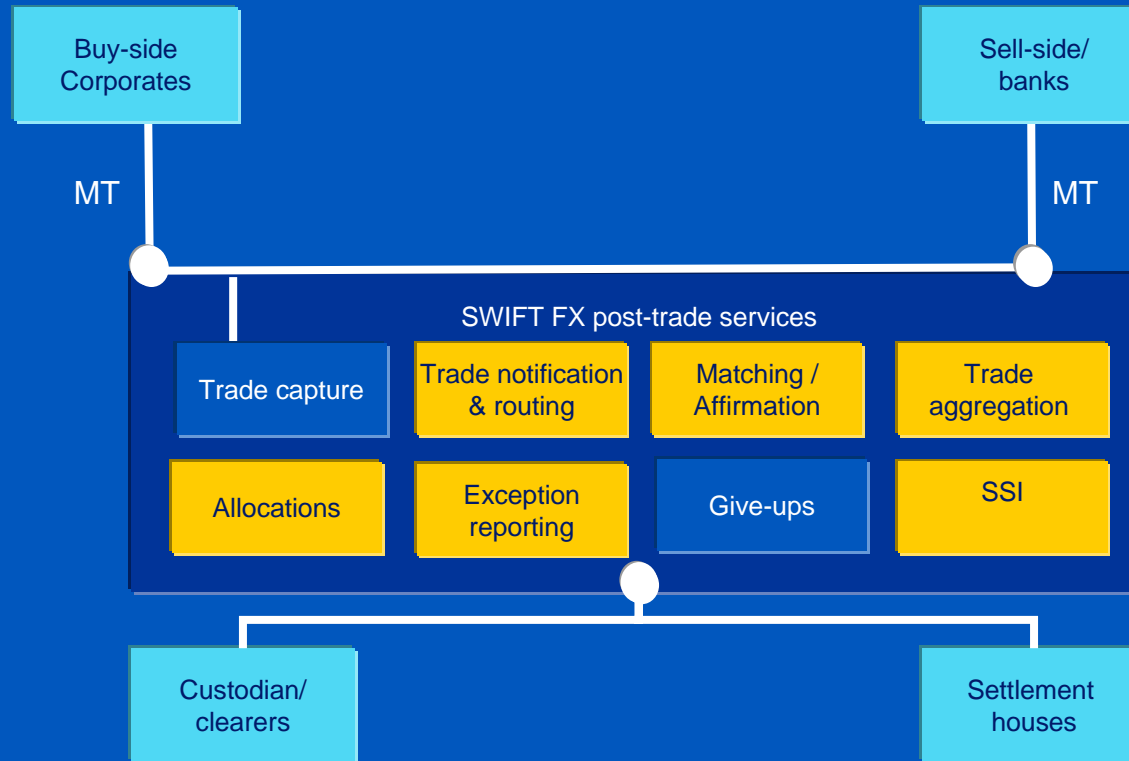
3

**Trade capture at source**



# Three key initiatives

## 1 – Middle-office (& Back-office) services



1

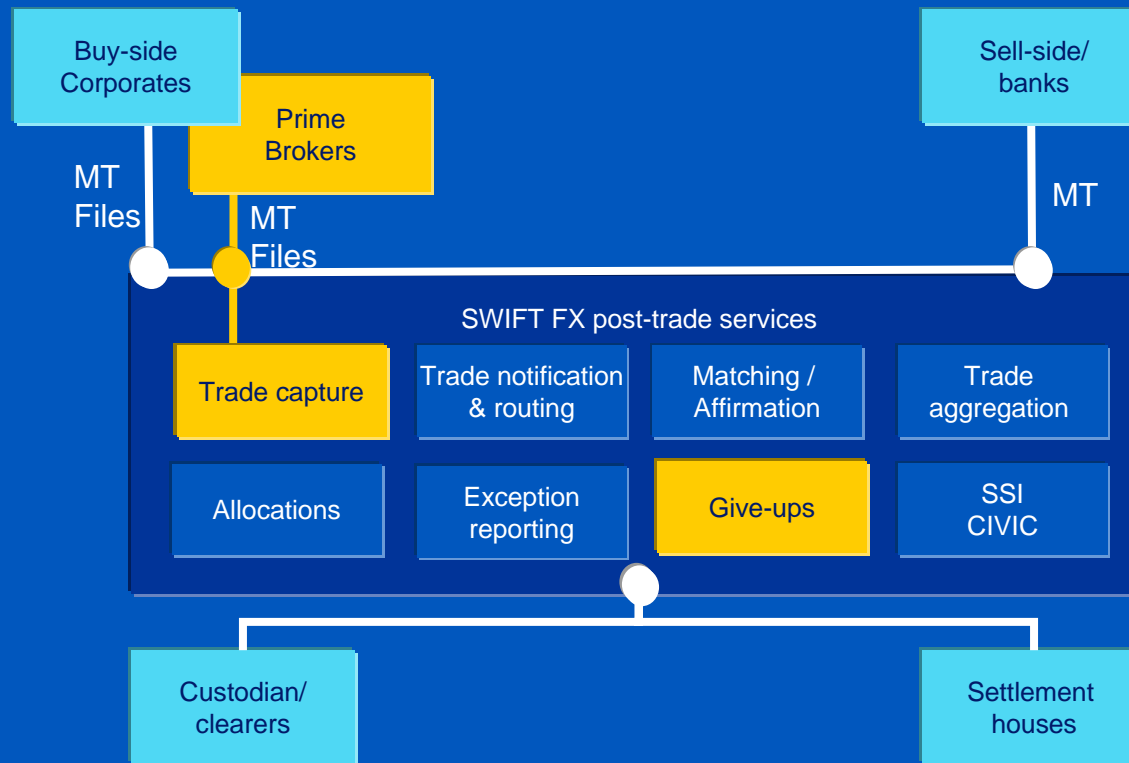
### Middle-office services

- Allocation processing
- Trade aggregation support
- Notification generation & routing
