



*Supports market growth
and risk reduction
by enabling STP for
clearing*

Key benefits

For CCPs

- Standardised, automated communications with clearing members
- Reduced costs and risks
- Reuse of existing SWIFT infrastructure, maximising cost and efficiency savings
- All the value of SWIFT: validation, authentication, guaranteed delivery and reach

For clearing members

- Speedier, simpler and streamlined connectivity to new and multiple CCPs
- Reuse of existing SWIFT infrastructure and standards expertise
- Reduced costs and risks and increased STP

Standardising central counterparty communications over SWIFT

New messaging solution improves automation and efficiency of communications between central counterparties (CCPs) and their clearing members

The requirement to better mitigate risk in the wake of the financial crisis has prompted a significant growth in centralised clearing. The number of clearing houses and central counterparties (CCPs) operating across the financial markets has increased and continues to grow. Frequent mergers among CCPs are also a source of change for the industry.

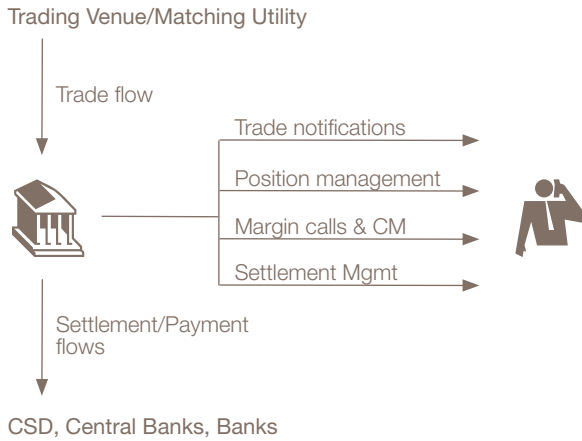
The proliferation of clearers has created a challenge for financial institutions that must connect to them, with costs and risks increasing with every different proprietary format and network they need to support.

SWIFT has a vital role to play in the clearing space. Its new Clearing solution combines ISO 20022-based messages and the SWIFT network to standardise and streamline communications between clearers and their participants, to the benefit of both.

The growth of centralised clearing is a trend set to continue. There has been a proliferation of CCPs and clearing houses sparked by regulation such as MiFID and further driven by regulatory pressure to reduce risk following the financial crisis, including Dodd-Frank and EMIR. The pressure is still on to centrally clear more and more products, with the threat of higher capital requirements being imposed on non-cleared over-the-counter (OTC) products. As a consequence, the increase in number and scope of clearers will likely carry on for some time to come.

Financial institutions that must connect to multiple clearers, and to new ones on a regular basis, face a significant challenge, since most CCPs require the use of proprietary communications methods, rather than standardised messaging formats and a single, standard network. This makes it time-consuming, complex and expensive for clearing members to maintain existing CCP connections and add new ones.

In addition, in the absence of a single, standardised means of communication between clearers and their members, it is still common for critical data such as margin calls to be delivered by non-STP, error-prone methods such as email and fax. This creates evident cost and, importantly, operational risk issues, which detract from the risk reduction benefits that centralised clearing is designed to ensure.



A Clearing flows

All these factors are driving a strong requirement to standardise communications between clearers and their members, to reduce cost, complexity and risk, and enable the market as a whole to reap the full benefits of centralised clearing.

What prompted SWIFT to develop a new Clearing solution, and what is its scope?

SWIFT has a natural role to play in bringing standardisation and automation to common business flows. SWIFT has supported the basic communication flows between CCPs and clearing members for equities and fixed income trades for some time, through ISO 15022 messages that enable automated communication of trade legs submitted for clearing, net positions and settlement obligations.

Through its ongoing discussions with the community of CCPs and clearing members, SWIFT identified the requirement for better STP in clearing communications driven by the factors described above. It therefore began development of new SWIFT messages based on ISO 20022 methodology, in collaboration with the community, to support all the communication flows for clearing equity and fixed income trades. A working group designed and tested the new messages during Q2 and Q3 2010.

The new messages, transmitted via the SWIFT network, support the following business flows:

- Trade notifications and statements
- Position management
- Margin calls and collateral management
- Settlement management

What are the benefits of the SWIFT Clearing solution to CCPs and their members?

SWIFT's new Clearing solution streamlines clearing communications, simplifying connectivity to clearers for financial institutions. By reusing SWIFT, market participants can avoid implementing proprietary formats and networks, and further extend the benefits of their investment in SWIFT. They can be up and running with their CCP communications more rapidly, and the use of international standards minimises the risk of errors and misinterpretation.

The new SWIFT standards-based solution enables the clearers themselves to offer a better service to their communities of users, helping them avoid the costs and risks inherent in the use of a multitude of proprietary formats and networks. The clearers also benefit from being able to reuse their SWIFT infrastructures, and sign up new users more quickly and easily.

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What are the next steps for SWIFT's Clearing solution?

The solution is being piloted by early-adopter CCPs during 2011. A full launch will take place once the CCPs and the general clearing members (GCMs) are ready, later in 2011. Further phases of the solution will cover OTC derivatives clearing, and GCM to non-member information flows.

About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect over 9,500 banking organisations, securities institutions and corporate customers 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. www.swift.com

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