



SWIFT Securities Strategy

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Matthieu de Heering, Securities Strategy SWIFT



AECSD
XVII International
Conference

Agenda

- 1. *Context and trends in capital markets***
- 2. *SWIFT Strategy – what’s in it for you?***
- 3. *End to End tracking and the Unique Transaction Identifier***
- 4. *Analyzing the Impact of Asset Tokenization***



Context and trends in capital markets



Overall context: Securities markets, a multi-trillion industry that operates at low profits

Low margins

Despite being a multi-trillion dollar business **expected to grow by 40-70%**, securities markets operate at an **average of 10% margin**, continually under pressure.

Cost pressure

As a result, **priority projects are related to cutting costs by 2-3%** but the industry won't be able to cost-cut their way to higher profitability. This is where the pressure on new business models and products begin: **projects to remove inefficiencies and friction become the most important ones.**

Shift in focus

However, until the next phase of regulation comes along, the regulatory crunch is winding down and technology is the new focus. Investment in technology will be driven by **(1) a continuous focus on cost reduction and enhanced customer experience** as a tactical step and **(2) innovation to generate new sources of revenues** on the longer run.

Foundation for the future

On top of addressing inefficiencies, market participants will need to prepare for an environment where **assets will be tokenized** and **transactions will move towards instant**, with impact on the whole securities processing chain.

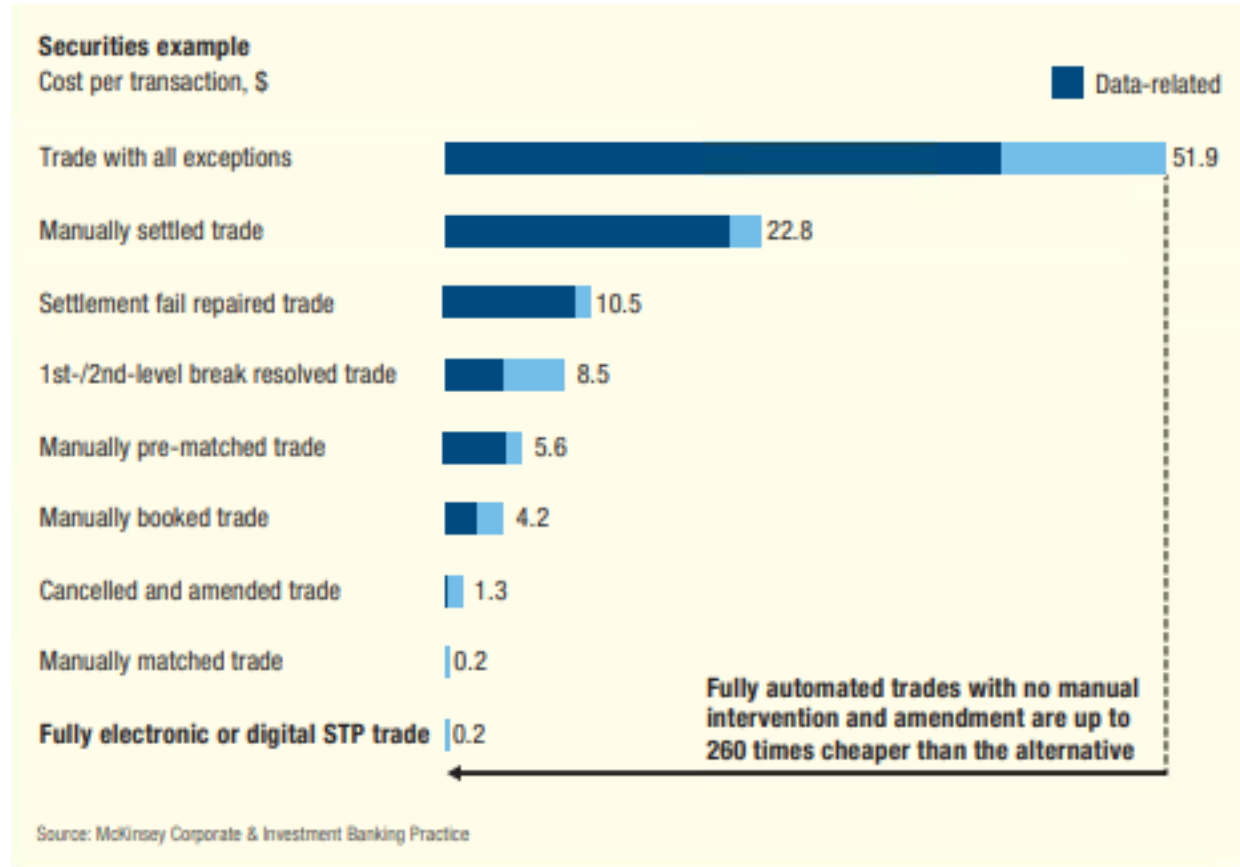
Sources: The New Financial Global Capital Markets Growth Index, Accenture, BCG