- Extend matching to new instruments



# Three key initiatives

## 2 – Buy-side / prime broker flows



**2**

**Buy-side / prime broker flows**

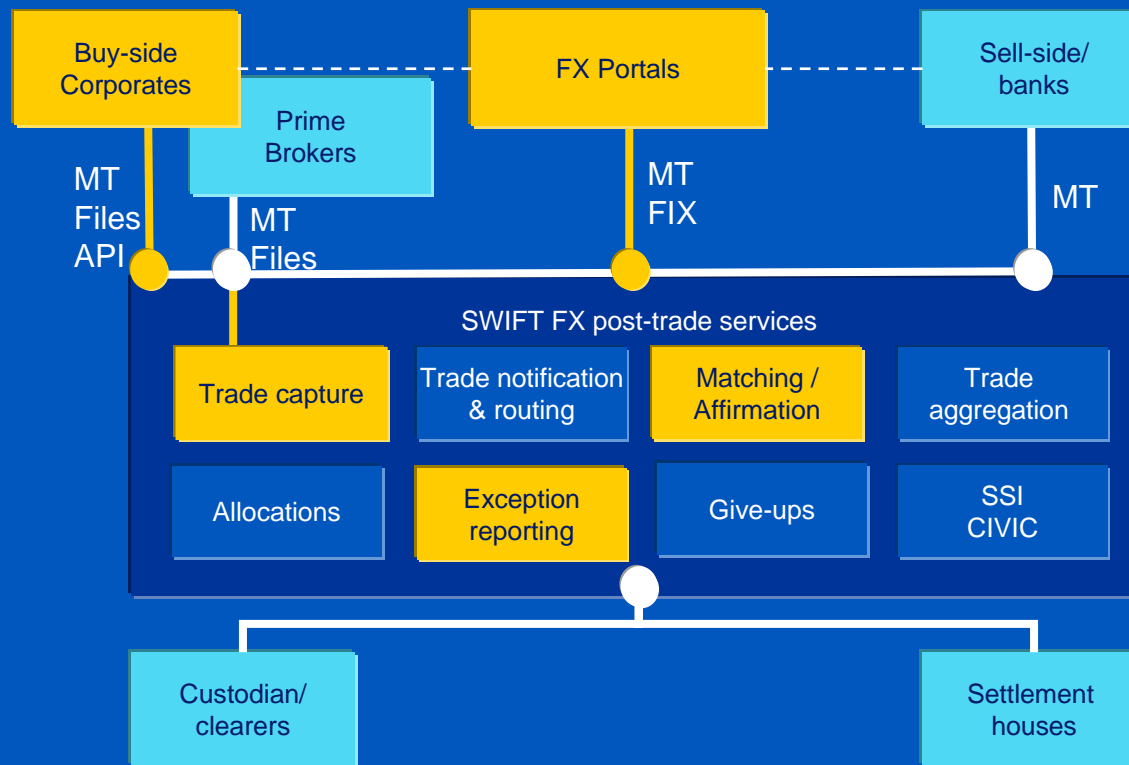
- Broker give-up processing
- Low-value, high-volume trade flow
- Pricing model for high volume users
- Pricing model for low value trades





