



International Securities Association For Institutional Trade Communication

Addendum to MT548 Usage and Market Practice Rules

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This market practice document has been developed by the International Securities Association for Institutional Trade Communication (ISITC) as a statement of professional practices recommended by ISITC. Institutions providing the information recommended in this document will benefit from the efficiencies inherent in a more automated transaction process. Although all institutions are encouraged to act consistently with this document, none are required to do so, and a failure to do so is not, in and of itself, evidence of negligent or inappropriate conduct.

Version 7

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Document History

Version Number	Date	Who	Description
3.0	3/2003	Leonora Everett	Create the US Settlement Market Practice Requirements for MT548
4.0	4/25/2003	Genevy Dimitrion/Stan Marshall	Updates to document based on 4/2 Settlements offsite and addition of MT548 recommended fields.
5.0	7/16/2003	Genevy Dimitrion	Updates from 7/16 offsite. Restructure of document to address all issues.
6.0	1/30/2004	Jim Robinson	Updated with comments received from Karla McKenna, Jim Robinson, Ron Pryor, Stan Marshall
7.0	03/07/2006	Jason Brasile	Updates to document based off zoomerang vote for populating original face when status reporting on a MBS. Clean-up of deleted (strike-through) information. Please refer to version 6.0 for any old information previously agreed to be deleted.

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1. Executive Summary

SWIFT recently implemented the MT548 Settlement Status and Processing Advice along with the related MT544/5 and MT546/7 Settlement Confirmations as part of the ISO 15022 conversion. The purpose of these messages is to provide the industry with a standardized automated method for banks to notify financial institutions of the status of trades. After several months of receiving and processing these trade status messages, Investment Managers (IMs) have found that the way Global Custodians (GCs) use these messages is inconsistent and does not support the IM community's business needs or expectations. Investment Managers have identified several issues that impede workflow and force IMs to revert back to manual processing.

The Capital Group is leading a task force comprised of other IMs who are also automated, automating, or planning to automate the trade status notification process. Capital prepared this business case to propose modifications to the ISITC Market Practice to help resolve the issues IMs have encountered using this set of messages. Contributing IMs are BlackRock Inc., Brandes Investment Partners L.P., Credit Suisse Asset Management, Goldman Sachs Asset Management, MFS Investment Management, and Wellington Management Co.

Included in this document are the business expectations IMs have of GCs as they relate to the IM community's understanding of the way these trade status messages should be used. The issues identified are explained in terms of the business expectations, how they are not being met, and proposed solutions. These issues can be the result of the current market environment, bank system implementation, or the relationships GCs have with their local sub-custodian network. Many of these issues have already been widely discussed among the ISITC community.

The proposal will be presented in April 2003 to the US ISITC-IOA Securities Market Practice Group for Settlements/Treasury/Cash. The IM community expects this proposal will be the basis for identifying areas of change or clarification in the market practice for use of this set of ISO 15022 messages.

2. Background

Investment Managers (IMs) rely heavily on their Global Custodians (GCs) to keep them informed of statuses for the trades they've instructed – especially when settlement problems occur. As part of their STP initiatives, IMs wish to automate this process and eliminate the need for phone calls, e-mails, faxes, or on-line reports. Although many custodians can provide fail reports to IMs that help satisfy this business need, reports come in a variety of proprietary formats and must be manually processed upon receipt.

ISO 7775 MT534

The MT534 was the original ISO 7775 solution to standardizing the GC's fail reports. This was a standard message used by "account servicers" (or GCs) to notify "account owners" (or IMs) of settlement problems both pre and post settle date. The MT530/1 & MT532/3 were the standard settlement confirmations for trades and were sent to IMs by GCs upon actual settlement of the trade.

As the industry moved to ISO15022 messages, the MT534 and MT530/1 & MT532/3 were replaced by the new MT548 Trade Status and MT544/5 & MT546/7 Settlement Confirmation messages. The MT548 is much more sophisticated and allows GCs to report the status of a trade before contractual settle date as well as after. With this message, GCs now have the ability to provide a Processing status for the trade (upon GC's receipt of MT54X trade instruction), a Matching status (ideal for markets where pre-matching is a requirement), and a Settlement – or "post settle date" status (a.k.a. Failed status).

The idea of the multiple reporting status is that trades have multiple stages through which they progress. The first stage is the GC's Processing stage – which includes two sets of status messages, Cancellation Processing and Processing. On T/D or upon receipt of the trade instruction from the IM, the GC can report the status of their internal Processing of that trade. By the end of the day, the trade generally progresses to the second stage – Matching, which also includes two sets of status messages, Matched and Unmatched. During this period, the GC can report that the trade has matched in the market place - or that it has not matched and the reason why. This period ends on contractual settle date and overlaps the Settlement stage. Before the end of this day, the GC can provide a Pending Settlement status. By the end of contractual settle date and anytime thereafter, the GC reports a Pending Fail status and the reason why the trade is failing.

