



AFMA Common Confirmation and Settlement Standards



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Disclaimer

It is necessary for the users of these recommendations to determine in each case the suitability or otherwise of the recommendations, proposed provisions and other documents referred to in these recommendations to their particular circumstances. These recommendations are not intended to constitute legal or other advice on which users may rely in implementing actual transactions. Nor are they intended as a substitute for legal or other advice when documenting proposed transactions. In this regard, it is strongly recommended that intending users seek prior independent professional advice in respect of



the legal, taxation, stamp duty, regulatory, financial and other implications arising from the recommendations, proposed provisions and other documents referred to in these recommendations.

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These Standards are voluntary, are not legally binding and do not create enforceable obligations.

1. Scope

This document covers the following types of deals (the descriptor indicated for each deal type is used throughout this document).

- Fixed Income Securities (FIS/longer dated securities);
- Repurchase Agreements (Repos);
- Cash;
- Negotiable Transferable Instruments (shorter dated securities) including but not limited to:
 - Bank Accepted Bills (BAB);
 - Negotiable Certificates of Deposit (NCD);
 - Promissory Notes (P/N) also known as commercial paper; and
 - Treasury Notes (T/N).

These Standards relate only to onshore/onshore deals. However, participants should ensure the prompt and accurate processing of transactions with all counterparties, regardless of domicile.

Note that the [Conventions](#) associated with particular products contain sections on Confirmations and Settlements that are specific to those products and override these standards as applicable.

2. Methods of Dealing

The market will accept electronic paper.

Dealers may use the following methods for dealing onshore/onshore.

Type of deal	Method of Dealing		
	<i>Broker</i>	<i>Phone</i>	<i>Electronic</i>
<i>Debt Market Instruments</i>			
FIS	✓	✓	✓
Repos	✓	✓	✓
<i>Negotiable Transferable Instruments</i>			
BAB, NCD, P/N, T/N, etc.	✓	✓	✓



3. Confirmations

3.1. Background

Parties are bound from the moment they agree verbally to the terms. However, because of the possibility of misunderstanding or disputes about the exact terms, market practice is to confirm the details of all deals either electronically or in writing.

This section sets out accepted market practice for the standards and procedures to be adopted for confirmations.

3.1.1. Implications of Confirmation

The exchange of a complete and accurate bilateral, or two-way, confirmation signifies that both parties agree on the details of a deal.

A bilateral confirmation ensures that both parties are bound by the terms of the transaction and that settlement instructions are exchanged.

3.1.2. Timing of Confirmations

Confirmation should take place as soon as possible after a transaction is executed so that errors can be detected and corrected promptly, ensuring minimal risk to the counterparties.

3.1.3. Types of Confirmations

There are two main types of confirmation — primary and secondary.

A primary confirmation is the initial information exchanged by the counterparties after they execute the transaction. This can be by electronic, verbal or written communication.

A secondary confirmation follows as a formal verification of the details.

3.2. Matching of Confirmations

Confirmations should be matched to ensure that the terms of the deal are identical from both counterparties' perspectives.¹

¹ Matching confirmations can avoid errors, prevent payment mistakes and greatly increase back-office processing efficiency.



Errors can occur at multiple stages in the dealing process:

- Assuming the deal is agreed verbally correctly it can be booked incorrectly; or
- there can be a fault in the confirmation even though the deal is booked correctly.

In either case it is necessary to correct the error and reconfirm the deal.²

Deals should be matched (and if necessary corrected) promptly. Preferably, this should be done within 24 hours of the exchange of confirmations. Some deal types may require faster matching.

Where possible, and particularly where volumes or exposures are sizeable, market participants should use an electronic matching and settling system³ to match and settle all qualified deals.

3.3. Acceptable Forms of Confirmation

Deals can be confirmed by the methods indicated but it should be noted that letter, fax, internet and phone are the least preferred and it is intended that they should be replaced by an electronic method.

