

SWIFT for central securities depositories

– One solution for all a CSD’s communications





*Enabling CSDs
to compete in a global
marketplace*

SWIFT for central securities depositories

Streamlining communication between CSDs and their counterparties

Benefits

- > Offer a world class communication service
- > Gain direct access to the international community
- > Support new value-added services
- > Comply with regulation
- > Implement and maintain global standards and international best practices
- > Take advantage of full communications outsourcing

SWIFT offers central securities depositories (CSDs) a complete and proven solution for standardised communication with all their domestic and cross-border counterparties – including their participants, stock exchanges, clearing houses, other CSDs, central banks and regulators.

CSDs use SWIFT as a highly secure and resilient channel to support the growing number of interactions they have with their counterparties. Using SWIFT enables CSDs to comply with regulation and industry recommendations, leveraging global industry standards and best practice to improve operational efficiency and benefit from economies of scale.

Industry challenges

On one hand, the participant communities CSDs serve want reduced costs, minimal risks and excellent service levels. They don't want to have to build and maintain multiple connections to different market infrastructures. They do want to adhere to

global standards, be able to streamline connectivity, harmonise their domestic and international activities and maximise the benefits of their investment in their existing SWIFT infrastructures.

On the other hand, CSDs are under growing competitive pressure as their core services become increasingly commoditised – and in Europe this pressure will intensify as initiatives such as Target2Securities (T2S) come into play. This is forcing CSDs to climb up the value chain and develop new capabilities in areas such as asset servicing. It is also forcing them to maximise their own operational efficiency, and minimise risk and costs.

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“We know SWIFT is always right behind us. They never drop the ball.”

Monica Singer, CEO, Strate – the South African CSD
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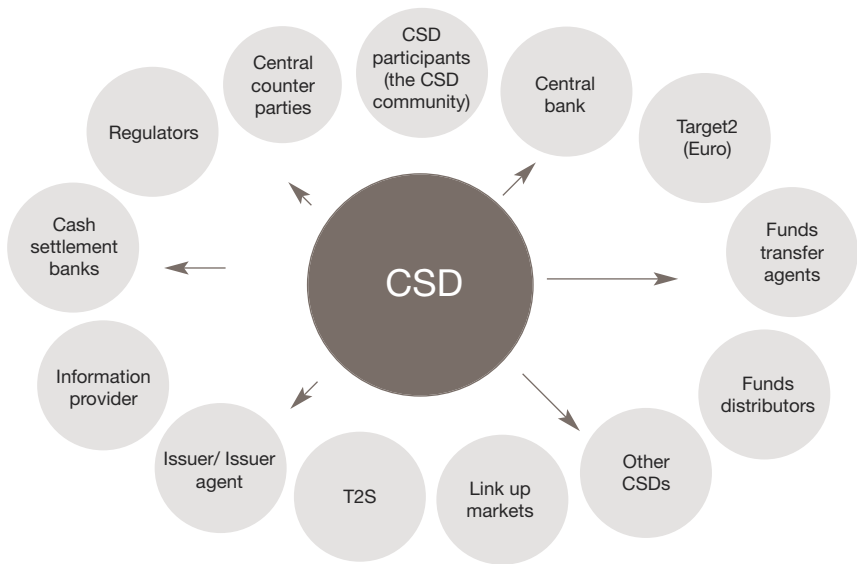
By leveraging SWIFT for both their international and domestic communications with participants and other market infrastructures, and across all the services they provide, CSDs can reduce costs and risks and improve operational efficiency for their communities, and in their own businesses.

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“Since DTCC began providing asset servicing to customers more than 35 years ago, our corporate actions services have expanded to support a more global customer base. As our footprint has widened, we have recognised that fixed, proprietary formats are difficult to maintain and are untenable as a global solution. As a result, we are embracing global standards, and DTCC will become an early adopter of ISO 20022. We also understand the need to offer our customers flexibility around delivery. Going forward, we will look to provide clients with the option to send and receive corporate action files via the SWIFT global delivery network. By offering customers a standardised format and an open delivery mechanism, we believe that we are better placed to support a market that is becoming more sophisticated and more global.”

Brett Lancaster, vice president, DTCC solutions LLC

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SWIFT: one solution to support all a CSD’s interactions

CSDs need to communicate with numerous counterparties for many purposes, and SWIFT is able to provide a secure, electronic communications channel to underpin and streamline all interactions a CSD undertakes.

securities databases, participants databases and standing arrangements databases

SWIFT offers messaging, standards and solutions to support CSDs’ provision of all these services to their participants.

Community provider: Communication with CSD participants

CSDs offer an ever-broadening range of services to their participant communities.

