

ISSA Working Group update – Communication Standards and Reference Data

Irene Mermigidis, ISSA Working Group 3 Leader and Managing Director of Link-Up Capital Markets S.L., presented the ISSA Working Group Report on Communication Standards and Reference Data. This report covers internal and external market drivers for standardization, including regulatory mandates and the need for process efficiencies. The report's scope extends across standards for trade allocation and confirmation, clearing and settlement, as well as for Trade Repositories (TRs) and Legal Entity Identifiers (LEIs). For each function in the middle and back office, the report identifies key issues and provides recommendations for implementation. Another area addressed was CCP interoperability, its benefits and four recommendations to facilitate future progress.

International Securities Services Association

16th ISSA Symposium

Working Group 3
Communication Standards
and Reference Data

Irene Mermigidis
Link^{Up} Markets

7 June 2012

ISSA

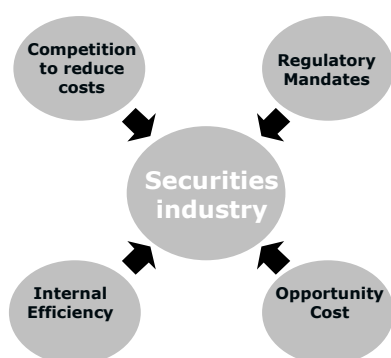
Agenda

- Market Drivers to Standardisation
- Report Scope
- Standards in the Post-Trade Area
- Changes in the Middle Office
 - Trade Repositories
 - Trade Confirmation, Allocation Standards
 - CCP Interoperability
- Legal Entity Identifier Implications for Custodians / Clearers and (I)CSDs
- Working Group Members

2

ISSA

1. Market Drivers for standardisation



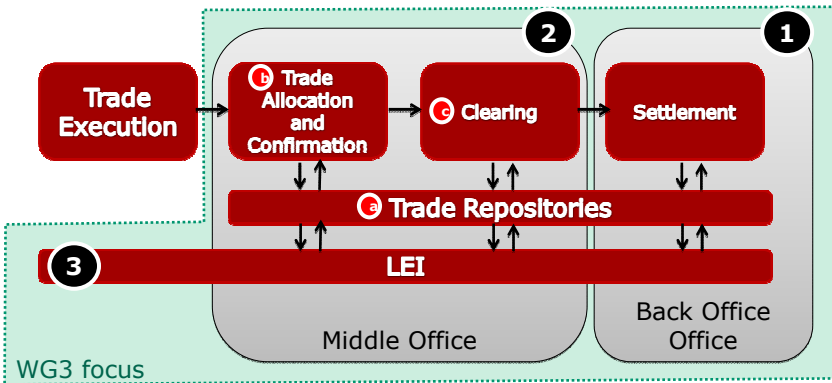
External and Internal Drivers

- Regulatory Mandates
 - Reduce Risk with initial focus on OTC Derivatives and data quality
- Foster competition to drive costs down
 - Lower industry fees, reduced interfaces and switching costs
- Internal efficiency
 - Common Standards to reduce costs and achieve interoperability (i.e. develop once and use many)
- Investments in mandates and upgrades
 - Prioritise spend to address investments in "differentiators" beyond mandatory upgrades

3

ISSA

2. Report Scope



WG3 analysed all post-trade aspects in particular

1. The challenges of the Back-Office in relation to standards evolution
2. The challenges of the Middle Office with focus on a) Trade Repositories, b) Trade Allocation and Confirmation and c) CCP interoperability
3. Both the Middle Office and the Back Office are impacted by a key initiative in the area of «data standards» which is the Legal Entity Identifier.

4

3. Standards in Post Trade

- **Current situation**

Various standards exist (domestic, ISO 15022, 20022, FpML etc) and a standards coexistence is the reality, increasing complexity and costs of maintenance of various standards.

- **Key issues**

Regulatory pressure will most probably seek to enforce use of standards as a means of improving transparency and easier risk monitoring. However the financial community has historically been weak in standards implementation (market benefits and accelerate adoption)

- **WG Recommendations:**

Focus on two pillars:

- Operational perspective: strengthen the compulsory community approach for the adoption of standards in a market, for a service community
 - Coordinated community approach
 - Agreed implementation roadmap.
- Technical perspective: Shift the focus to how “implementable” a given standard is:
 - Use tools that facilitate implementation of messaging standards
 - Define business rationale that facilitates a simpler, more self-evident decision-making process in a market or service community.

