

# **EFET ELECTRONIC SETTLEMENT MATCHING**

REL 2 - VERSION 1

CREATED BY EFET

**Revision History**

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**References**

<b>Reference ID</b>	<b>Document Name</b>	<b>Document Version.Release</b>	<b>Document Publishing Date</b>
1	EFET electronic Confirmation Matching Standards	4.0.1	October 2011
2	EFET_CpML_for_eSM	V0.9	December 2018
3	EFET_CpML_for_eSM	V1.0	May 2019
4	EFET_CpML_for_eSM	V2.0	September 2019

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# 1 Executive Summary

## 1.1 The Need for EFET Standards

### 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.

The energy trading industry does not have in use widely accepted cross-process 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 Invoicing and Settlements, Clearing and Margining, Scheduling and Logistics, etc.

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.

### The Solution: EFET Standards

EFET is an industry wide neutral body that can coordinate the creation and maintenance of industry standards. EFET project workgroups comprising members from the Business Process Optimization Committee, Back Office Group and IT Taskforce are specifically responsible for defining 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 (vocabulary of the language, as expressed in CpML ®)** 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.

EFET Standards should be, where possible, appropriate and effective, technology agnostic. Recent evolution has opened possibilities to apply several technologies to one standard process and there is a high likelihood and expectation that different technologies will (have) to cooperate in order to have an industry wide spread application of new standards. This standard document will therefore aim at not discriminating any technology but will strive at providing enough clarity, definitions and implementation guidance to ensure that different technology implantation of this standard can successfully co-operate.

## 1.2 The eSM initiative

### eSM as a Proof of Concept or Pilot

EFET has decided on a prioritised approach to the development of standards covering the various business processes to facilitate rapid deployment of the systems and infrastructure required to implement working services. The eSM Project Workgroup has been tasked with focusing on one part of the overall information exchange, building on the standardisation work for centralised and peer-to-peer communication carried out by the electronic Confirmation Matching (eCM) project workgroup. 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 settlements process has grown substantially over time whilst still relying a non-standardised process. It was therefore a logical energy trading industry priority to focus on for the standardisation bodies within EFET.

The business process concerning the exchange and comparison (matching) of electronic documents that describe counterparty Settlement data will be referred to as eSM, which stands for “electronic Settlement Matching”.

As a first step, **the eSM process itself has been clearly defined and agreed**. The workflow has been established defining how two trading parties will interact to compare their Settlement data together with the message flows and message structure definitions needed, to support this process.

These **EFET eSM standards consist of the definition of the exact message flow, message content and message structure, and matching criteria and rules** for the information exchanged during an eSM process.

### EFET Compliant eSM Processes

The **eSM Project Workgroup** has structured the eSM process on a bilateral or peer-to-peer style of interaction building on the approach developed for electronic Confirmation Matching (eCM). The style of interaction involves a buyer and a seller, as participants in the SM process, regardless of the process running in peer-to-peer, centralised or distributed ledger environment. The eSM process description is furthermore agnostic of the technical implementation layer so that future implementations can be built on various technologies whilst still respecting the eSM standard and thus guaranteeing interoperability between implementations.

### The EFET eSM Standards

**The EFET eSM standards consist of the definition of the message flow, message content and message structure, and matching criteria and rules, for the information exchanged during an eSM process.**

The structure of the eSM messages, and - to some extent - the content of the messages, will, where possible, reuse similar elements developed for other EFET messages that have already been defined in other EFET standards. The applied data definitions and technical specifications, as laid down in CpML ® will be reused where possible and applicable. The EFET eCM and eRR standards (and CpML ® reference documentation) will therefore act as an important foundation and the eSM standards continue to demonstrate EFET’s strategic aim of developing global standards covering the complete business requirements of traders.

**Disclaimer:** This standard will not overrule other documents (e.g. EFET Master Agreement). Results of this standards may have influence on the next version on these documents.

#### Next Steps

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

The general EFET Standards will be extended to support each specific process and to describe it in greater detail (see other EFET Standards) once agreement has been reached 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. Interoperability will be guaranteed, even with implementation over different technologies.

When the eSM project has been fully implemented, it is the intention to focus on other projects to stimulate electronic exchange of data, e.g. for nomination, scheduling, clearing, 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.