MT548 Need for Business Process Understanding & Standardization

Although much more information about the trade can be provided, the manner in which it is communicated from the depository to the local custodian to the GC and on to the IM can often be inconsistent with the business needs of all message recipients. Lack of consistency in the business process (rules of message creation and content) prevents IMs from building systems to successfully process the information being received. It becomes absolutely necessary for message generators to understand the business expectations of all subsequent message recipients to properly address the need to modify and enhance the trade status notification process.

This paper will cover the needs and expectations of one class of end recipients - the Investment Manager. As the last party in line to receive these messages, IMs recognize these issues may often be the result of events that occur further upstream in the message generation process. The goal of this document is to identify the issues that impact IMs - regardless of where the issues occur in the communication chain – and provide recommendations to clarify and enhance the MT548 Market Practice.

3. Recommended Fields for the MT548

BUSINESS ELEMENT NAME	Data FORMAT	US Market Practice M/O	Additional Information
Preparation Date/Time	8!n6!n	M	Should indicate the event time.
Sender message reference	16x	M	Should be a unique message ID as defined in the SWIFT User Handbook
Related message reference	16x	M	
Message Status (Matched or Settlement)	4!c	M	
Message Reason (Unmatched, Pending or Pending Fail)	4!c	O	
Transaction Type (SETR, REDE, PAYM)	4!c	M	
Settlement date	8!n	M	
Trade date	8!n	O	
Identification of Financial Instrument	ISIN 1!b!12!c	M	
Quantity of financial instrument to be settled	4!c/15d	M	Message should use the same quantity type code word (FAMT or UNIT) used by the IM on the related MT54X trade instruction. **For asset backed securites the original face quantity should be provided.
Safekeeping account to be credited or debited	35x	M	
Delivering or Receiving agent	Local Clearing CODE	M	If SWIFT messaging was received, service providers should playback the format that the

			client has sent in on the original instruction (which should follow published market practice requirements). Conversion of formats should not be expected or mandated.
Direct Client of Delivering or Receiving agent	Local Clearing Code	O	Note: If no Local Clearing Code is available, BIC should be provided.
Place of settlement	BIC	O	
Settlement amount (including currency)	3!a15d	C	Settlement amount Is only mandatory for dvp/rvp transactions.

4. Business Expectations Overview

A. Trade Status Reporting

- The MT548 has an expanded scope from the previous MT534 which includes Instruction Processing (previously sent as an MT596), Cancellation Processing Advice (previously sent as and MT596, Matching Status (previously sent as an MT548) and Settlement Status (previously sent as an MT548). Users of the MT548 should have the option to select from which 25B qualifier value of the trade they would like to receive notification.
- Allow users to request any one or a combination of any of the following types:
 - IPRC – Instruction Processing Status
 - CPRC – Cancellation Processing Status
 - MTCH – Match Status
 - SETT – Settlement Processing Status

*Due to market dependencies some stages may not be available.

B. Trade Matching

- If the market infrastructure is such that Matching and Settlement can occur simultaneously, the expectation is that a status for the Matching stage should be provided prior to status for the Settlement stage.
- It is important to emphasize that certain situations exist in which a Settlement Status can be sent prior to Match Status. (ie. LACK). In the case in which both the MTCH and SETT status are available a single message can be sent with both values.

- If a trade is unmatched, but matches prior to the Settlement stage, IMs expect to receive an MT548 to report when the trade is matched. Doing so would clearly indicate that any subsequent problems reported in the Settlement stage are not the result of a previously unmatched trade. This only applies to markets in which Matching is provided.

C. Message Generation

- ↻ **MT548 statuses should be provided for all securities related trade transactions** – not just trades sent via MT54X trade instruction. GCs should provide either a related reference number, a DTC Control number, or specific trade details that allow the recipient (IM) to link the status message to the original underlying trade.

- MT548 messages should be sent real time or near real time. MT548 should be sent when the status and/or reason of the securities transaction has changed.

GCs must use Settlement Reversal (On MT544-547) to report the change in the trade's condition from settled to unsettled. The GC should supply the trade status in the correct chronological order of events – this includes settlements and settlement reversals. **An MT548 should be sent to update the status of the transaction to reflect the reason preventing the trade from settling.**

- IMs expect that any GC capable of generating the MT548 for trade status notification and the MT544/5 & MT546/7 for settlement confirmation should be able to generate them for any trade.
- GCs should not send duplicate MT548s. They should only be sent upon change of Reason code, and only one MT548 should be generated.
- **US Market Practice Specific Requirement- FOR TRADES COMMUNICATED VIA THE DTC ID AFFIRMATION SYSTEM, it is recommended to use 20C::COMM in Sequence A1 to identify the unique reference of the transaction.**

D. Reason and Fail Codes

*This will be addressed by SWIFT in June 2004 when the codewords are validated.

