



## **GFMA Global FX Division**

**GFXD – Increasing automation in the trade confirmation process: the promotion of SWIFT Standards and the prioritisation of confirmation methods**

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## **Background to the Global Foreign Exchange Division**

The Global Financial Markets Associations (GFMAs) Global Foreign Exchange Division (GFXD) was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 23 global foreign exchange (FX) market participants<sup>1</sup>, collectively representing a relevant proportion of the FX inter-dealer market. Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

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<sup>1</sup> Bank of America Merrill Lynch, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG Bank, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS, Wells Fargo.

## Executive Summary

- Automated confirmation brings several benefits to the trade confirmation process, such as standardisation, legal certainty, and the reduction of market, operational and settlement risk.
- In support of the FX Global Code<sup>2</sup>, the GFXD recommends the use of electronic platforms and electronic messages, such as SWIFT, together with the use of Master Confirmation Agreements (MCAs), to enhance automation.
- In order to facilitate the correct use of SWIFT messages, the paper provides additional clarity on how to populate the fields 14S, 31G, and 77H, in line with SWIFT Standards.
- As highlighted in Section 5, the GFXD suggests a waterfall approach for confirmation methods so that market participants can follow a standardised prioritisation in case automated confirmation cannot be pursued.

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<sup>2</sup> [https://www.globalfxc.org/docs/fx\\_global.pdf](https://www.globalfxc.org/docs/fx_global.pdf)

## Introduction

‘Confirmation’ is a risk management technique by which the parties to a transaction validate the key economic and legal terms of that transaction with each other after execution.

Even though automation may be a challenge for many counterparties, due to a lack of infrastructure, regulatory complexities, or concern about cost and benefit, the GFXD and its members firmly believes that the operational and legal risk-reduction that automation delivers outweigh the associated costs and that **automating confirmations should be a key priority for the industry.**

The FX Global Code (2021)<sup>3</sup>, which has been drafted to apply to all FX market participants, states:

“Market Participants should confirm FX trades as soon as practicable after execution, amendment, or cancellation. **The use of automated trade confirmation matching systems, when available, is strongly recommended.**”

“Confirmations should be transmitted in a secure manner whenever possible, and electronic and **automated confirmations are encouraged.** When available, standardised message types and industry-agreed templates should be used to confirm FX products.”

“Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of Confidential Information to unauthorised parties.”

(Principle 46, emphasis added).

In addition to the application of the recommendations included in the FX Global Code, automation enhances the risk management benefits of the confirmation process as per below:

1. **Compliance:** many jurisdictions encourage automated methods as a means of meeting deadlines for timely confirmations<sup>4</sup>.
2. **Legal certainty and market risk:** automation speeds up the process by which contractual agreement of the transaction is reached and ensures any discrepancies are flagged as close to trading as possible. This benefits counterparties even where local rules also require exchange of paper confirmations.
3. **Operational risk:** automation removes manual-touchpoints, thereby increasing Straight Through Processing (STP) and reduces the risk of errors or fraud. Some automated services integrate the confirmations process into other parts of the FX value chain, increasing efficiency and allowing the status of transactions to be tracked real-time.
4. **Standardisation:** automated services use industry agreed message types, helping with record keeping and integration into other services.

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<sup>3</sup> [https://www.globalfxc.org/docs/fx\\_global.pdf](https://www.globalfxc.org/docs/fx_global.pdf)

<sup>4</sup> E.g. HKMA Supervisory Policy Manual ‘Margin and risk mitigation standards for non-centrally cleared OTC derivatives’ 2017 §4.2; MAS ‘Guidelines on Risk Mitigation Requirements for Non-Centrally Cleared Over-The-Counter Derivatives Contracts’ 2019 §4

Automated confirmation services can be grouped into three main types:

Direct connectivity to SWIFT	Use of third-party e-platform	Use of a bank's e-platform
<ul style="list-style-type: none"> <li>• Users view and confirm trades with multiple counterparties, often automatically</li> <li>• Can be integrated into other SWIFT message services, e.g. payments</li> </ul>	<ul style="list-style-type: none"> <li>• Users view and confirm trades automatically with multiple counterparties</li> <li>• Can often be integrated into other services across the FX value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Users view and confirm trades automatically with that bank</li> <li>• Can often be integrated into other services across the FX value chain</li> </ul>

For the purpose of this paper, we will focus mainly on SWIFT messages, as this document will provide additional clarity on their use and will help increase education on this type of messages.

**The following sections will cover the SWIFT Standards and Guidance in relation to fields 14S, 31G and 77H. Additionally, the GFXD recommends a waterfall of confirmation methods in case automation cannot be pursued.**

## 1. SWIFT Confirmation

The use of electronic platforms and messages, such as SWIFT, represents an efficient way to pursue automation and, consequently, reduce market, operational, and settlement risk. Additionally, SWIFT Standards and Guidance are published annually to promote further use of its messages.