These include:

- Settlement services - through processing advices a CSD can inform its customers of acceptance, validation results, matching results and any other pre-settlement status. After settlement, confirmations and statements (of settled transaction and holdings) are sent
- Investor services - including corporate actions processing, proxy voting and tax reclamation
- Issuer services – such as number allocation, activation and corporate actions
- Financing services - securities lending and borrowing and collateral management services provided by CSDs to lubricate the settlement process
- Information services - databases to support the automation of the securities settlement process, including

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“DCC has been using SWIFT for more than 10 years. Major Russian banks, foreign banks, major investment companies as well as subsidiaries of foreign financial institutions cooperate with DCC via this system. The ability to employ the same message transfer system and a single message standard with all these organisations was crucial to us and our clients. This was exactly why we chose SWIFT.”

Mikhail Laufer, CEO, Depository Clearing Company (DCC) – a Russian settlement depository

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“It is not only in communications between CSDs and their own customers that SWIFT can bring value, but also for communication between CSDs. In Europe, the more we harmonise market practices and the legal, regulatory and fiscal environments, not to mention the launch of T2S, the more we will end up with markets functioning in globally similar environments, making standardisation easier, and making SWIFT a more compelling option.”

Joël Mérére, chairman, European Central Securities Depositories Association (ECSDA)

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Clearing: Clearing houses/Central counterparties

CSDs interact with clearing houses/central counterparties (CCPs) for a number of reasons. These include:

- Receiving from clearing house/CCPs clearing participants settlement obligations (gross or netted instructions)
- Sending to clearing houses/CCPs settlement fails notifications, leading to potential buy-in procedures
- Sending to clearing houses/CCPs information about securities pledged by clearing participants as collateral for their clearing obligations
- Sending to clearing houses/CCPs information about corporate actions impacting the holdings they have in their account as collateral – or impacting unsettled instructions

All of these interactions between CSDs and clearing houses or CCPs can be carried out over SWIFT.

Cash transactions: Central banks, Target2 (T2) and correspondent banks

CSDs need to communicate with central banks, T2 (for Europe) and correspondent banks for a range of purposes. These include:

- Sending cash payment instructions to settle the cash leg of delivery versus payment (DvP) transactions
- Receiving formal confirmation of cash availability or receiving confirmation of the actual cash debit
- Confirming to a central bank that collateral has been moved to its account – or has been pledged to it – so the central bank can extend credit lines to a participant for cash management purposes

All of these communications can be conducted over SWIFT.

Securities transactions: Other CSDs, Link Up Markets and Target2Securities (T2S)

Interactions between CSDs - and in the future with proposed infrastructures such as Link Up Markets and T2S – include:

- The exchange of settlement instructions and confirmations with other CSDs, if the local market uses the local CSD for the settlement of foreign listings on the local exchange
- Linkages with external providers of centralised settlement functions and shared infrastructures for value-added service

SWIFT can support all these interactions.

Issuance: Issuers and information providers

To support their issuance and information services, CSDs need to:

- Exchange information with issuers or issuer agents about new or existing issues – ranging from the creation of an issue on the CSD system (including ISIN creation) to activation of a new issue as part of a pre-arranged programme to specific corporate events affecting the issue
- Exchange meeting information and results, and forward voting instructions
- Receive corporate actions information or price information from external data vendors for non-domestic instruments

CSDs can conduct all of this communication with issuers and information providers over SWIFT.

Transaction reporting: Regulators

Under MiFID in the EU, all market activity needs to be reported to the regulator. CSDs can carry out reporting of transactions on behalf of their community to the relevant regulator over SWIFT.

Fund services: Transfer agents and fund distributors

When CSDs act as local or international hubs linking fund distributors with fund providers, they need to carry out a variety of communications – ranging from forwarding subscription and redemption orders and confirmations back, to carrying out the actual fund settlement as part of the normal settlement process. CSDs can conduct all of these interactions over SWIFT.

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“The heart of this business is the network. We have a great application and great hardware, but without a fantastic, secure, reliable network we have no business. We asked ourselves who our clients were going to be, and the answer was the established banks in South Africa. We asked them what networks they were using and they said SWIFT. The choice of SWIFT was a no-brainer for us. The banks were already using it, and it’s the most secure and reliable network.”
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Monica Singer, Strate

The solution

The components of SWIFT’s offering for interaction between CSDs, their communities, and their wider network of counterparties include:

– Messaging

Through SWIFT, all the communications carried out by CSDs can be accessed. Any combination of channels (one-by-one messaging, file transfers or operator-based access) can be created via SWIFT – using ISO standard messages or the proprietary message formats of the CSD itself, or a combination.

– FIN

FIN is SWIFT’s core store-and-forward messaging service. It enables the exchange of individual structured financial messages (like securities settlement instructions) in a secure and reliable way. Value-added processing includes message validation to ensure messages are formatted according to SWIFT message standards, enabling seamless integration with existing reconciliation packages, delivery monitoring and prioritisation and message storage and retrieval. FIN is based on a distributed processing architecture with full, built-in redundancy to ensure maximum availability.