Settlement Efficiency – costs of non-stp

Trades that “do not touch the sides” are up to 260 times cheaper and offer a significantly better control environment

McKinsey



Settlement Exceptions

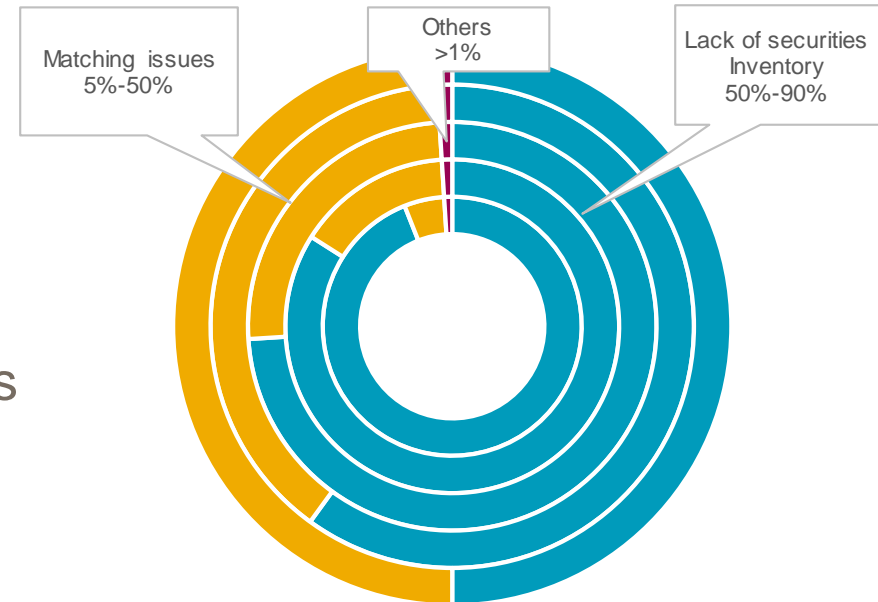
Reasons (per individual transaction)

- Lack of securities
- Matching issues
 - Counterparty instruction not found
 - Settlement location discrepancies
 - Static or commercial data discrepancies
- Others: validation, duplicates, refusals...

Metrics & Measures

- Cost of trade
- Cost of settlement
- Pending & Fail reasons for settlement
- Fails : Proportion of instructions that fail to settle on intended settlement date

