

Schweizerische Kommission für Standardisierungen im Finanzbereich (SKSF)
Commission Suisse de Normalisation Financière (CSNF)
Swiss Commission for Financial Standardisation (SCFS)

A commission of the Swiss Bankers Association (SwissBanking)

for discussion

Conceptual Paper

Securities Portfolio Transfer

Business Process

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Swiss Commission for Financial Standardisation

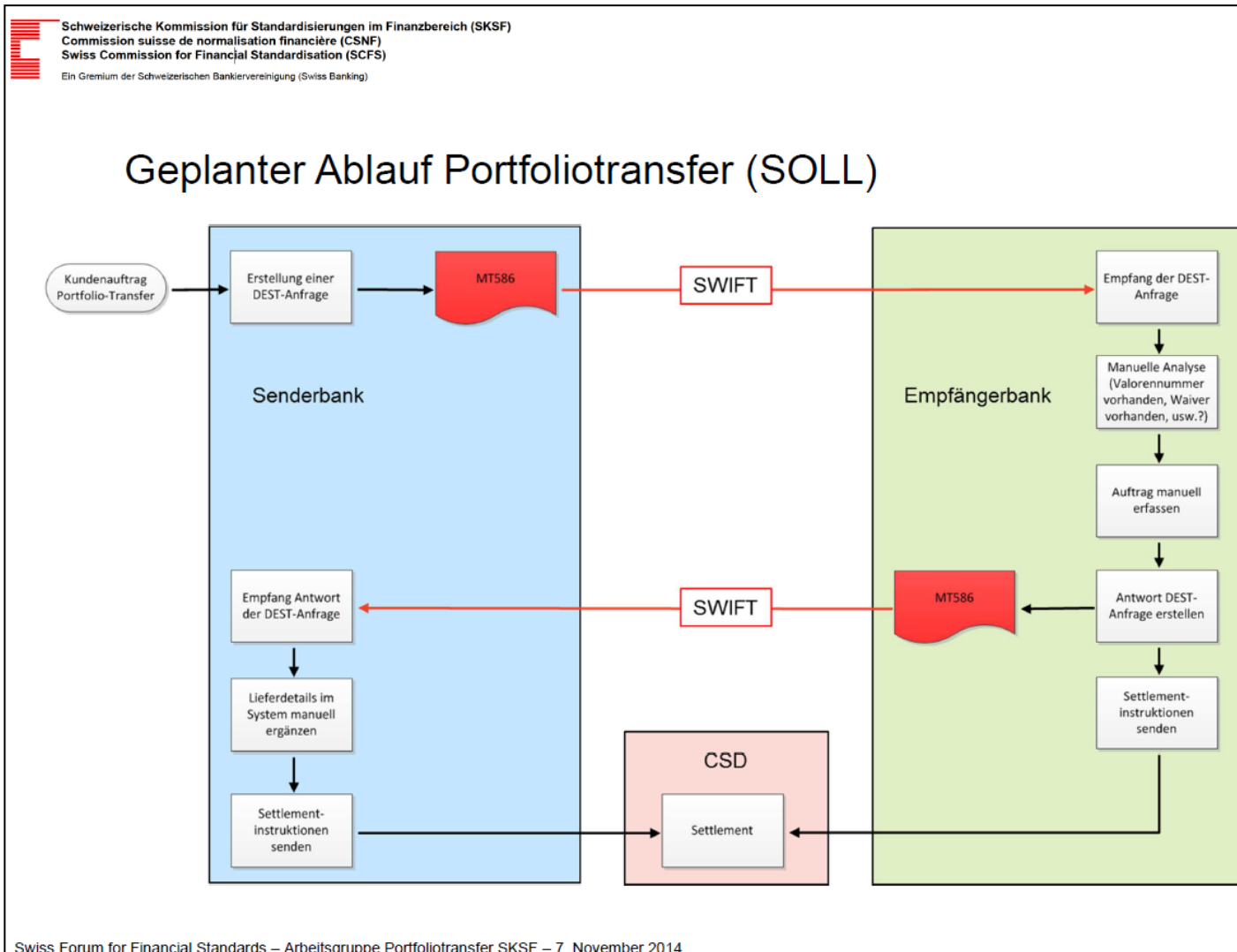
13 April 2015

ABSTRACT:	Background – about this presentation
Chapter 1:	Account relationships and use case
Chapter 2:	Portfolio transfer business process (double leg variant)
Chapter 3:	Portfolio transfer business process (single leg variant)
Chapter 4:	Recommended message sets
Chapter 5:	Impacts
Chapter 6:	Special cases
Chapter 7:	Open points

About this presentation

◆ ABSTRACT

- At the Swiss Forum for Financial Standards jointly organised by SWIFT and the SCFS in Zurich on 7 November 2014, a chatroom session presented the topic ‘Arbeitsgruppe Portfoliotransfer SKSF; Automatisierung Depot-/Portfoliotransfer’.
- The proposed portfolio transfer automation focused on the exchange of settlement information between two banks and the transfer execution (instructions) via the CSD. See next slide.
- The proposed process is intended to be applicable to any instrument types including investment funds.
- The remainder of this presentation aims to provide a basis for discussion within the SMPG IFWG in order to investigate in how far the aforementioned portfolio transfer process could be designed to become interoperable with the single/double leg processes, promoted by the TA community.



Swiss Forum for Financial Standards – Arbeitsgruppe Portfoliotransfer SKSF – 7. November 2014

