SWIFT for ISO 20022 Regulatory Reporting

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Executive Summary

The EU is in the process of rolling out multiple overlapping and complex transaction reporting regimes, each serving either different markets or different purposes.

One of the largest and most significant reporting requirements will come into effect in January 2017 when the Markets in Financial Instruments Directive (MiFID2) and the Markets in Financial Instruments Regulation (MiFIR) come into effect.

The original Markets in Financial Instruments Directive (MiFID1) introduced in 2007 what was then considered a fairly onerous transaction reporting regime across the EU, however the reporting requirements under the new regime will expand significantly both in scope and required content. One of the most significant changes relates to the reporting standard: ESMA's proposed RTS requires that, as from January 2017, covered transactions must be reported in the ISO 20022 format.

As a secure message carrier and having been part of the evolution of ISO 20022 from the beginning, SWIFT is your ideal ISO 20022 trade reporting partner. SWIFT can work with you to achieve MiFIR reporting compliance.

The New Reporting Requirements

The MiFIR reporting obligations are set to go-live on 3 January 2017. The reporting regime applies to EU investment firms and banks (referred to by ESMA referred to as 'Credit Institutions') as well as to certain non-EU firms[1]. Trading venues will also be required to report details of any transactions which are executed through their systems by any firms which are not themselves subject to the MiFIR transaction reporting regime.

From 3 January 2017, covered firms will need to ensure their reports are submitted to their competent authority no later than the close of the working day following transaction date. The reporting has to be done either by the investment firm itself, an Approved Reporting Mechanism (ARM) acting on its behalf, or the trading venue in whose system the transaction was concluded.

MiFID's scope is extending under MiFIR to cover more asset classes, so more firms will be caught by the reporting obligations. Whilst a number of transactions are excluded from the reporting requirements, the MiFIR reporting requirements covers virtually all[2] financial instruments between different legal entities that are not, or will not be, covered separately under other EU reporting regimes.

The European Securities and Market Authority (ESMA) specifies in its draft Regulatory Technical Standards (RTS), that, as from January 2017, covered transactions must use the ISO 20022 format. The obligations will require covered entities to translate their transaction information from multiple different standards, to supplement this with the complete information required for the additional data fields and to validate the data before transmission within the strict deadline set out in the Regulation.

Firms that will be subject to the reporting obligations will need to ensure not only that their systems are capable of extracting and collating all of the relevant data for each reportable transaction, but also for converting it into the required ISO 20022 format in good time to permit submission of the report before the submission deadline. The increase in the amount of reportable data and in the universe of transactions that are caught by the regime could have significant cost and systems implications for your firm.

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1 The application of transaction reporting obligations to branches of investment firms and to branches of non-EU firms is part of ESMA's draft Regulatory Technical Specifications.

2 A number of transactions are excluded from the reporting requirements, for instance: Any contracts arising solely and exclusively for clearing or settlement purposes; post-trade assignments and novations in derivatives; portfolio compressions; internal transfers within the same legal entity (which do not lead to a change in beneficial ownership); and change in the composition of an index after a transaction has occurred. For further detail see: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0600&from=EN

SWIFT as your ISO 20022 Reporting Partner

SWIFT can help you with your MiFIR reporting compliance, and is fully committed to adapting its products and services to facilitate future ISO 20022 trade reporting requirements as these emerge, including the new Money Market Statistical Reporting (MMSR) requirement which again requires use of the ISO 20022 standard. SWIFT is already prepared to support those banks that will be required to report money market transactions under the MMSR from April 2016.

As reporting requirements continue to emerge, both in the EU and beyond, we expect to see regulators stipulate use of the ISO 20022 format.

Our commitment to supporting ISO 20022 trade reporting requirements will ensure that you do not have to build separate solutions for each future regulatory reporting requirement. With the ongoing move by market infrastructures around the world to ISO 20022 it is important for firms to consider the move to ISO 20022 as a strategic building block in your project implementation.

SWIFT has a range of practical, flexible solutions for trade reporting to help you fulfil your MiFIR reporting obligations:

Messaging
SWIFT offers the only world-wide messaging services designed specifically for ISO 20022. Entities impacted by MiFIR will be able to reuse their SWIFT infrastructure and take advantage of standardised messaging solutions to send their trade reports in the most automated, secure and reliable way. SWIFT can offer a single secure messaging channel between investment firms, trading venues, Approved Reporting Mechanisms (ARMs) and national competent authorities. SWIFT's secure messaging services can be used to authenticate the source of the transaction report, and to ensure the security and confidentiality of the data transmitted. SWIFT's messaging services can carry all ISO 20022 messages, including FIX-based XML and FPML.

Interfaces
All SWIFT interfaces are fully compatible with ISO 20022 messaging – from the Alliance Messaging Hub (a sophisticated messaging hub and conversion tool, aimed at high volume, multi-network users) through SWIFT Alliance Access (an on-premise, single network solution, aimed at medium to large players) to Alliance Lite2 (a cloud-based connectivity solution which meets the needs of lower volume messaging customers).

Integration
SWIFT's tools allow you to integrate data from multiple internal sources, to normalise, convert and format imported information as desired. All SWIFT integration tools, conversion tools and connectors fully support ISO 20022 messaging.

