



Lázaro Campos
Chief Executive Officer

28 July 2011
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To the attention of:

The Committee on Payment and Settlement Systems
and
The Technical Committee of the International Organization of Securities Commissions

By email to CPSS secretariat (cpss@bis.org) and to IOSCO secretariat (fmi@iosco.org)

Subject: Response on the CPSS-IOSCO consultative report “Principles for Financial Market Infrastructures”.

SWIFT has reviewed the consultative report on “Principles for financial market infrastructures” issued by CPSS/IOSCO in March 2011, and welcomes the opportunity to provide feedback.

The following points summarise our more detailed comments as set out in this letter:

- SWIFT is a critical service provider (CSP) to many financial market infrastructures (FMIs). SWIFT is, however, neither a financial market infrastructure, nor should its core messaging products and services be considered as outsourced services for FMIs.
- The CPSS IOSCO principles provide an opportunity to clarify the service levels required of all CSPs both external and internal, and, as such, contribute to the establishment of a level playing field between all providers.
- The selection by an FMI of a multi-network provider model with its inherent resiliency should be considered as suitably “robust arrangement” which is fully compliant with Principle 17 (operational risk management).
- SWIFT supports the adoption of service levels for CSPs on a consistent basis across jurisdictions.
- Coordination between supervisory authorities will maximise efficiency and avoid inadvertent barriers of entry.
- SWIFT believes that the adoption of international communication procedures and standards by FMIs is essential and will reduce risk and industry costs.

SWIFT is a member-owned, cooperative society that provides its community of banking, securities, market infrastructures and other regulated organizations, as well as corporations, with a comprehensive suite of messaging products and services. Through these products and services SWIFT supports every aspect of global financial services, including payments processing and securities post trading. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, through its country National Member Groups, to shape market practice, define formal standards and debate issues of mutual interest.

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S.W.I.F.T. SCRL
Avenue Adèle 1
B-1310 La Hulpe
Belgium

☎ +32 2 655 31 11
☎ +32 2 655 32 26
🌐 swift.com



SWIFT is organized under Belgian law and is owned and controlled by its shareholding Users, comprising over 2,300 financial institutions. The user community exceeds 9,600 connected firms, across 210 countries. A fundamental tenant of SWIFT's governance is to continually reduce the costs and risks borne by the industry.

In reviewing the proposed principles, and considering the definitions provided therein, we believe neither that SWIFT is a financial market infrastructure (FMI), nor that our core messaging products and services should be considered outsourced services for the FMIs, as in reality such services are provided simply as an independent third party service.

At the same time, we recognise that SWIFT does provide critical services to a wide range of organisations that are financial market infrastructures as defined in the document.

This response from SWIFT is focused on the principles that relate to our core activity of financial messaging, i.e. the principles on operational risk and the principles relating to communication procedures and standards. SWIFT has also commented briefly on Section 4, in terms of the impact on critical service providers, and also on Annex F which is directed specifically to critical service providers.

SWIFT welcomes the publication of the principles and the clarity which they will bring once the principles upon which we have commented are implemented consistently for all FMIs and critical service providers.

Please find below our feedback in respect of the specific points upon which we would like to comment:

Principle 17 – Operational Risk

SWIFT strongly supports the recommendation that FMIs should, as part of their approach to operational risk mitigation, ensure that all critical service providers (including of communication and messaging) must be able to provide a robust level of service to complement the FMIs' own compliance with the recommendations of principle 17. In particular FMIs need to ensure that their critical service providers are able to demonstrate sufficient levels of infrastructure resiliency, and that the tests for this are applied consistently across jurisdictions.

SWIFT has adopted a multi-network provider model underpinning its services, with the key feature being the co-existence of multiple network partners, each offering managed IP-VPN services. This "meta-network" model is one of the pillars of SWIFT's resiliency and availability strategy, providing a highly reliable network, with full redundancy and advanced recovery procedures, thus enabling a level of availability compatible with mission critical applications, such as the ones operated by FMIs. When such a "meta-network" model is selected by an FMI, we believe that the resiliency that such a model offers should be recognised by authorities as a "robust arrangement" which is fully compliant with Principle 17.

