


Operational efficiency
Enhances Alpha
A SWIFT view

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Why SWIFT has to have a view...

- SWIFT has been successful in promoting STP and industry has invested...
- ...but huge risks & costs lie in post-trade processing of OTC derivatives...
- Hedging risk creates risk – the paradox
- The real challenge is interoperability



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Problem statement?



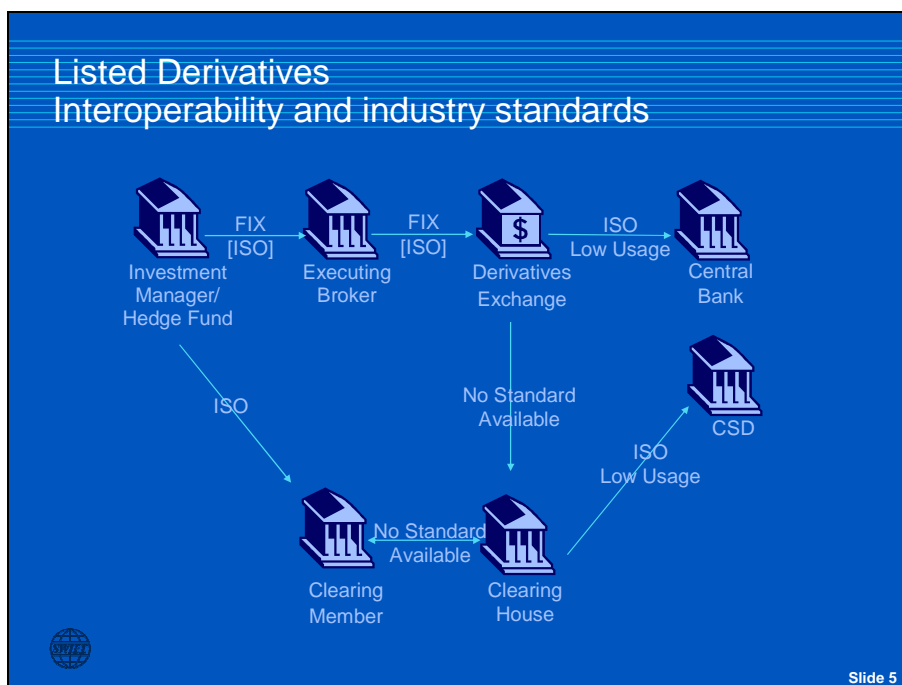
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OTC Derivatives Industry challenges

- Huge confirmation backlog - delays
 - Paper or fax based
 - Bilateral process (errors in trade capture, confirmation, ...)
- Inability to handle volumes and complexity
 - Lack of standardization, proprietary systems
- Valuation – inaccurate or delayed
 - Why so important? Hedge funds fees, sell price
 - OTC private - No communication standard for valuations
- Bespoke market infrastructure and standard access
- Globalization
- Estimated inefficiency cost: 3 B USD annually



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OTC Derivatives Interoperability and industry standards

Type	Flows / Parties	Standards
Negotiation – Quotes	IM / Dealer	Proprietary, [FpML]
Execution - Affirmation	IM / Dealer	FpML, Accord Affirmations
Confirmation	IM / Dealer	FpML (CUG Phase 2), FIN
Allocations	IM / Dealer	FpML (CUG Phase 2)
Contract Notification	IM to Custodian, IM to Accounting Agent	FpML (CUG)
Post-Trade: Reset, Novation, Increase	IM / Dealer	FpML (But Resets – only FIN MT 362)
Post-Trade Events Notifications	IM / Custodian	FpML (CUG)
Settlement Request and Advice	IM / Custodian	FIN (MT 202 and 210)
Settlement Execution	Custodian / Dealer through Settlement Agents	FIN (MT 202 and MT 205)
Reconciliation	All	FIN (MT 950 for CASH)