Settlement Issue Categories

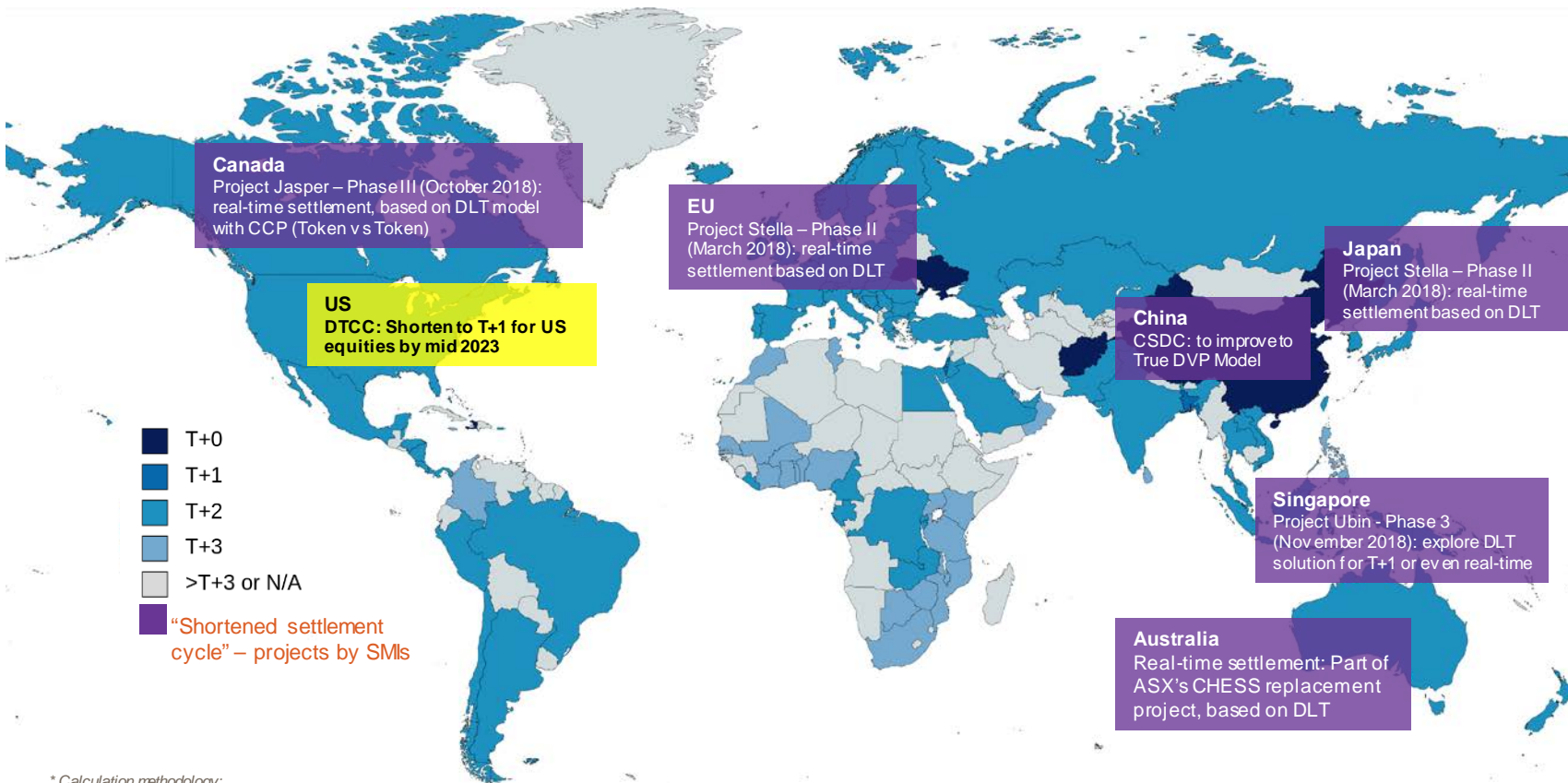


Proportions differ due to Market, Asset Class, Volume spikes, & Lifecycle (pre-settlement exceptions vs fails)

Global equities settlement cycles: most large markets at T+2, but things are moving

Most typical settlement cycles around the world | Based on SWIFT traffic

The majority of settlement cycles indicated on the settlement Date in DVP/RVP settlement instruction and confirmation messages



* Calculation methodology:

- Message type=FIN messages only (Live and delivered), including MT 541:RVP, MT 543:DVP, MT 545:RVP Confirmation, MT 547:DVP Confirmation
- Asset class =UNIT: Equities only
- Country = settlement country
- Settlement date is calculated based on "Expected Settl. Date - Trade Date" in the selected messages types

Source: Watch
Powered by SWIFT BI

>80%

- More than 80% of SWIFT securities settlement instruction and confirmation messages for equity markets are with settlement cycle T+2 as of the end of 2020.
- 80% of the global equity markets* (which is the majority of our SWIFT traffic volume) are planning a shorter settlement cycle.

In line with changes towards instant transactions in Payments, it is not a question of 'whether' but rather 'when' the Securities industry is moving towards T+1 settlement

* Calculated based on the market capitalization value of those stock markets which have initiatives to shorten settlement cycle vs. global market cap.



SWIFT Securities Business today (2020 data)

The majority of
SWIFT traffic

~63%

Of total SWIFT daily
Average FIN and IA traffic

>30%

Contribution to
SWIFT FIN Payments
traffic

Top driver for
traffic growth

+10%

FIN & InterAct Securities
average daily traffic growth

+77%

Securities contribution
to total traffic growth

Large global
community

6,000+

Securities users, including all
major (I) CSDs, Asset Managers,
Brokers and Custodians

150+

SMLs , including
93 (I) CSDs and 56 CCPs



SWIFT Securities Strategy – what's in it for you?