5

3.1. Change in the Middle Office - Trade Repositories (TR)

- **Regulatory Pressure**
 - Regulatory drive (EMIR, Dodd-Frank title VII) for Q3/Q4 2012 to ensure mandatory reporting of OTC derivatives requiring TRs to provide a greater degree of transparency.
- **Key issues:** Regulators draft rules covering the information and data required. The formats which TRs will use to collect the information are the responsibility of the TRs.
- **Benefits** for the industry of a standardised approach to identifiers
 - Improved policy analysis by regulators.
 - Improved identification and quantification of existing or altered interconnections between firms.
 - Improved real time analysis across multiple financial markets to identify systemic risk, market stresses and potential contagion effects across asset classes.
 - Improved financial transaction processing, internal recordkeeping, compliance, due diligence, and risk management by financial entities.
- **WG Recommendations:**
 - Standardisation in content and format of the data to be reported
 - Standards for key identifiers : LEI, Unique Swap Identifier (USI), Unique Product Identifier (UPI)
 - Industry to define open messaging standards for the reporting of data to TRs – possible area for ISSA participation

6



3.2. Change in the Middle Office - Trade Confirmations and Allocations

- **Regulatory pressure**
 - T+2 settlement coming in Europe
 - EU CSD regulation
 - New punitive name-and-shame policy targeting firms who settle trades late
 - New uniform buy-in rules
- **Key issues:**
 - Sell-side concerns
 - Non-automated clients and counterparties
 - Same Day Affirmation (SDA) manual allocation
 - Buy-side Concerns
 - Lack of standardised communication between B/D and Custodian
 - Business continuity concerns (settlement liquidity)
- **WG Recommendations:**
 - Promotion of STP for Fixed Income
 - ISSA to drive effort to produce a unified global ETC/Matching Market Practice Guide - Three existing guides to be thereby consolidated
 - Promote higher Same Day Affirmation (SDA) rates by encouraging publication of SDA rates by entity

7



3.3. Change in the Middle Office - CCP Interoperability

- **Why Interoperability?**
 - Facilitates user choice and over time will allow users to concentrate flow
 - Creates competition
 - Leads to lower fees, thereby encouraging volume growth
 - Standardizes process and reporting
 - Users gain efficiency and capacity via standardized process
- **Benefits** for the participants and the industry
 - Net margin reduction: Advantage of increased margin offset vs the extra collateral to secure the inter-CCP exposure
 - Decrease the single point of failure in Clearing, enforces back up facilities
 - Implementation of extensive BCP arrangements as a result of Regulatory review
 - Increased transparency
 - Increased commercial benefits such as reduced overall margin, lower technology cost, consolidation of Clearing & settlement activity
- **WG Recommendations**
 - Adhere to risk standards already sanctioned by European regulators
 - Clearly defined agreements to include inter-CCP margining
 - Operating procedures (including emergency)
 - Agreed dispute resolution procedures
 - Regulators to encourage interoperability arrangements

8

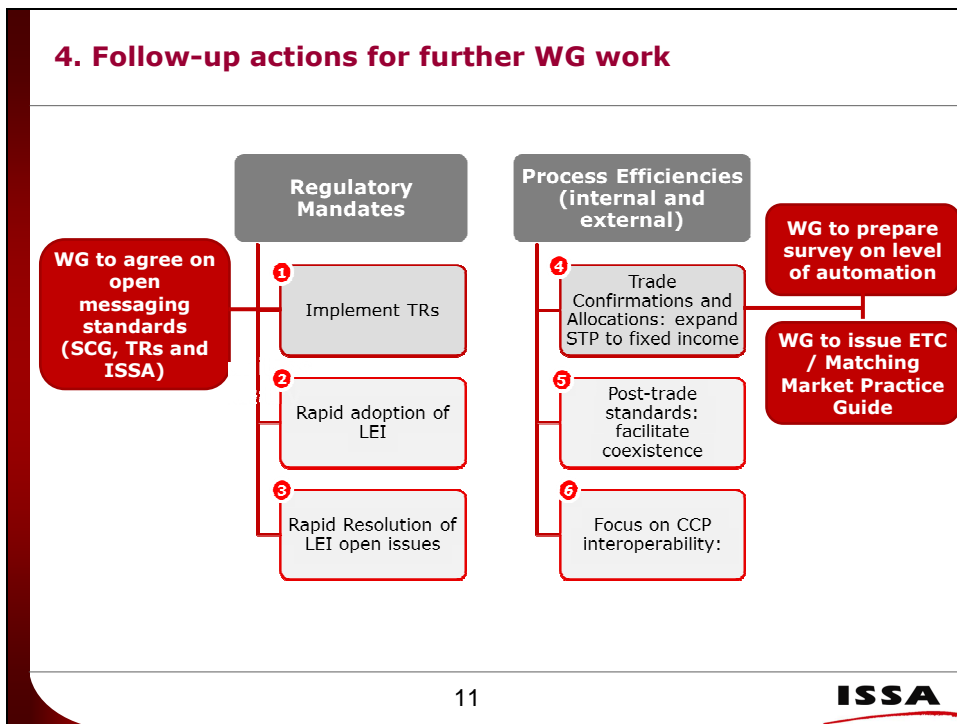
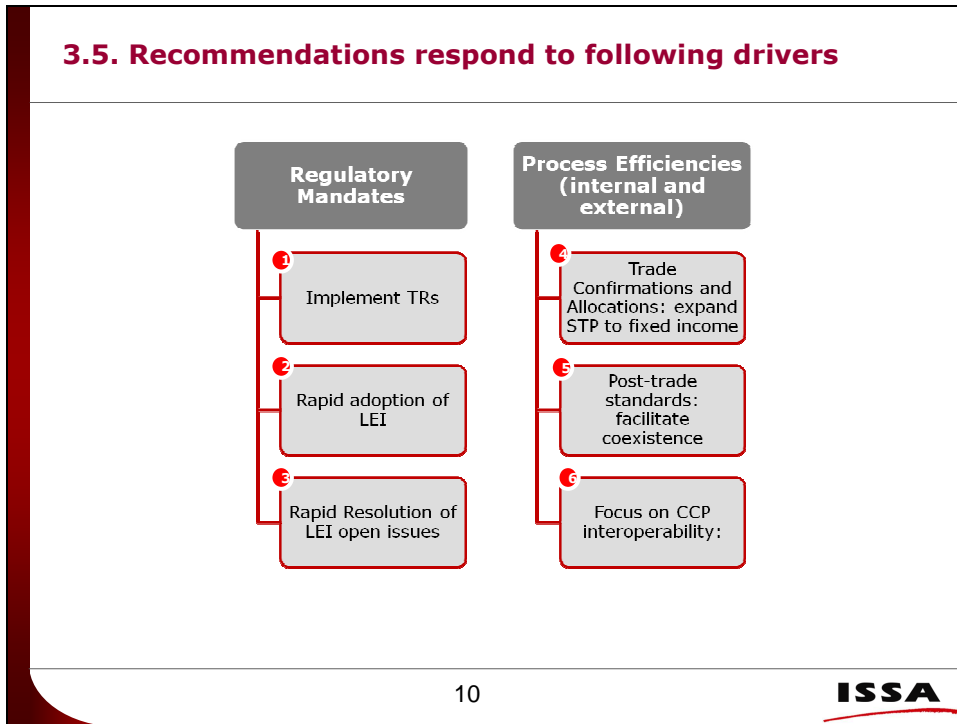
ISSA