Type of deal	Method of Confirmation					
	ASX Austraclear	SWIFT ²	Phone ³	Letter	Fax ¹	Electronic ¹
<i>Debt Market Instruments</i>						
FIS ⁴	✓	✓	✓	✓	✓	✓
Repos ⁵	✓	✓	✓	✓	✓	✓
<i>Negotiable Transferable Instruments</i>						
BAB, NCD, P/N, T/N, etc.	✓	✓	✓	-	✓	✓

¹ Such as CTM.

² Must use appropriate SWIFT message format.

³ If a SWIFT confirmation has been received within one hour of a trade, a telephone confirmation is no longer required.

⁴ See Section 4.9 for further rules on FIS confirmations.

⁵ See Section 4.10 for further rules on Repo confirmations.

Other:

- *Internet* - this form of confirmation is not encouraged and should be covered by a bilateral indemnity or user agreement.
- *Facsimile* - once a bilateral "fax indemnity" is in place, a facsimile is an acceptable form of confirmation.
- *Letter* - can be used as a secondary form of confirmation of transactions.

² If you are using SWIFT to confirm deals (the relevant SWIFT standards are explained in the SWIFT user handbook), parties may send an amended confirmation or issue a cancellation and replacement.

³ Such as ASX Austraclear's EXIGO system.



- *SWIFT* - Standard-format SWIFT messages are used for confirmation of a range of transaction types. Correct use of standards includes these procedures:
 - A BIC code with option A should be used in the "party" fields whenever an institution has one, even if it is not yet "live" on SWIFT.
 - Field 72 should be avoided unless important information is to be conveyed for which no specific field exists.
- *Tri-Party – confirmed by ASXCOL*
- *Telephone* - Recorded conversations preserve the details of a deal. They are used only for primary confirmations of onshore/onshore transactions.
- *ASX Austraclear* - This confirmation method is only available to ASX Austraclear Participants. Transactions are entered by both counterparties into the relevant ASX Austraclear EXIGO component (the Discount Securities System for Debt Market Instruments or the Fixed Interest System for FIS and Repos). Details are then matched by the system and any discrepancies highlighted. No further confirmation is required where trades have been matched in EXIGO.

3.4. When Deals are to be Confirmed

Market participants have agreed the timing standards by which confirmation should take place for onshore/onshore transactions. These are as follows:

Type of deal	Timing of Confirmation	
	<i>Within one hour of deal</i>	<i>On day of deal</i>
<i>Debt Market Instruments</i>		
FIS	-	✓
Repos	✓ ¹	-
<i>Negotiable Transferable Instruments</i>		
BAB, P/N, T/N, etc.	- ²	- ²

¹ With repo transactions, the confirmation of the first leg is only required when the settlement date of the first leg is later than the trade date of the first leg (i.e. not a 'same day' transaction or in some cases a 'next day' transaction).

² Currently there are no formal market standards that have been agreed by market participants for the length of time taken for confirmation of BAB, P/N, N/C/D and 'At Call Cash' because of, in the main, the 'same day/next day' settlement nature of these transaction types.

3.5. Procedures for Confirmation

- *SWIFT* - Hard copy printout of the SWIFT message (or receipt into a matching system) should be accepted as firm evidence of the details of the deal.
- *Electronic* - The various electronic dealing systems used in the Australian debt and FX markets usually have an in built confirmation generation capacity which are an acceptable form of confirmation for most organisations. These systems currently are:



- Reuters
- Bloomberg
- Yieldbroker
- EBS

- *Telephone*

When the counterparty is a financial institution

Operations personnel of either party to a deal may initiate a telephone confirmation if no confirmation has been received one hour after the transaction. Both back offices must have the dealing ticket at the time. If the back office receiving the call does not have the dealing ticket, it must obtain it and inform the other back office of the status of the deal within 30 minutes of the original call.

