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### I. Settlement and Reconciliation – Agenda

#### Tuesday 10<sup>th</sup> of March – BELGIAN TIME - WEBEX

<b>10:00 – 12:00</b>	<ul style="list-style-type: none"> <li>- Welcome and tour the table Marcin</li> <li>- Co-chair election Alex</li> <li>- Readiness to migrate securities to ISO20022 (follow the note of Ami-Seco) Axelle</li> </ul>
<b>13:00 – 16:00</b>	<ul style="list-style-type: none"> <li>- MP review Marcin/ MP sponsors</li> <li>- CSDR – MP scenarii All</li> <li>- CSDR – Penalties MP - daily scenario CSD</li> <li>- CSDR – Penalties MP - monthly scenario CSD</li> </ul>

#### Wednesday 11<sup>th</sup> of March – BELGIAN TIME - WEBEX

<b>10:00 – 12:00</b>	<ul style="list-style-type: none"> <li>- Unmatched pending failed from T2S, should we make a CR towards T2S of removing this again as we consider it as an error? Is it made from SMPG side or should VP progress with it ?</li> <li>- UTI Counterpart ref. in MT548 and Sese.024, any comments. Does SMPG agree on this if we progress and create a CR.</li> <li>- Partial release MP - transaction processing command MT530/sese.030</li> </ul>
<b>13:00 – 15:30</b>	<ul style="list-style-type: none"> <li>- CSDR – Penalties MP - update scenario CSD</li> <li>- CSDR – Penalties MP - payment / collection CSD</li> </ul>

#### Thursday 12<sup>th</sup> of September – BELGIAN TIME - WEBEX

<b>09:00 – 12:00</b>	<ul style="list-style-type: none"> <li>- CSDR – Buy- in MP - MT 530</li> <li>- CSDR – buy-in MP - internalised settlement</li> <li>- Wrap-up, conclusion, next steps</li> </ul>
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# Securities Market Practice Group

## Johannesburg Meeting 10 to 12 March 2020 - Minutes



Tuesday 10<sup>th</sup> of March

### Welcome address

The meeting was conducted as a teleconference over Webex due to travel restrictions related to COVID-19 situation affecting most of the members.

Participants were grateful for the efforts the hosts in South Africa with Brett Kotze put into organization of the event. Their flexibility and understanding of the extraordinary situation was highly appreciated.

Co-chairs thanked SWIFT facilitators: Alex and Paul, for providing technical infrastructure for the sessions and preparing the agenda accordingly.

The agenda was shaped into multiple sessions lasting two and a half days.

### Co-chair election

Congratulations to Marcin Zawistowski who was re-elected for the 2 years term as SMPG S&R working group co-chair with no objection.

### Readiness to migrate securities to ISO20022

Axelle made an introduction, presenting the key factors and latest initiatives that could drive a change in securities space. First is the start of ISO20022 migration in payments. With the aim to finish co-existence period in payments by 2025, what is the impact for securities industry?

Second is activity of AMI-SeCo. Their latest proposal is to enforce exclusive usage of ISO20022 in 3 areas:

- corporate actions,
- collateral management,
- billing.

According to the timeline proposed by AMI-SeCo, the full migration, split into 3 waves, should be completed by 2028.

The topic raised lively discussion with diverse opinions and comments.

From global perspective, AMI-SeCo initiative is perceived as 'local' or 'regional' and should not impose mandatory requirements on players outside Europe, at least not without further consultations.

ISITC responded to the AMI-SeCo communication, questioning the approach, that can be perceived as over-aggressive. SWIFT's answer is being prepared too, but no details are known at the moment.

The SWIFT migration survey showed 50/50 split of support for the migration in securities. The group feels the survey should be repeated in the future. Not too early however, to allow better understanding of the impact and benefits that could be learned from the payment migration.

Today, the securities industry is still far from the decision concerning migration. However, once the agreement on global migration has been achieved, SMPG should be ready to step in and support the community in preparation of the necessary market practice guidelines.

It was noted that S&R migration should be in sync with CA and collateral.

There is no dedicated collateral management group neither in SMPG or ISO20022 SEG. However, S&R SMPG have already prepared several market practice documents covering this area. Therefore it would be natural to keep collateral management within S&R SMPG, possibly extended by additional subject matter experts.