for discussion

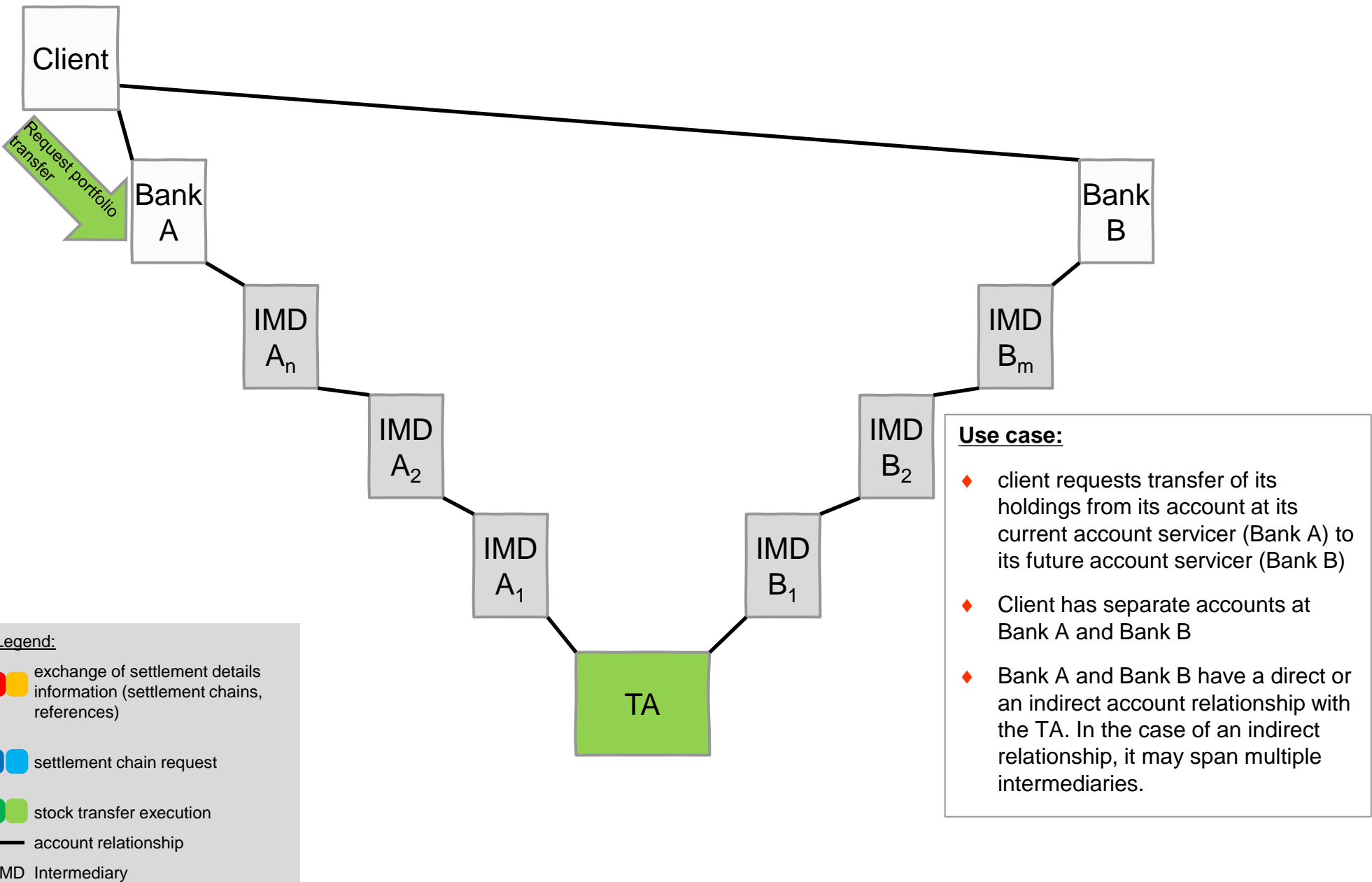
Chapter 1

Account relationships and use case

Portfolio transfer business process

for discussion

Account relationships and use case



for discussion

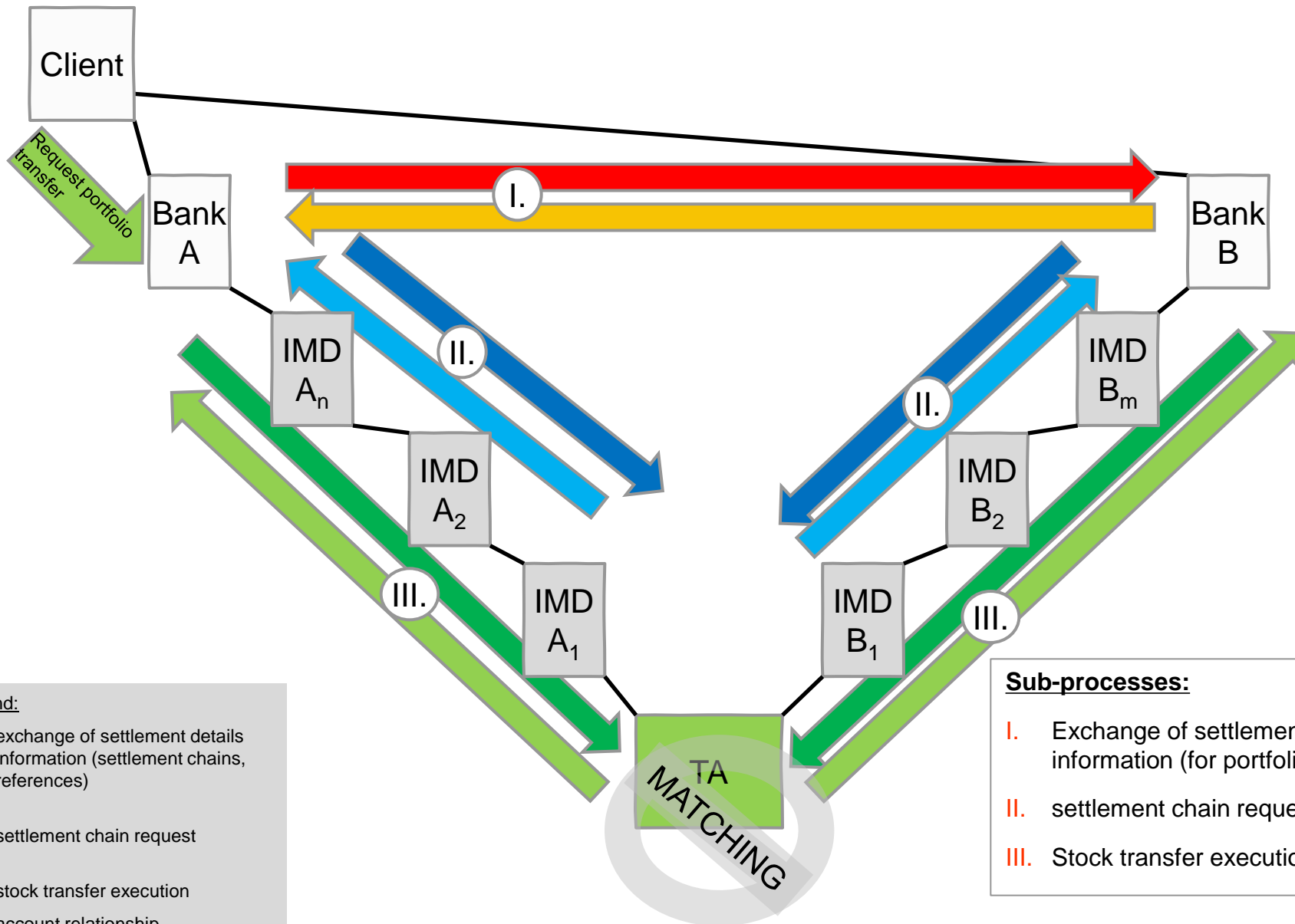
Chapter 2

Portfolio transfer business process (double leg variant)

Portfolio transfer business process

for discussion

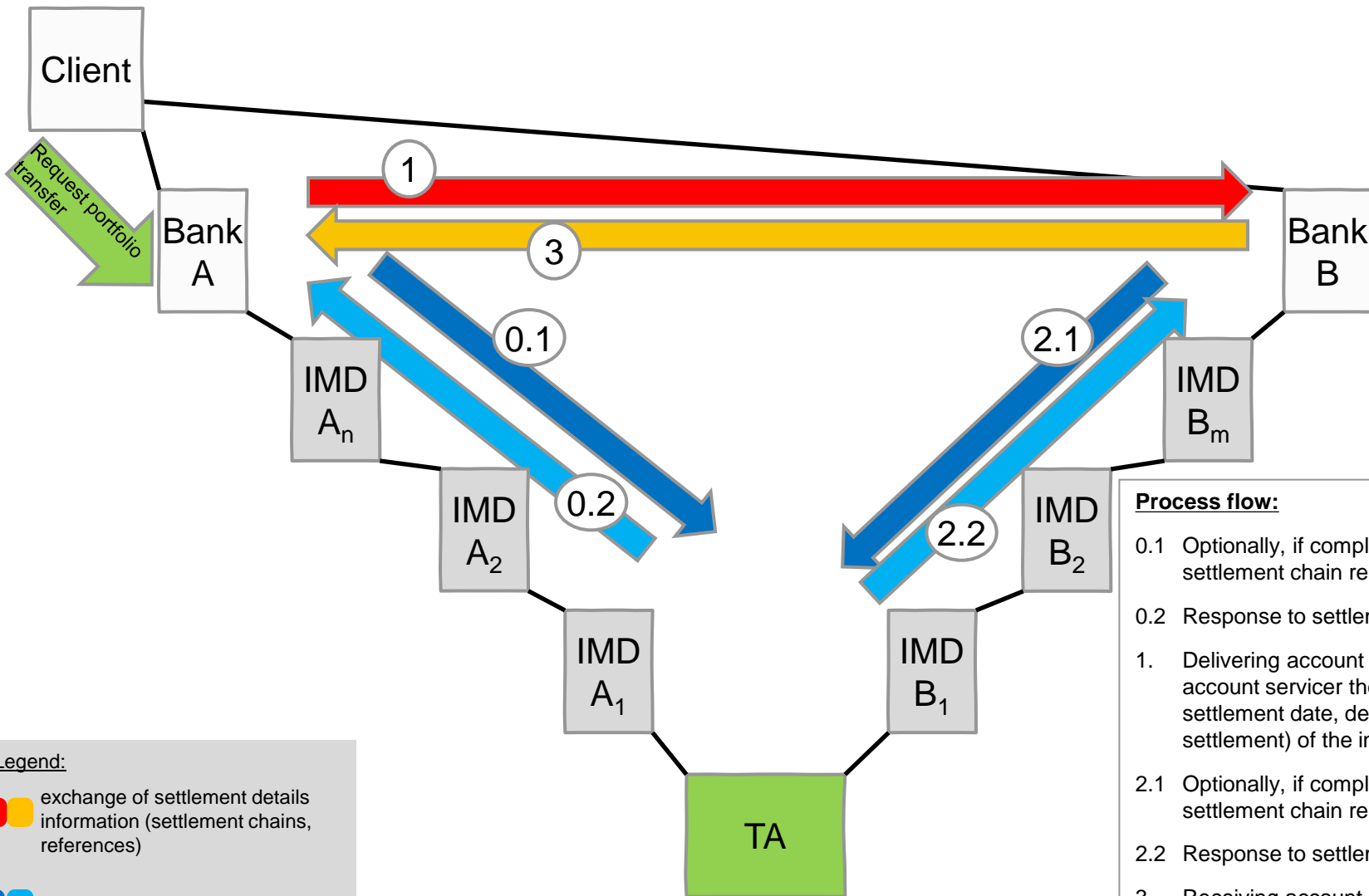
Sub-processes (double leg variant)