Format to be used over telephone when the caller is Organisation A (it is imperative that the full legal name of each organisation is used, e.g. Westpac Banking Corporation Limited, Sydney Office, not just "Westpac"):

- A's name
- broker's name if deal is executed through a broker, e.g., "dealt by Tullett Prebon"
- details of confirmation, which may include:
 - client/counterparty
 - ISIN (covers issuer, coupon and maturity)
 - face value
 - yield/price
 - settlement date
 - consideration
 - settlement method
- other relevant details
- brokers name (if applicable)

When the counterparty is a corporate

If the financial institution has not received confirmation of the deal after one hour by facsimile or Internet, its operations staff should initiate a telephone confirmation.

Failure to receive corporate confirmation could result in the following:

- Incorrect counterparty name
- Incorrect SSIs (Standard Settlement Instructions)
- Failed Settlement

The financial institution has a responsibility to ensure confirmation is completed.



3.6. Amending Deals

If any details of a deal are amended after the initial confirmation, the deal must be reconfirmed using the same medium as originally used.

The confirmation procedure is the same as the original confirmation except that the parties are to make it clear that they are confirming an amendment to an existing deal.

It is also recommended that a full audit trail of amendments be appropriately approved and records kept.

3.7. Cancelling Deals

If a deal is cancelled after confirmation, the cancellation must be confirmed within one hour.

Confirmation procedure is the same as the original confirmation except that the parties are to make it clear that they are confirming a cancellation of an existing deal.

It is also recommended that a full audit trail supporting the cancellation be appropriately approved and records kept.

3.8. Late Trading

Deals that cannot be confirmed on the deal day because of late trading must be confirmed as soon as possible and no later than 10:00am on the following business day.

If a firm cannot confirm full details of a trade, they should endeavour to at least confirm its existence.

3.9. Additional Rules for FIS Confirmations

When confirming a FIS transaction through ASX Austraclear, the following information is to be entered:

- Stock Issuer:
- Series:
- Seller/Buyer:
- Other Participants:
- Deal Date:



- Settlement Date:
- Face Value:
- Yield Rate:
- Deal Price:
- Consideration:
- Auto Settle: Yes/No

Market practice is to confirm outright FIS trades on the trade date — i.e. all trades dealt before 5:00pm are confirmed by 6:00pm. Late trades that cannot be confirmed on the same day must be confirmed by 10:00am on the following business day.

Best practice is to achieve FIS confirmations within one hour of trading. Transactions covered by this target are all securities registered in the ASX Austraclear system: Commonwealth Government securities, Semi Government securities and corporate debt instruments.

The target is to be observed by all AFMA members, regardless of their legal status and role in the market. Trades involving non-members of AFMA may have to be considered separately; confirmation times for FIS trades may have to be agreed bilaterally between these counterparties.

ASX Austraclear is the preferred confirmation system for domestic FIS trades. ASX Austraclear has reporting mechanisms indicating trades not matched/confirmed. Confirmation will be satisfied if both parties have entered the relevant trade into the system. Mismatched transactions will be considered part-confirmed and unmatched transactions will be unconfirmed.

Host-to-host and SWIFT are available on ASX Austraclear to assist in meeting the target of FIS trades being confirmed within one hour. The reporting mechanism for unconfirmed transactions encourages compliance with confirmation guidelines.

3.10. Additional Rules for Repo Confirmations

These rules assume that repos will be governed by either:

- an ISDA Master Agreement which incorporates September 1992 Australian Addendum No. 9 — Reciprocal Purchase agreements; or
- the Global Master Repurchase Agreement (GMRA)⁴.

⁴ The GMRA is published by the International Capital Market Association (ICMA) as a master agreement for repos. Further guidance on the use of the GMRA is to be found in AFMA's Guide to OTC Documents.



- Nothing further is required to evidence the agreement as by becoming a member of RITS firms are bound by the RITS Regulations and Conditions of Operation. The MARKET function in ASX Austraclear's EXIGO system enables participants to initiate repo trade settlements electronically by keying matching entries.

