

Thank you very much Josef and good morning everybody.



Many of you were here two years ago and probably remember that I gave an update on the progress of the migration to ISO 15022 which is part of the G30 Recommendation No. 2. At that time, we were well advanced in our migration. We finished and accomplished it with a lot of success. Great credit is due to the industry and all our organisations, it was a big task indeed. And it was a very important and necessary task affecting all the topics that we are discussing this morning.

One thing we should not forget - and all institutions have insisted on this - is to recognise that the migration to ISO 15022 has been a very expensive task. It has demanded a lot of time, attention and resources from all of us. You have rightly insisted that we now have to leverage that investment. We need to harvest the benefits from this migration. So, when looking at Recommendation 2 and how to go forward, this is something we want to keep in the back of our minds: We need to make sure that what we are working on together is for the benefit of the industry.

I would like to discuss with you how SWIFT can - and will! - participate in the implementation of the G30 recommendations. As there are many recommendations in the market, I can not cover all of them, I just want to put a parallel between G30 Recommendation No. 2 and the Giovannini Barriers and make some comparisons. In all these activities, it is really important to make sure there is consistency between the work we do in the different market environments - worldwide, or regional in the European, the North American or the Asia-Pacific markets - otherwise we might duplicate a lot of effort.

## G30 & Giovannini recommendations

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| <p><b>G30: Recommendation 2</b></p> <ul style="list-style-type: none"> <li>Harmonise messaging standards and communication protocols</li> </ul>                                                                                                | <ul style="list-style-type: none"> <li>Adopt ISO 15022 as global standard</li> <li>XML = language for standardised messages</li> <li>User networks with open, standardised, IP-based protocols</li> </ul> |
| <p><b>Giovannini: Barrier 1</b></p> <ul style="list-style-type: none"> <li>National differences in the information technology and interfaces used by clearing and settlement providers should be eliminated via an EU-wide protocol</li> </ul> | <ul style="list-style-type: none"> <li>SWIFT ensures definition of EU protocol through SMPG (Standards Market Practices Group)</li> <li>Common protocol to be adopted by ESCB</li> </ul>                  |

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I will talk mainly about G30 Recommendation No. 2. We heard that at the latest meeting of the G30 in Amsterdam, they were looking into SWIFT being involved in Recommendations No. 1 and 2 which I think are complementary about automation, replacement of paper and manual processes.

A remark that I would like to make about these recommendations is that there is a dilemma for all of us: There is a mixture in all of them between urgency on one side, and the fact that they can be implemented on a long-term basis only on the other side. We are struggling between short-term need and long-term achievement. Why the urgency? The industry and our markets are about to change completely. Of course, we all want to continuously improve our efficiency, our cost base, our return on a short-term basis, but there are some other elements that have now started to emerge. The players who have already implemented automation and best market practises are pushing the other players to follow, because the latter now see the benefits. Something totally new is that investment and asset managers that typically remained in the background before, now start to see automation as a priority for them also. If you talk to them and discuss their priorities – just invest in the front-office and forget about the back-office, or is the back-office also important? - you notice a change of mindset. We have seen some of them investing heavily in the back-office! And indeed, their benefits are huge. Therefore they now come to play the game and they are pushing.

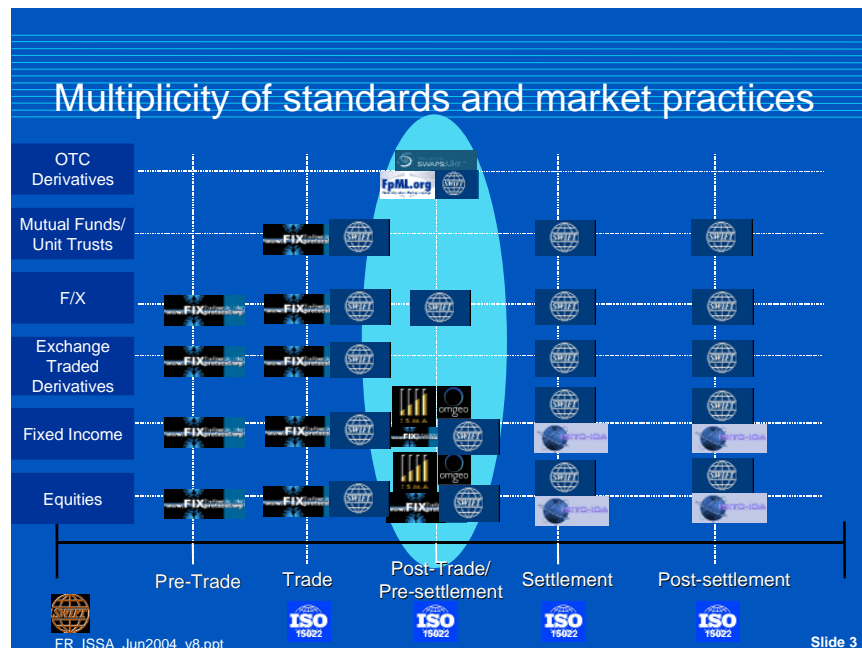
And last but not least - I think we all see that - we have pressure everywhere by the regulators, by the authorities. We see associations coming to us and say: "We have a regulator pushing us. How can you help? How can we move forward?" So I think this is a different world where forces from all sides oblige us to move forward. We know that we can manage all this, but it takes a long time. We have our legacy systems, we have our existing applications. Change doesn't happen overnight. That is what we struggle with: how do we go forward, what path do we choose and what speed?

