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GLOBAL FOREIGN EXCHANGE DIVISION  
Education Document on the Swift 2015 FX Changes

# Swift 2015 changes

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## Summary:

**Following work performed by the GFXD Confirmations WG, enhancements were rolled out in the November 2015 Swift release to allow electronic confirmation to be performed over the Swift network for the following 10 FX products**

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| <ul style="list-style-type: none"><li>• Average Rate Option</li><li>• Average Rate Forward</li><li>• Average Strike Forward</li><li>• Double Average Option</li><li>• Double Average Forward</li></ul> | <ul style="list-style-type: none"><li>• Average Rate Option</li><li>• Average Rate Forward</li><li>• Average Strike Forward</li><li>• Double Average Option</li><li>• Double Average Forward</li></ul> | <ul style="list-style-type: none"><li>• Optional Early Termination</li><li>• Non Deliverable Barrier &amp; Binary</li></ul> |
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## Background:

- The FX market is categorised as being diverse with respect to the number of participants and the jurisdictions in which they operate in, and as such the volume of transactions is high
- Regulatory obligations such as Dodd-Frank and EMIR require transactions to be confirmed within specific timeframes
- In order to enable scale and to ensure market participants meet regulatory obligations, automation of confirmation processes is key

# Product specific template enhancements <sup>1</sup>

PRODUCT	WHAT IS CHANGING (the below represents the change requests to SWIFT. After SWIFT has deployed these changes in the 2015 Release, the products can be SWIFT confirmed)	MT TYPE
<b>Average Rate/Strike Option</b>	<ol style="list-style-type: none"> <li>1. new Option style required: Field " 12F – Option Style" new Options style to be added are: AVRO=Average Rate Option, AVSO=Average Strike Option, DAVO=Double Average Option</li> <li>2. add an optional sequence to the SWIFT message entitled 'Averaging'</li> <li>3. new Fields required in the " Averaging" section which are: Fixing Rate, Average Strike Price, Decimal Places, Number of Spot Averaging Dates, Number of Strike Averaging Dates, Spot Averaging Dates and Weights, Strike Averaging Dates and Weights, Adjustment and Settlement Amount</li> </ol>	<b>MT306</b>
<b>Average Rate/Strike Forwards</b>	<ol style="list-style-type: none"> <li>1. new Option style required: Field " 12F – Option Style" new Options style to be added are: AVRF=Average Rate Forward, AVSF=Average Strike Forward, DAVF=Double Average Forward</li> <li>2. Field 32B and 33B to become conditional within mandatory sequence B1 and B2, if Averaging is applicable, this will only be populated in one case for Average Strike Forward</li> <li>3. add an optional sequence to the SWIFT message entitled 'Averaging'</li> <li>4. new Fields required in the " Averaging" section which are: Fixing Rate, Average Strike Price, Decimal Places, Number of Spot Averaging Dates, Number of Strike Averaging Dates, Spot Averaging Dates and Weights, Strike Averaging Dates and Weights, Adjustment and Settlement Amount</li> </ol>	<b>MT306</b>
<b>Discrete Barriers &amp; Binary's</b>	<ol style="list-style-type: none"> <li>1. the " Non-deliverable option" block needs to be applicable also for Barrier/ Binary products (lift restriction - currently only when field 17F" Non Deliverable Indicator" says Y, the block becomes available)</li> <li>2. Add 'deliverable option block' to allow discretely monitored deliverable transactions to reference a fixing source – complete with 14S</li> <li>3. Enable repetitions of both 'deliverable and non-deliverable option block'</li> <li>4. Add a field 14S to optional sequence F1 to allow discrete barriers to be monitored against a specified source</li> </ol>	<b>MT306</b>
<b>Non Deliverable Barriers</b>	<ol style="list-style-type: none"> <li>1. lift the format rules to allow confirmation of EMTA standard fixing sources which do not stipulate time or location. Eg. Reuters ECB37 at 14.15 CET would read: :14S: EUR1 (time is stipulated within Annex A) Reuters WMRSPT05, at 1000 London time would read: :14S: EUR2/1000/GBLO</li> <li>2. add lines/ repetitions to this field, cross-currency sources could be populated</li> </ol>	<b>MT306</b>
<b>Optional Early Terminations</b>	<ol style="list-style-type: none"> <li>1. add an optional sequence to the SWIFT message entitled 'Optional Early Termination'</li> <li>2. new Fields must be added to this optional sequence to enable the full detail of the ISDA template to be confirmed within the SWIFT message, which are: Optional Early Termination, Option Style, Early Termination Date, Frequency of Early Termination, Exercising Party, Non-Exercising Party, Calculation Agent, Commencement Date, Expiry details, Earliest Exercise Time, Latest Exercise Time, Cash Settlement, Cash Settlement Valuation details, Cash Settlement Payment Date, Settlement Rate Option</li> </ol>	<b>MT306</b>

