SETTLEMENT & RECONCILIATION
STANDARDS (ISO15022)

DP: MARKET PRACTICE
FOR MiFIR Art.26

Status:	DRAFT
Preparation date:	September 2016
Update date:	--
Update. Impl. date:	
Author:	Dominic Witzel, dwpbank AG

S&R Market Practice

For internal use only

For internal use only

Changes to previous versions			
Version 0.1 September 2016	new		

I. Introduction

Upcoming regulations such as MIFIR, MiFID II and Securities Financing have to be enforced in the next few months.

MiFID II will impose requirements on post-trade reporting for financial instruments, including a requirement for real time position reporting, according to Art. 26 MIFIR. In order to comply with the regulation, both investors and counterparties are required to report details of the trade to the national competent authority. Reporting data can be included in the trade initiation and confirmation, settlement and reconciliation, and even corporate action messages.

The EU regulators have defined a set of data fields that must be submitted to the national competent authority for applicable trade activities under Art. 26 of MIFIR. Most of these data fields are already carried in the relevant SWIFT messages, others are not. Some of these new data fields will become a required part of the trade confirmation process. Other data fields are less likely to be relevant to trade confirmation, but may nevertheless be required as part of the trade reporting process.

To cover the needs of EMIR and MiFID II, two ISO 20022 Financial Instruments and Transactions Regulatory Reporting message sets were submitted by the European Securities and Markets Authority (ESMA) to the evaluation of the ISO 20022 Securities SEG and Derivatives SubSEG.

II. Scope

This discussion paper (DP) is focussing on the needs for Art.26 post-trade reporting for MiFIR within settlement and reconciliation messages.

A. Of the Regulation

In general, Regulation (EU) No. 600/2014 (MiFIR) mandates all acquisitions or disposals that result in a change of ownership to be considered as reportable transactions for the purpose of the post-trade transparency regime under Article 26.

According to MiFIR 26(1) of Regulation (EU) No 600/2014, investment firms which execute transactions in financial instruments shall report complete and accurate details of such transactions to the competent authority as quickly as possible, and no later than the close of the following working day.

B. Of this document

Subjects covered in this discussion paper are the following

Matching (DVP or FOP) trades: Client to Account servicer, Account servicer to NCSD

Non-Matching FOP trades ("Dumps") : NSCD to Account servicer

III. Business context

Many organisations will be utilising the existing MTs to collect the information needed to prepare their trade reporting messages and comply with the regulatory reporting requirements.

A. Reporting Indicator

The existing MT54x trade settlement instruction messages currently contain a field 22F::RPOR// qualifier within Seq. B Trade Details that allows for an instruction to be identified for trade reporting to a regulator.

Existing codes might be used to reflect the reporting status of the transaction.

TRRE	Trade Details Reported	Trade details are to be reported to a regulatory organization. This regulatory organization could be identified in the Other Parties sequence
EXCH	Stock exchange	Trade details are to be reported to a stock exchange. This stock exchange is identified in the Other Parties sequence
DEFR	Deferred Report	The report is deferred, for example, because the order was executed in partial fills

B. Beneficial Ownership Override Indicator

The existing MT54x trade settlement instruction messages currently contain a field :22F::BENE// qualifier within Seq. E Settlement Details that allows for a trade instruction to be identified whether a change in the beneficial ownership occurs, or not.

Existing codes might be used to reflect the beneficial status of the transaction.

NBEN	NCBO	No Change of Beneficial Ownership
YBEN	CBO	Change of Beneficial Ownership.

C. <u>Legal Entity Identifier (LEI)</u>

As part of the requirement to report derivatives to trade repositories, the LEI was included in the securities messages for SR2016.

Therefore a new option format for qualifier ALTE was created, limited to the settlement instruction, status advice, confirmation, allegement notification and related reporting messages.

Paramount to the LEI implementation across the different business areas was to prevent institutions from working in silos on their own solutions and therefore having a variety of solutions co-existing.

The BIS – Committee on Payments and Market Infrastructures (CPMI) published a technical report on usage of LEI in correspondent banking and payments messages. The PMPG has produced an information paper to open the dialogue in the community and prepare a common market practice, the market practice will be available by Sibos 2017 and distributed to the NMG.

IV. <u>Business Analysis</u>

This analysis is focusing on Settlement instructions MT 540-43, confirmations MT544-47 and allegement notifications. Resulting Statements (MT536, MT537) are not part of this analysis, but nevertheless have to be adjusted, too. Excluded are status messages, where that information might be unnecessary.