I think that you all know Recommendation 2 and I will compare it in particular to Giovannini Barrier 1. If we compare the two, we see that, among all the best practice recommendations out in the market, G30 number 1 is one of the most prescriptive ones. It tells us precisely what we have to do: Adopt ISO 15022 - that is very clear! Standardised language for standardised messages, and then use a network which is a standard, open IP-based network. This is very clear.

When you look at Giovannini Barrier 1, it requires more research and arriving at the appropriate conclusion. To eliminate barriers we have to take care of many issues. We need to tackle the national differences in Europe. We have to define the common protocol, then we have to move forward on it and the ESCB is to adopt the protocol. All of that should be done in two years. So far, the two years have not started - and no one knows how long the two years will be... That is one question.

The second question is about the scope of the work before us. I met with Alberto Giovannini recently and we had a long discussion to try to define the scope. There is still a lot of work to be done just to define the scope, it is still very vague.

At the same time, when we work on these recommendations, we need to ensure consistency. We cannot ask the industry again to make investments in some markets that would not be in line with other markets. I believe that SWIFT as an organisation can play a major role in making sure that these different recommendations all point in the same direction.



I would like to give you a picture of the market situation as it is today. This is rather important because a major topic is the convergence of standards in the market. So, if we look at our world of standards and market practices in securities services, and at the different instruments and the different provider parts of the chain, there are two major standards blocks: First, the post-trade to settlement and post-settlement block where SWIFT and ISO have been the dominant leaders in implementing the G30 and other recommendations. We have been very successful here, we converted to ISO 15022. We can say we are there and we cover most of the instruments in this world; of course with the work by other organisations like ISITC that help in the market practices area.

Second, the trade and pre-trade block. Here, FIX is certainly the standard and the dominant protocol, it is more and more accepted worldwide. Although not yet adopted by all parties in the industry, it is very dominant.

Then we have a world in between the two blocks where many organisations are involved. That is where ISO, SWIFT, FIX, ISMA, OMGEO and others are very active and where we have the problem of how to ensure convergence.

Just a few words here on convergence. Three years ago, we started a convergence discussion with FIX, about how to develop common messages that we defined (as per G30 Recommendation) as ISO XML that would cover the world of trade and pre-trade, but also the post-trade / pre-settlement area. We achieved progress, we defined standards. The G10 group working on this will produce a standard for utilisation by the user for next year. However, I think that we are still quite far away from true convergence, because convergence is not achieved by people meeting in a room and deciding "We are now going to make convergence happen". It is the institutions actually implementing the common standards and practices. It is the institutions making the investment. And there we still have a lot to do. We are not yet convinced that there is a unanimous willingness in the market to converge. We still have a lot of convincing to do. Today, we are still struggling to get a common view and full buy-in from the market that convergence is actually the way to go and that people are ready to go for convergence in the long-term. I don't want to

be too pessimistic, but I can't be too optimistic, either. But we continue to be motivated and mobilised because we believe this is the right way forward.



So far I was talking about standards. We all know that a standard without an underlying agreed market practice is not really the ideal solution. Nevertheless, standards are important. Our ultimate goal or dream would be ISO 15022 being the centre of all the market processes shown here, across all asset types and all users.