SWIFT Strategy

Builds on our foundation as an industry co-operative with unrivalled security standards to innovate rapidly at scale, with the right levels of risk and control



Frictionless payments

Instant and frictionless transactions from account to account anywhere in the world, building on and extending gpi



Smarter securities

Smarter securities services for greater simplicity and efficiency



Rich data

End-to-end integrity and rich data services enabled by ISO 20022, to help our users innovate and grow



Open state-of-the art platform

State-of-the art digital platform that enables messaging and transaction services with effortless customer experience



Smarter



Faster



Better



SWIFT Securities Strategy

The big picture vision

Industry drivers	Value streams	Target delivery	Timing
High & rising cost of settlement fails (compounded by inefficient exception management)	Smarter Securities E2E Tracker ●	Provide full visibility and greater control to participants on their settlement transactions thru the E2E tracker and shared services	MVP 2022
New communication mechanisms needed	APIs	Develop APIs to 1) interact with the securities monitoring service; 2) respond to market needs for new business flows in line with strategy and product roadmap	API roadmap continuous delivery
Improve risk & compliance vigilance	KYC for NBFIs & ISIN screening	Enrich KYC Registry and screening utilities with KYC for NBFIs and ISIN screening	2022
Co-existence of multiple standards	Interoperability	Assess customer appetite for standards interoperability and formulate way forward, promote ISO 20022 data dictionary and backward compatibility	Findings by 12/2021
Digitisation	Tokenised assets	Assess how to carry and provide simple access to tokenised assets. Keep working with the industry to develop standards. Identify reference data opportunities. Look for use cases on how to bring digital and traditional flows together on SWIFT	Continuous effort



With a mutualised and integrated solution, we allow our customers to focus on growing their business

Our goal: address 2 main Industry challenges

PREVENTING EXCEPTIONS AND FAILS

*~30% linked to incorrect/incomplete data
~50%+ linked to shortage of cash/securities*

FACILITATE HANDLING OF EXCEPTIONS AND FAILS

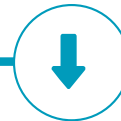
Mutualised services to reduce friction, failure, duplication, manual processing and penalties



Enhanced customer experience in exchanging post-trade data



Optimized liquidity and asset across business lines



Integrated business features for seamless processing



End to End tracking and the Unique Transaction Identifier



Smarter Transactions

**enabling a
harmonized
securities
lifecycle for
the capital
market
community**

Removing a direct cost

of USD ~3 billion every year in the securities industry (ESCCA), expected to increase with CSDR penalty scheme

Preventing & addressing fails

while removing manual intervention and enhancing end-customer experience

Delivering visibility

and greater control on settlement transactions status

Leveraging a common identifier: the UTI

on a global scale on a shared service platform

To bridge existing fragmented solutions

through a shared solution powered by a neutral entrenched party

Through an end-to- end two-sided, transaction view

offering flexible formats, exception management, and integration with case resolution venues



The **unique transaction identifier** or UTI

UTI

Unique number/reference of a financial transaction to be allocated as agreed among the parties and/or within the initiative or regulatory system under which it is formed.



unique

standard

trusted

persistent

unambiguous

52 characters, (**first 20 for the LEI** of the generating body (FI/exchange/service provider)..

Standardized and structure **ISO-registered** format (ISO 23897:2020)

