



SWIFT ebook
December 2019

Cash in the capital markets: Tracking progress

The state of play
Treasury management
Reconciliation
Corporate actions
Margin calls
Fund management
Want to find out more?

The state of play

Capital markets are under pressure. The burden of regulatory compliance, the higher cost of capital, the tightening squeeze on fees and margins, in tandem with demands from customers for greater transparency and real-time data, are all forcing capital markets institutions to adapt.

Investment banks, brokers, custodians, asset managers and CSDs all need to find new sources of profitable growth as well as cut costs and risks.

Having the ability to track cash movements in real-time is fundamental to the industry's response to these challenges.

Real-time tracking enables businesses to manage payments pro-actively, ensuring critical deadlines are never missed, and to cut operational costs by reducing the number of failed trades. Knowing whether a payment will arrive on time can also cut the cost of liquidity dramatically.

Through specific use cases, this ebook explains how payments tracking can improve a range of post-trade processes today.

Treasury management

The challenge

If cash positions are not monitored and managed carefully, it can lead to:

- expensive borrowing on last minute overdrafts;
- over-funding of settlement accounts (which require cash to be at hand for delivery-versus-payment settlement to occur); or
- even breaches of local rules (for example those requiring settlement accounts to be pre-funded) that result in expensive buy-ins.

How payments tracking can help

- Monitor in real-time inbound and outbound payments, establishing net cash positions accurately and cutting the burdensome cost of credit
- Avoid over-funding of cash accounts in markets that require pre-funding to settle trades
- Enable operations and risk teams to anticipate settlement fails and arrange funding accordingly, respecting market cut offs.

Who can benefit?

- Asset Managers
- Broker-dealers
- Custodians
- (I)CSDs
- CCPs

Specific use cases

Markets with pre-funding requirements

Some markets require foreign investors to have their cash accounts funded before executing any payments or purchases.

As a consequence, financial institutions have to leave a large buffer on their nostro accounts as a precaution, which is often not needed.

Tracking of incoming payments enables treasury to better forecast any shortfalls and manage funding on these markets.

Markets in different time zones

In some markets, tight cut-off times restrict funding windows and financial institutions often have to fund their custodian or Securities Market Infrastructure account one day before, restricting their liquidity position.

With real-time insights into the status of payments and finality of credit for outgoing payments, treasury operations can make better decisions closer to the cut-off times, reducing overall funding costs.

Reconciliation

The challenge

Cash payments that cannot be reconciled are a major source of unnecessary costs for capital markets institutions and their clients. Cash breaks often occur for two main reasons:

- the instructions contain inaccurate or inadequate information; or
- unexpected charges or fees were deducted along the payments chain, causing a mismatch in the amounts.

An estimated \$6billion was spent in reference data cleansing, reconciliation and management in 2015*

How payments tracking can help

- Complete visibility allows potential problems to be detected and resolved earlier
- Reduces the time spent investigating and reconciling unmatched payments
- Allows the integration of automated and intelligent workflows using digital technologies to identify and resolve breaks

Who can benefit?

- Asset Managers
- Broker-dealers
- Custodians
- (I)CSDs
- CCPs

Specific use cases

Difference in amounts

Unexpected fees might be taken along the payment processing chain. This can cause delays in allocating payments and lead to lengthy discussions with counterparties.

Being able to track the payment journey and the fees incurred allows easier resolution of claim issues when there is disagreement with the client or the distributor about the amount.

Incomplete or incorrect information

A financial institution might receive a payment instruction that contains incomplete, or incorrect information. These mistakes are only discovered in the reconciliation process, which can cause delays as the payment requires investigation.

Tracing of incoming payments allows inadequate or incorrect information to be identified faster. This facilitates the reconciliation process, enabling faster allocation of the funds to the settlement or client accounts.

Corporate actions

The challenge

There might be a delay between the announcement by an issuer of the value of an entitlement (such as a dividend) and the actual or back-dated transfer of value. This creates problems in reconciling and allocating payments and dealing with client queries.

How payments tracking can help

- Enables an end-to-end view on corporate actions proceeds through confirmations of credit
- Greater transparency of the location of a payment allows crediting of client accounts with entitlements earlier, with a much lower risk of non-payment
- Getting earlier sight of inbound payments allows missing entitlements to be pursued proactively with paying agents

Who can benefit?

- Custodians
- Asset Managers
- Fund players
- Insurance companies
- Broker-dealers
- ICDs

Specific use cases

Earlier credit of Corporate Actions proceeds

(non-elective event e.g. interest or dividends)

There might be delays between the announced date of an income payment and the effective date of this payment. The financial institution therefore only pays the client when they see the funds are received and not on the basis of the payment instruction. This is usually after the initial payment date.

By tracking incoming payments, financial institutions have more certainty of funds arriving and can therefore credit corporate actions to client accounts earlier. They can also proactively follow-up on any missing payments with the agent.

Events on lent and borrowed securities

Financial institutions often lend securities to each other. When a corporate action occurs on those securities, a claim should be issued, which can often include follow-up work to check the status of the corporate action proceeds.

Tracking of incoming payments from the borrower enables a better follow-up on those corporate actions proceeds.

Margin calls

The challenge

Clearing members and triparty agents make daily cash margin calls, to ensure the settlement of their clients' obligations with their counterparties. These obligations are often of substantial value, and must be met before a specific cut-off time.

