

ECSDA RESPONSE

TO THE SWIFT MIGRATION TO ISO20022 STUDY

About ECSDA

The European Central Securities Depositories Association (ECSDA) represents 38 Central Securities Depositories (CSDs) across 35 European countries. As regulated financial market infrastructures, CSDs play a vital role in supporting safe and efficient securities transactions, both domestic and cross-border. European CSDs collectively process around 600 million delivery instructions, valued for around EUR 1.09 quadrillion¹.

As securities financial market infrastructures, European CSDs would like to particularly focus on the needs for migration to ISO 20022 for securities-related communication. To make it easier for the reader to have a concise view of CSDs' position and explain in further detail, in addition to a response in an Excel form (requested by SWIFT), we also provide our responses in the present letter.

European CSDs are thankful for the possibility to provide their views on the need for a migration to ISO 20022. We appreciate the collaborative spirit and the effort of understanding the views of the relevant stakeholders.

ECSDA VIEWS ON MIGRATION TO ISO20022 IN BRIEF:

European CSDs support a coherent use of the same standard globally. At this stage, we see that earlier standards are more in use for securities communication across the globe. However, we note that several pan-European infrastructure projects and regulatory initiatives would expand further the use of ISO20022 in the upcoming years.

At the same time, given (i) the significant cost of migration for infrastructures and market participants across the globe and (ii) the relatively limited value-added of ISO 20022 versus the current 15022 for securities, we would advise not to urge a full global migration of all flows.

Should a 'forced' migration occur, the co-existence shall be limited.

¹ For more information about ECSDA members, please see ECSDA Factbook at https://ecsd.eu/wp-content/uploads/2016_CSD_Factbook.pdf

IN FURTHER DETAIL:

(Q2) Current use

Do CSDs use ISO20022? Is there a coexistence of standards?

Many European CSDs effectively use ISO20022 for the communication in several areas. At the same time, many of CSD services are running upon different other standards. ISO 15022 is today used by a majority of financial market actors. The new standard is not used massively in the securities communication yet. Hence, differently from the payment side, we do not observe a massive coexistence of the two standards for securities-related communication.

(Q4 & Q5) Costs vs benefits and their evolution

What are the drivers for its use and what are expected benefits of ISO20022?

In CSDs view, the new standard has certain benefits. For example:

- Asset servicing could also be enhanced through the market-claim full life-cycle and reduced narrative.
- Acceptance of new issues with ISO20022-based messages could benefit from a higher rate of paper-less processing.
- Further process alignment with Investment funds.

However, CSDs also note that some needs of securities infrastructures are not addressed by ISO 20022 yet.

Do the drivers described in this section justify migration to ISO 20022? For users that are required to manage ISO 15022 and ISO 20022 simultaneously, does the ongoing cost of coexistence justify a full migration to ISO 20022?

At this stage, the limited current coexistence does not generate the costs deemed unbearable for CSDs requiring the migration for the securities infrastructures and a consequent move of their communities. The benefits of move from ISO15022 to ISO20022 for the services important to CSDs cannot yet overweight the significant costs of migration.

How the use of ISO20022 will evolve?

CSDs believe that the coexistence between ISO15022 and ISO 20022 is likely to increase overtime with the new message types being introduced for specific purposes.

Technology upgrades or new IT developments, any new project of regulatory reporting and compliance spreads the use of ISO20022 further. For example, we expect ISO 20022 messages to be used in the following context:

1. Settlement penalties²,
2. Exercise of shareholder rights and transfer of information from shareholders to issuers and backwards (based on the future standards of the Shareholders Rights Directive³ - although further discussions on the appropriate message types need to take place),
3. Anti-Financial Crime due-diligence,
4. LEI-related messaging,
5. Securities-related infrastructure projects driven by the Eurosystem and the European Central Bank (such as ECMS),
and others.

Evolution of costs of coexistence?

We note that the costs of co-existence will increase in line with the spread of ISO20022. We hence invite SWIFT to re-examine the interest for a full migration in two-year time.

(Q8) Migration approach

Which of the following approaches to migrate to ISO 20022 would you prefer?

As pointed out earlier, the exact timing of the migration needs to be reconsidered when cash migration is engaged and the use of ISO 20022 in securities communication is more extensive.

If the migration would be ‘forced’ despite the absence of the immediate appetite to migrate, CSDs would prefer a phased approach by business domain (settlement, collateral, asset servicing etc.) to spread the risk. In that case, the standards, translation services and other necessary support should be defined and available early enough and before the migration. The individual institutions shall be free to determine their own migration approach and timing within the set timeframe. Some CSDs already offer ISO 20022 or envisage to offer straight ISO 20022 messages (from legacy messages) and therefore, do not have to consider migration impacts of a global mandated use of the 20022 standard.

We believe that the coexistence phase must not be long. To avoid even higher costs for the industry related to the double IT maintenance and parallel operational processes (exceptions handling). When assessing the impacts for CSDs, in addition to the direct costs, impacts on the community and synchronisation with other infrastructures and providers must be considered as well.

The moment of the migration start and the duration of the coexistence shall be predefined by a set of criteria (such as overall spread of messages and effective volumes), by business domain.

² The ongoing ECSDA work on the Single CSDs Settlement fails penalties framework is likely to include a description of the message specifications, subject to further discussions with SWIFT. The draft version of the framework is expected to be shared with relevant stakeholders in June 2018 and published on [ECSDA website](#).

³ The consultation on the standards took place in Q2 2018. Please find it here: http://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-1944240_en

(Q1-Q10) Migration strategy

The migration period shall not be long. The burden during the period of coexistence shall be minimised to the extent possible. The following could be helpful to limit the burden:

- The dates announced should be firm and the coexistence period should be short
- The incentives for moving should be identified for all market stakeholders well in advance.
- The migration rate achieved should not only be measured by volumes, but also by number of parties ready to migrate.
- The translation should ensure that formal market practice does not deviate from current standards. The details, mechanism and liabilities related to the translation services should be further discussed and agreed by the community.

(Q1-Q6) Migration support

Market practice should be built upon the existing SMPG process and governance and should be validated by the community. The market practices and the harmonisation of the management of versions (which version to be used and limited number of versions used in parallel) need to be clearly defined. This is necessary for both: the « many-to-many » flows and for the Market Infrastructure flows.

Under no circumstances should loss of data be incurred.

Changes to messages need to be driven by a business demand not by a coexistence need.

(Q1-Q2) Maintenance

The discipline existing for managing of further evolutions should be preserved. We would favour to keep as far as possible the actual calendar approach and the actual process for change request and release of messages.

In addition, we would expect that there is only one version at a time being for 'many-to-many' and for Market Infrastructures, otherwise the cost of maintenance will increase in a significant manner. The discipline existing for managing of further evolutions should be preserved.

CSDs would ask to limit the changes in 15022 to mandatory market driven or regulatory changes for MT messaging, as soon as 20022 is rolled out sufficiently.

If you have any questions on this paper, please contact Ms. Anna Kulik, Secretary General of ECSDA, at info@ecsd.eu or +32 2 230 99 01.

[signed]
Anna Kulik
Secretary General
European Central Securities Depositories Association