Business Packages
SWIFT has off-the-shelf business packages that can help customers manage and implement ISO 20022. 'MyStandards' is a collaborative web platform used to create, maintain, document, publish, share, compare and consume ISO 20022 and significantly reduces implementation costs and effort. 'MyStandards Readiness Portal' is an extension of MyStandards that allows web-based testing. The service validates test messages against ISO 20022 usage guidelines, streamlining customer on-boarding and testing and reducing time and cost.

Standards Consulting
SWIFT Standards consultants can provide standards expertise and advise on the implementation and application of the ISO 20022 standards. Independent from our products and other services, we can also provide consulting services to explain the standards structure, the rules and constraints that apply, and to help you source the data and populate your reporting messages.

Copy Services
Branches of EU investment firms are expected to report all transactions to their home state competent authorities, rather than to authorities in their host states. SWIFT's copy services enable you to automatically copy messages, including transactional messages, to third parties for further processing.

Reference Data
Under MiFIR all parties in a transaction report must be identified with Legal Entity Identifiers (LEIs). The Global Markets Entity Identifier (GMEI) utility is a legal entity solution, offered by SWIFT and the DTCC. The GMEI utility creates and assigns globally accepted LEIs in the standard ISO 17442 format. The system validates the accuracy of the associated reference data and stores all the information in a public database free for all to use and redistribute. Many trade confirmations are still being made with Business Identifier Codes (BIC) which will need to be translated to LEIs for MiFIR reporting purposes. To assist you in your accurate compliance with the LEI requirement, SWIFT offers BIC and LEI identification, verification and conversion tools.

Consulting
SWIFT's ISO 20022 experts have a wealth of experience, having delivered 100+ standards consulting projects, supporting 70+ clients. SWIFT has been involved in major initiatives in multiple geographies, encouraging harmonised adoption and sharing best practice insights. As communities plan their move to ISO 20022, SWIFT has a range of consulting services that support the migration process from beginning to end. These services include: ISO 20022 impact assessment ('roadmap' definition and business impact assessment); ISO 20022 solution design (message development, data mapping and transformation, business process flow design, data reporting and enterprise architecture design); technical implementation services (integration and roll-out); and project management. SWIFT's expert consultants have an average of 15 years of relevant experience.

Why ISO 20022?

ISO 20022 has been selected as the reporting format, because the data model which lies at the heart of ISO 20022 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.

In the context of regulatory reporting and data aggregation, it is critical that all reporting entities interpret the specification of the data to be reported in the same way. Without this consistency, data from different entities cannot be meaningfully compared or aggregated, and the policy goals of the regulation can become difficult or impossible to achieve. The more precisely each data element in a report is specified, the more likely it is that implementers of the regulation will submit consistent data – and the easier it is for the supervisory community to examine the data.

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".

By providing a universally agreed language that can be shared by business, legal, and technical experts, ISO 20022 greatly simplifies the interpretation and implementation of any regulation defined in that language. Regulations 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.

ISO 20022 is also appealing to regulatory initiatives because it is an open and transparently governed standard that is platform neutral, and free to download, implement, and extend. All standardised financial business processes have been, or will be, incorporated in the ISO 20022 business model and the ISO 20022 methodology supports the creation of new ISO 20022-compliant messages to support each business process. Although ISO 20022 allows coexistence of legacy domain-specific syntaxes and protocols in certain circumstances to protect the investments of market participants, it lays the groundwork for a common financial messaging standard, and clearly communicates that direction to the entire industry.

The rigour and precision of the definitions found in the ISO 20022 business model make it an excellent resource through which 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 a baseline set of common details and national or regional additions, facilitating tailored reporting at national or regional level, as well as consistent reporting at global level.

SWIFT ISO 20022 Credentials

SWIFT Standards helps financial organisations develop and use financial messaging and reference data standards, as part of SWIFT's mission of supporting the continuous evolution and improvement of standards, as well as related products and tools.

SWIFT Standards has been part of the evolution of ISO 20022 from the beginning. SWIFT drafted the original specification as part of the ISO working group that developed the standard, and remains the single largest contributor of content. Under contract to ISO, SWIFT Standards also operates as the Registration Authority for ISO 20022, which maintains the technical infrastructure of the standard, ensures technical consistency, and publishes the content in a variety of formats.

In addition to Standards development work, SWIFT is actively involved with market participants and market infrastructures adopting ISO 20022 in payments and in securities. Such efforts include SEPA and the ongoing TARGET2-Securities migration, as well as the upcoming migration of TARGET2. SWIFT develops market practices and message implementation guidelines refining the usage of the new standards, and offers training courses to assist adoption of the new ISO 20022 standard message formats. We also offer specific technical support through message converters and integration tools and message testing facilities which allow implementers to test their applications against the message standard requirements.

As ISO 20022 implementations proliferate, the ways in which the standard is being deployed in terms of message versions, market practice rules and release timetables is varying. To address the potential fragmentation, reduce the overall cost of ISO 20022 adoption, help users adapt to the standard and exploit the business opportunities it offers, SWIFT is leading two industry-wide work streams: the ISO 20022 Industry Harmonisation Framework and the ISO 20022 Community Enablement programme. Together we believe these work streams should ensure that ISO 20022 implementation details - message types, message versions, market practice and cut over dates - are available in a common and consistent format and that consistent, timely and cost-effective ISO 20022 Straight-Through Processing (STP) is achieved across the industry.

For more information on SWIFT's services to help financial institutions with ISO 20022 reporting requirements, contact your SWIFT relationship manager.

Legal notices

About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 institutions in more than 200 countries. 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.

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