It will be beneficial to observe and learn from the payment migration, in particular with the activities performed by SWIFT, CBPR+ and PMPG. There are significant differences between payments and securities and the related standards governance, though. ISO15022 messages already used by securities industry are much closer to ISO20022 than existing MT payments. Unlike PMPG, which is embedded as one of advisory groups in SWIFT, SMPG remain an independent organisation. There is no intention to change that status. The securities environment is more diverse than payments, making consensus more difficult to achieve across the various players.

Apart from messaging evolution, expansion of API based communication is another disruptive factor to be monitored. In fact, APIs are not so different from ISO20022 messaging in the sense that they should be based on ISO20022 data repository, should co-exist rather than replace messaging, and with JSON as the common syntax, they are technically quite similar to xml based ISO20022 messages.

With all these challenges, SMPG with its long-established reputation and global reach, is very well positioned to support the migration process, provided that such decision will be taken by the industry in the future.

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### Market Practice maintenance and review process

As Market Practices are the key deliverable of this Group, Marcin called for volunteers to become owners of selected MP, who will be responsible to review, maintain and update the respective documents, based on the input provided by themselves or other S&R members. A number of volunteers applied immediately after the session, but some MPs remains still with no defined ownership.

It was agreed to organize monthly S&R SMPG working calls over Webex, to improve the progress between physical meetings. The calls will take place every last Tuesday of the month at 14:00 CET. The meetings should be 1 hour long. The main topics will be MP documents, either the most urgent ones from business perspective or consecutive starting from the oldest ones. Currently, the MP with the oldest review date is '*Function of the message*'. Actions points from this meeting will be subject of a working Webex meeting as well. The agenda and supporting materials have to be delivered well in advance of the meetings. The purpose is not to review documents during the call, but rather to accept or discuss the amendments proposed ahead of the call.

It was decided that traditional pdf MP documents is a priority. The supporting usage guidelines on MyStandards, a number of which were prepared by SWIFT few years back, might be updated at later stage.

**ACTION POINT:** Organise Webex working call on March 31<sup>st</sup> 14:00 CET. (Alex/Paul)

**ACTION POINT:** Update MP spreadsheet with the new owner details and distribute it to the members. (Marcin)

**ACTION POINT:** Make MS Word version of MP documents available to SMPG members. (Alex)

### CSDR penalties MP

Arnaud assisted by Annemie provided a detailed and comprehensive presentation on the presumptions to the CSDR penalties MP that is being prepared.

The presentation started on Tuesday and was continued the following day. The summary here covers both sessions. The details of the MP are included in the provided presentation document. The purpose of the summary is to describe the discussion outcome and decisions made during the meeting.

#### - **MT537 vs MT548**

The initial assumption was to support both MT537 and MT548 for the daily penalty information. The advantage of the MT548 was wider usage than MT537 across the industry. However, the detailed analysis revealed numerous disadvantages and limitations of MT548 in the context of penalties, and there is no MI known to the members, that would plan to provide MT548 PENA to their participants.

It was agreed the MP will cover MT537 and semt.044 only, at least in the initial version.

The PENA section will still be available in MT548 to allow interested institutions to use it, especially from the buy-side. Based on the actual usage analysis after CSDR penalties implementation, it might be considered to remove PENA section from MT548 in the future.

The new functionality of MT537 has not been copied into semt.018. Instead there is semt.044 created. The same applies for MT548 and sese.024 respectively.

#### - **Participant and account definition**

Each of CSDs has a different definition of participant. Lack of a common definition increases the complexity and cost for the institutions cooperating with multiple CSDs. It is not precisely defined under regulation, so it will be difficult to enforce a single approach.

#### - **Sequence A codes: INDA/DAIL/MONTH and DELT/COMP**

SMPG recommends using DAIL/MONT codes, not INDA, even in scenarios where the message is sent several times a day.

If only one 537 PENA message per day is distributed, the COMP code should be used. Otherwise DELT code will apply.

No changes after the monthly report may be applied through an appealing process.

#### - **Sequence D PENA**

Sequence D PENA is repetitive. There are several strategies of using it.

Euroclear will put new and updated penalties in the same message. T2S will send separate messages for the new and updated ones. Clearstream will send multiple updates in the same message.

#### - **Statement period 69::STAT**

For the monthly reports the period will be defined as: first day of the month/last day of the month.

After a lengthy discussion, there was no consensus concerning daily reports.

#### - **Price and FX rate**

No price or foreign exchange rates will be provided in the message, as some of the market data coming from commercial providers cannot be redistributed, depending on SLA.

