

Speeding up Financial Integration in ASEAN and beyond



Regional Settlement Intermediary

Using CSD-RTGS Linkage model to enable cross-border settlement of bonds in ASEAN + 3 countries.



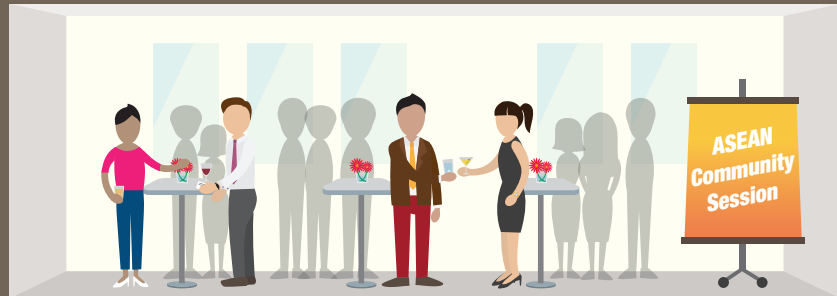
Working Committee on Payment & Settlement Systems

Working towards economic integration and cooperation for payments and settlement systems in ASEAN.



Closed User Groups

A secure and effective governing mechanism to coordinate the community.



Global Interoperability

Common messaging and data standards, improved transparency, transaction visibility and problem resolution for payments and securities.



Market Practice Guide

Documented and consistent guides improve interoperability of markets within the region, and boost accessibility of the markets beyond it.

Reuse Existing Infrastructure

Leverage existing infrastructure to optimise operation and cost efficiencies.



The development of the ASEAN Economic Community (AEC) offers an excellent opportunity for companies in the region as well as in other countries in Asia to grow their business and increase efficiency through economic integration. While many sectors are well on their way towards integration by the end of 2015, financial sector integration continues to be a challenging and distant goal.

Financial integration is expected to occur in ASEAN+3 countries across both payments and securities markets, and extra-regional integration may also bring in countries in the wider Asia Pacific region.

Stakeholders in the financial community in Asia could benefit greatly from developing a clear strategy for more rapid integration. As they develop their plans, they require a solution that takes into account the different characteristics of legal systems, languages, currencies, financial regulations, swap agreements and political systems in the region. Given the complexity of the financial ecosystem, which includes hundreds of variables, continuity rather than changes in policy and regulatory regimes are essential.

Stakeholders would benefit tremendously from leveraging the expertise of an international player such as SWIFT to help build the community, establish clarity, support more rapid implementation for financial integration, set standards, and reuse infrastructure.

Leverage Networks and Communications for Regionalisation

An important step towards financial sector integration is developing clear frameworks and structures. Establishing forums and councils has been shown to be effective in other regions for enhancing communications and networks among the stakeholders and ensuring smooth on-boarding to regional schemes and systems.

For payments, a Council for ASEAN Payments (CAP) will enable the financial services community to set up governance practices for payments, determine standards, develop a rulebook and implementation

guide, and educate stakeholders on the path forward. Using a CAP to develop the principles for a credit transfer scheme, for example, would enable participants to set rules and manage the scheme.

To facilitate enhancement of the cross-border bond and cash settlement infrastructure in ASEAN, and more broadly across Asia, stakeholders are working towards the establishment of organisations such as a National Market Practice Groups in respective ASEAN+3 member countries, an ASEAN+3 Bond Market Forum (ABMF) and a Regional Settlement Intermediary (RSI) model.

Communities are one of SWIFT's key corporate values and SWIFT has long played an important role as a community builder, so stakeholders in Asia can benefit from leveraging SWIFT's expertise to help develop the structures.

Tap Into Global Expertise

Stakeholders in the integration initiatives can benefit tremendously from leveraging SWIFT's expertise more broadly and tapping into its experience in major regional projects across the globe, such as SEPA, T2S and the ABMF¹, to optimise financial integration.

With more than 180 securities market infrastructures and payments systems live on SWIFT globally, SWIFT clearly has a proven track record in market infrastructure development and support. As a member-owned cooperative with a presence in all ASEAN+3 member countries, SWIFT brings the existing footprint, expertise and tools that can assist all stakeholders in the region to establish the required infrastructure in an operationally-effective, cost-efficient and compliant manner.

While it is a global organisation, SWIFT is and always has been a strong supporter of regionalisation initiatives to progress financial market development efforts.

Use Standards to Ensure Interoperability

It is essential for the financial sector to establish a common set

of standards so that all participants can benefit from the efficiency gains and business growth that result from common practices. ISO 20022 has become the international standard for the financial community, so using it as the standard for the AEC will create synergies and benefits. Agreeing on this standard will enable the financial community to cater to the needs of payments initiators, facilitate improvements to cross-border transaction communications, satisfy regulatory requirements for reporting, and accommodate innovation. In fact, the Working Committee on Payment & Settlement Systems (WCPSS) is planning to adopt ISO 20022 as the standard for cross-border payments within ASEAN. The agreement to adopt ISO 20022 as a common standard for fund transfers in ASEAN, upon readiness of individual countries, would foster interoperability and enhance efficiency in cross-border payments.