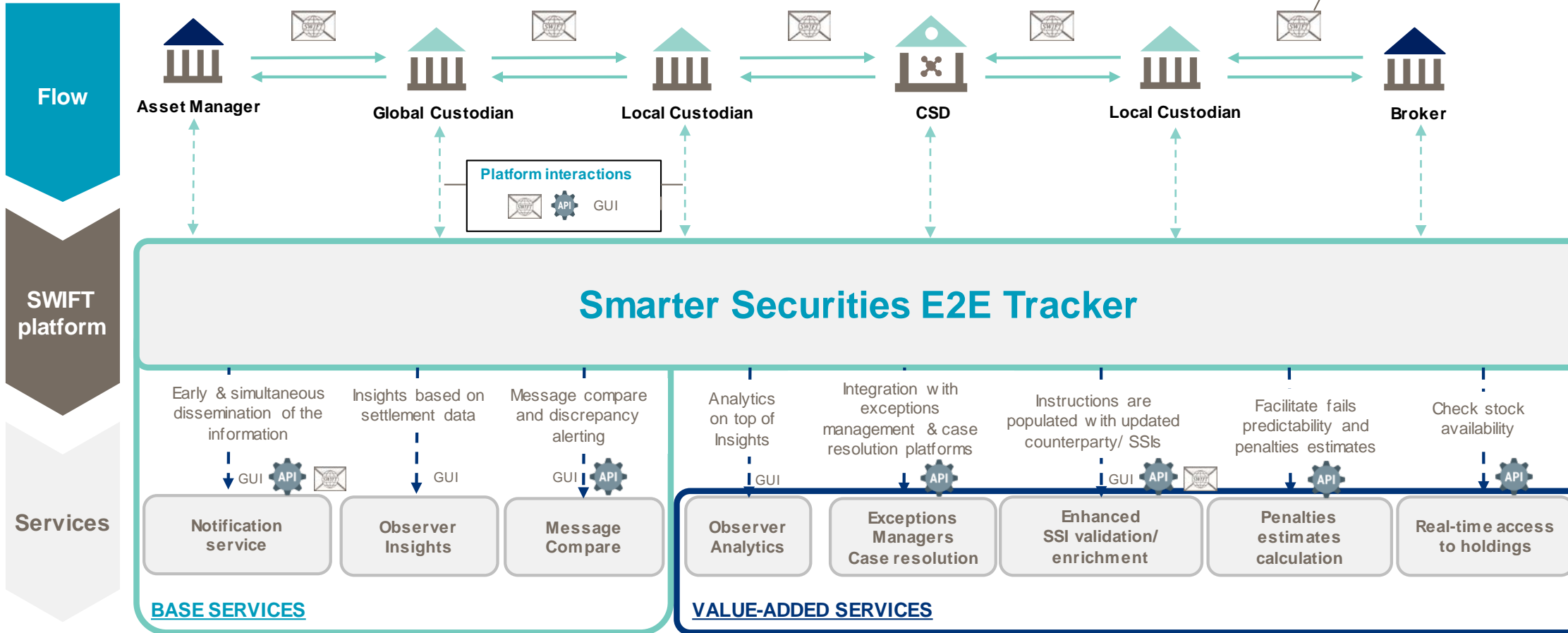
Already used today for reporting of financial transactions to any authority in any jurisdiction.

Can be carried as a reference **across disparate systems** and processes

Can be referenced unambiguously by **all parties involved** or interested in that transaction.

Securities Strategy – Service Overview

- Instruction
- Status
- Confirmation



Co-creation with a representation of industry experts



36 Members

- BBH
- Blackrock
- BNP Paribas
- CACEIS
- China AMC
- Citibank
- CME
- Credit Suisse
- Crest
- Deutsche Bank
- Deutsche Boerse / Clearstream
- Euroclear SA/NV
- Euronext
- Goldman Sachs
- HKEX
- HSBC Bank
- ICBC
- JP Morgan Chase Bank
- LCH
- Mizuho JP
- Morgan Stanley
- MUFG
- NAB AU
- Northern Trust
- NSD
- PNC
- Santander Securities Services
- Standard Chartered Bank
- SEB
- Societe Generale
- State Street
- Strate SA
- Bank Of New York Mellon
- TSD
- UBS
- Vanguard