You may have read some articles in the press where we talk about ISO 20022. This is actually the ISO 15022 standard wrapped in an XML-envelope. It is very clear that we will not go faster than the market wants to go. For new projects we will adopt this new ISO 15022 with XML or ISO 20022. For the rest we shall certainly protect the investment already made until the industry shows an interest and sees a benefit in moving forward. So it will be a long-term move.

But let's now talk about the market practices. If we do not get the right market practices and a good agreement about how to apply those standards to the market practice, I think we are only half way.



The SWIFT Securities Market Practice Group (SMPG) has been created worldwide to define, agree and support the implementation of market practices. We have one international and 33 national groups, and four more in the pipeline. If you take these 33 plus 4, you have about 98-99% of the world's securities business covered which is concentrated in those countries. In fact, about 20 of the 37 represent most of the business volume. Depending on the situation and topic at hand, we have either taken a bottom-up approach or a top-down approach. Taking settlement practices as an example, we have already 25 countries which have published their market practices. This is good news. It was achieved in a bottom-up approach, because we first had the market practice groups and then we aligned the different market practices to arrive at the standard.

In the reconciliation and corporate actions areas we used a top-down approach: we agreed on rules that could then be adapted for local implementation. As you can see, 33 countries have now agreed on global common practices and some have decided to define some specific requirements for their country. So the work is moving forward.

With trade initiation and confirmation we are not quite there yet, we are still working on the global common practices. So, all of this is good news. Where is then the problem?

The question is "Who takes more leadership to make sure people implement market practices?" It is good to agree, but in terms of implementing we are not there yet. Many times we have been asked "Why is SWIFT not more proactive in the implementation of market practices?" I have heard for more than 15 years in the community "Why is SWIFT not policing standards and market practices?" That is a very tall order, having the market agree on an institution policing market practices!

Let me give you a few ideas on that: The first step was accomplished the 12th of June 2004 - so it was very recent when, for the first time on our network, we not only validate standards, but we also validate codes in the standard. This is the first time we validate a market practice aspect. It is the first little step and it works very well. Many of you have been involved in its preparation.

The second question is "Why should we need more leadership and policing?" It is because of the violation of the market practices, and the problem is for the users to accept that there is violation. Most users tend to accuse others of violating market practice and that of course is a problem.

When you start policing, you have to decide where and why violation occurs and what the respective market practice really is. There are different ways to do this. You can do it in the positive way: If you make sure that everybody knows what the market practice is and what constitutes a violation, you can then create incentives for people who respect the market practice, for example by charging them less communication costs.

Another idea was to create a certification tool. When we migrated to ISO 15022 there was a tool for all of you to test your messages for compliance with the standard. We could have a certification tool this time as well for the market practices, where you send your messages and receive a label or an assessment.

The first step that we would have to take is to have the market agree that we implement such kind of action. We have had trade associations come to us and say "Listen, all counterparties are violating market practices. What are you doing?" So the pressure is here. We try to address it. In the SWIFT Securities Committee we have a discussion in September on this topic.

I would like to put this question to you also, because I think it will be an important one in the drive to increase efficiency and effectiveness in the context of G30 Recommendation 2.

## Status of recommendations

- November 2001
  - CPSS-IOSCO (Recommendation 16)
- Q1 2003
  - G30 (Recommendations 1 & 2)
- April 2003
  - Giovannini (Barrier 1)
- May 2004
  - ESCB-CESR (Standard 16 – draft)
- April 2004
  - European Union communication
    - Potential European framework directive (level 1 legislation)



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I think you all know that various sets of best practice standards, recommendations and similar documents have been issued recently. The European Union Commission is considering to draft a new "framework directive" on securities clearing and settlement. So, the faster we move or show willingness and determination to move, the better it will be.

To conclude I would like to share with you how we believe we can help our industry solve the dilemma.

## How can SWIFT help address this dilemma?

- Clearly define the scope
  - Provide detail where recommendation lacks granularity
  - Ensure global consistency between solutions
  - Avoid potential duplication & eliminate uncertainty
  - Define steps forward
- Consult and define the size of the problem
  - Consult with infrastructures
  - Consult with Institutional participants
- Act for the global industry
  - Neutral utility view
  - Be inclusive



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First thing, and this was mentioned by Josef as well, is the need to define the scope of the recommendation, and of the intended action. This is true for the G30 recommendations and even more so for the Giovannini Barriers. It is absolutely necessary. What mountain do we want to climb? How far do we want to go? We must make sure that we have consistency between the different solutions and avoid duplication and uncertainty which is the worst. Where there is uncertainty people and institutions will not move.