If two parties are members of RITS but want to trade other than on the terms of Exhibit C, then they can sign a GMRA attaching AFMA Annex I, which has been developed in association with market participants for use with the GMRA in Australian domestic transactions. For further details see AFMA's Guide to OTC Documents [Part 26].

Further, parties can agree outside ASX Austraclear the terms of the master agreement to govern their transactions but still use the above-mentioned MARKET function to confirm the transactions.

Following are suggested forms of repo confirmation by letter. Version 1 is used when only the second transaction is to be confirmed (this is generally acceptable unless the first transaction does not settle on the trade date). Version 2 is for use when both the first and second transactions are to be confirmed.

(Part 26). Exhibit C to the RITS Regulations references the PSA/ISMA GRMA (as amended), setting out various elections and amendments to the standard GMRA to reflect either Australian law or the way in which The RBA mandates that participants who wish to be eligible counterparties to RBA market operations transactions be members of RITS.



Repo Confirmation Version 1 - confirming only second leg of transaction

[Letterhead of Party A/B]

[Date]

Name and Address of Party B/A

Dear

Reciprocal Purchase Agreement Confirmation

The purpose of this letter is to confirm the terms and conditions of a reciprocal purchase agreement entered into between us on the Trade Date specified below.

This Confirmation supplements, forms part of, and is subject to, the Master Agreement dated as of [date], as amended and supplemented from time to time.

Our reference:

Trade Date:

Reciprocal Seller:

Reciprocal Buyer:

Agreed Features of securities:

Issuer:

Coupon Rate:

Maturity:

Face Value:

First Purchase Price:

Contract Rate:

[Reciprocal Purchase Date:]

[Other provisions:]

Yours sincerely

[name of party preparing Confirmation]

By:

Name:

Title:



Repo Confirmation Version 2 - for confirming first and second legs of transaction

[Letterhead of Party A/B]

[Date]

Name and Address of Party B/A

Dear

Reciprocal Purchase Agreement Confirmation

The purpose of this letter is to confirm the terms and conditions of a reciprocal purchase agreement entered into between us on the Trade Date specified below.

This Confirmation supplements, forms part of, and is subject to, the Master Agreement dated as of [date], as amended and supplemented from time to time.

Our reference:

FIRST TRANSACTION

Trade Date:

Buyer:

Seller:

Agreed Features of securities:

Issuer:

Coupon Rate:

Maturity:

Face Value:

First Purchase Date:

First Purchase Price:

SECOND TRANSACTION

Reciprocal Seller:

Reciprocal Buyer:

Contract Rate:

[Reciprocal Purchase Date:]

[Other provisions:]

Yours sincerely

[name of party preparing Confirmation]

By:

Name:

Title:



Rules for amending repos:

- If the repo was originally entered in ASX Austraclear as a repo, then the amendment should be made by using the Repo function within the Market Repo Facility in ASX Austraclear.
- If the repo was originally confirmed by fax, amendments must be reconfirmed by fax.
- Variations to repos can also be confirmed with a supplementary letter confirmation.

Following is a suggested format for confirming as a letter. It should be appropriately amended if other forms of confirmation are used.

[Letterhead of Party A/B]

[Date]

Name and Address of Party B/A

Dear

Reciprocal Purchase Agreement Supplementary Confirmation

The purpose of this letter is to confirm a variation to apply from the Variation Date specified below for the specified REPO.

This Confirmation supplements, forms part of, and is subject to, the Master Agreement dated as of [date], as amended and supplemented from time to time.

REPO Reference Number: Reciprocal Seller:

Reciprocal Buyer:

Reciprocal Seller:

Reciprocal Buyer:

Variation Date:

Variations:

[New Contract Rate:]

[New Reciprocal Purchase Date:]

[Other]

Yours sincerely

[name of party preparing Confirmation]

By:

Name:

Title:



4. Settlement

4.1. Forms of Settlement

Settlement involves the delivery of securities from one party to another. Delivery usually takes place against payment, but some deliveries are made without a corresponding payment.