## **1.3 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 Settlement matching process as another area for standardisation building on the work of the eCM and eRR project and extending the coverage of EFETs standards into another process area. This project is called the eSM (“Electronic Settlement Matching”) project and is driven by the need for the Back Office to improve the quality of Settlement data and related processes (mainly the invoicing process) within counterparty organisations for the overall benefit of each company and the broader industry.

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.

## **1.4 What’s new in this version**

Where the eSM version 1 had physical power and gas transactions in scope, version 2 of the Standard adds financial products to the scope as well as support for the netting process.

Amendments to version 1 coverage are also included in this version.



## 2 Overview

### 2.1 Roles and Responsibilities in Standardisation

The EFET Board oversee all the activities undertaken or sponsored by EFET ([www.efet.org](http://www.efet.org)). Responsibility for coordination of Back Office activities has been delegated to the BPOC and the Back-Office Group. Project Workgroups, such as the eSM Project Workgroup, carry out specific activities on behalf of EFET. The eSM Project Workgroup is sponsored by the EFET Board, controlled by the BO Group and comprises specialist personnel from both the Back Office and IT business areas.

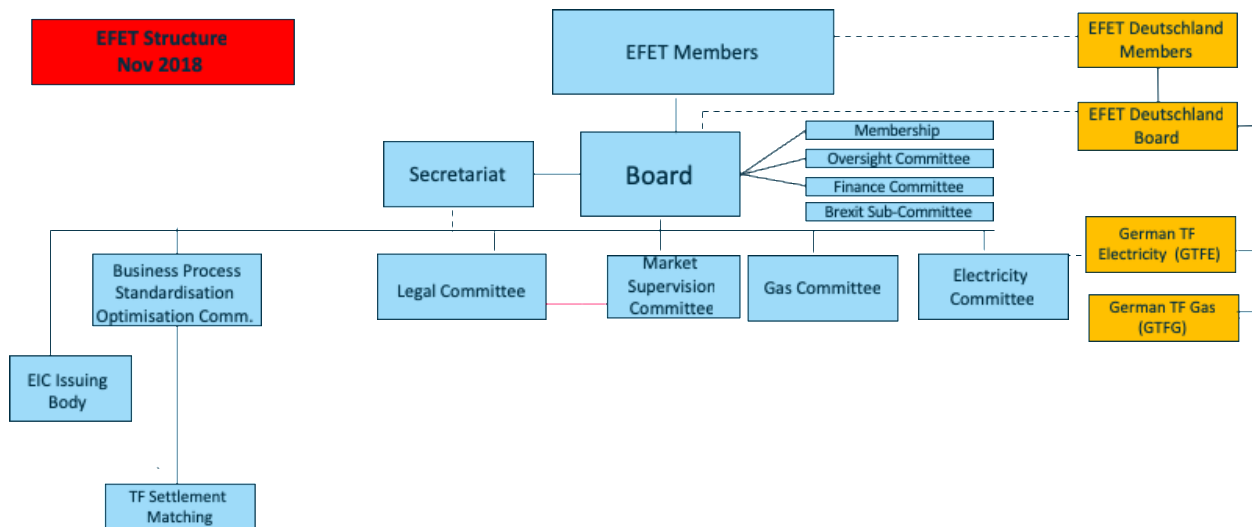


Figure 1 Organisation of the EFET working groups

### 2.2 Version Control

The EFET standards documentation for electronic confirmation matching comprises a single document with chapters and sections.

- 1) The single document shall be a release item under control of the joint EFET Back Office Group on behalf of the EFET Board with major versioning i.e. 1.0, 2.0, 3.0..
- 2) Each chapter shall be a configuration item within the single document controlled by either the eSM Project Workgroup and audited via the Revision History between major releases leading to intermediate versioning i.e. 1.1, 1.2, 1.3 (Also release version with change bars).

Note that draft versions are signified by using a letter: 1.1a

The related XML Schemas are expected to be backward compatible within the same version. I.e., an eSM implementation that is able to process Settlement Matching documents in version 3, release 3 is also able to process version 3, release 2 and version 3, release 1 – but not, e.g., version 2, release 3.