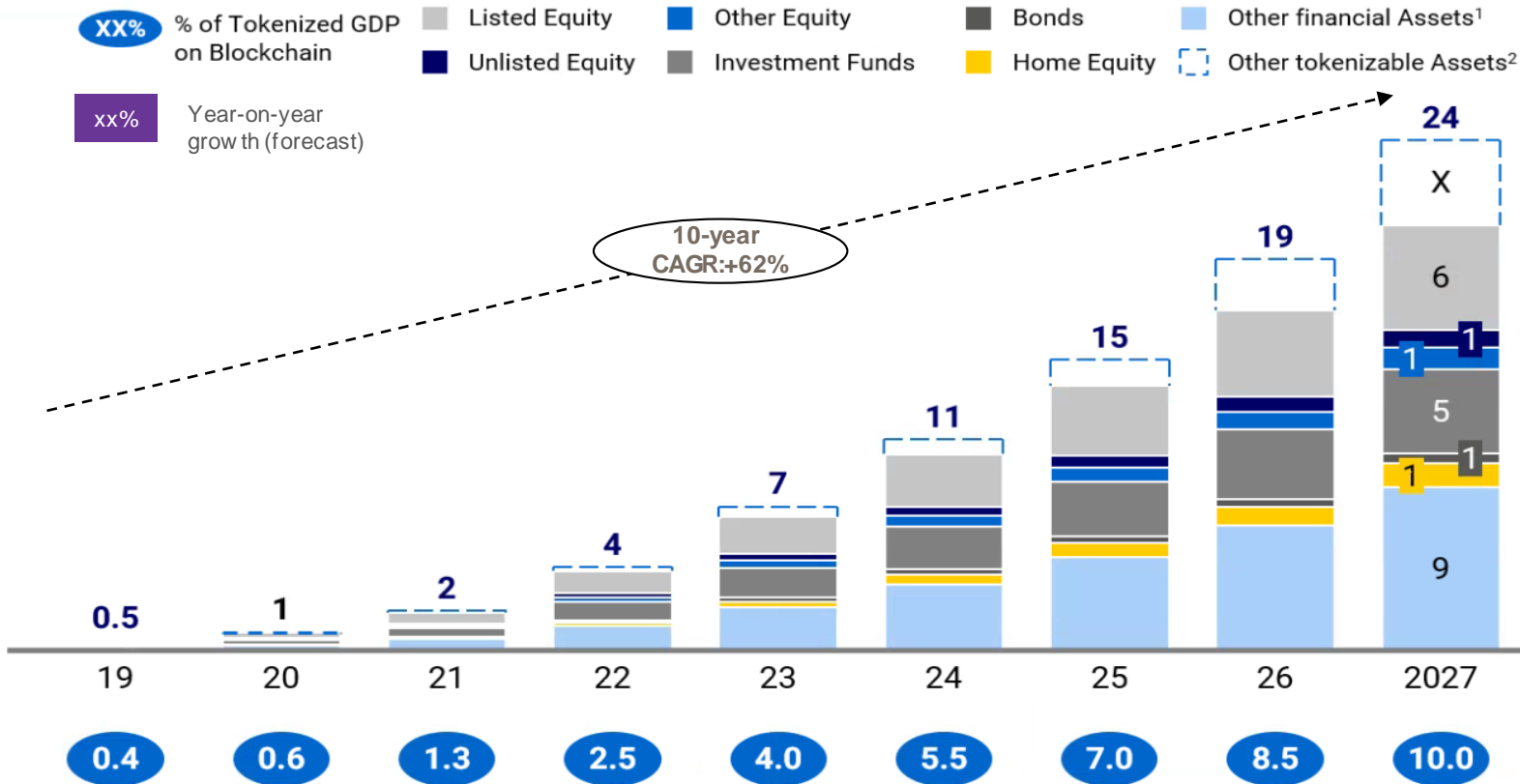
Analyzing the Impact of Asset Tokenization



Context:

Tokenized assets are too big to ignore by traditional financial market participants

Projected Tokenized market volume until 2027 (in trillion USD by asset class)



Tokenized securities
 Research and surveys from institutions such as the World Economic Forum (WEF), Deloitte or McKinsey (see table of sources for more detail) project that up to **10% of the global Gross Domestic Product** will be stored and transacted with the help of distributed technology by 2025–27.

Following this methodology, tokenized markets can grow to as big as **USD 24 trillion** of assets by 2027.

Comparative metrics
 Global stock exchange market cap in 2018:
USD 68,7 trillion

Sources: Finoa; World Bank, SWIFT



Exploring tokenization

Substantiate the benefits of a mutualized solution through **impact analysis** and **co-design initiatives**

Standardisation

- Create and harmonise **APIs**
- Update **MTs, MXs**, and **ISO data repository**
- Work with ISO and other standards bodies on **token references**

How: client working groups; internal work

Deploying updated APIs and messages

- Bilaterally or hub-to-spoke for **existing** SWIFT users
- May involve connecting **new entities** onto SWIFT
- Connectivity TBC (SDK vs. SWIFT infra.re-use)

How: work with client initiatives + central harmonization

Linking to traditional fiat payments

- Working with existing clients and new tokenization platforms – stop-gap / middle ground?
- Interface between gpi as a platform and external (typically DLT) platform

How: continue bespoke client initiatives + follow-up of strategy customer consultations

Big picture exploration

- Understand economics, scenarios, timelines
- Understand SWIFT's role (multi-connector, “the” fabric, ...)

How: SWIFT institute, Sibos, co-publications, working group participation, pilot/PoC



SWIFT & Accenture Central Bank Digital Currencies White paper (May 2021)

Leverage learnings

Leverage technology builds

CDBC as on-ledger DVP cash leg

Similarities and differences across remaining asset spectrum

swift.com/news-events/news/exploring-central-bank-digital-currencies-swift-and-accenture-publish-joint-paper



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Ordering and support



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