- **Change requests**

Several CRs were identified that could improve the quality of the message. None of them is critical, and can wait for SR2022 cycle. ISO15022 and respective ISO20022 CRs should be in sync.

**ACTION POINT:** (Arnaud) Update the presentation based on SMPG comments. Document, with a clear 'work in progress' disclaimer, can be further distributed to speed up the preparations by impacted financial institutions – *the updated document was delivered before the minutes were finalized.*

**ACTION POINT:** (Arnaud) Convert provided presentation into SMPG MP document.

**ACTION POINT:** (Annemie) Provide ISO20022 illustration (semt.044).

### Wednesday 11<sup>th</sup> of March

#### MT548/MT537 – business as usual

SMPG decided the MP will be split into CSDR and the 'business as usual' documents referencing to each other.

#### UTI counterpart reference – Suzanne

Danish CSD will provide a service helping participants to agree on the UTI of a trade, which will become important esp. to properly meet SFTR requirements. To facilitate the new functionality, it is proposed to add a separate 'counterparty UTI' field to MT54x messages.

Settlement messages already allow providing UTI code of a trade. As the key concept of UTI is to be a single and unique identifier of a trade, SMPG was against adding additional field.

Resolving the issue of different UTI's should be solved on trading or post-trading level, not settlement.

**ACTION POINT:** Suzanne will go back to the Danish community to discuss the SMPG feedback – *the updated DK justification was delivered before the minutes were finalized.*

#### Pending and failed settlement status for unmatched instructions

T2S passes PEND/FUTU PENF/FUTU settlement status with no reference of the matching status. The CR was requested to include matching status as well.

CSDR requires to send real time information on settlement status, and to provide information on moving from PEND to PENF.

There was no agreement on whether it should ~~it~~ be allowed to put settlement status before matching has occurred.

According to existing SMPG MP – matching and settlement processes can run in parallel. So T2S solution will be aligned with it.

On some markets, settlement status is provided regardless of the matching state.

On the other hand, many SMPG participants think, it doesn't make sense to report PEND/PENF for unmatched instructions. Another point needing clarification is the distinction between CYCL vs FUTU codes.

It was proposed to update MP to remove the option of informing about the settlement status before matching. It requires consultations with the local communities and check if there is agreement to do so. It will be discussed at the first working Webex call.

**ACTION POINT:** (All) prepare feedback regarding settlement status for unmatched instructions for the next working call.

**ACTION POINT:** (Robin) prepare a draft of CR to clarify CYCL usage.

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### Partial release – updated Hold/Release MP

Ton presented the draft of updated Hold/release MP. The main drive for update was to include partial release mechanism there. The part of the update will not require any CRs to SWIFT Standards.

In the past the document was referring to two equally advised solutions to perform hold/release request: one based on MT530 and the other using PREA/NEWM qualifiers in MT54x.

M54x solution is obsolete. There is no need to support this. However, as some markets, including Switzerland and Clearstream, are using the old solution, MP should state that it should not be used for new developments. The description will be removed from the main part of the document and moved to an Annex.

The initial instruction will still use PREA/NEWM, but change of the state is to be requested by MT530/sese.030 only.

T2S is planning to introduce new qualifiers for hold/release. They should be reflected in MT548, possibly using COEX DSS.

The existing MP advice to use SETR/PREA in MT548 instead of actual settlement transaction code, which is against CSDR requirements. SMPG should recommend using the actual transaction type, instead of 'PREA' value.

It is now possible to report the hold/release for unmatched instructions using PEND/PREA and PEND/PRCY codes. PEND/PREA/PRCY should probably not be used as settlement status before matching.

IPRC/PREA/PRCY could be used instead.

The respective CR will have to wait for 2021 or even 2022 SR cycle, which seems long, but the existing solution can be still used with no problem, as it is used today.

**ACTION POINT:** (Ton) Updated MP will be shared with participants.

**ACTION POINT:** Depending on the results of the working call, there may be a need to prepare a CR.

### Settlement transaction types – TRAD code overuse

Currently, majority of the settlement instructions are marked as TRAD regardless of the actual nature of the underlying transaction.

It is against CSDR requirements and would prevent the proper qualification of a trade with regards to penalties, buy-ins, CSD record keeping reporting etc.

Market players globally should be advised to check the process and not overuse SETT/TRAD code. The minimum recommendation would be to at least accept the other codes, not to reject them.