Portfolio transfer business process

for discussion

Sub-processes (double leg variant): step by step flow (1 of 2)



Process flow:

- 0.1 Optionally, if complete settlement details not known, settlement chain request (per ISIN)
- 0.2 Response to settlement chain request
- 1. Delivering account servicer provides to the receiving account servicer the settlement details (trade date, settlement date, delivering parties, and place of settlement) of the individual transfers
- 2.1 Optionally, if complete settlement details not known, settlement chain request (per ISIN)
- 2.2 Response to settlement chain request
- 3. Receiving account servicer provides to the delivering account servicer the settlement details (trade date, settlement date, delivering parties, and place of settlement) of the individual transfers

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Legend:

■ ■ exchange of settlement details information (settlement chains, references)

■ ■ settlement chain request

■ ■ stock transfer execution

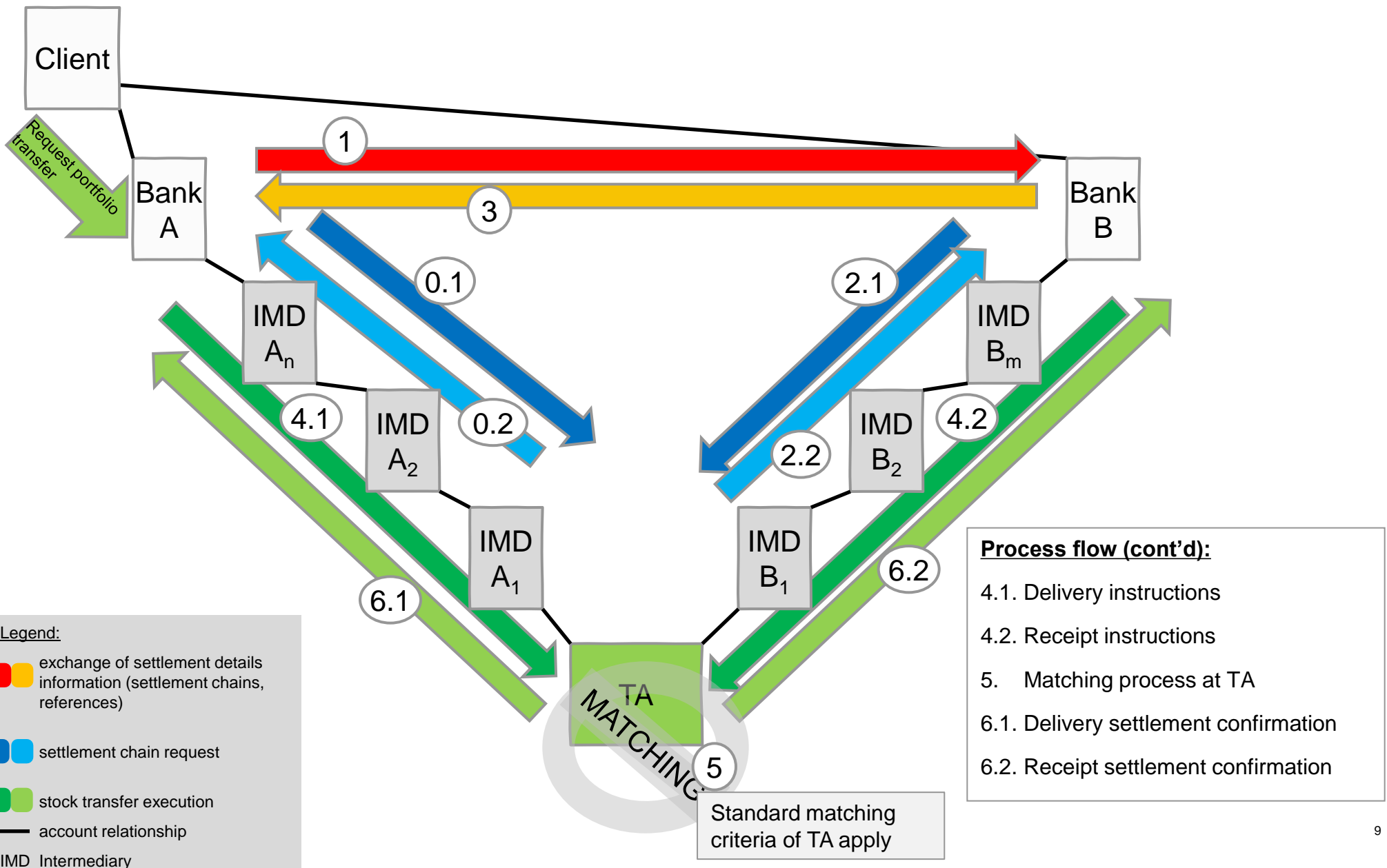
— account relationship

IMD Intermediary

Portfolio transfer business process

for discussion

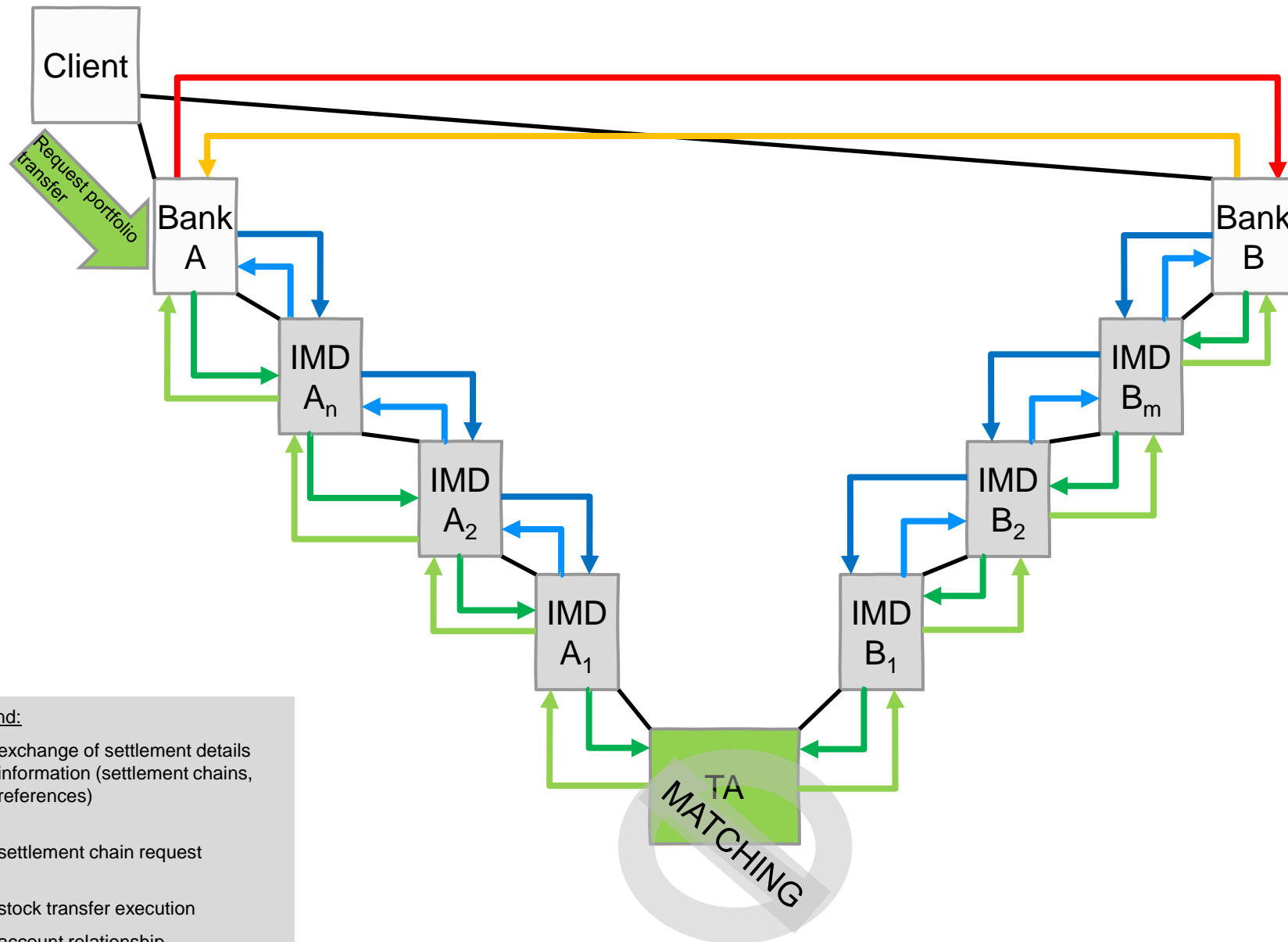
Sub-processes (double leg variant): step by step flow (2 of 2)