– Interactive messaging

InterAct is SWIFT’s interactive messaging service supporting the exchange of messages between two parties. InterAct can support tailored solutions for market infrastructure communities. Via InterAct either ISO standards or proprietary standards can be used. With InterAct, messages such as status updates can be pushed in real-time in a guaranteed, reliable fashion.

– File transfer

SWIFT’s FileAct allows the secure and reliable transfer of files and is typically used to exchange batches of structured financial messages and large reports. FileAct supports tailored solutions for market infrastructure communities. FileAct is particularly suitable for securities value-added information and reporting. Settlement results after a batch cycle or database uploads can be easily communicated through FileAct.

– Secure web access

SWIFT’s Browse messaging service combines the user friendliness of web technology with the security features offered by SWIFT. Designed to complement FileAct and InterAct, this service offers the capability to browse remote web servers using SWIFT’s Alliance WebStation. For communications of a more sensitive nature, the browsing capability provides direct access to the secure messaging features of InterAct and FileAct, offering authentication, encryption and non-repudiation. An existing CSD web service can be easily moved to Browse over SWIFT’s secure IP network.

– Closed User Groups (CUGs)

CSDs will often form a Closed User Group (CUG) on SWIFT. The CUG structure supports the creation of a community between the CSD and its membership, in which SWIFT solutions can be used in a defined context. The CSD can determine the criteria for membership of the CUG, which will typically cover its direct members, as well as the billing options available (including reverse billing), and which messaging services are to be used. Via the CUG structure, CSDs and their communities can shape SWIFT’s solutions to meet their needs.

– Standards

The majority of the communications undertaken by CSDs are supported by ISO standards. These standards have been developed by market practitioners to reflect the needs of today’s securities markets. They cover simple transaction types, but also more complex transactions (like repos or pair-offs). They cover the complete lifecycle from settlement to corporate actions.

The Securities Market Practice Group (SMPG), comprising representatives from the industry (including from many CSDs), continually reviews all ISO messages and publishes usage guidelines. The use of standards has been proved to reduce interpretation risk, shorten development cycles and enable faster service roll-out.

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“Once Target2Securities is in place, this should encourage CSDs to offer even more custody services. The vision of the ECB suggests that in the T2S context CSDs should compete more with each other in terms of asset servicing. This competition will inevitably be more for cross-border clients, and obviously SWIFT’s offerings for custody and corporate actions for example will be an asset in that new environment.”
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Joël Mérére, chairman, European Central Securities Depositories Association (ECSDA)

Other SWIFT solutions

SWIFT also offers solutions for specific activities carried out by CSDs, including:

- Corporate Actions
The combination of ISO 15022 securities messaging standards and SWIFT connectivity offers an opportunity to standardise corporate actions communication flows between CSDs, information sources and CSD direct participants, global custodians and investment managers.
- Proxy Voting
SWIFT’s Proxy Voting solution supports automation of the proxy voting process by implementing end-to-end, standardised messaging. This service validates and delivers those messages with security and reliability for the benefit of all market participants.
- Funds
Funds is SWIFT’s solution for investment funds distribution players: investors and their intermediaries, distributors, distribution platforms, fund management companies and their service providers such as transfer agents/registrars, fund accounting agents, trustees, custodians and portfolio managers. Funds allows the standardisation and automation of account openings and maintenance, orders, statuses or cancellations of orders and order confirmations, transfers, statements (of holding and transactions), reporting on price, cash flow, commissions and prospectus static data.
- Regulatory Reporting
SWIFT’s Transaction Reporting solution enables reporting entities to meet their transaction reporting obligations to regulators. Transaction Reporting combines standardised messaging with SWIFT’s FileAct store and forward service.

Additional key benefits of SWIFT

- Security and resilience
The SWIFT network availability approaches 5x9 reliability – 99.999% of uptime – and offers the peerless security levels only available from a private, secure and closed network.
- Support
Our award winning customer support is provided on a 24 hour by seven day basis globally.
- Training
SWIFT offers a range of classroom and onsite training and e-learning products, specifically tailored to meet your business needs. Visit www.swift.com/training for a complete list of available courses.

For more information, please contact your SWIFT account manager or visit www.swift.com.

To join the dialogue visit www.swiftcommunity.net

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“If all securities market infrastructures are on the SWIFT network, then financial institutions can use the same network and the same standards to communicate with them. As part of our commitment to endorse industry standards across the board, we took the decision to support market network infrastructures such as SWIFTNet. It allows our customers to benefit from connectivity solutions that accommodate their growth or a shift in their activities without requiring them to put a new infrastructure in place.”

Michael Jaeggi, Member of the Clearstream International Executive Board,
Head of Product Management & Design Core Products,
Clearstream Banking SA

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