National ISO 20022 workshops were conducted with the aim of creating awareness, better understanding and promoting the local adoption of ISO 20022. Within the securities sector, adoption of ISO 20022 and standardisation of market practices can create synergies, encourage cross-sharing of information and knowledge, and enhance efficient utilisation of resources. The ABMF Sub-Forum 2 (SF2) as well as global and regional groups such as the Securities Market Practice Group (SMPG) and the APAC Regional Market Practice Group (RMPG) are thus working towards fully leveraging ISO 20022.

Corporations can also benefit and increase their efficiency by processing straight through to banks. Since corporations are already used to using XML², an internet-based standard, they are looking for locally domiciled banks to use similar technology. If banks are unable to establish a standard quickly, corporations may well decide to shift their payments to third party providers.

As the Registration Authority of ISO 20022, SWIFT has the expertise, specific tools and services to support

¹ Single European Payment Area (SEPA), TARGET2-Securities (T2S) and ASEAN+3 Bond Market Forum (ABMF)

² Extensible Markup Language (XML)

a community-wide approach to standards management that will make adoption and implementation of ISO 20022 far easier. SWIFT's MyStandards and Readiness Portal, for instance, are web applications designed to manage standards definitions and industry usage more efficiently so that financial communities can ensure aligned adoption.

Reuse Infrastructure to Save Costs & Resources

While implementing the infrastructure changes needed for financial integration will require resources and investment, taking advantage of existing infrastructure rather than building something new can reduce costs substantially. Leveraging best practices from other regions that have gone through a similar development process can also make integration easier.

Reusing the existing SWIFT infrastructure of almost 1,000 banks and corporations in ASEAN today and the broader Asia Pacific region (with 3,000 banks and corporations) offers a cost-effective and operationally efficient solution. An effective governing mechanism for reusing the SWIFT solution in a coordinated and secure manner would be for stakeholders in the ASEAN+3 financial community to establish a closed user group (CUG) and to use SWIFTNet to coordinate the initiative.

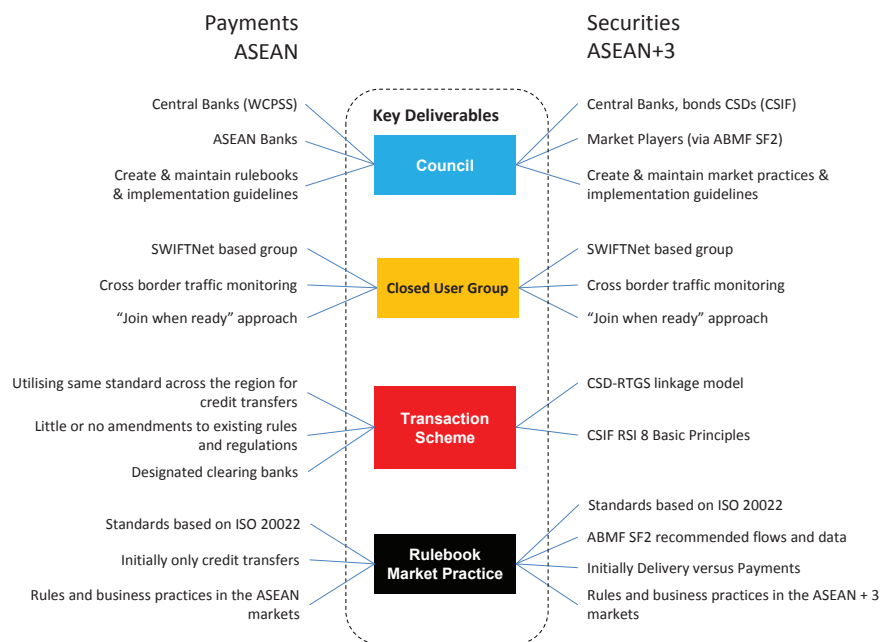
Using SWIFTNet, which already includes members of the payments community and central institutions, offers additional security to the clearing community as it only permits exchanges of allowed messages between members of the group. The CUG could also include stakeholders involved in government bond transactions and could be expanded to include other participants. If stakeholders do create a CUG, central institutions within ASEAN would need to be involved in its governance and construction to ensure optimisation of reporting of accounting information as well as to assist in authorising settlement requests.

The key advantage of such a structure is that ASEAN+3 member countries, whose Real Time Gross Settlement System (RTGS) and Central Securities Depository (CSD) operators are existing SWIFT members, will be able to reuse their existing SWIFT infrastructure to establish the required cross-border linkages. Moving towards fully automated processes that enable payments to be made without human intervention can also enhance operational efficiencies. Moreover, SWIFT's infrastructure is scalable to suit the size, budget, requirements and structure of individual entities and market infrastructures, as and when they are ready to join.

Implementation of Regional Financial Integration

While the plans for financial integration in ASEAN and beyond may still be fluid, financial integration clearly offers a multitude of high-impact benefits for the financial community. Leveraging the standards, infrastructure, community, experience and expertise of SWIFT can expedite implementation and enable stakeholders to reap the benefits of integration sooner than they might be able to do otherwise.

Figure: Building Blocks for ASEAN financial integration in Payments and Securities Markets



180+ Globally

Market infrastructures utilising SWIFT

6+ billion

Messages per year

11%

Increase in traffic

10,800+

SWIFT users

200+

Countries and territories

To learn more about financial integration in ASEAN and beyond, contact

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About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 banking organisations, securities institutions and corporate customers in 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. Visit www.swift.com to learn more about SWIFT.