I.e., extensions to the EFET XML Schema within the same version, can only add optional elements or attributes or reduce the number of values in enumerations. Each EFET eSM Process implementation should therefore be able to process earlier releases within the same version.

Should different versions be supported (since individual counterparties may update their systems at different times), dedicated implementations should handle version-specific eSM protocols.

XML schemas will be documented by CpML®.

## 3 Current Processes and Business Requirements

### 3.1 Current Business Processes

The Settlement process is well understood but difficult to automate due to a lack of standardisation between market participants in how they implement their back-office settlement-specific processes. Although commodity settlement terms are well defined and highly standardised due to the comparatively small number of commodity master agreements under which the majority of deals are executed and settled, discrepancies inevitably exist between the content and layout of the actual invoices and statements that are produced by each organisation as part of the settlement process. There is, for instance, no standard for grouping transaction line-items on to the same settlement documents, this leads to complexity in matching and checking details when each counterparty's documentation can vary. Furthermore, perceived and regional differences in tax treatment, between physical and financial products has further complicated the situation and led to a divergence in the way these products are settled causing the additional overhead of operating two parallel processes, one for physical and one for financial product settlement. As a consequence, any automation for a settlement process is currently highly inefficient and ineffective.

#### Physical Product Settlement

Physical transactions are settled using invoices with the optional use of netting statements. Current (paper) invoices comprise a summary section including counterparty and banking information and tax related data as well as the aggregated total sum due to be paid by the customer to the supplier. Multiple line items, which must add up to the aggregate total in the summary section, are often included and identify the amount due under this invoice for each specific sale (trade). Invoice documents are issued by the supplier to the customer (according to the standard settlement process, see below for self-billing as an exception); the customer checks the invoice and approves or disputes it. The invoice checking process is 'asymmetric' with the inherent responsibility for issuing the invoice and collecting the money due under the contract falling to the supplier and the responsibility for validating and accepting the invoice falling to the customer who, on acceptance, must pay the sum specified. Invoices are official documents and must comply with tax and accounting rules. Paper versions are typically issued whereby the invoice number must follow appropriate rules defined by the authorities in the supplier and customer's location. Tax treatment of all sums in the appropriate currency (including conversion rates where applicable) or a legal statement identifying any relevant tax exemptions must be included. Invoices are important to tax authorities and to customers as they are both the basis for the collection of tax revenues and required documentary evidence for reclaimed tax. As such the invoices cannot be amended or cancelled only fully or partially reversed by issue of a credit note for all or part of the originally invoiced sum. Invoices with the same payment date are checked and passed to treasury ahead of the payment date so that the cash transfer can be organised with the customer's bank.

Netting of invoiced sums allows counterparties to optimise their cash usage. However, netting is less prevalent with physical products than with financial products, due in part to the relative lack of impetus towards implementing netting provided by underlying master agreements. Netting does occur however, especially if a specific netting agreement has been negotiated between the parties involved, but this leads to a degree of non-standardisation in scope of physical product netting as agreements are negotiated bilaterally and can include netting across types of instrument, delivery locations, commodities, master agreements and possibly currencies. Netting statements aggregate cash-in and cash-out invoices, which fall within scope, on to one document with the summary including the counterparty and banking information, net settlement amount and net receiver. Since purchases and sales are combined both counterparties produce netting statements which are cross checked before settlement is agreed: the netting process is 'symmetric' involving full disclosure to and from both counterparties. The payment date is defined by the netting agreement which may be the same as the payment date for the invoices included or may be a specifically agreed netting payment date, typically earlier than the payment date for some or all of the underlying invoices.

**The entire netting process is now included in the current scope of eSM Phase 2.**

The main sources of error in the current settlement process for physical products relate either to 'upstream' errors related to selection of the scope of deals to be settled by the invoice, the recording of the commercial terms of the deal or to errors or discrepancies introduced during the settlement process itself. Of the latter type the main sources of error are: tax treatments which can be complicated and vary depend on your location, measured amounts relating to the actual amount of delivered commodity and finally procedural errors such as rounding, or calculation methods employed by the supplier to calculate the invoice and by the customer to validate it.