Portfolio transfer business process

for discussion

Overall picture (double leg variant)



for discussion

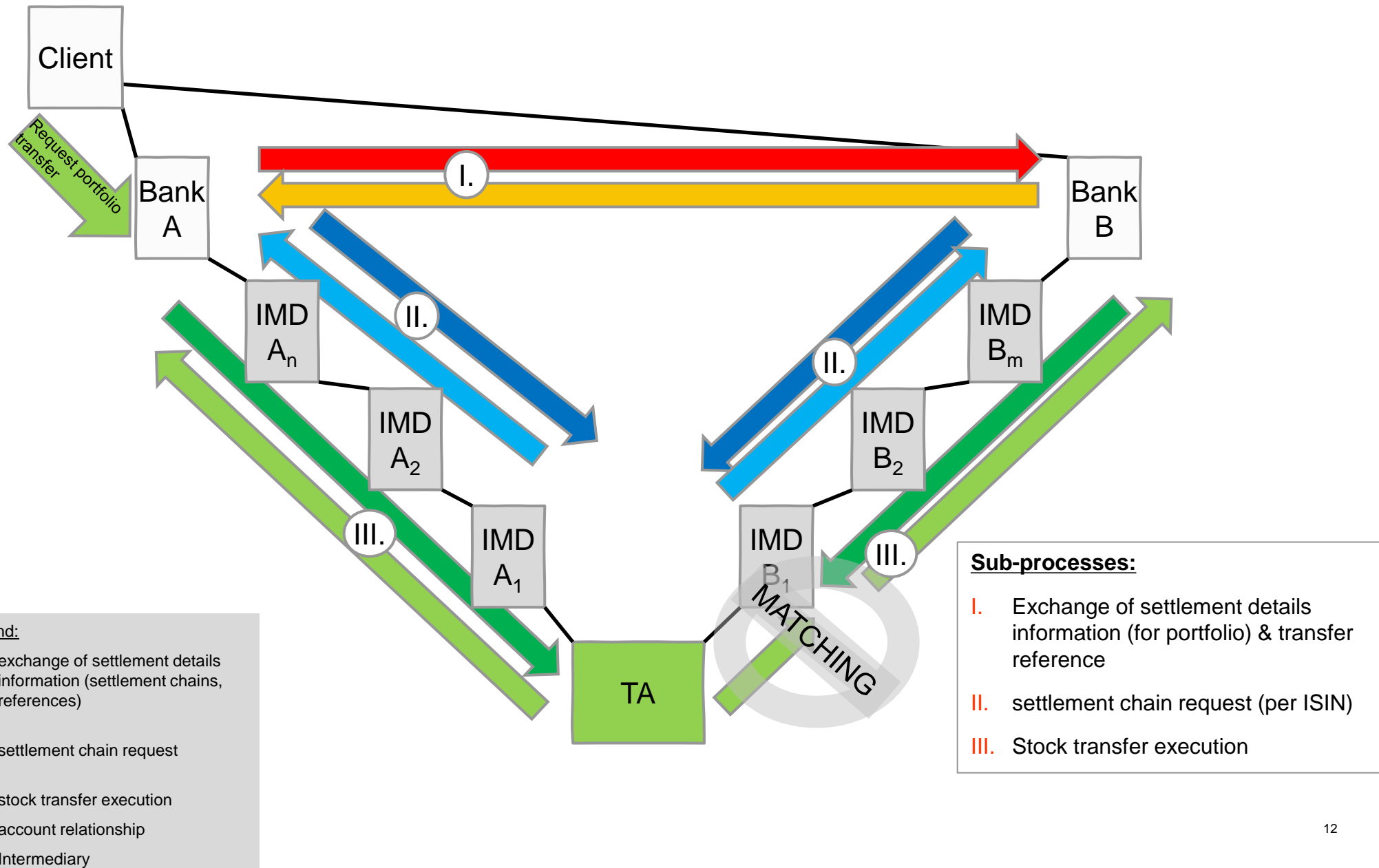
Chapter 3

Portfolio transfer business process (single leg variant)

Portfolio transfer business process

for discussion

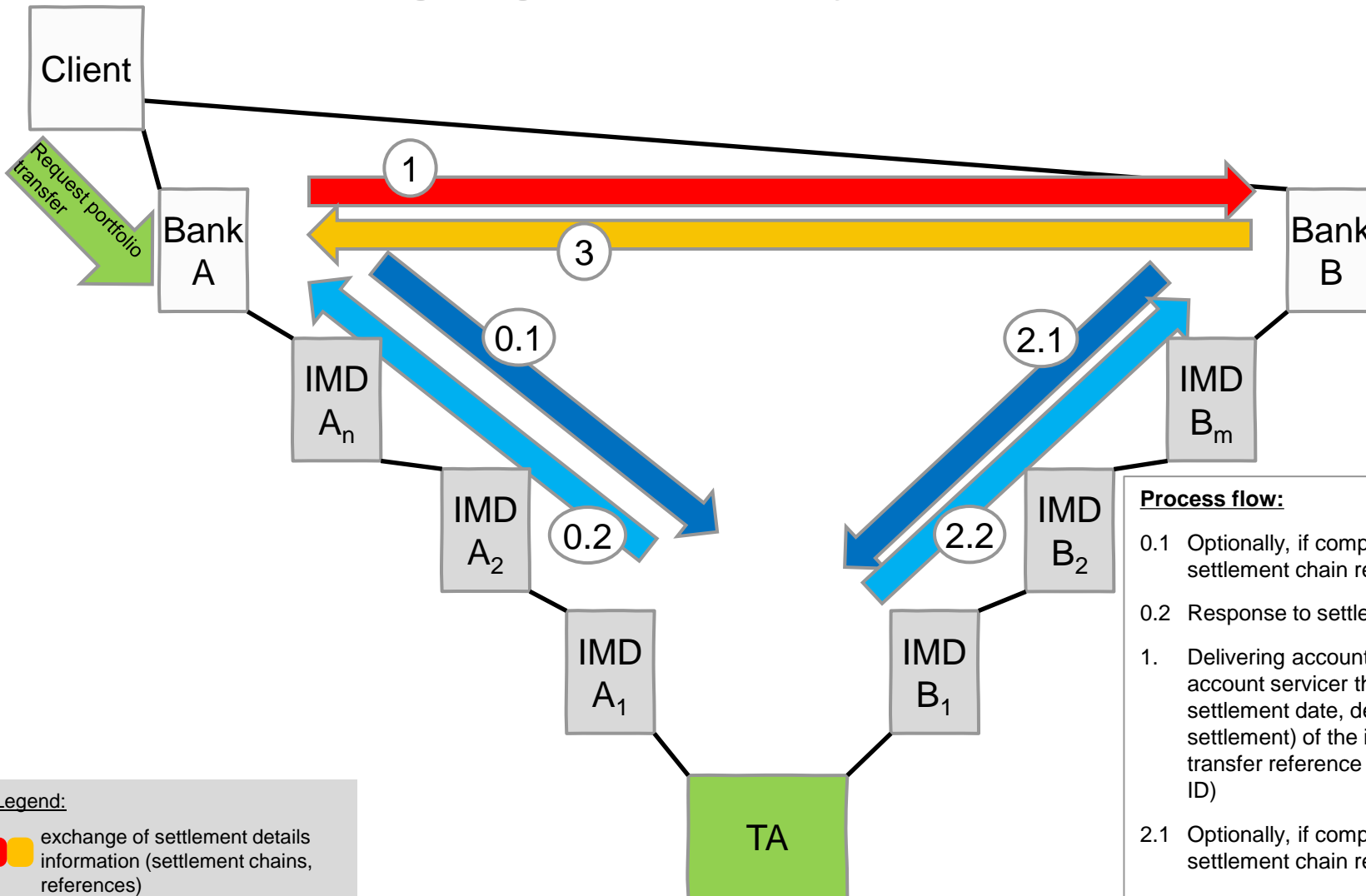
Sub-processes (single leg variant)