Settlement is the exchange of an agreed currency amount or exchange of security on a specified value date. Settlement can take a number of different forms, including:

- a one-way cash payment, made electronically;
- delivery vs payment — the simultaneous exchange of cash for a security; or
- delivery free of payment – the movement of a security between parties without any cash payment.

4.2. Standard Settlement Instructions

Standard Settlement Instructions (“SSI”) are a list of standard bank account and security settlement account details exchanged between market participants. These represent the accounts through which a financial markets participant pays and receives cash or securities in settlement of financial markets transactions. The details of each bank account must be listed, including the name and location of the bank, the account number and usually the SWIFT addresses. The security settlement account details can either be those of the trading principal or that of their external settlement agent.

If SSI are in place, it is possible to take advantage of straight-through processing.

If SSI are not in place, full payment instructions and security settlement details must be exchanged at the time of the deal or no later than the time of the confirmation.

Where one counterparty wishes to deviate from the SSI, it is the responsibility of the deviating party to advise the other party of the amended or changed instruction before settlement.

4.2.1. SSI Issuing Procedures

When SSI are issued or amended the following procedures are followed:

- For interbank communication of SSI, SWIFT broadcast is the recommended medium. For communications to non-SWIFT members, SSI should be issued on the institution’s



letterhead and must be signed by authorised signatories. In the case of corporate clients, all SSI notifications must be in writing and signed by the appropriate authorised signatories or loaded into Alert.

- A copy of the written advice should be provided to allow the recipient's authorised signatories to sign and return the advice as acknowledgment of receipt.
- The list of SSI should clearly identify and highlight any changes made to previously advised instructions. For example, changed instructions could be listed separately from a complete listing of all instructions, thereby drawing the recipient's attention to the changes.
- Each page of the lists should be signed by authorised signatories. It is also recommended that pages be numbered "1/5", "2/5" etc.
- A covering letter must show clearly and unambiguously when the new SSI are effective and whether the changes apply to new deals only or to all outstanding transactions. The effective date should also appear on the lists attached to the letter.
- Counterparties to whom changed instructions are sent must be given sufficient time to acknowledge receipt of the written advice. Two weeks is considered reasonable. Therefore, amendments/new SSI should reach counterparties at least two weeks before the effective date of the amended/new SSI.
- It is the responsibility of the issuer to monitor receipt of acknowledgments and initiate appropriate follow-up action prior to the changes becoming effective for non-SWIFT broadcast communications. Where a SWIFT broadcast is utilised to inform of new SSI details, the responsibility is on the receiver to update its own internal systems with the new information.
- Individual organisations will have risk and compliance guidelines regarding method of confirmation of SSI information.

4.3. Settlement Methods and Payment Systems

Acceptable settlement methods and payment systems include but are not limited to:

- Reserve Bank Information & Transfer System (RITS)
- Real-Time Gross Settlement (RTGS)
- ASX Austraclear
- Euroclear
- Depository Trust & Clearing Corporation (DTCC)
- Clearstream (Cedel successor)



4.4. Reconciliation

4.4.1. Background

The reconciliation function in treasury operations is the final verification that the settlement process has taken place correctly for each transaction and that the appropriate account has been debited or credited. Reconciliation can take a number of forms.

4.4.2. Reconciliation of all Outstanding Transactions

This reconciliation can take place in one of two formats. On a regular basis financial market participants confirm either all outstanding transactions or select a sample.

They may issue an audit confirmation letter to counterparties requesting them to confirm all outstanding transaction details. Recipients of such a letter reply to the issuer noting any transaction detail differences, which are then investigated.

4.4.3. Dealer Position Reconciliation

Either progressively during the day, or at close of business, the dealer's currency or product position is reconciled to internal blotter or system records. Costs (losses) can be incurred where a position is incorrect and the true position is therefore not being managed.