# Three key initiatives

## 3 – Trade capture at source



3

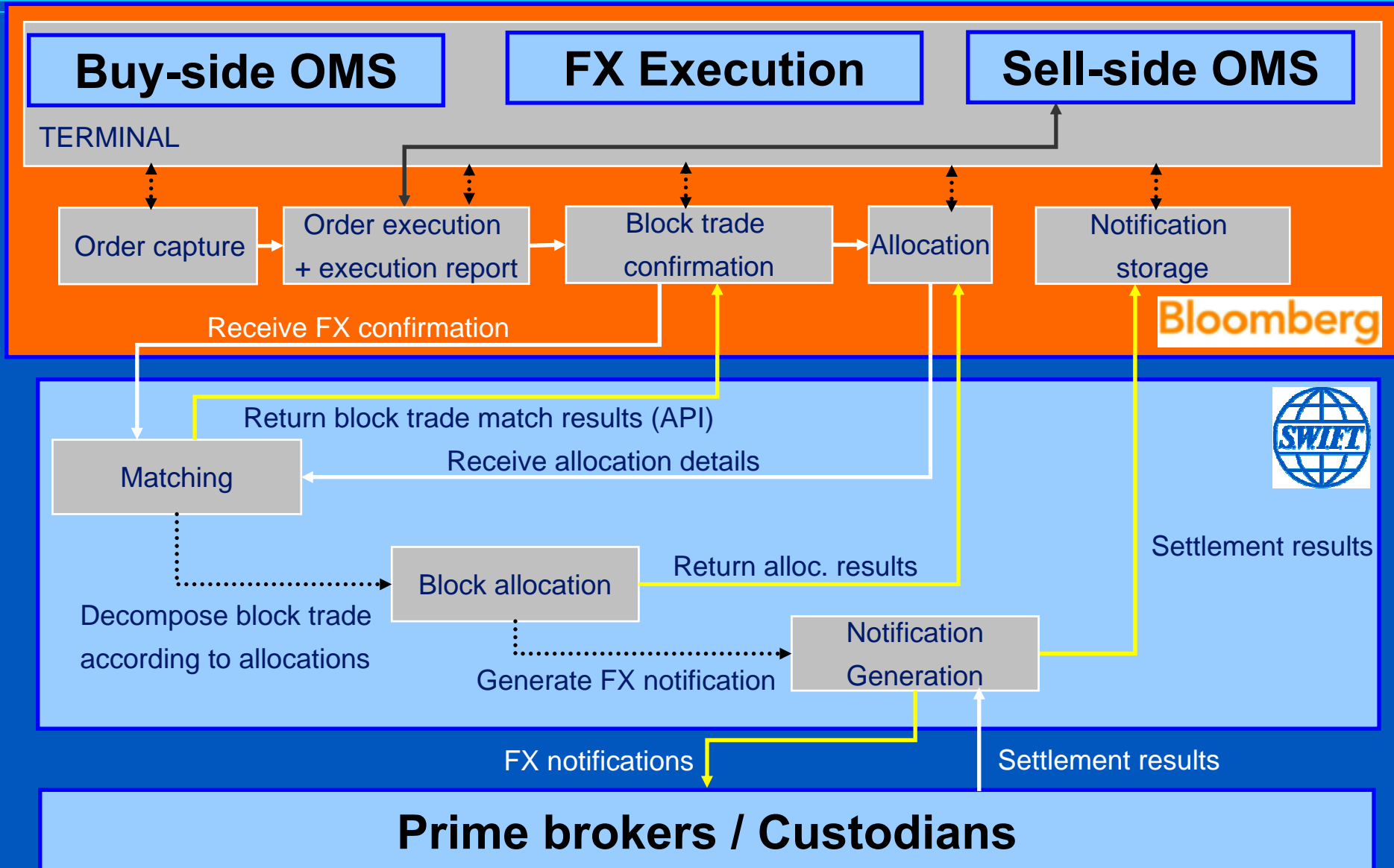
### Trade capture at source

- Hooking-up to portals
- Buy-side lighter connectivity
- Affirmation model
- Prime broker connectivity
- ERP/TMS integration (Corporates)