Furthermore, we believe it is important to implement measures to ensure external and internal providers of critical services to FMIs are treated equally, and be required to meet the same standards of operational excellence and resiliency.

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SWIFT also suggests that consideration be given to merging **Annex F** (see our comments below) with Principle 17.

Further, as we note in our response to principle 22 below, we assert that the use of international open message standards and protocols generally has a beneficial impact on key areas of operational risk, and that such an approach is essential in order to more effectively support cross border access, together with any inter-operability of market infrastructures.

Principle 22 – Communication Procedures and Standards

All market infrastructures impacted by these recommendations (including for trade repository reporting) should, we believe, adopt an open standards approach which will facilitate increased cross border and domestic investment activity, improved operational efficiency, reduced industry and regulatory costs and greater transparency.

SWIFT supports the recommendations contained in principle 22 in terms of the use and accommodation of internationally accepted communication procedures and standards by FMIs. Such an approach by FMIs will, we believe, reduce industry costs and facilitate increased cross border and domestic investment activity.

We would encourage FMIs to adopt the standards promoted by the Standards Coordination Group (FISD, FPL, FpML, ISITC, SWIFT and XBRL US) which include open standards compatible with ISO 20022 addressing messaging and communication flows across securities and payments operations.

It is also essential that where possible open standards are used for key aspects of reference data. Clearly the support for the use of international open standard identifiers (ideally endorsed by ISO) for key areas such as legal entity identification, and the identification of securities, will be crucial to the role which FMIs will play in facilitating greater market transparency, and in supporting, where appropriate, interoperability.

Section 4 – Responsibilities of central banks, market regulators, and other relevant authorities for financial market infrastructures

SWIFT believes the value of regulation and supervision of FMIs can only be realised if the requirements for critical service providers are consistently applied across all jurisdictions. It is also essential that a level playing field approach is applied to the assurance of the reliability and robustness of critical service providers' infrastructure.

To maximise efficiency, the approach taken by supervisory authorities should be coordinated, and should not result in inadvertent barriers to entry being created in certain markets by, for example, very different interpretations being implemented.

Annex F

We strongly welcome the efforts to ensure that the operations of all critical service providers are held to the same standards. We believe the stipulations in Annex F provide an excellent means to help ensure a level playing field for all critical service providers that serve the financial industry and financial market infrastructures in particular.

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Annex F should apply to all external and internal providers of critical services, otherwise the objective of controlling systemic risks will not be achieved. We believe the five areas outlined in the proposal provide a solid governance framework that will help minimise risks to the global financial system and ensure that critical service providers step up to the same high standards in terms of service levels and infrastructure resilience. SWIFT would be willing to work with regulatory authorities and the industry in the drafting of key topics to be covered under each of the expectations, based upon our experience over many years in providing assurance under a similar framework.

We have the following additional comments in respect of Annex F:

- (1) Reporting – It would be helpful to further ensure a level-playing field by specifying the expected level and scope of reported information. This is to ensure that the level of transparency is equal for all critical service providers and consistent across jurisdictions, encouraging efficiency.
- (2) Confidentiality of reports (section 1.27, page 15) – To help ensure an appropriate level of transparency, while avoiding concerns over security exposure due to this transparency, SWIFT strongly believes that self-assessments by the critical service providers should remain confidential and restricted to the buying FMI and the relevant overseeing body.

We hope our comments will be useful to you in finalising the proposed principles and we are available should you wish to discuss our comments.

Yours sincerely

A handwritten signature in black ink, appearing to be "G. de Baat".

Copy: National Bank of Belgium, Lead Overseer of SWIFT

S.W.I.F.T. SCRL
Avenue Adèle 1
B-1310 La Hulpe
Belgium

☎ +32 2 655 31 11
☎ +32 2 655 32 26
🌐 swift.com