SWIFT Response to ESMA's Consultation Paper on Draft RTS and ITS under SFTR and amendments to related EMIR RTS

30 November, 2016

SWIFT thanks ESMA for the opportunity to respond to the Consultation on the draft RTS and ITS under SFTR and the amendments to related EMIR RTS. We are supportive of ESMA's efforts to ensure consistency between the frameworks of these regulations.

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 11,000 banking organisations, securities institutions and corporate customers in more than 200 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies.

SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest. We engage regularly with our community to discuss new technology and innovations that could disrupt current business models and create opportunities for new ones.

We are available should ESMA wish to discuss further any part of our response.

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Q39. Do you agree with the proposal to identify the country of the branches with ISO country codes?

We understand the reporting obligation under the SFTR applies not only to the counterparties established in the European Union including all their branches, but also to the EU branches of the third-country counterparties. Determining branches' geographical locations is therefore necessary to identify the trades in which both counterparties are subject to the reporting obligation.

ESMA and the industry are considering two solutions to identify the branch and/or branch location: either the ISO country code pertaining to the jurisdiction in which the branch is located, or the LEI code for international branches. We understand ESMA concludes from the LEI ROC statement, published on 11 July 2016, that it is premature to expect that a solution for international branches will be globally implemented sufficiently in advance of the reporting start date. For this reason ESMA prefers and proposes that a solution based on ISO country codes.

Whilst we understand ESMA's position, we believe it is unclear the extent to which this solution will prove sufficient over the longer term. Key benefits of the LEI are that its use in this context would allow regulators to access LEI reference data and that it would help mitigate the risk of a counterparty populating the country code incorrectly.

SWIFT therefore proposes that ESMA consider including both options in the reporting standards, giving counterparties the choice between the ISO code and the LEI alternative. This will allow those institutions that prefer to avoid investing in a potential interim solution the opportunity to implement the LEI solution from the offset, whilst also allowing other institutions to use the ISO country code solution should they so wish. This can be easily modelled in the reporting messages within the ISO 20022 standard.

SWIFT believes that allowing reporting entities to report via either means is a flexible solution that will help the industry fulfill its reporting requirements and allow for a more robust solution in the future.

Q78. Do you agree with the use of ISO 20022 for the purposes of ensuring common format and common encoding of files exchanged between TRs during the inter-TR reconciliation process? If not, what other common standard would you propose?

Yes, we agree that ISO 20022 is the right standard to support this use-case.

ISO 20022 is the open methodology for developing new financial messaging standards and for harmonising existing financial messaging standards. As an initiative of the International Organization for Standardization (ISO), ISO 20022 was conceived to harmonise the fragmented financial standards landscape, and can best be described as a 'recipe' for developing financial messaging standards. The main ingredients of this recipe are a development methodology, a registration process, and a centralised, machine-processable "e-Repository".

The ISO 20022 standard has been adopted by ESMA for MiFID 2 / MiFIR reporting requirements and is being embraced by supervisors across the world as a preferred format for data reporting purposes because the data model which lies at the heart of the standard is the ideal reference point to help regulators, market overseers and reporting firms to harvest, aggregate and interpret data which is unambiguous, clear and equivalent, irrespective of its source. ISO 20022 is particularly appropriate for use in regulatory initiatives because it is an open and transparently-governed standard that is platform-neutral, and free to access, implement, and extend. It provides a universally agreed language that can be shared by business, legal, and technical experts, greatly simplifying the interpretation and implementation of any regulation defined in that language.

Reporting requirements defined in terms of ISO 20022's unique conceptual Business Model and Business Process layer allow implementers to understand both the regulated financial concepts, and the contexts in which the regulation is applicable. The rigour and precision of the definitions found in the ISO 20022 business model make it a particularly apt resource to ensure that data elements specified in a regulatory reporting context are interpreted consistently by implementers. Moreover, once the data elements for a business process have been identified, it is straightforward to create a message definition that can be used to transport the data. In these definitions it is possible to distinguish between a baseline set of common details and national or regional additions, facilitating tailored reporting at national levels, as well as consistent reporting at global level.

Requiring use of the ISO 20022 standard in the inter-TR reconciliation context would help ensure harmonisation within and across the international financial and regulatory community. Its usage between TRs would thus greatly facilitate the exchange of information with regulators across Europe, therefore enhancing regulatory oversight.

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