3.4. Legal Entity Identifier – LEI - Implications for Custodians, Clearers and (I)CSDs

- **What is the LEI?**
 - Facilitates reporting of OTC derivatives exposures to regulators
 - A global drive to adopt a universal standard of a unique ID associated with a single legal entity as a new reference data tool
- **The Actors:**
 - Solution providers for the LEI infrastructure
 - Facilities Manager-DTCC (including AVOX)
 - Registration Authority-SWIFT
 - Standards Body – ISO 17442
 - Federated Registration – ANNA
 - FSB oversight
- **WG Recommendations**
 - Users to pay close attention to the resolution of Open Issues:
 - Governance model –need industry to drive future development
 - Support by ANNA-how will this work?
 - Long-term funding model
 - Users should map LEI to existing systems and embed LEI over time

9

ISSA



5. Working Group Members

Name	Institution	Name	Institution
Ms. Irene Mermigidis (WG Chair)	Link Up Markets	Mr. Joe Halberstadt	SWIFT
Mr. Brian Crabtree (Sub-WG chair)	CITI	Mr. Neil T. Henderson	DTCC
Mr. Theodore Rothschild (Sub-WG chair)	JP MORGAN	Mr. Paul Janssens	SWIFT
Mr. Fabian Vandenreydt (Sub-WG chair)	SWIFT	Mr. Tomas Kindler	SIX x-Clear
Ms. Banu Apers	SWIFT	Mr. Guillaume Lenoir	EuroCCP
Mr. Robert Barnes	UBS MTF	Mr. Stephen Lindsay	SWIFT
Mr. Norbert Bayer	Regis-TR	Mr. Mark Morris	NOMURA
Mr. Yannick Begon	CLEARSTREAM	Mr. Andrew Muir	SWIFT
Mr. Sven Bossu	SWIFT	Ms. Evelyne Piron	SWIFT
Ms. Annette Brandt	EUROCLEAR	Mr. Thomas Rohr	UBS
Mr. Craig Clayton	EUROCLEAR	Mr. Sam Romilly	SWIFT
Mr. Gael David	BNP PARIBAS	Mr. Urs Staehli	UBS
Mr. Edwin de Pauw	EUROCLEAR	Mr. Geoffroy van der Linden	EUROCLEAR
Mr. Tom Debruyckere	EUROCLEAR	Mr. Ganesh Varadarajan	STRATE
Mr. Steve Everett	STRATE	Mr. Walter Verbeke	EUROCLEAR
Mr. Anthony Freeman	OMGEO	Mr. Richard Young	SWIFT
Mr. Lee Gale	NOMURA		

Thank you!