A key flaw in the current process is that it is asymmetric: invoices are checked only by the customer against their records and not by the supplier against the customer's view of what they expected to pay. This implies that invoices containing errors leading to overpayments by the customer will be disputed whilst underpayments may go uncontested as they favour the customer who is conducting the checks i.e. there is an inherent downside operational risk for the supplier within the current process for physical settlement. Conversely the process of resolving disputes in invoices is somewhat simplified over that with netting statements because the invoice is the sole basis for agreement whereas in netting there are two documents of equal standing: in a dispute which is the correct document to which both counterparties should agree?

## **Financial Product Settlement**

Netting is standard practice within the financial settlement process and is well supported by the major master agreements, such as ISDA, avoiding the non-standard nature of bespoke agreements. The current process of financial product settlement therefore focuses the use of 'statements' which, unlike invoices combine cash in and cash out for each underlying transaction on a single document specifying the net sum to be transferred without the need of a separate netting document. Statements contain summary data specifying counterparty and banking information, the net sum to be transferred and the recipient of the cash. Multiple line items, which must add up to the aggregate total in the summary section, are often included identifying the amount due for each individual transaction relevant for settlement on the payment date. The process is 'symmetric', responsibility is equally shared; although one counterparty is typically assigned to be the 'calculation agent', in practice both counterparties issue statements to one another and validate each other's documents against their own. Both statement documents are equally valid, there is no 'leading' document that can be agreed to in case of a discrepancy, instead agreement is achieved when statements from both counterparties match precisely or to within a tolerance, this means that any discrepancies must be reconciled by iterative amendment to within the limit of the tolerance, if tolerances are accepted. Once agreed, the statement is passed to treasury for the transfer to be made by the net payer. Statements are not subject to legal or accounting rules, they are simply bilateral documents exchanged between the counterparties for the purpose of agreeing the settlement amount and can be freely amended. Financial settlement currently neglects to include any tax treatment. The absence of a standardised approach to addressing tax compliance, therefore, represents a flaw in the current process.

Although discrepancies are often caused by 'upstream' errors relating to the terms of the deal, such as the value of the notional amount in each period, there is also much room for introduced errors affecting the calculation of the settlement amounts. The major source of discrepancies tends to be rounding, either of the pricing sources themselves or due to differences in the calculation methods: how and at which point rounding is applied to the calculation. As well as rounding issues, collection of the underlying prices can be a source of error if counterparties are observing different holiday schedules etc. Being a 'symmetric' process, errors leading to both over and underpayments are detectable and may lead to the payee correcting cash-in line items in the case that they have undercharged for a transaction that the payer was correctly expecting to pay more for. However, resolution of discrepancies is more ambiguous than in the physical process simply because there is no single document that states what the payee was expecting to receive under the contract and which the payer can accept. The natural responsibility of the payee to specify and collect the sums due is combined with the requirement to specify what they believe they should pay as well. Under these circumstances, resolution of a discrepancy becomes more of an iterative adjustment resulting in a final compromise acceptable to both counterparties, which can be a complicated and time-consuming activity when large amounts of pricing data are involved.

**Financial settlements are now included in the of scope of eSM Phase 2.**

## Summary

Although there are differences in the way physical and financial products are currently settled, there is also a high degree of similarity and purpose across the current processes. Furthermore, both processes have certain strengths which might be combined. The financial process supports and even requires matching between counterparties, whereas the physical process does not, as a result errors in the invoice leading to undercharging by the supplier can currently go unnoticed exposing the supplier to the risk of lost revenue. The physical process, on the other hand, separates cash-in from cash-out allowing counterparties to agree on the 'supplier's' document in case of a dispute, whereas in the financial process this basis for agreement is lost since both counterparties' statement documents are of equivalent status. The physical process also provides a basis for more formal tax treatment should this be required as it cannot be guaranteed in all regions and tax regimes that financial products do not and/or will not require any tax treatment to be expressly stated.