# Solution description (one scenario)

↕ Bloomberg blotter update



# FX Advisory Group (FXAG)

Established in 2008



# FXAG mission and scope

- To assist SWIFT Executive to expand SWIFT's role in FX post trade/pre-settlement processing
- Define and validate community needs in post-trade processing of FX trades
- Formulate & scope strategic business development plans including standardisation and market solutions as appropriate
- Make proposals for a collaborative industry model as required



# Discussion (31.3.08)

- SWIFT's FX post-trade, pre-settlement programme validated by the group (including 3 key initiatives)
- Industry pain points identified by SWIFT validated by the group:-
  - Allocations
  - FX settlement (« bottleneck »)
  - Buy-side/Hedge Fund workflows
  - Front end fragmentation



# Key actions/follow-up (Q2, 2008)

- Examples of key industry pain points which were prioritised for action by the FXAG:-
  - **Hedge Fund/Buy-side workflows** - re-package existing messaging solution for buy-side/Hedge fund firms
  - **SSIs** - create a standardised, authenticated message for the notification of an SSI change (best practice in change) as a first step



# Reference Data – FX SSI (1/1)

## ■ Requirements

1. Standardisation of SSI
2. Standardisation of communication
  - One provider
  - Authenticated
  - Validated
3. Limit Scope
  - Interbank
  - FI (ie. Hedge Fund Firms/Asset Managers/Investment Managers)
  - Corporates



# Reference Data – FX SSI (1/2)

- Next steps

1. Standard SSI Template for FX
2. Results to FXAG by 20<sup>th</sup> June
3. FXAG to advise next steps

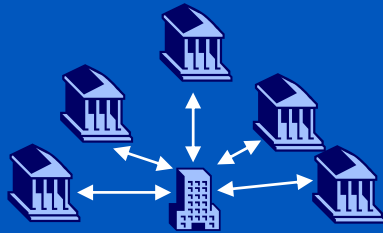
- Discussion





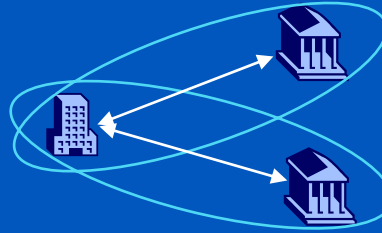
# Corporate connectivity – how to join the SWIFT community?

## 1998 - Treasury Counterparty



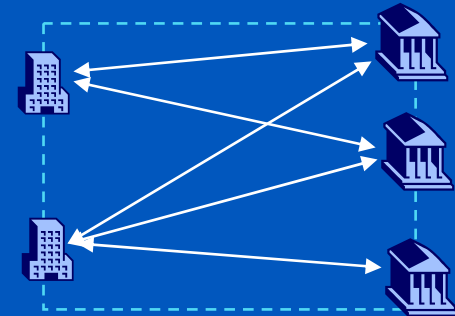
- Access to all banks on SWIFT
- Message usage limited to treasury deal confirmations

## 2001 MA-CUG



- Each bank sets up its own environment
- No usage restrictions
- Need to join several MA-CUGs to emulate multi-banking