A. <u>Observations</u>

<u>Observation 1:</u> The reporting obligation under Art. 26 (1) of MiFIR refers also to instructions FOP (MT 540,542), which are exercised not based on a trade (i.e. depot transfers), whenever a change in the beneficial ownership occurs.

<u>Observation 2:</u> Observation 1 is also valid for Dumps (MT544), which are possible in some markets, e.g. Germany (FOP passive matching),..

<u>Observation 3:</u> The two standard procedures for matching FOP instructions in retail business are:

 a. Input of matching instructions on basis of advices sent by counterparties, or

 b. Using allegement notifications MT578 provided by market infrastructures, generated out of MT542 from counterparties.

While information about the beneficial ownership could be added to the advice (which is processed manually), this data currently are not part of the standard instruction as per today. Without any change in the market practice, receiving counterparties will not be able to decide, whether those transfers are relevant for reporting, or not.

<u>Observation 4:</u> Service providers, which fulfill reporting obligations on behalf of their clients, have no valid criterion to distinct, whether an instruction provided by clients has to be reported, or not. This refers to instructions DVP/RVP (MT 541,543) as well as FOP (MT 540,542). A

For internal use only

differentiation, whether a reporting has to be done, or not, is required for the above and might be useful in the instruction processing between counterparties as well.

Observation 5: The client shall be reported as the buyer/seller rather than any custodian/nominee that may hold the legal title.

Observation 6: If eligible, both LEI of the Investor and the counterparty will be mandatory in the reporting messages regime of Article 26 MiFIR.

B. **Discussion/Proposals**

The following bullet points contain proposals on how to derive the needed data from instruction messages, allegement notifications or their respective confirmations.

Other, asynchronous processes to derive those data are not subject this analysis.

1. Reporting Indicator

The following proposal refers to messaging from the clients to an account servicer.

a. *Proposal:*

Usage of the reporting indicator for all MT Types (MT 540-543) identifies the need for trade reporting to a regulator.

➔ If the indicator RPOR is provided with code TPRE in an instruction, the instruction is to be reported by the account servicer.

➔ If the indicator RPOR is provided with code DEFR in an instruction, the underlying transaction is to be reported (by the client), the resulting instruction should (must) not be reported.

➔ If the indicator RPOR is not provided in an instruction, the instruction is not reportable.

b. *Discussion:*

In our opinion this proposal could be accomplished by service level agreements. Nonetheless there might be a necessity to provide that information in messages for market infrastructures.

The terminology of the code DEFR as proposed would need clarification. It might be more precise to define a new code ('OMIT')

OMIT   Omitted Report   The report is omitted, for example, because reporting is done separately.

2. Beneficial Ownership Indicator

The following proposal refers to the market side of messaging from an account servicer to a counterparty through a market infrastructure and also to the client of messaging from a client to an account servicer.

If information on the ownership will not be provided, approximately 60% of the depot transfers will be reported to the regulators unnecessarily and will be cancelled afterwards. This will not meet reporting standards, causing unnecessary reporting message traffic.

a. *Proposal:*

The information of the beneficial ownership (NBEN/YBEN) should be included in all FOP messages (MT540, MT542) as well as in their resulting confirmations (MT 544, 546) and in allegement notifications (MT578).

b. *Discussion:*

With this indication, messages containing the information 'NBEN' could systematically be excluded from reporting workflows.

An option could be the interpretation of the reporting indicator:

➔ Usage of B:22F::RPOR// could be defined as a change in the beneficial ownership (='YBEN'), rendering the Indicator E:22F::BENE// obsolete.

3. LEI

 As there will be a proposal by PMPG to the NMG's (see III c) to prepare a common market practice (*only for payment messages?),* the proposal in this document might be redundant.

a. *Proposal:*

Both LEI of the Investor and its' counterparty will be mandatory in the reporting messages in MiFIR, so both should be included in the regarding messages.

MT540-543

> a) To report the LEI of the own investor it should be addressed in Sequence C, Generic repetitive Field 'Place' with the (to the mandatory Qualifier SAFE) added Qualifier ALTE, Option L
>
> b) To report the counterparty LEI it should be addressed in Sequence E1, Generic Field Name 'Party', Qualifier ALTE, Option L

b. *Discussion:*

The LEI of direct market customers could also be provided by the NCSD customer static data itself (e.g. clearstream banking, Frankfurt 'Kusta').

For internal use only

V. ISO 15022 Business Elements

Some amendments have to be made to the descriptions of the business elements in the ISO 15022 UHB (highlighted in green) later on.