The current settlement process is, therefore, a strong candidate for standardisation as a high degree of benefit can be derived from a comparatively small degree of change to current practice. Most benefit would be derived from developing a single process common to physical and financial products with a single set of settlement documents that can be used internationally to settle a wide range of products and which combines the strengths of each of the current approaches. A single global process will result in increased efficiency and reduced operational risk due to simplification of the overall settlement process, reduced training requirements and more flexibility in staffing. Furthermore, the process must be able not just to check settlement data but to replace the use of paper for the purpose of settlement since the greatest degree of benefit is achieved by moving to fully electronic settlement based on an automated matching process.

## 3.2 Benefits of electronic Settlement Matching

The effect and benefits of settlement matching are wide ranging and relate to the following responsibilities of the Back Office within a trading organisation:

- Operational risk reduction
- Business process improvement
- Efficiency and scalability
- Increased level of automation
- Cash flow improvement (i.e. through increased usage of netting)

Currently, settlement is a manual task that is time and effort consuming, prone to error and inefficient, especially when identifying discrepancies between two documents which refer to a different set of underlying transactions. Two separate processes currently exist for settlement of financial and physical deals introducing operational complexity and risk. The lack of compatibility between documents from different counterparties is due to a lack of general agreement between trading organisations classifying which transactions are to be grouped together, and with what granularity of detail, on a settlement document. Availability of standardised settlement documents and a single defined process for managing physical and financial settlement across multiple markets will positively impact each of the areas identified:

Area	Impact
Reduction of operational risk	<p>A single global process for physical and financial settlement will reduce complexity and diversity in the settlement process and therefore scope for operational risk.</p> <p>Mistakes in the current settlement process can cause financial losses. The use of "expected invoices" in matching reduces the likelihood of a 'lost invoice', undercharging and consequential financial impacts including interest and late</p>

	<p>payments, whilst providing a single basis for agreement when resolving discrepancies.</p> <p>Security of transfer of information is improved through standardisation and automation, improvements include:</p> <ul style="list-style-type: none"> <li>- Sending to correct c/p</li> <li>- Reduced threat of reputational risk</li> <li>- Reduced threat of loss of business</li> <li>- 'Lost' invoices sent to wrong c/p</li> </ul>
<p>Business process improvement</p>	<p>A single global process for physical and financial settlement will permit better benchmarking of performance across regional teams.</p> <p>Increased standardisation allows for increased straight through processing, use of benchmarking, centralisation of reference data and reduction in training as well as reduction in media breaks and so operational risks. Specific examples include:</p> <ul style="list-style-type: none"> <li>- Standing Settlement Instructions (SSI): improved transparency and access to accurate invoicing data if maintained centrally as part of the deployment of a service based on eSM. This will not be part of eSM Phase 1 but is foreseen within the data-models applied.</li> <li>- Industry wide knowledge and shared understanding of the settlement process across organisations leading to fewer errors (i.e. rounding) and faster issue resolution</li> <li>- Centralised contact information and collaborative working support.</li> </ul>
<p>Efficiency and scalability</p>	<p>Work will be moved from checking to exception handling increasing productivity.</p> <p>Savings include:</p> <ul style="list-style-type: none"> <li>- Tax people: time spent resolving complex tax issues often late in the process when remedial work required to correct a problem is higher</li> <li>- Settlement staff: time spent by staff manually checking counterparty invoices</li> <li>- Settlement staff: time spent by staff manually checking broker fee invoices</li> <li>- Scope of products and markets covered: Back Office processes are already capable of supporting new markets and products reducing the delay or risk of entering new markets</li> <li>- Scalability will allow the Back Office to offer an improved service to the Front Office</li> <li>- # of counterparties: the benefit in adopting a standardised process depends on the number of counterparties and brokers live with that process; in the case of eSM swift deployment should be possible based on size of the existing eCM and eRR communities.</li> </ul>

	<p>Increased volumes can be managed without the need to recruit additional staff saving recruitment costs, training, management time and salaries.</p> <p>A single global process for physical and financial settlement will deliver further benefits:</p> <ul style="list-style-type: none"> <li>- Training: all staff can be trained in just one process</li> <li>- Flexibility: staff can support each other and move more easily within the team</li> <li>- Scalability: resource can be better optimised over one common process as work load varies</li> </ul>
Increased level of automation	<p>Implementation of a standard electronic settlement matching process will lead to the automated exchange of all invoice documents in scope, including the matching of all invoice details and lien items upto the lowest level of granularity and scope of line items fields available. This will lead to a better focus on issues which will be identified more precisely by the eSM process.</p>
Cash flow improvement	<p>Netting frees up cash, creating value for the business. Cash improvements should result from wider adoption of netting and usage of EFET Payment Netting calendar.</p> <p>Automated settlements open opportunities for earlier settlements hence have a potential positive impact on liquidity and treasury costs.</p> <p>Standardisation of the invoicing process should allow for integration of other supporting data, such as 'Transport 4' tickets in the Colonial Pipeline, speeding up the settlement and payment process.</p>