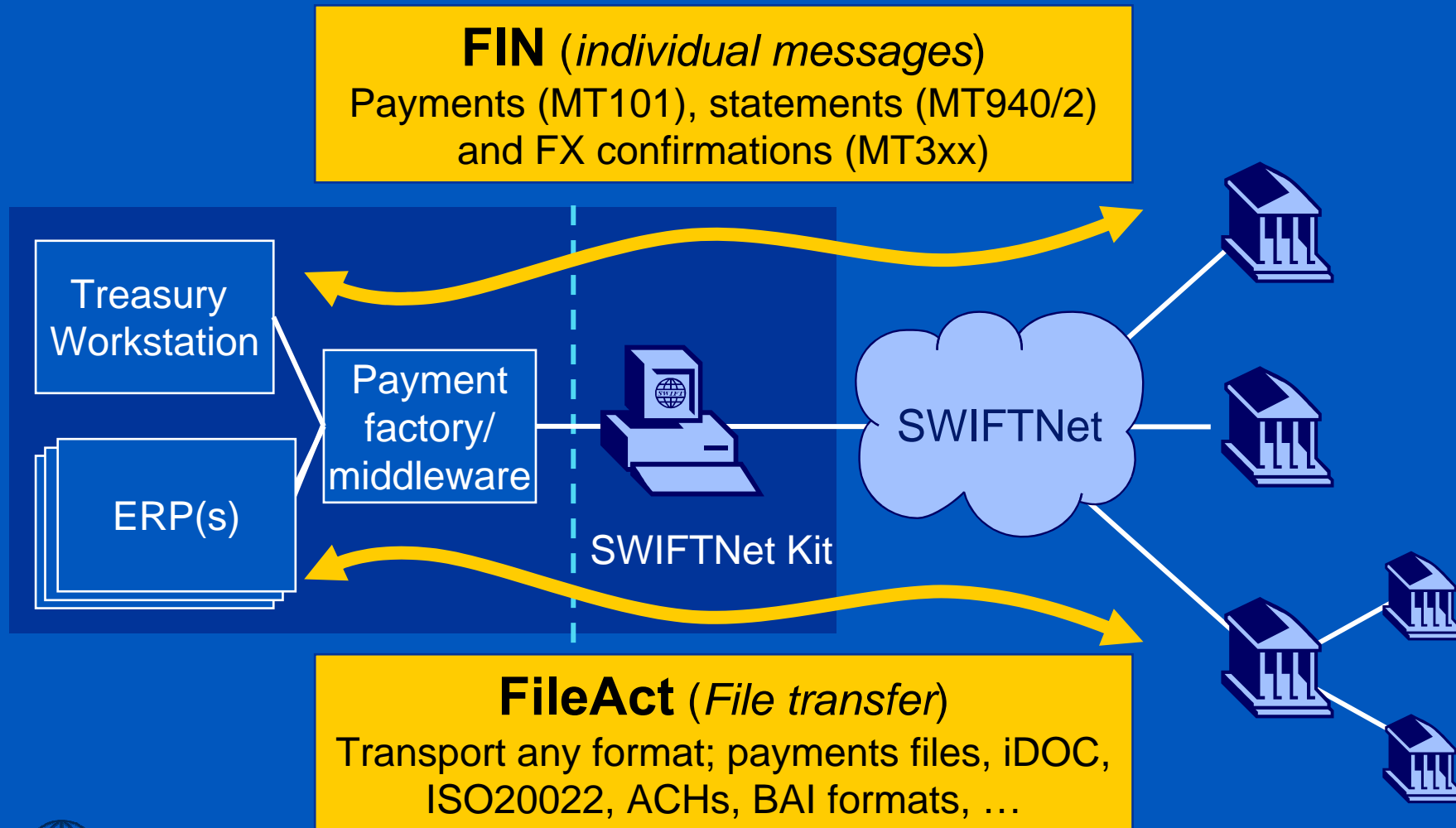
## 2007 SCORE



- Messages/standards defined by SWIFT
- Higher standardisation
- Must be listed

*Corporate will choose its option(s) depending on its needs*

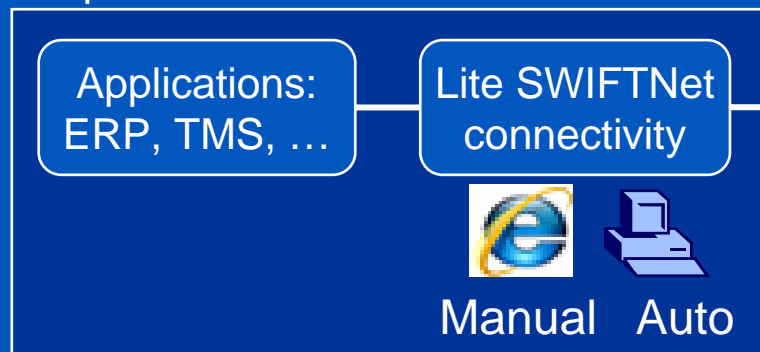
# Typical implementation



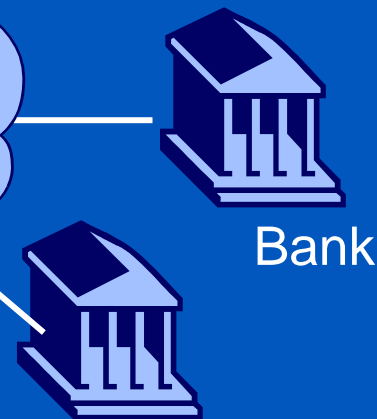
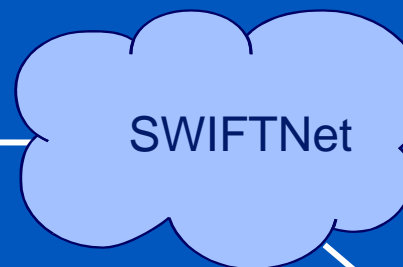
# Connecting new users – New Lite offering (H2, 2008)

- Simplified connectivity offering
- Accessible in a secure way
- Over the Internet (low footprint)
- For manual and automated operations
- At a lower price

Corporate



Internet



Bank

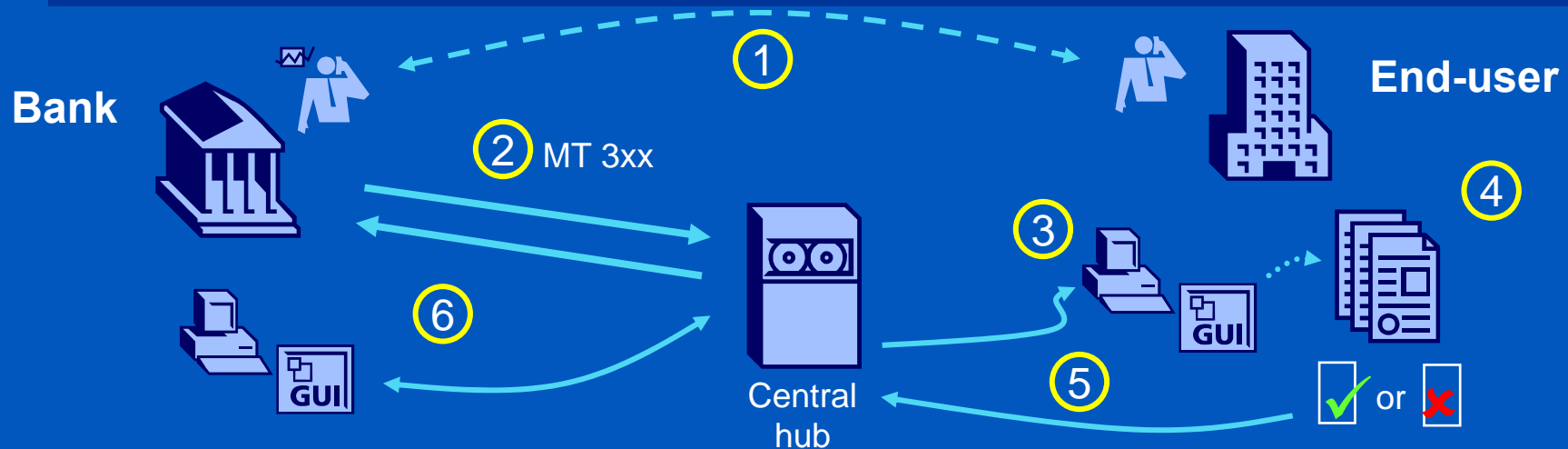
Bank



# When Matching is not possible...

## SWIFTNet Affirmations – launched 2007

- Multi-broker affirmation service for FX, Money Market and Derivative trades
- Secure and reliable platform operated by SWIFT
- Uses standard FIN confirmations to submit transaction data to a central hub
- Provides graphical interface to view trade details and to accept, reject or query
- Includes complete audit trail and optional 10-year archival service



- 1 - Dealing bank brokers a trade with end-user
- 2 - Bank sends FIN trade confirmation to central hub
- 3 - User views trade details in graphical environment
- 4 - End user *accepts, rejects or queries* the trade

- 5 - Action is stored on central hub
- 6 - Hub sends reply confirmation for agreed trades  
OR  
- Bank views trade status in graphical interface



# SWIFTNet Accord

## single-slide overview – overall architecture