In July 2021, the SWIFT Standards group published the Message Usage Guidance<sup>5</sup>, providing additional information on FX Cash-settled Forwards and Options. Specifically, the Guidance also covers three particular fields that counterparties should populate properly when confirming a trade via SWIFT:

- a) 14S – Settlement Rate Source
- b) 31G – Expiry Details
- c) 77H – Date, Type, and Version of the Agreement

Because these fields need to be network validated, it is extremely important that market participants populate them correctly in order to increase automation. Failure to do so will likely result in the reintroduction of the aforementioned risks.

## 2. Populating 14S – Settlement Rate Source

Field 14S specifies the Settlement Rate Source.

As per the SWIFT Standards and Guidance (July 2021), to correctly populate the Settlement Rate Source and increase automation, counterparties shall use the values contained in the ISDA Annex A of the 1998 FX and Currency Option Definitions<sup>6</sup>, as amended and supplemented from time to time.

In this field, Time needs to be expressed in the following format:

- Time: HHMM

Additionally, the Location consists of two characters of the ISO country code and two characters of the location code.

<sup>5</sup> [https://www2.swift.com/knowledgecentre/publications/us3u\\_20210723/1.0](https://www2.swift.com/knowledgecentre/publications/us3u_20210723/1.0)

<sup>6</sup> <https://www.isda.org/book/annex-a-to-the-1998-fx-and-currency-option-definitions/>

Examples of the location code are the followings:

- Frankfurt - DEFR
- Hong Kong - HKHK
- London – GBLO, and so on

On the SWIFT website, market participants can also find an example of how to populate field 14S. For instance, the message “*Reuters WMRSPOT midpoint, at 1000 London time*” would be expressed in the following way:

:14S:WMR03/1000/GBLO

### 3. Populating 31G – Expiry Details

This field specifies the Date, Time, and Location at which the Option expires and, if the message is for a non-deliverable or cash-settled option, the date in this field is also the Valuation Date for the Option.

As per SWIFT Standards and Guidance (July 2021), the Date, Time and Location need to be specified as per below:

- Date: YYMMDD
- Time: HHMM
- Location: one of the location codes, as listed on the SWIFT website<sup>7</sup>.

### 4. 77H – Date, Type, and Version of the Agreement

The field 77H specifies:

- The type of the agreement
- The date on which the agreement was signed
- The version of the agreement

As per SWIFT Standards and Guidance (July 2021), the date and the version of the agreement need to be populated as follows:

- Date: YYYYMMDD
- Version: YYYY

Finally, the codes to populate the type of agreement are the following:

- AFB                      AFB Master Agreement
- DERV                    Deutscher Rahmenvertrag für Finanztermingeschäfte
- FBF                      Fédération Bancaire Française Master Agreement
- FEOMA                  FEOMA Master Agreement
- ICOM                    ICOM Master Agreement

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<sup>7</sup>[https://www2.swift.com/knowledgecentre/publications/us3ma\\_20210723/1.0?topic=con\\_sfld\\_G\\_cy5duqEeqF57jgqTEwJQ\\_602761224fld.htm](https://www2.swift.com/knowledgecentre/publications/us3ma_20210723/1.0?topic=con_sfld_G_cy5duqEeqF57jgqTEwJQ_602761224fld.htm)

- IFEMA IFEMA Master Agreement
- ISDA ISDA Master Agreement
- ISDACN ISDA Master Agreement plus Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction
- ISDACS ISDA Master Agreement Plus Additional Provisions for Cash-Settled Forwards and Options (CSF, CSO) in Deliverable Currencies
- OTHER Another type of bilateral agreement signed up front between party A and party B. The agreement must be specified in field 77D as well.

## 5. GFXD Confirmation waterfall approach

Even though automated confirmation represents the optimal solution to reduce market, operational and settlement risk, we are aware that it cannot always be used for several reasons. For example, it could be that templates do not exist to facilitate automation or that market participants are unable to leverage such technology due to low volumes for some products.

As such, we recommend the following prioritisation for confirmation methods:

1. Automated messages, such as SWIFT, either with or without MCAs, depending on the type of contract
2. Short-form contracts, which can be negotiated at the firm-level, using MCAs as a basis
3. Long-form contracts, such as firm-level agreements defined with clients without the use of MCAs

Nevertheless, even in the absence of automated confirmation, market participants should always aim to improve the efficiency of the confirmation process and reduce settlement risk.

By recommending this waterfall approach, the GFXD promotes a standardised approach, consistent with Principle 46 of the FX Global Code.

In addition to the use of electronic platforms and messages, market participants could also consider further standardisation of MCAs, and this might be a topic for future GFXD analysis. For instance, given ISDA's work on market standards for MCAs in relation to G10+ currencies, the market could look to build upon this and implement similar measures for currencies for which EMTA (Trade Association for Emerging Markets)<sup>8</sup> market standard confirmation templates exist.

## 6. Conclusion

Given the numerous benefits that automated confirmation offers, **the GFXD reiterates its recommendation on the use of electronic confirmation messages, such as SWIFT, and strongly encourage market participants to follow the SWIFT Standards and Guidance to increase automation.**

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<sup>8</sup> <https://www.emta.org/documentation/emta-standard-documentation/fx-and-currency-derivatives-current-templates/>

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