### 3.3 Requirements of electronic Settlement Matching

The aim of the EFET eSM Project Workgroup has been to define a “standard electronic settlement matching process” that delivers benefits including those identified in Section 3.2 Benefits of electronic Settlement Matching and which may be used as an automated alternative to the paper based settlement process currently in use within the energy/commodity trading sector and which is compliant with regional (i.e. EU) and local (i.e. country, state) tax and accounting rules.

To achieve this aim, the eSM Standard has defined:

- Standard invoice documents and netting statements (now in scope for eSM Phase 2) containing the data that is exchanged between two parties
- A standard process for detecting and locating discrepancies within the exchanged documents
- Best practice guidance, including matching frequency, methods of rounding etc., that counterparties should adhere to when they adopt the eSM process

Note that technical and security issues are addressed within the EFET eCM standards [1].

#### Invoice document requirements

The following data requirements are defined for the eSM business documents:

- Invoice documents: including invoices and credit notes that reverse invoices
- Invoices will be matched for all products defined within the scope of eCM v4.1, including:
  - physical forwards
  - index physical forwards
  - fixed/floating swaps (now in scope for eSM Phase 2)

- floating/floating swaps (now in scope for eSM Phase 2)
- options on physical forwards (now in scope for eSM Phase 2)
- options on swaps (fixed/float and float/float) (now in scope for eSM Phase 2)
- options on indexes (now in scope for eSM Phase 2)
- and fee broker invoices (not in scope for eSM Phase 1 nor 2).

Indexes will include simple commodity references and baskets.

- Commodities within scope are:
  - Electricity (physical)
  - Gas (physical)
  - Emissions (physical and financial) (now in scope for eSM Phase 1)
  - Oil (financial products only) (now in scope for eSM Phase 2)
  - Coal (financial products only) (now in scope for eSM Phase 2)
  - Freight (financial products only) (now in scope for eSM Phase 2)
  - Time Charter (financial products only) (now in scope for eSM Phase 2)
  - Metals (financial products only) (now in scope for eSM Phase 2)
  - Agriculturals (financial products only) (now in scope for eSM Phase 2)
- Markets within scope are:
  - European (trading zone)
  - North American (financial products only) (now in scope for eSM Phase 2)
  - Asian (financial products only) (now in scope for eSM Phase 2)
- The granularity of the data exchanged and matched will be at:
  - Summary: the aggregated invoiced amount including 'invoice static data'
  - Detail: the individual line item amounts (transactions) that comprise the Summary
- Invoice data will be sorted into separate 'actual' (Official invoice document issuer) and 'expected' (Shadow invoice document issuer) invoice documents, comprising the same set of individual line items for the same set of underlying transactions. The following sorting criteria must be used to ensure that each counterparty generates compatible invoice documents that contain the same transaction data which can then be meaningfully matched:
  - Counterparty
  - Invoice Type (e.g. Physical, Financial etc.)
  - Floating/Fixed price products
  - Master Agreement (e.g. ISDA, EFET etc.)
  - Payment Date
  - Currency
  - Commodity
  - PriceType indicator (PositiveandZeroPrices/NegativePrices)
  - Invoicing Period Start and End Date (for physical products but not for financial products)
  - Unit of Measure (for physical products but not for financial products)
  - Delivery Location (for physical products but not for financial products)
- The key financial data used for matching within each invoice will include:
  - Counterparty details
  - Volumes (for physical products but not for financial products)
  - Price Data
  - Amounts (net and gross of tax as applicable)
  - Tax Information and Amounts (if relevant under the prevailing tax laws and where counterparties are subject to the same local or regional tax jurisdiction)