Portfolio transfer business process

for discussion

Sub-processes (single leg variant): step by step flow (1 of 2)



Process flow:

- 0.1 Optionally, if complete settlement details not known, settlement chain request (per ISIN)
- 0.2 Response to settlement chain request
- 1. Delivering account servicer provides to the receiving account servicer the settlement details (trade date, settlement date, delivering parties, and place of settlement) of the individual transfers plus a portfolio transfer reference with its BIC (as reference issuer ID)
- 2.1 Optionally, if complete settlement details not known, settlement chain request (per ISIN)
- 2.2 Response to settlement chain request
- 3. Receiving account servicer provides to the delivering account servicer the settlement details (trade date, settlement date, delivering parties, and place of settlement) of the individual transfers

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Legend:

■ ■ exchange of settlement details information (settlement chains, references)

■ ■ settlement chain request

■ ■ stock transfer execution

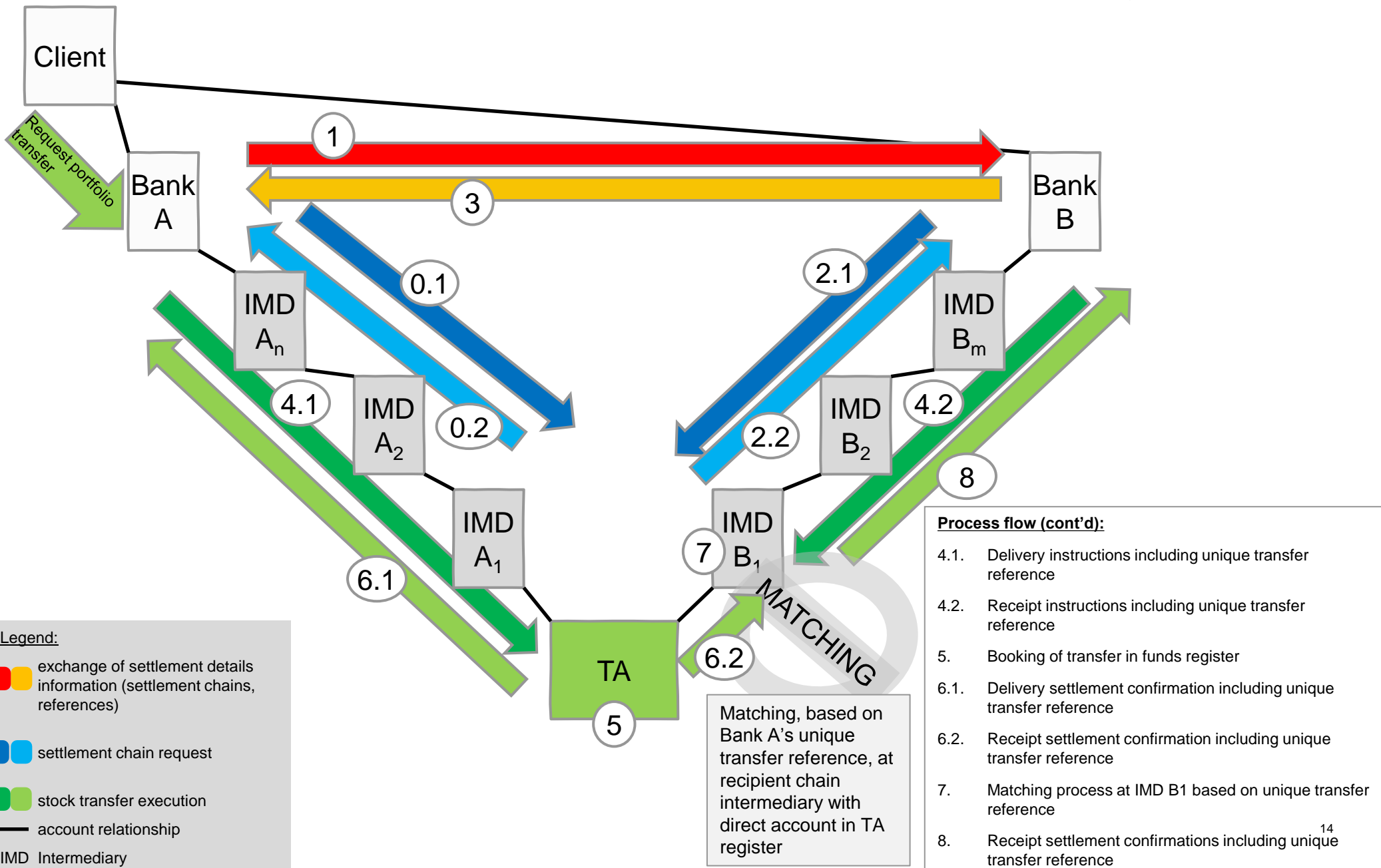
— account relationship

IMD Intermediary

Portfolio transfer business process

for discussion

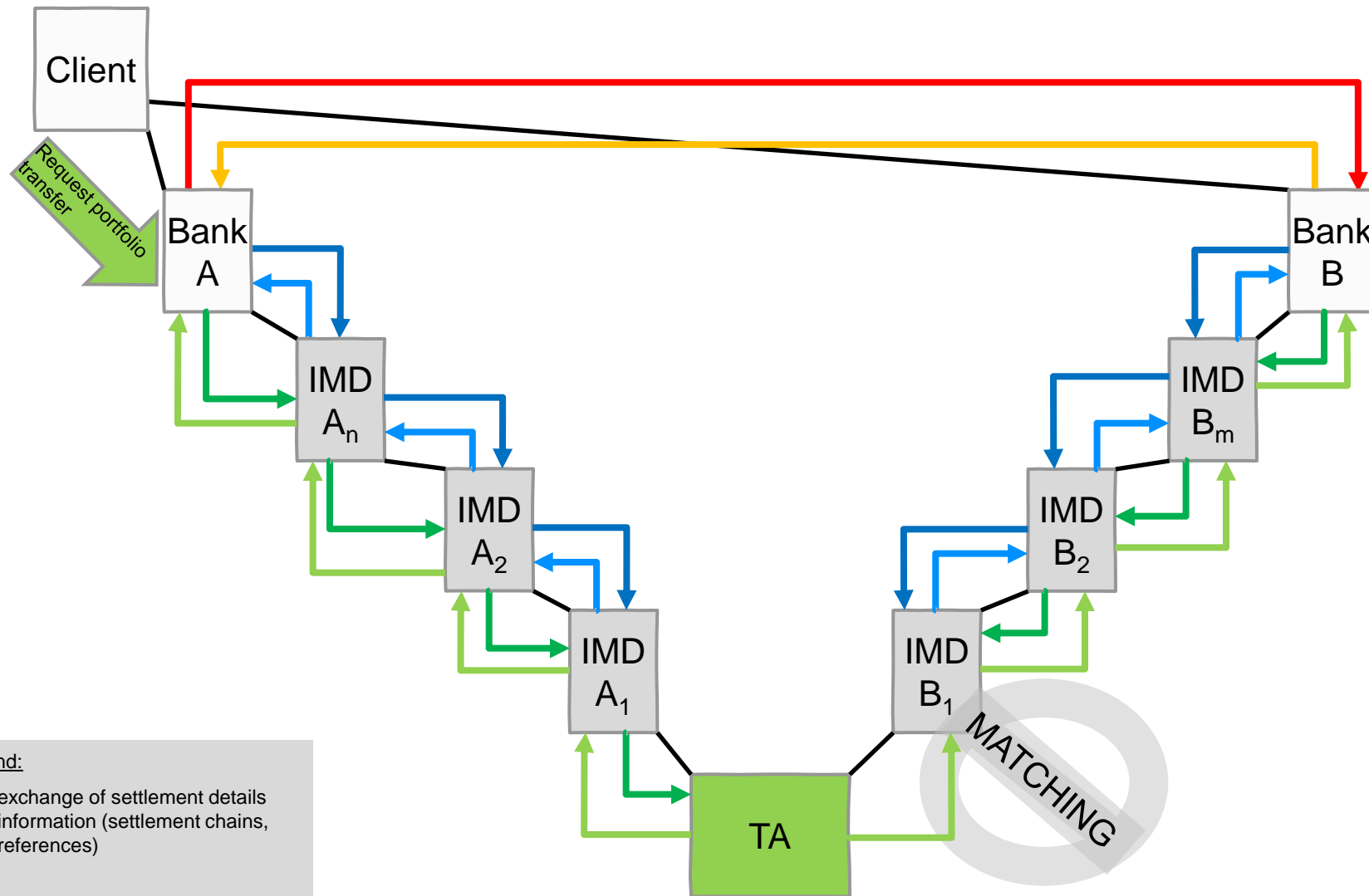
Sub-processes (single leg variant): step by step flow (2 of 2)