**ACTION POINT:** SMPG to prepare an official reminder.

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Thursday 12<sup>th</sup> of September

### CSDR buy-in market practice

Paul presented the topic, including the process flow, outcome of MWG discussions and the fast track CR. There is some lobbying to move buy-in stipulations of CSDR, however it is unlikely at the moment.

The messaging impact is not big. MP on workflows is first of all needed.

Actors and each phase of the process were presented in details. Paul will modify the slides before distributing them and add some timeline to the description of the process.

There are new qualifiers in CR, indicating the status of the buy-in. The CR is following the fast track process. The change has been already approved and will be implemented in November 2020.

Normally, each MT related CR is replicated in ISO20002. In this case, there will be a new message in ISO20202, though. Therefore, the extended functionality of MT530 was not replicated in sese.030.

MyStandards version of MT530 was presented with the highlights of the changes.

Numerous issues were discussed and commented during the meeting. A summary is presented below.

During buy-in process, computation of penalty continues in the account of the FDP.

In buy-in scenario, MT530 may be sent to instructions that are already cancelled. MT530 related to already cancelled instruction must go to a separate process in CSD.

MT530 for buy-in reporting and regular use should be clearly separated.

Neither party should get additional gains resulting from the fact the market price changed between original settlement date and the buy-in transaction. It is still under discussion.

If the buy-in is not successful for a certain period of time – the party should agree on cash compensation.

Buy-in requirements and record keeping requirements are slightly different. Quantity and value of buy-in must be reported by CSD to NCA. CSD will have to multiply price with quantity as there is no value field in the message.

For buy-ins executed in several tranches, it will be difficult to calculate the final price, esp. for instruments traded as percentage. CSD may not be interested in the intermediate steps of buy-in, only the end results are important. The solution could be to send only the final results of the buy-in to CSD. Alternatively, the incremental information could be passed, so the last MT530 will contain the total final results.

The group decided not to implement strict network validation rules and have MP rules instead.

There will be no acknowledgment of the received MT530 other than technical ACK from SWIFT network. As it is reporting only, that should be sufficient, but should be mentioned in MP.

MP should avoid to be message concentrated, they should go into business process. Therefore a new MP for buy-ins should be created, separate from existing transaction processing MP.

From CSD perspective there will be no distinction in processing of different 'holds' types, regular ones or buy-in related. *(it was confirmed with ECSDA after the meeting)*

There are still some points to be clarified, but we need to have a document that will allow to build a technical solution.

Annemie on behalf of Euroclear volunteered to prepare a MP. Arnaud offered help from Clearstream.

Paul will keep updating the group with the relevant information that may still come-up in that area.

**ACTION POINT:** (Paul) updated presentation, with the timeline of the process added, will be shared with participants.

**ACTION POINT:** (Annemie, Arnaud) prepare a draft MP on CSDR buy-ins

### Buy-in status advice

Robin presented an idea of including information concerning buy-in process status in MT548.

The new codes should allow to distinct between buy-ins which are about to start and the ones already started.

The information is not expected from CSDs, it would be more value added service that could be offered by custodians. CSD could do it too, but are not required to.

**ACTION POINT:** (Robin) prepare a CR draft related to buy-in status advice.

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### Internal settlement advice

As Robin pointed out, there is currently no way to inform client, that the settlement is internalised. The group agreed, it is a good idea to report that in MT548, since internalised settling trades are excluded from CSDR penalties calculation. To make it happen a new code should be considered to be added to STCO, and a CR should be prepared for 2021 SR.

**ACTION POINT:** (Robin) prepare a CR draft related to internal settlement advice.

### Partial settlement in MT548

CSDR requires real-time information related to partial settlement – on the transaction, not instruction level. Arnaud presented 3 options of how to handle the process (for the details, look at the slides available).

There were diverse opinions on the presented options. WG members will go back to their communities and ask for the preferred solution.

**ACTION POINT:** (All) prepare for discussion on partial settlement eligibility reporting for the next working call.

### Closing remarks

Axelle was grateful to the hosts for organizing the event under difficult circumstances and thanked the participants for attending and active participation via Webex.

Armin stated the physical SMPG meetings will still be priority for the future, as Webex is not a solution in the long term. The next SMPG meeting is scheduled for September in Boston, just before Sibos. Hopefully, the global situation will allow to meet in person there.