How payments tracking can help

- Predict which cash payments will settle on time and meet cut-off deadlines
- Manage daily liquidity requirements on a better-informed basis

Who can benefit?

- Broker-dealers (and their clients),
- CCPs
- Custodians
- ICSDs

Specific use cases

Central counterparty clearing house variation margins

CCP requests margins are deposited on a daily basis to ensure settlement of trades ("margin calls"). Sums can be large and must arrive on time, otherwise the clearing member could be declared in default. There is no credit line on these payments to cover the sum. The clearing member must also follow-up on margin calls expected from its clients.

Tracking of incoming payments from clients and certainty of credit for outgoing ones enables the clearing member or CCP to reduce operational risk of not fulfilling margin requirements.

Collateral management

Monitoring all margin calls sent and received in the collateral management process is often cumbersome, which means if a margin is missing, often the parties involved don't find out until too late, which leads to large claims.

Tracking of incoming margins and certainty of credit for outgoing ones enables real-time understanding of the risks associated with the collateral management process. This allows for them to be managed proactively, reducing potential costs.

Fund management

The challenge

To calculate net asset values (NAVs) for funds, fund accountants need accurate daily cash forecasts based on large numbers of purchases and sales. Fund managers in general need a clear statement of net cash remaining after settlement of all outstanding trades, so that this surplus can be reinvested.

How payments tracking can help

- Early and accurate insight into inbound and outbound payments improves the accuracy of cash forecasts
- Enables investment decisions to be made closer to deadlines
- Surplus cash can be reinvested with greater confidence for the benefit of the fund

Who can benefit?

- Fund Managers/Hedge Funds
- Asset Managers
- End clients (High net worth individuals, insurance companies, institutional investors)
- Fund players
- Custodians
- ICSDs

Specific use cases

Investment decisions

Not knowing where a client's payments are can delay an asset manager's investment decisions, which could cause some valuable investment opportunities to be missed.

Improved speed and tracing of incoming payments can accelerate payment allocation to the funds account, giving more accurate sight of position and enabling investment decisions to be made faster.

Client queries management

A client claims that he has not received the payment sent to him. Due to difference in time zone, an immediate answer from the cash correspondent is not possible.

Payments tracking enables Client Services to follow the payments exchanged, without needing to contact the correspondent, allowing them to respond quickly to the client's query.

Want to find out more?

Interested in finding out how you can start tracking the payments leg of your securities transactions?

Visit [**swift.com**](https://www.swift.com) for more, or **contact us**



About SWIFT

SWIFT is a global member owned cooperative and the world's leading provider of secure financial messaging services. We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and regulatory compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories.

While SWIFT does not hold funds or manage accounts on behalf of customers, we enable our global community of users to communicate securely, exchanging standardised financial messages in a reliable way, thereby supporting global and local financial flows, as well as trade and commerce all around the world.

As their trusted provider, we relentlessly pursue operational excellence; we support our community in addressing cyber threats; and we continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

Our products and services support our community's access and integration, business intelligence, reference data and financial crime compliance needs.

SWIFT also brings the financial community together – at global, regional and local levels – to shape market practice, define standards and debate issues of mutual interest or concern.

SWIFT's strategic five year plan, SWIFT2020, challenges SWIFT to continue investing in the security, reliability and growth of its core messaging platform, while making additional investments in existing services and delivering new and innovative solutions.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's global office network ensures an active presence in all the major financial centres

For more information about SWIFT, visit www.swift.com.

About SWIFT gpi

The SWIFT global payments innovation (SWIFT gpi) is the largest change in cross-border payments over the last 30 years and is the new standard. SWIFT gpi dramatically improves the customer experience in cross-border payments by increasing their speed, transparency and end-to-end tracking.

Hundreds of thousands of cross-border payments, totalling over \$300bn, are sent every day using the new gpi standard. Payments are made quickly, typically within minutes, even seconds.

SWIFT gpi allows corporates to receive an enhanced payments service, with the following key features:

- Faster, same day use of funds within the time zone of the receiving gpi member
- Transparency of fees
- End-to-end payments tracking
- Remittance information transferred unaltered

With SWIFT gpi, the correspondent banking community, together with fintechs, corporates, and others, is collectively removing frictions and reducing the costs associated with cross-border payments. Since its launch in January 2017, gpi has dramatically improved the cross-border payments experience for corporates in over 1,100 country corridors.

Key features of SWIFT gpi include enhanced business rules and a secure tracking database in the cloud accessible via APIs. New gpi services are routinely developed with the gpi member community and rolled out to the growing network of banks.

Thanks to SWIFT gpi, corporates can grow their international business, improve supplier relationships, and achieve greater treasury efficiencies. On average, 40% of SWIFT gpi payments are credited to end beneficiaries within 5 minutes. 50% are credited within 30 minutes; 75% within 6 hours; and almost 100% within 24 hours.

Already, 3,500 banks accounting for 85% of SWIFT's total payments traffic have committed to adopting gpi and more than 55 payment market infrastructures are already exchanging gpi payments, enabling domestic exchange and tracking.

Payment market infrastructures have a critical role to play in facilitating the end-to-end tracking of cross-border payments because as soon as international payments hit the destination country, they are typically cleared through local payment infrastructures.

www.swift.com/gpi