A. Reporting Indicator

As per today, the required element does not exist in allegement messages MT 578

a. **MT540: (33) Field 22F: Indicator**

b. **MT541: (33) Field 22F: Indicator**

c. **MT542: (33) Field 22F: Indicator**

d. **MT543: (33) Field 22F: Indicator**

4. FORMAT

Option F   :4!c/[8c]/4!c   (Qualifier)(Data Source Scheme)(Indicator)

5. PRESENCE

Optional in mandatory sequence B

6. QUALIFIER

(Error code(s): T89)

Order	M/O	Qualifier	R/N	CR	Options	Qualifier Description
…						
2	O	RPOR	R		F	Reporting Indicator
…						

7. DEFINITION

This qualified generic field specifies:

… …. …

RPOR   Reporting   Indicates information with regards to reporting.
                    Indicator

For internal use only

8. CODES

If Qualifier is RPOR and Data Source Scheme is not present, Indicator must contain one of the following codes:

DEFR   Deferred Report   The report is deferred, for example, because the order was executed in partial fills.

EXCH   Stock Exchange   Trade details are to be reported to a stock exchange. This stock exchange is identified in the Other Parties sequence.

OMIT   Omitted Report   The report is omitted, for example, because reporting is done separately. (see IV B.1)

TRRE   Trade Details Reported   Trade details are to be reported to a regulatory organization. This regulatory organisation is identified in the Other Parties sequence.

9. USAGE RULES

For Qualifier RPOR, the use of the codes is governed by the existence of market practice rules.

B. Beneficial Ownership (Override) Indicator

a. *MT540: (63) Field 22F: Indicator*

b. *MT541: (63) Field 22F: Indicator*

c. *MT542: (63) Field 22F: Indicator*

d. *MT543: (63) Field 22F: Indicator*

e. *MT578: (57) Field 22F: Indicator*

1. FORMAT

Option F   :4!c/[8c]/4!c   (Qualifier)(Data Source Scheme)(Indicator)

2. PRESENCE

Mandatory in mandatory sequence E

3. QUALIFIER

…

Order	M/O	Qualifier	R/N	CR	Options	Qualifier Description
…						
7 (6)	O	BENE	N		F	Beneficial Ownership Indicator

4. DEFINITION

This qualified generic field specifies:

BENE	Beneficial Ownership Indicator	Specifies whether there is change of beneficial ownership.

5. CODES

If Qualifier is BENE and Data Source Scheme is not present, Indicator must contain one of the following codes:

NBEN   NCBO   No Change of Beneficial Ownership (NCBO). If a standing instruction is in place for change of beneficial ownership (CBO), then this standing instruction is to be ignored.

YBEN   CBO   Change of Beneficial Ownership (CBO). If a standing instruction is in place for no change of beneficial ownership (NCBO), then this standing instruction is to be ignored.

6. USAGE RULES

(a-d) The conditions of the use of the codes for the qualifiers BENE, CASY, CCPT, COLA, COLE, BLOC, DBNM, FXCX, LEOG, NETT, REGT, REPT, RTGS, RTRN, SETS, STCO, and TRAK must be pre-agreed between account owner and account servicer.

(e) The conditions of the use of the codes for the qualifiers BENE, CASY, REGT, REPT, RTGS and STCO must be pre-agreed between account owner and account.

(a-e) The use of settlement transaction type code BENE is governed by the existence of market practice rules.

C. Legal Entity Identifier (LEI) in Field (44) 94a: Place: Place of Safekeeping

1. Format

Option L   :4!c//18!c2!n   (Qualifier)(Legal Entity Identifier)

2. Presence

Optional in mandatory sequence C

3. Qualifier

Order	M/O	Qualifier	R/N	CR	Options	Qualifier Description
1	O	SAFE	R	C16	B, C, F, or L	Place of Safekeeping

4. Definition

This qualified generic field specifies:

SAFE	Place of Safekeeping	Location where the financial instruments are/will be kept.

D. Legal Entity Identifier (LEI) in Field (65) 95a: Party

1. FORMAT

…

Option L   4!c//18!c2!n

      (Qualifier) (Legal Entity Identifier)

2. PRESENCE

Optional in mandatory subsequence E1

3. QUALIFIER

(Error code(s): T89)

Order	M/O	Qualifier	R/	CR	Options	Qualifier Description

Order	M/O	Qualifier	R/	CR	Options	Qualifier Description
1	M	BUYR	N	C5, C7, C11	P, Q, or R	Buyer
….						
2	O	ALTE	**R**		S, **L**	Alternate ID

4. <u>Definition</u>

This qualified generic field specifies:

ALTE	Alternate ID	Alternate identification for a party.

VI. **<u>ISO 20022 Illustrations</u>**

To be added