- Foreign Exchange (if relevant)

## **Netting statement requirements (in scope for eSM Phase 2)**

The following data requirements are defined for the eSM business documents:

- Netting statement documents: including netting statement documents that reverse netting statements
- Netting statements will be matched for all invoices as defined in the eSM Standard v2 referring to the products defined within the scope of eCM v4.1, including:
  - physical forwards
  - index physical forwards
  - fixed/floating swaps (now in scope for eSM Phase 2)
  - floating/floating swaps (now in scope for eSM Phase 2)
  - options on physical forwards (now in scope for eSM Phase 2)
  - options on swaps (fixed/float and float/float) (now in scope for eSM Phase 2)
  - options on indexes (now in scope for eSM Phase 2)
  - and fee broker invoices (not in scope for eSM Phase 1 nor 2).

Indexes will include simple commodity references and baskets.

- Commodities within scope are:
  - Electricity (physical)
  - Gas (physical)
  - Emissions (physical and financial) (now in scope for eSM Phase 1)
  - Oil (financial products only) (now in scope for eSM Phase 2)
  - Coal (financial products only) (now in scope for eSM Phase 2)
  - Freight (financial products only) (now in scope for eSM Phase 2)
  - Time Charter (financial products only) (now in scope for eSM Phase 2)
  - Metals (financial products only) (now in scope for eSM Phase 2)
  - Agriculturals (financial products only) (now in scope for eSM Phase 2)
- Markets within scope are:
  - European (trading zone)
  - North American (financial products only) (now in scope for eSM Phase 2)
  - Asian (financial products only) (now in scope for eSM Phase 2)
- The granularity of the data exchanged and matched will be at:
  - Summary: the aggregated netting statement amount including 'netting statement static data'
  - Detail: the individual line item amounts (invoices) that comprise the Summary
- Netting statement data will be sorted into separate 'actual' (both parties acts as Official netting statement document issuer) netting statement documents, comprising the same set of individual line items for the same set of underlying invoices. The following sorting criteria must be used to ensure that each counterparty generates compatible netting statement documents that contain the same transaction data which can then be meaningfully matched:
  - Counterparty
  - Invoice Type (e.g. Physical, Financial etc.)
  - Floating/Fixed price products
  - Master Agreement (e.g. ISDA, EFET etc.)
  - Payment Date



- Currency
- Commodity
- PriceType indicator (PositiveandZeroPrices/NegativePrices)
- Invoicing Period Start and End Date (for physical products but not for financial products)
- Unit of Measure (for physical products but not for financial products)
- Delivery Location (for physical products but not for financial products)
- The key financial data used for matching within each netting statement will include:
  - Counterparty details
  - Volumes (for physical products but not for financial products)
  - Price Data
  - Amounts (net and gross of tax as applicable)

## Process requirements

The following process requirements are defined for eSM based on the data requirements defined previously:

- The eSM Phase 2 dialogue will focus on the first of two distinct phases combining the benefits and addressing the needs of both physical and financial product settlement within a single process:
  - Invoice Matching: both physical and financial products must be subject to an initial matching phase using separate cash-in/cash-out 'invoice' documents to detect and remedy discrepancies in transaction level line items, aggregated summary purchase and sales amounts and related payment and (where relevant) tax data.
  - Netting statement matching. Following the invoice matching process, an optional netting process can be initiated using separate cash-in/cash-out 'netting statement' documents to detect and remedy discrepancies in invoice level line items, aggregated summary netting statement amounts and related payment. This netting process can be initiated as well without an eSM invoicing process as precursor.
- Invoice data will be matched at Summary and at the Detail level, upon availability to the process, so that any compensating errors in the detail will be detected.
- Invoice matching will include an optional tolerance amount defined per currency for both the Summary and Detail data, see Appendix C Matching Tolerances by currency
- Netting statement data will be matched at Summary and at the Detail level, upon availability to the process, so that any compensating errors in the detail will be detected.
- Netting statement matching will not include an optional tolerance amount.

N.B.: Best practices, based on the actual use of the eSM standard should reduce the tolerance permitted by the standard over time. Please see by Section 3.4 Best practice guidelines for implementation of the eSM.

