EXECUTIVE SUMMARY

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PHASE I OF THE EFET STANDARDS,

ELECTRONIC TRADE CONFIRMATION

VERSION 1.0

CREATED BY EFET IT TF – BUSINESS WORKGROUP AND TRANSMETA

I. THE NEED FOR EFET STANDARDS

I.1. PROBLEM DEFINITION

Communication is an essential key to the successful integration of business processes. Successful communication requires that the communicating parties **speak the same language**. This fact is as important in electronic communication as it is in face to face communication.

As volumes increase in energy trading, business transactions are occurring more rapidly, and trading volumes are growing, traditional means of communication like phone and fax are necessarily being replaced as a core communication medium, by automated electronic communication.

Increasingly energy trading companies are looking towards the integration of internal and external business processes, with the eventual aim of straight-through processing. This is to enhance process efficiency, as well as to reduce operational risk, both of which reduce overall transaction costs. But many are still hesitating as they weigh the costs and benefits.

The energy trading industry does not have in use widely accepted electronic communication standards. Like the financial industry there are some standards for specific parts of the industry, but the fragmentation is arguably even higher in the energy trading industry. Currently each service provider (exchanges, broker platforms, clearing houses, matching services, etc.) and each software vendor use their own proprietary "standard", requiring implementation of a different interface and cumbersome translation for each of these "standards". This results in a costly and risky "spaghetti" network of interfaces.

To solve the business process integration problem, common electronic communication standards (a common language) must be established within the energy industry and adopted within individual organisations. The messages and processes that need standardisation in the Energy Trading industry include Trade Confirmations, Scheduling and Logistics, Clearing and Settlement, and Quotes.

By standardising the exchange of this information and the corresponding processes both internally and externally, companies could reduce costs and streamline business processes. Standardisation has to be driven by the industry itself, and coordinated by an accepted industry wide neutral body.

I.2. THE SOLUTION: EFET STANDARDS

EFET is an industry wide neutral body that can coordinate the creation and maintenance of industry standards. The EFET IT Taskforce is specifically responsible to define the **EFET Standards** for electronic exchange of information.

The EFET standards will define the structure of the electronic messages, as well as how these electronic messages are exchanged. The EFET standards apply to all electronic messages exchanged in the energy trading environment, and therefore can be considered a general standard.

These standards will also define the **reference codes (semantics of the language)** to be used for commonly used data within these electronic messages. This includes the unique codes identifying the different trading parties, and the reference codes for energy specific characteristics such as market, commodity, etc. These reference codes could also be used in paper and fax communications.

II. THE ECM INITIATIVE

II.1. ECM AS A PILOT

The EFET IT taskforce has decided on a phased development and implementation to enable the rapid development and implementation of the standards. The initial version of these EFET standards is focused on one part of the overall information exchange, but with consideration to broader integration of processes in the future. Developing standards for a specific business process rather than attempting to cover all process simultaneously, will enable the production of measurable benefits throughout the overall standardisation process.

The trade confirmations process, where document exchange and confirmation takes place, has been chosen for the first phase of standardisation. This will be referred to as ECM, which stands for “Electronic Confirmation and/or Matching”.

As a first step, **the ECM process itself will be clearly defined and agreed**. Once the workflow has been established defining how two trading parties will interact to confirm a deal, the message flows and message structure definitions needed to support this process will be defined.

The **EFET ECM standards will consist of the definition of the exact message flow, message content and message structure** for the information exchanged during an ECM process.

II.2. EFET COMPLIANT ECM PROCESSES

The **Business Logic Workgroup** of the EFET IT Taskforce has first defined which variations of the ECM process will be supported. Two different ECM processes have been defined:

- **Peer-to-peer process**: Each **party sends its trade confirmation directly to the other party**. One or both parties check the received confirmation against its own trade data. One party then sends back the confirmation countersigned to the other party. (=affirmation or authentication).
- **Central process**: **Both parties send their trade confirmations to a central matching service, which acts as a neutral third party**. The central matching service will try to match both confirmations and reply to both parties when a match has been obtained. When the Central Matching Service Provider reports a match to both parties, it guarantees that the trade can be considered as confirmed, i.e. the Central Matching Service Provider takes the responsibility for the matching.

The messages required for both ECM processes are defined as part of the EFET ECM standards.

Note: The EFET compliant ECM processes describe how trade confirmations can be matched electronically. This does not mean that confirming a deal via fax is no longer possible. In fact, trade confirmations via fax will always exist as a fall back solution in case of technical problems with the electronic confirmation system, and for non-standardised, complex or structured products.

II.3. THE EFET ECM STANDARDS

The EFET ECM standards consist of the definition of the message flow, message content and message structure for the information exchanged during an ECM process.

The message flow will be derived from the EFET compliant ECM processes, and will be partly different for the peer-to-peer and the central ECM process, although the message itself will be the same.

The structure of the ECM messages, and to some extent the content of the messages, will form the basis for the development of other EFET messages that will be defined in the future. These EFET ECM standards will therefore act as an important initial step towards the definition of global EFET standards covering the complete business requirements of traders.

III. NEXT STEPS

Encouraging a Central Matching Service provider to comply with these EFET ECM Standards will allow companies, if needed, to switch provider without having to implement another interface to communicate with the new provider. Companies will have to implement only one interface that will handle both the communication with the Central Matching Service provider and the communication with other companies in a peer-to-peer scenario.

In each subsequent phase, the general EFET Standards will be extended to support further business processes, including describing the standard interface between processes (see the EFET ECM Standards).

Each time, the general EFET Standards will be extended to support these specific processes and describe into greater detail the standard interface for each process (see the EFET ECM Standards) after having agreed upon the standardization of the process itself.

Service and/or system providers will be encouraged to comply with these standards. Companies will thus be able to achieve integration with these different service providers and/or systems without having to develop and maintain a different interface for each.

When the ECM project has been implemented, it is the intention to focus on other projects to stimulate electronic exchange of data, e.g. for nomination, scheduling, clearing, settlement and other processes to make energy trading more efficient.

EFET will cooperate with other organisations and stimulate harmonisation and standardisation to increase electronic exchange of data in the European Energy industry.

IV. CONCLUSIONS

Communication is an essential key to the successful integration of business processes. To solve the business process integration problem, common electronic communication standards (a common language) must be established within the energy industry and adopted within individual organisations.

EFET has selected the trade confirmations process as the first project for standardisation. This project is called the ECM ("Electronic Confirmation and/or Matching") project and is driven by the urgent need for the back office to automate manual confirmation processes.

Two different ECM processes have been defined: the "peer-to-peer" process where each party sends its trade confirmation directly to the other party and the "central" process where both parties send their trade confirmations to a central matching service, which acts as a neutral third party.

Energy traders are free to decide whether they want to use a Central Service provider or use the peer-to-peer process. The EFET ECM standards will be an open standard that all companies can use.

It is expected that further standardisation work will be done to facilitate the electronic exchange of data to further increase efficiency in the European Energy Industry.