## Product specific template enhancements <sup>2</sup>

<b>Double Barriers (In -and Out)</b>	<p>1. on field 22G (Type of Barrier) – add additional Barrier Types " KIKO" and " KOKI" to allow Double Barriers with In- and Out Barriers to be SWIFT-confirmed.</p> <p>2. define usage rules, i.e.: If KIKO (Knock In Knock Out), the KI will mean the upper barrier (37J) whereas the KO means lower barrier (37L) If KOKI (Knock Out Knock In) , the KO will mean the upper barrier (37J) whereas the KI means lower barrier (37L)</p>	<b>MT306</b>
<b>Multiple Currencies</b>	<p>1. Optional Sequence G to be made repetitive to correspond to each currency pair to be monitored, matchable in chronological order. 22J to be able to contain multiple lines, each mandatory matching fields in chronological order</p>	<b>MT306</b>
<b>Multiple Windows</b>	<p>1. Optional sequence F1 to be made repetitive to correspond to each window period, matchable in chronological order.</p>	<b>MT306</b>
<b>Physically Fixed deliverable Options</b>	<p>1. Add two new option blocks, one for Deliverable(Principal) and one for Cash-Settled (Netcash) transactions both containing a field 14s (enhanced as per CR MT 306 Non Deliverable Exotics) to the MT 305 message. This would be a mandatory matchable field when populated. Differences from 14S within the MT 306 is that time and location would not be required unless different from that specified within 31G, for example in the case of Cross-Currency fixes.</p> <p>*nb. Field 31G may require some additional definitions to clarify location code as per 29E within MT 306</p>	<b>MT305</b>
<b>Variance / Volatility / Correlation Swaps</b>	<p>1. Field 23A to be amended to incorporate Variance, Volatility and Correlation Swaps</p> <p>2. Field 14D to be amended to accommodate the Annualization Factor – 12, 52 or 252</p> <p>3. Field 14F to be amended to accommodate 'Realized Volatility'</p> <p>4. Field 32B to be redefined to be applicable to Var Swaps only</p> <p>5. All non-relevant mandatory fields currently within the messages to become conditional upon the Identity not being Corr/Vol/Var Swap</p> <p>6. General change must be to add an optional sequence to the SWIFT message entitled 'Correlation, Volatility &amp; Variance Swaps'</p> <p>7. Fields must be added to this optional sequence to enable the full detail of the ISDA templates to be confirmed within the SWIFT message</p>	<b>MT360, MT361, MT364, MT365</b>

# An example of the 2015 enhancements

Below is an example of one of the products in scope, explaining why it currently cannot be SWIFT confirmed, and how we intend to onboard it to SWIFT

## Summary / Background

- Non Deliverable Barrier Options are currently still confirmed through paper.
- While "Non Deliverable Vanilla Options" and "Deliverable Barrier Options" are SWIFT-confirmed today (and therefore are ISDA templated), the combination of having a "Non-Deliverable Barrier Option" has not been on-boarded to SWIFT
- Reason being is that the Message Type for Barrier Options, the MT306, did not have specific fields to put in fixing sources.
- There was a field intended to be used for Fixing sources, which is field 14S, however, this field had specific formatting rules that would allow only 3-alpha and 2-numeric (code "3!a2!n" to be populated
- This value intends to use the definitions of the Annex A of the 1998 FX and Currency Option Definitions
- However, the current formatting rules would allow only for those fixing sources where the source itself is defined including time and location of publication. Also, a second fixing source, which would be required for cross-currency rates, would not fit in

## Pre Nov 15 situation on the MT306

1. The only field existing in the MT306 to populate fixing sources is **field 14S**, which has **formatting rules** that would allow **only those fixing sources where the source itself is defined including time and location** of publication. The formatting rules are 5-digit value, 3-alpha and 2-numeric (code "3!a2!n") and is populated according to the Annex A of the 1998 FX and Currency Option Definitions.
2. It would be sufficient in the example of "EUR1" whereby the definitions of that particular source include the source and the time (e.g. EUR1 is defined as fixing source is published as ECB37 fix, published 14:15 CET Frankfurt time), however **for most other sources such as "EUR2", the time is not specified and as such population of the source EUR2 would also require reference to a time and location**. The confirmation needs to define that.
3. Also, a second fixing source, which would be required for cross-currency rates, cannot fit-in with the current format rules

## What is changing to enable the product on SWIFT

1. The **formatting rules for field 14S shall be lifted**, to allow to **add fixing source, time and Location** as required for certain scenarios.
2. Field 14S should be added twice, whereas **two fixing sources, in the scenario of a cross-currency**, could be populated:
  - A. e.g. for A EUR/INR transaction, using INR01 & WM Reuters fixings (EUR2 )  
:14S: **INR01** (time is defined as 12:30 pm Mumbai time)  
:14S: **EUR2/Time/Location** (time is not defined i.e. the confirmation needs to state the time agreed with the cpty)
  - B. e.g. for A EUR/INR transaction, using INR01 & WM Reuters fixings (EUR1 )  
:14S: **INR01** (time is defined as 12:30 pm Mumbai time)  
:14S: **EUR1** (time is defined as 14:15 pm Frankfurt time)

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