Portfolio transfer business process

for discussion

Overall picture (single leg variant)



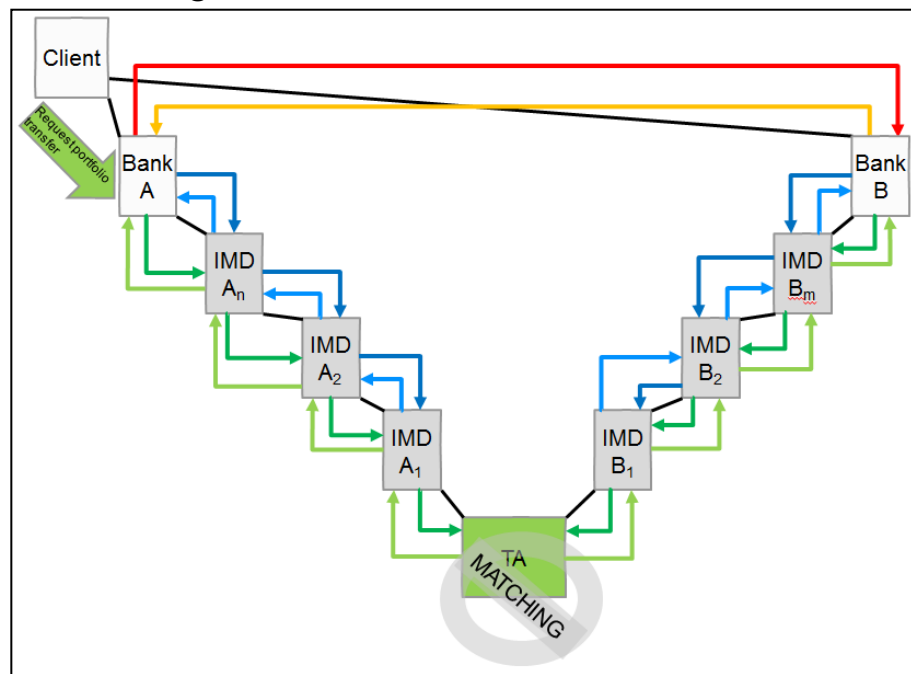
for discussion

Chapter 4

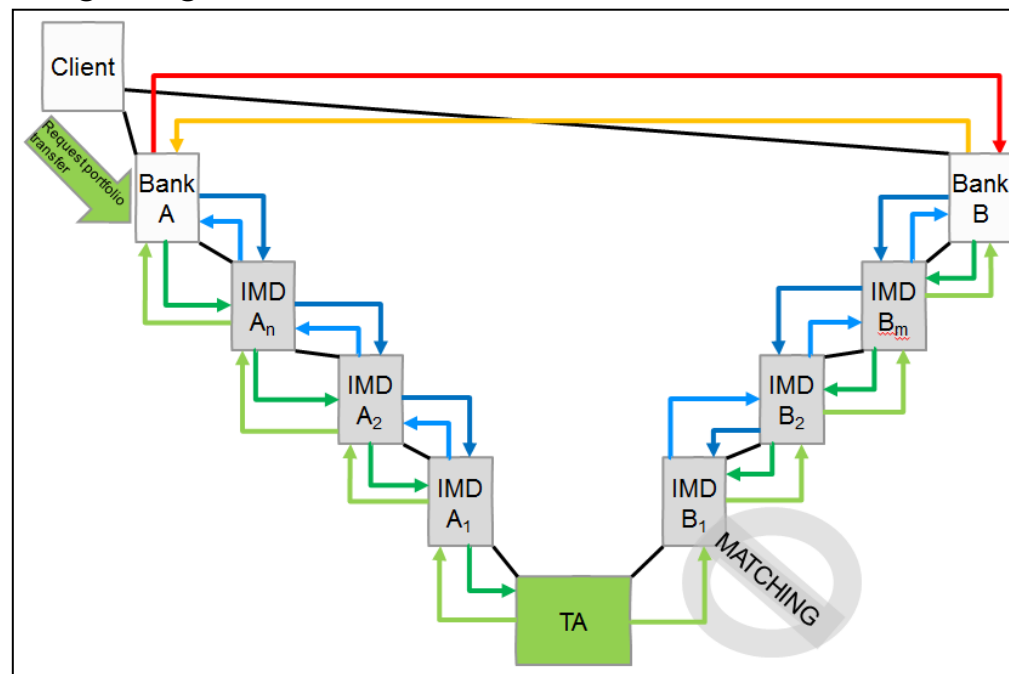
Recommended message sets

for discussion

Double leg flow



Single leg flow



MT586 Scope:

Sent with subfunction :23G::NEWM/PORT, it is used for the **exchange of settlement details information** during a retail or institutional **client portfolio transfer**. By exchange of settlement details, it is understood the providing, by the delivering account servicer to the receiving account servicer, of the settlement details (trade date, settlement date, delivering parties, and place of settlement) of the individual transfers that will take place during a full or partial portfolio transfer.

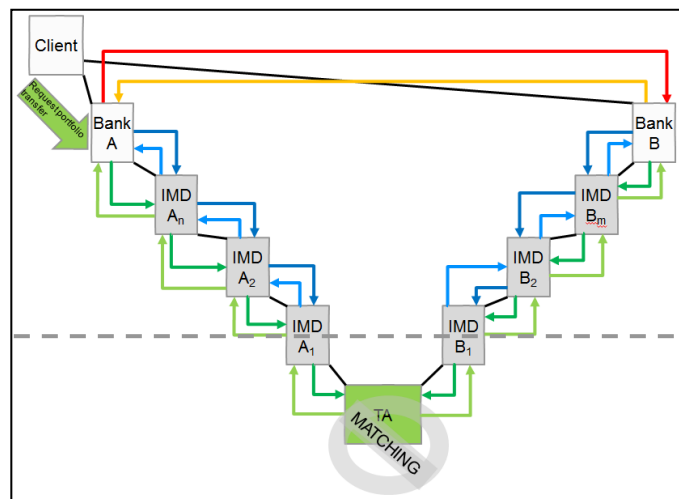
see next
slide!

Portfolio transfer business process

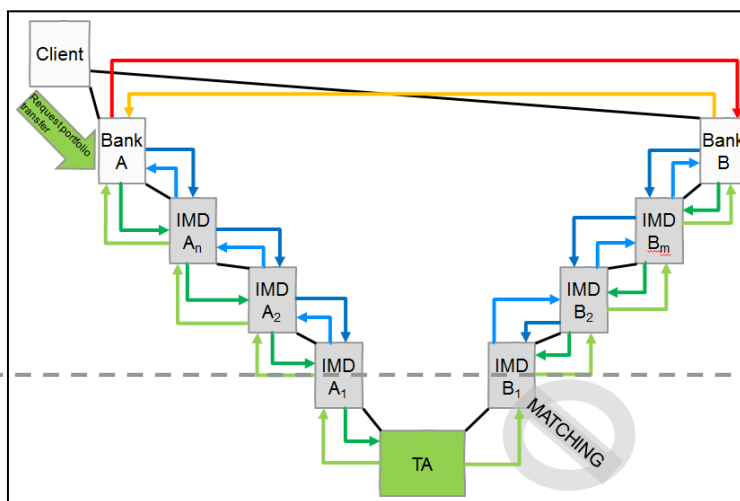
for discussion

Message standards (ISO 15022 vs ISO 20022)

Double leg flow



Single leg flow



Message sets

Preference for ISO 15022 messages (due to existing transfer processes which are independent of applicable asset types)

ISO 15022 and ISO 20022 capability (due to SWIFT MT-MX-migration)

Sub-process: stock transfer execution	Colour code	ISO 15022 messages	ISO 20022 messages
stock transfer execution		MT540 (Receive Free),	SecuritiesSettlementTransactionInstruction (sese.023) (RECE, FREE)
		MT542 (Deliver Free)	SecuritiesSettlementTransactionInstruction (sese.023) (DELI, FREE)
		MT544 (Receive Free Confirmation)	SecuritiesSettlementTransactionConfirmation (sese.025) (RECE, FREE)
		MT546 (Deliver Free Confirmation)	SecuritiesSettlementTransactionConfirmation (sese.025) (DELI, FREE)

Note:

This requires that, towards the TA, intermediaries IMD A₁ and IMD B₁ need to be able to support the message set required by the TA, i.e. mostly ISO 20022 and ISO 15022.

