

SWIFT Standards: Category 7 changes for Guarantees/ Standby Letters of Credit

Trade Finance



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Executive summary

In 2017/2018, SWIFT issued a 'Standards MT Release' which included a number of significant changes to their category 7 messaging standards used in trade finance

This is as part of an industry-wide initiative that SWIFT is introducing to the market in two phases – the first, completed in November 2018, affected messages regarding Documentary Letters of Credit; and the second stage relates to changes impacting the messages used for the handling of Documentary Credits and Guarantees/Standby Letters of Credit (also known as Category 7 or CAT7 message types). The initiative represents the most significant set of changes to the trade finance messaging interface in nearly 30 years, with new fields being added to existing messages and the introduction of new message types.

The initiative is part of efforts from the industry to improve the structure of data transferred between counter-parties by reducing the size of the narrative field, thereby reducing input errors and streamlining process efficiencies with straight-through processing. This in turn should improve the turnaround time associated with completing trade transactions.

In order for banks and vendors to adhere to the new standards, back- and front-office applications have had to be updated; however, the initiative also impacts the business side of the trade industry, with both banks and corporates having to make adjustments to their operational processes.

At Finastra, we began our SWIFT journey back in 2017, delivering the first phase of changes for documentary letters of credit in 2018. We are delivering the second phase (Guarantees & Standby Letter of Credits), releasing the compliant version of our software to our clients and the market well ahead of the SWIFT delivery timelines.

We encourage all Trade Finance banks to assess what these changes mean for their business **as soon as possible** and explore the competitive and operational advantages that can be achieved. It will require significant effort to implement these new requirements, early project planning is essential to minimize change management risks. We continue to guide our clients on their digital transformation journey, helping them to take advantage of the unique opportunity to achieve SWIFT compliance well in advance. Offering a new set of products and solutions that will help revolutionize your trade business in a new era of digitalization.



Timelines

Category 7 changes for Guarantees/Standby Letters of Credit will now be incorporated as part of the SWIFT Standards Release 2021, activated in November 2021

SWIFT CAT7 changes:

SWIFT is making significant changes to the existing CAT7 messages and is adding further message types. This is the second phase of the wider initiative to bring SWIFT messaging standards in line with business and market changes. One of the most notable changes is that MT700/1 will no longer be used to issue Standby Letters of Credit (Standbys), instead an extended structured MT760/1 can be used to issue Standbys, Guarantees or dependent undertakings under the new SWIFT regime.

Common 7xx (759) messages

The general-purpose structured messages, such as MT759, can be used and are favoured over the unstructured MT799. These are recommended in the context of issuing and amending dependent undertakings or other forms of undertakings which cannot be issued under the new MT760/1 format message.

Other CAT7 messages that are most impacted can be summarized as following:



Standbys and Guarantees issuance and amendment messages are now highly structured and have up to three sequences to handle the undertaking (and optionally the local undertaking)



Support is included for larger Guarantees (continuation messages for issuing and amending)



The messages can include additional files, for example those transferred via FileAct



Messages can be sent to the beneficiary's bank informing it of non-extension of the undertaking



Messages can be sent to the issuer of the undertaking with a payment demand



Messages can be sent to the beneficiary's bank indicating a refusal of the demand for payment

Note: Once new CAT7 standards are live, it will no longer be possible to either issue a Standby using MT700/705/710/720 or amend with MT707

A woman with dark hair and glasses is shown in profile, looking down at a server rack. She is wearing a purple top. The server rack is filled with various components, including cables and circuit boards, and is illuminated with a blue light. The background is dark and out of focus.

Impact on Finastra Trade Finance solutions

New SWIFT CAT7 standards have a significant business and operational impact for the whole Trade Finance industry, including Finastra's Fusion Trade Innovation (FTI) and Fusion Corporate Channels (FCC) clients (our Trade and Supply Chain Finance applications)

The new fields and message types, introduced as part of the SWIFT changes, require banks and financial institutions alike to review existing business and operational processes in order to comply with the new standards and, most importantly, take advantage of the new features.

Finastra product strategy has been designed to help our clients from a technical perspective, to quickly and easily adopt these changes by optimizing their Trade applications, Fusion Trade Innovation and Fusion Corporate Channels, through compatible models which ensures a simplified implementation approach.

Deciding to act now could propel your bank ahead of the competition, ensuring agility and readiness for the future whilst allowing you to explore options for advancement, transformation and innovation.



Fusion Blueprints

Finastra Global Services can support customers to implement required changes on MT CAT7 messages for FTI and FCC

Our proposed implementation approach “Fusion Blueprints” is an integrated concept from solution design to deployment. It is a model and process led implementation approach based on a set of best practices business processes that are aligned to the application.

It is a flexible application model with a controlled framework supported by a set of standard documents, accelerators and tools that enable an easy implementation and governed by a sequence of tasks and activities required to deliver a successful project.

To learn about the changes in detail, read the [White paper](#)

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Finastra is unlocking the power of finance for everyone by creating a platform for open innovation in the world of financial services.



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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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