Once we have that, we need to define the steps forward. We know it is a long journey and the goal will not be reached quickly. Therefore we must define interim steps. We certainly need to involve the institutions and the market infrastructures, this cannot be done in isolation. And then we must be neutral and inclusive. That is very important for SWIFT, because SWIFT is a cooperative for the industry and the provider of the network to the industry. We regularly get the question "What is the relationship between your standards organisation and the network provision, and is there enough independence?" We have to provide solutions that meet the needs of the global industry, in a neutral and inclusive fashion.



### Input required from the Industry

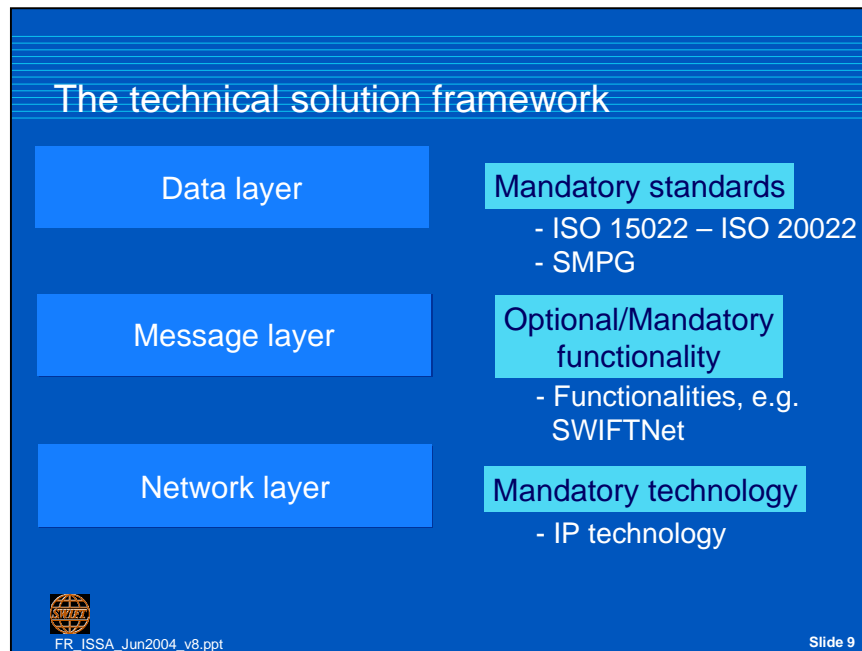
- Global Industry groups
  - G30, Giovannini, etc.
  - ECSDA, CEECSDA, etc.
  - EACH, CCP12
  - ISSA, SMPG, etc
- Financial institutions
  - SWIFT and non-SWIFT community
- Authorities
  - ECB/ESCB
  - CESR/local regulators
  - European Commission
- Technology providers
  - Networks

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To act in the best interest of the industry, we require input from the industry. We believe we have to talk to all these institutions which you all know. We already have very good access to the SWIFT user community through the various committees and groups that we have either created by ourselves or that exist elsewhere.

We also need to include all the authorities, the regulators, the European Commission and, last but not least, the technology providers, like the providers of networks or of different solutions. We have to talk to all parties who want to do a job for the global securities industry.

It will not be an easy walk, because here we talk mostly about an international challenge which affects all of us. But domestic market players do not see the same pressure to move. They will not want to invest in areas where they will reap limited benefits only. This might cause breaks in the move forward. Of course, all international players are also significant domestic players in their home market, but we must not neglect the large segment of the purely domestic market participants.



We will need to concentrate on the message layer: What are the functionalities that we want to provide on the message layer? There are many: delivery guarantee, sequencing messages, integrity protection, etc. We have to decide which ones should be mandatory and which ones optional. The market needs to be involved in making those decisions.



SWIFT is ready to take leadership for G30 Recommendation 2 and we are ready to look at Recommendation 1. We need to see how we work with ISSA and we can review progress on a regular basis with ISSA. We might already give the world a plan how to go forward at SIBOS in October.

## The way forward on G30 recommendation 2

### SWIFT

- to take the leadership with ISSA guidance and contribution
- to review progress on a quarterly basis with ISSA
- to report to G30 Monitoring Committee
- to communicate the way forward at Sibos in Atlanta (11-15 October 2004)
- to ensure alignment with Giovannini/European Union initiative



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