Thus, intermediaries IMD A₁ and IMD B₁ shield the settlement and custody chain from the individual message set and message standards, implemented at the various TAs.

for discussion

Chapter 5

Impacts

Comparison of double leg and single leg flows

Actors	Characteristics common to DLT and SLT flows	Characteristics particular to double leg flow	Characteristics particular to single leg flow
client	Request transfer of portfolio of funds holdings	N/A	N/A
Bank A	<ul style="list-style-type: none"> Identifying complete own settlement and custody chains Provision of own settlement and custody chains to Bank B Apply settlement chain for issuing of transfer instructions Apply custody chain for reconciliations of executed transfers 	Support of settlement and custody chains of sufficient depth	Create unique (portfolio) transfer ID (BIC + TX ID)
Bank B	<ul style="list-style-type: none"> Identifying complete own settlement and custody chains Provision of own settlement and custody chains to Bank A Apply settlement chain for issuing of transfer instructions Apply custody chain for reconciliations of executed transfers 	Support of settlement and custody chains of sufficient depth	Unique transfer reference to be supported
Intermediary chain A	<ul style="list-style-type: none"> Identifying complete own settlement and custody chains Apply settlement chain for issuing of transfer instructions Apply custody chain for reconciliations of executed transfers 	Support of settlement and custody chains of sufficient depth	Unique transfer reference to be supported
Intermediary chain B	<ul style="list-style-type: none"> Identifying complete own settlement and custody chains Apply settlement chain for issuing of transfer instructions Apply custody chain for reconciliations of executed transfers 	Support of settlement and custody chains of sufficient depth	Unique transfer reference to be supported
TA	<ul style="list-style-type: none"> Booking of transfer in funds register 	<ul style="list-style-type: none"> Support of settlement and custody chains of sufficient depth Match double leg transfer instructions 	Unique transfer reference to be supported
IMD B ₁	<ul style="list-style-type: none"> Identifying complete own settlement and custody chains Apply settlement chain for issuing of transfer instructions Apply custody chain for reconciliations of executed transfers 	Support of settlement and custody chains of sufficient depth	<ul style="list-style-type: none"> Ability to distinguish TAs with double leg processing and single leg processing Match instruction confirmation from TA with receipt instruction from upstream settlement chain