FpML messaging SWIFT Roadmap

	1 Transport only (pilot: Q1 2007)	2 Validation (pilot: Q1 2008)	3 Matching (pilot: Q2 2008)
Rationale	<ul style="list-style-type: none"> Recognizing FpML as the standard for OTC derivatives Re-positioning SWIFT in derivatives market 	<ul style="list-style-type: none"> Put more discipline in FpML usage More STP 	<ul style="list-style-type: none"> Match very liquid products (benefit from market growth) One-stop shop for matching (instruments and syntaxes)
Flows	<ul style="list-style-type: none"> Trade notification (buy-sides to custodians) 6 message types 	<ul style="list-style-type: none"> Trade notification Trade confirmation 9 message types 	<ul style="list-style-type: none"> Trade confirmation
Instruments	<ul style="list-style-type: none"> Any as long as covered by FpML 	<ul style="list-style-type: none"> Syntactic: any Semantic: IRD and CDS 	<ul style="list-style-type: none"> Q2 2008: IRD, CDS 2008-2009: Commodities, Equity swaps, Syndicated Loans, Total Return Swaps, etc.
Activities	<ul style="list-style-type: none"> Set-up of CUG Support on interface MoU with ISDA 	<ul style="list-style-type: none"> Schema validation Ref. data validation Semantic validation rules 	<ul style="list-style-type: none"> Cross-syntax matching FpML matching

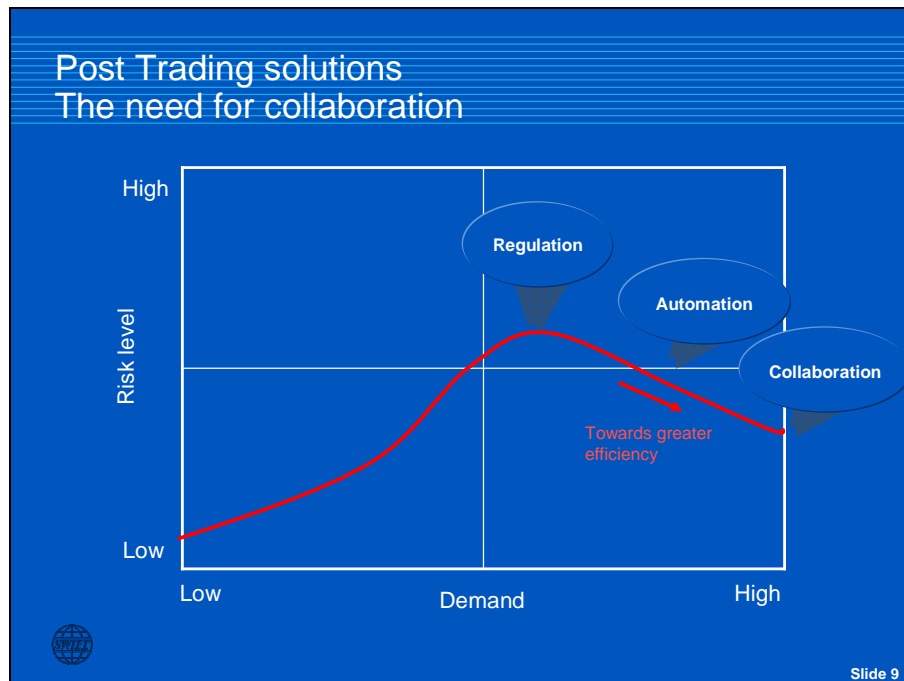
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OTC Derivatives Development of Post Trading solutions

	From trade to settlement	Credit	Interest rate	FX	
Post-trade ↓	Trade capture / affirmation	T-Zero DTCC SWIFT (2008)	T-Zero Swapwire SWIFT	SWIFT	<p>Transactions:</p> <ul style="list-style-type: none"> Mix of asset classes and functions required for selection STP challenge
	Trade confirmation	DTCC SWIFT (2008)	Swapwire DTCC SWIFT	SWIFT	
	Settlement/ Repository	DTCC/CLS	Swapwire	-	
	Portfolio reconciliation	Early Termination		Collateral management	
	Euroclear, Trioptima, Algorithmics, others	Trioptima		Triparty agents, CCP (LCH Swapclear)	<p>Portfolio:</p> <ul style="list-style-type: none"> Solutions across asset classes Link between portfolio reconciliation and collateral management to be strengthened Interoperability to reduce risks and costs

→ Portfolio

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Summary

- SWIFT aims to assist its members to raise operational efficiency with
 - speed of delivery of solutions
 - quality of the solutions
 - scalability
- Combining these three, SWIFT can contribute to an improved industry and operational efficiency



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