4.4.4. Timeliness

The timely reconciliation, prompt investigation and resolution of any discrepancies is essential in treasury operations. Failure to follow up items immediately increases the risk of *nostro* (our) overdraft costs or late settlement costs. Non-reconciled items can also lead to market and credit risks.

4.4.5. Settlement Failure

Early detection of a counterparty's failure to settle is crucial. The failure to settle could be simply an error or oversight by the counterparty, but in some cases it could be something far more serious, such as a lack of funds. In this situation, the early detection of the problem could minimise potential losses.

4.4.6. Cash Account Reconciliations

A participant in the financial markets holds different currency accounts, including AUD and non-AUD for payment and receipt of funds in settlement transactions. A foreign currency account with an offshore bank (correspondent) is called a *nostro* account.

Reconciliation of all accounts must be performed for all currencies.



The main purpose of the *cash/nostro* account reconciliation is to ensure that expected cash movements agree with the actual cash movements of each currency in the *cash/nostro* account. If differences exist, a financial institution must follow up with either the correspondent or the counterparty to resolve the difference. The cause of the difference may be that incorrect trade information was captured or that the correspondent made an error with a payment.

If the *cash/nostro* account reconciliation is not performed, or is performed incorrectly, the actual account balances will be different from internal records. This will result in the financial institution paying overdraft costs on short balances or receiving less than market rates on any long balances. In some circumstances market risk can be incurred where an incorrect payment or receipt is a result of a transaction recorded incorrectly and this has remained undetected.

Several types of bank statements are available for reconciliation. These range from SWIFT or other electronically derived means to paper-based statements. Bank statements should be reconciled at the earliest possible time after close of business.

4.4.7. Security Account Reconciliations

Financial Markets Participants should perform daily reconciliations of Securities settled in EXIGO. To perform this task effectively the reconciliations area is required to retrieve a portfolio report from the ASX EXIGO system. It is recommended the participant reconcile this report to its settlement system the below fields:

- Face Value
- ISIN (on long term securities)
- Issuer
- Current Principle (Principle reducing securities)
- Maturity Date
- Beneficial holder (Stock held in Sub-Account in clients name – Safe Custody)
- Account held in EXIGO (if applicable)

Any reconciliation breaks should be investigated immediately and escalated to the appropriate management level as required by organisational policy & procedures. It may identify problems within the previous day's settlement where booking or settlement discrepancies have occurred.

Security Reconciliations should be performed as soon as practicable after end of day.



4.5. Investigation

The investigation process determines the cause of a discrepancy and prompt follow-up action results in minimisation of any compensation claims or overdraft charges. This process is normally a result of the reconciliation process that has uncovered a discrepancy or anomaly.

Good value is defined as "giving value to a payment that the payment should have originally had if it had been effected on the original date".

If a discrepancy was caused by an error at the bank then the bank must arrange to pay the counterparty the principal sum with good value or to pay the counterparty compensation. Where one organisation has been "unduly enriched" through another organisation's error then the enriched party will be asked to return this benefit. Compensation rules for the calculation of claims apply in various jurisdictions.

5. Guideline Procedures in the Case of Early Redemption of FIS Securities in Austraclear

When an issuer chooses to early redeem a line of FIS securities that have been electronically lodged and traded in the Austraclear system, the following standards should be followed to avoid ongoing administrative charges for issuer and holders, reconciliation issues for holders:

- The Issuer or its representative should contact all beneficial owners to advise of the early redemption of the said securities. This communication should be in writing and confirmed receipt at least 5 business days before the redemption settlement date.
- Upon Redemption settlement date, the Issuer or its representative should place trades in the EXIGO system to "buy" each line of stock back from each beneficial owner or its representative. Noting this is settled free of payment. The maturing funds will be credited directly to your EXIGO account via corporate actions.
- The Issuer or its representative should then request a withdrawal of the redeemed securities removing them from the EXIGO settlement system.

---end---