for discussion

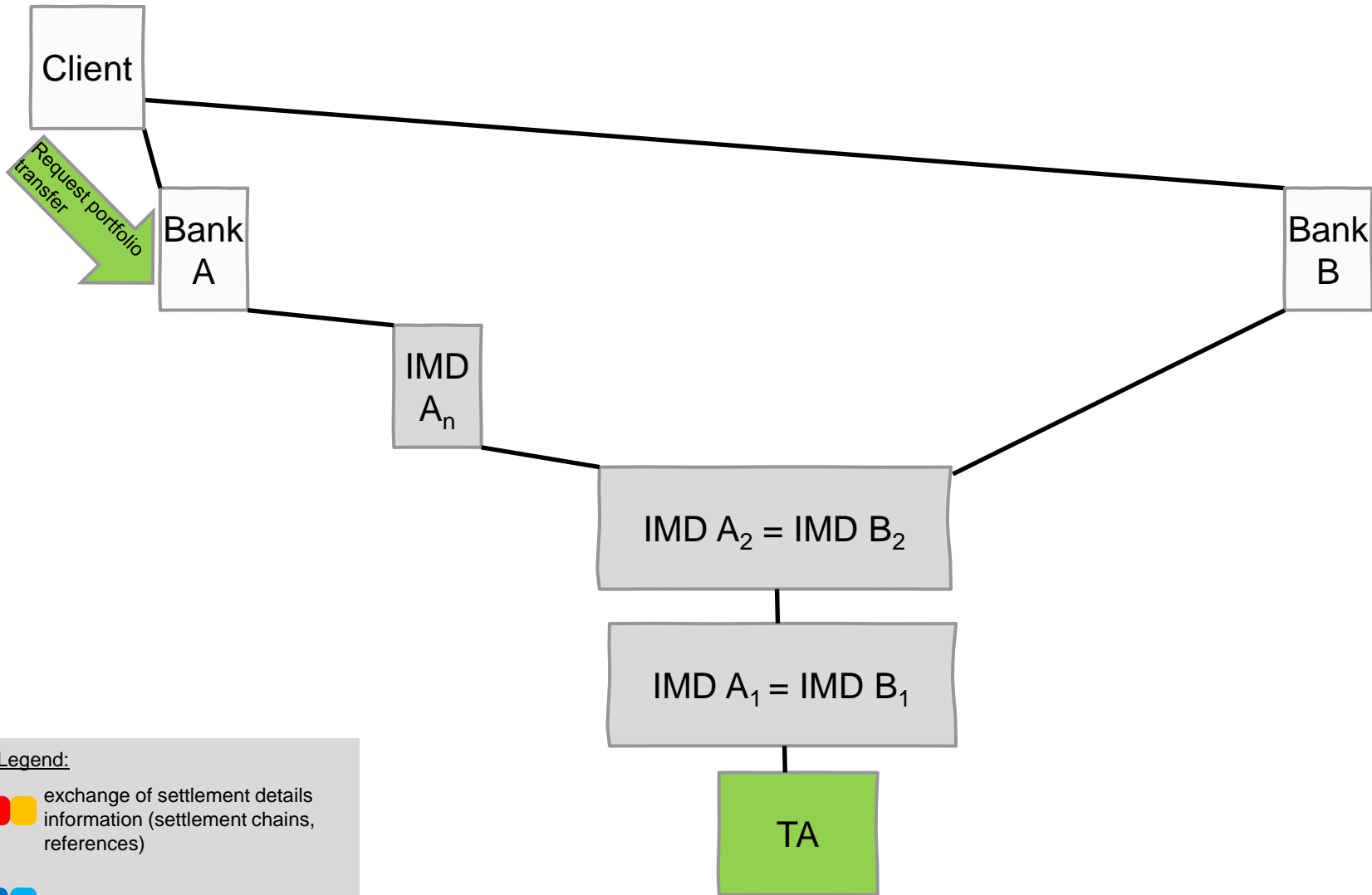
Chapter 6

Special cases

Special cases

for discussion

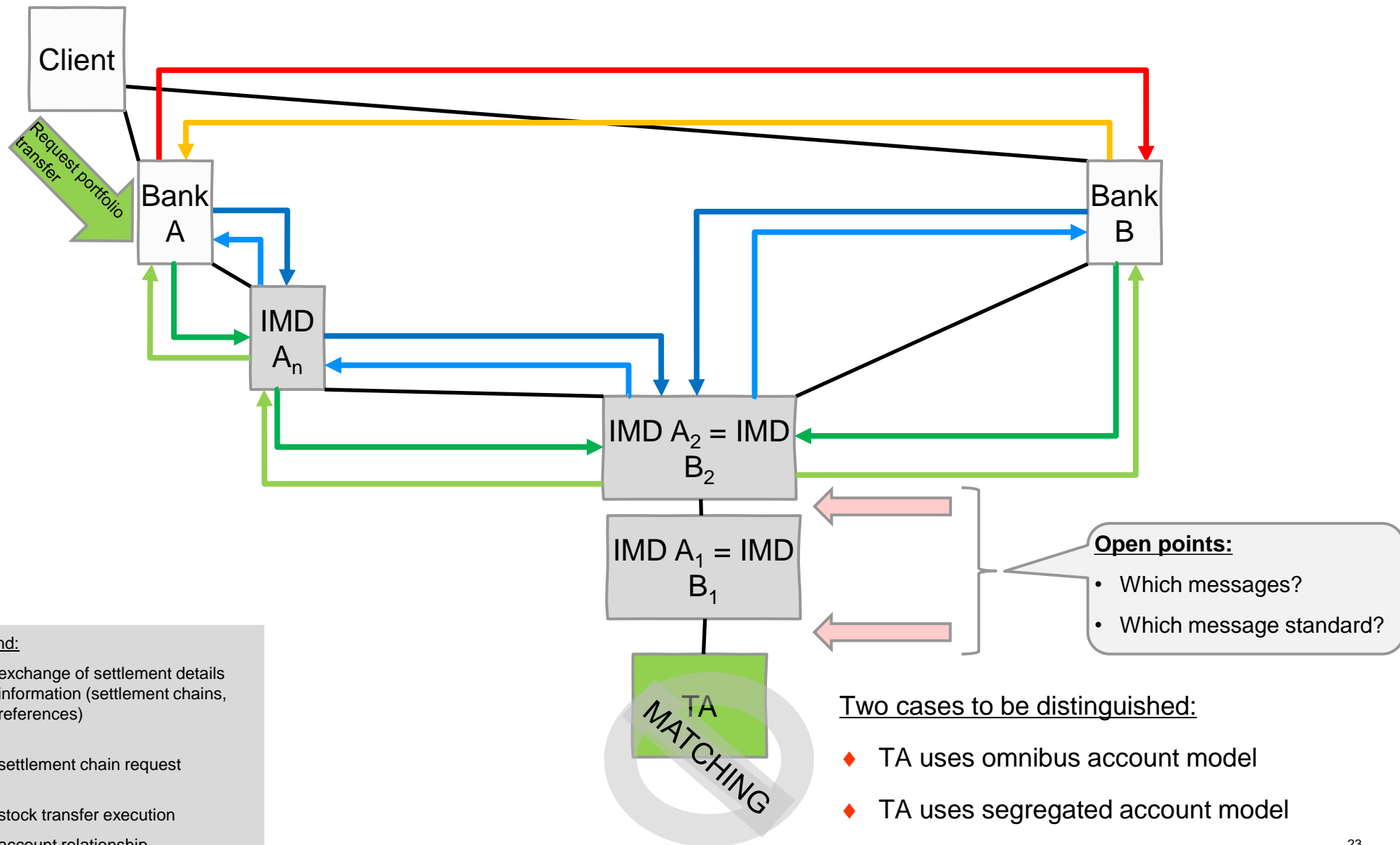
Joining settlement chains: account relationships and use case



Special cases

for discussion

Joining settlement chains: process flow



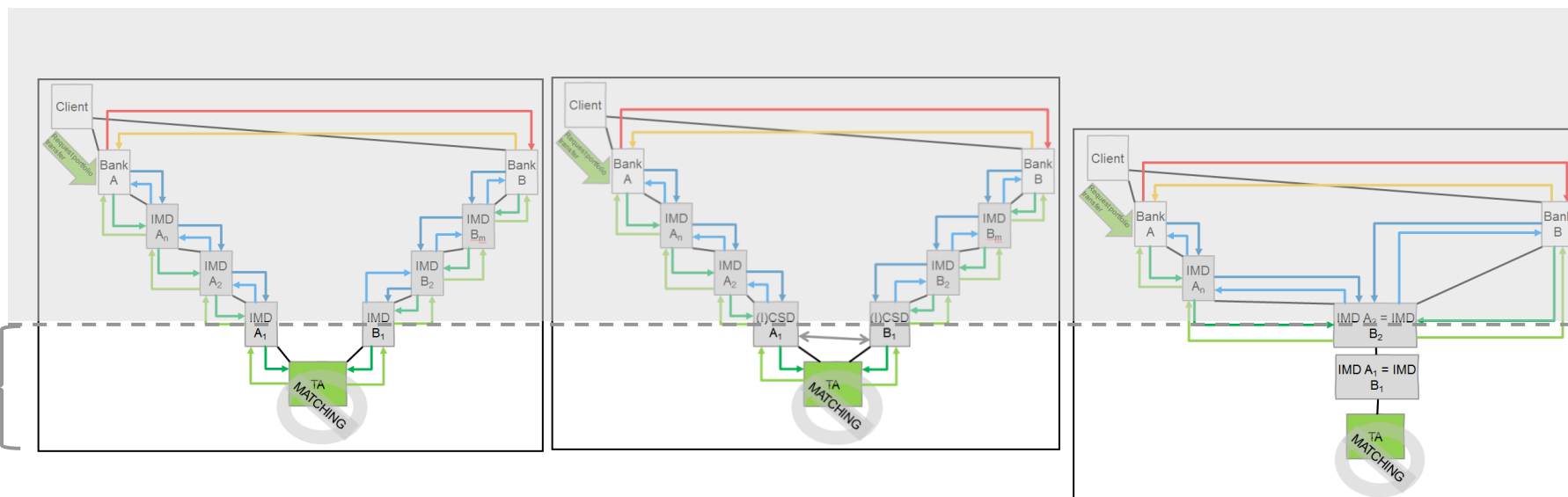
Note: double/single leg distinction is not applicable!

Special cases

for discussion

Settlement chains with (I)CSDs: flows between IMD A₁/IMD B₁ to TA

Focus:
(I)CSD to TA
flows



Case 1:
both chains end in TA

- double leg process
- single leg process

Case 2:
both chains end in different
(I)CSDs

local market practice or specific
market guide determines (I)CSD-
to-TA process

May differentiate omnibus
account model and segregated
account model

Case 3:
both chains end in same
(I)CSD

local market practice or specific
market guide determines
(I)CSD-to-TA process

May differentiate omnibus
account model and segregated
account model

for discussion

Chapter 7

Open points

Topics for review (open points and possible answers)

1. Single portfolio transfer message for multiple ISINs vs multiple transfers messages:
It is assumed that a client requests the transfer of a portfolio of multiple ISINs. Is it required that the bank of the client (Bank A) implements the portfolio transfer request of its client through a single (portfolio) message with multiple ISINs or through multiple messages with individual ISINs?
 - a) The preferred mechanisms as per the MT 586 consists in accommodating multiple ISINs in a single message (MT 586).
2. Can this portfolio transfer process be sufficiently generic to cater for any asset types, i.e. not only investment funds?
 - a) As the single/double leg distinction is only relevant in case of investment funds instruments, it is assumed that the overall process can be applied to any instrument types.
3. What is required to make this process also work for set-ups where not every actor involved is able to exchange electronic messages?
4. If a portfolio of multiple ISINs is implemented, can the portfolio transfer ID be used for the transfer of each ISIN in the portfolio or, alternatively, would an additional unique ID per ISIN be needed?
 - a) It is assumed that it is preferable to use one transfer reference per ISIN.
 - b) It is assumed that a portfolio transfer ID for all ISINs in the portfolio (<transfer ID><ISIN> is unique) could be used. However, it is expected that this combination is more error-prone.
 - c) The MT 586 supports both a portfolio ID and per-ISIN-IDs.
5. Is a single unique (portfolio) transfer ID (issued by Bank A) sufficient or would two distinct unique (portfolio) transfer IDs of Bank A and Bank B, respectively, be required?
 - a) It is assumed that two references ('our reference', 'your reference') are preferable.
6. In order to compile the settlement and custody chains downstream from Bank A/B along the chain to the TA, which message set should be employed?
 - a) It is assumed that this should be an ISO 15022 message, as the process needs to be applied to transfers for any asset types.
7. In the communication between IMD A₁/IMD B₁ and the TA, for TAs only supporting ISO 20022 messages, which ISO 20022 message set would be preferable, the IF-specific ISO 20022 message set or the generic S&R ISO 20022 messages set?
 - a) It is assumed that the generic ISO 20022 messages, amongst others used in the framework of T2S, are preferable, as they can be applied for any asset types whereas the IF-specific messages (e.g. sese.001 (TransferOutInstructionV05)) can only be applied to investment funds ISINs.
8. Are there any requirements regarding the timing of (message) flows?
 - a) It is assumed that, in particular in the case of the single leg process, it is important that a transfer market practice provides a well-defined timeline for the overall process. For instance, in the single leg process, it may be that IMD B₁ receives from the TA a receipt confirmation before having received through its own settlement chain the corresponding receipt instruction.
9. In case the settlement chains A and B join at an intermediary upstream from the TA or if one or several (I)CSDs are involved in the settlement chain, what process, if any, is required to update the intermediaries downstream to and including the TA?
 - a) See separate earlier slide.

for discussion

<thank you> For your attention! </thank you>

<enjoy> Portfolio transfers </enjoy>



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