- ↻ Banks should be using appropriate Reason Codes for the stage of the trade and should provide accurate and specific information so as to eliminate the need for a follow up phone call or use of manual fail reports from the IM for further clarification. The MT548 was designed to accommodate very specific reason codes to explain the particular problem with the trade. This allows for standardization of the different codes used by banks on their fail reports to identify the cause of a failed trade. (ie. LALO should be used to indicate shares are out on loan.)
- ↻ Fail codes in the GCs system should be mapped to the specific codes SWIFT created for the MT548. GCs should not be using their proprietary codes as it defeats the purpose of standardizing the codes in the first place.

E. Settlement Status (fails)

- ☐1. There should be a standard method for GCs to notify the IMs of failing FX trades or non-receipt of currency for the FXs that cover security trades.
- ☐2. There should be a standard method for communicating failing Forward Contracts trades or non-receipt of currency.
- ☐3. There should be a standard message for brokers to use to notify IMs of failing trades. It may be worthwhile to explore the possibility of brokers using the MT548 to somehow standardize current communication.

7. Appendix A - Field 25B Usage Examples

1. Good field examples in sequence

25D:: MTCH // NMAT	}	The first status we receive is unmatched with the subsequent reason code – Stage 2. In the diagram. (Most banks currently don't provide Processing status – Stage 1 from Appendix A)
24B:: NMAT // NMAT		
25D:: MTCH // MACH		The second status we receive is matched – Stage 2 from Appendix A
25D:: SETT // PEND	}	The third status we receive is our matched but pending and the subsequent reason code – Stage 3 from Appendix A
24B:: PEND // LACK		
25D:: SETT // PENF	}	The fourth status we receive is our matched but failing and the subsequent reason code – Stage 3 from Appendix A
24B:: PENF // CLAC		

And finally, settlement confirmation to be sent when settlement occurs

2. Bad field examples in sequence for same trade

25D:: MTCH // NMAT	}	The first status we receive is unmatched with the subsequent reason code – Stage 1. In the diagram
24B:: NMAT // NMAT		
25D:: SETT // PEND	}	The second status we receive is pending with subsequent reason code, we do not know if the trade has been matched or not with the counterpart – No Stage 2. This is Stage 3 from Appendix A.
24B:: PEND // LACK		
25D:: SETT // PEND	}	The third status we receive is failing with subsequent reason code, we do not know if the trade has been matched or not with the counterpart – No Stage 2. This is Stage 3 from Appendix A.
24B:: PENF // LACK		
25D:: MTCH // NMAT	}	The fourth status we receive is unmatched with the subsequent reason code. This is the first time that risk has been truly identified on the trade. We are now back to Stage 1 in Appendix A.
24B:: NMAT // CMIS		
		Or receipt of settlement confirmation.

8-Appendix B - Example of MT548 w/Related Reference in :20C::RELA

:16R:GENL
:20C::SEME//99.99.99.9999
:23G:INST
- **:98C::PREP//20030225010101**
:16R:LINK
:13A::LINK//541
- **:20C::RELA//3055442571000115**
:16S:LINK
:16R:LINK
:20C::PREV//030554240400000
:16S:LINK
:16R:STAT
:25D::MTCH//NMAT
:16R:REAS
:24B::NMAT//CMIS
:16S:REAS
:16S:STAT
:16S:GENL
:16R:SETTRAN
:35B:/US/9999999999
MULTICANAL SA C 10.5 4/15/18
:36B::SETT//FAMT/99000,
:19A::SETT//USD9999,99
:97A::SAFE//7777777
:22F::SETR//TRAD
:22H::REDE//RECE
:22H::PAYM//APMT
:98A::SETT//20030227
:16R:SETPRTY
:95P::DEAG//ABCDUS33
:16S:SETPRTY
:16S:SETTRAN

9-Appendix C - Preparation Date and Time in 98C & DTC ID Control Number

:16R:GENL
:20C::SEME//9999999999999999
:23G:INST
- *:98C::PREP//YYYYMMDDHHMMSS*
:16R:LINK
- *:20C::RELA//NONREF*
:16S:LINK
:16R:LINK
:20C::COMM//DTCCONTROLNUMBER
:16S:LINK
:16R:STAT
:25D::SETT//PENF
:16R:REAS
- :24B::PENF//LATE
- :16S:REAS
:16S:STAT
:16S:GENL
:16R:SETTRAN
:35B:/US/99999999
ABC GUM COMPANY
:36B::SETT//UNIT/3900,
:19A::SETT//USD99999,99
:97A::SAFE//AB01
:22F::SETR//TRAD
:22H::REDE//RECE
:22H::PAYM//APMT
:98A::SETT//20030303
:16R:SETPRTY
:95R::DEAG/DTCYID/12345
:16S:SETPRTY
:16R:SETPRTY
:95R::SELL/DTCYID/12345
:16S:SETPRTY
:16S:SETTRAN