- The Payee will initiate the match for invoices (and for netting statements), except for self-billing processes
- Full e-Invoices issued by a counterparty cannot be amended but can be reversed under accounting rules applying to Invoices ("Full Credit Notes"-approach used)
- The eSM process will be using documents that are having a full valid accounting and tax scope and can be determined as such by each user, at whatever point in the eSM process
- Full e-Netting Statements issued by a counterparty cannot be amended but can only be fully reversed

## 3.4 Best practice guidelines for implementation of the eSM

The following best practice guidelines regarding business procedures are considered as mandatory for compliant implementation of the eSM process within an organisation. Failure to comply with these guidelines will lead to failures of the eSM process due to external issues such as late delivery of invoice documents to counterparties or mismatches due to rounding errors within settlement calculations etc.

### Settlement Process Deadlines

The eSM process will be triggered by the arrival of documents for matching. Invoice and, where applicable, netting statement documents must be submitted in a timely fashion, taking into account dependencies external to the eSM process such as Treasury execution times and processing of other related documentation. The eSM process may therefore be initiated as frequently as necessary to complete the settlement process for each transaction type within scope. The mandatory requirements of this standard for receipt of documents to match are as follows.

#### INVOICES NOT SUBJECT TO NETTING

Invoice documents not subject to netting should be submitted for matching by the deadline specified in the master agreement under which the deal was transacted and **no later than 1 Business Days prior to the 'Actual Payment Date' specified in the document**. Current proposal for intermediate deadlines:

- Close of business on the Invoice Final Submission Date is the deadline by which invoice and 'expected' invoice documents should already have been submitted for matching, it is the Business Day prior to the Invoice Match Completion Date, this is to allow for matching and any necessary remedial action to be completed no later than close of business on the Invoice Match Completion Date
- Close of business on the Invoice Match Completion Date is the deadline for resolving any issues preventing matching of all invoices and 'expected' invoices submitted to the process prior to, and on, the Invoice Final Submission Date, it is the same Business Day as the 'Actual Payment Date' specified in the invoice, still allowing time for Treasury to complete the funds transfer for all invoiced amounts successfully matched by close of business on the Actual Payment Date
- If invoice documents are submitted, either new or as a correction (after full cancellation) to a document previously submitted to the process, after close of business on the Invoice Final Submission Date and Invoice Matching Completion Date, then those documents will be rejected from the process.
- Reversal Invoices will not be rejected after Invoice Matching Completion date if they refer to an invoice that is unmatched (i.e. Mismatched, Pending or Error) after Matching Completion date.
- If the Invoice Matching Completion Date deadline is missed by one or both invoice documents, whereby they remain unmatched (i.e. Mismatched, Pending or Error) and whereby both parties have agreed before to perform invoice matching (cfr process static data), must be either:
  - Processed as Final invoice whereby the Buyer (Payee, or Payer in case of self-billing) has opted for not sending in an eSM document for matching
  - Removed from the process by submitting a Reversal document for the Invoice with the original Actual Payment date and by submitting a new Invoice Document with the agreed new Actual Payment date (in case of full invoices).
  - Cancelled and re-issued with amendment of the original Invoice, in which the original payment date is replaced by the new agreed Actual Payment date; or by a cancellation of the original invoice and a resubmission of a new invoice with the new agreed Actual Payment date (in case of pro-forma invoices).

N.B. The Payer's time zone is the time zone in which the deadlines are measured since it is the Payer that must make the cash transfer.

**NETTING STATEMENTS AND INVOICES SUBJECT TO NETTING (IN SCOPE FOR ESM PHASE 2)**

Netting statements and invoice documents that are subject to netting should be submitted for matching by the deadline specified in the netting agreement and no later than 1 Business Days prior to the 'Actual Netting Payment Date' specified within the documents. All invoices in the process which have been referenced by a netting statement don't have to be matched by an eSM invoice matching process prior to the submission of the netting statement. (no, we can net without matching the invoice), To avoid a potential delay to the submission of netting statements – within the payment date settings imposed by the relevant Master Agreement or Netting Agreement, it is recommended that all implementations are capable of processing documents on intra-day timescales shows the intermediate deadlines:

- Close of business on the Netting Final Submission Date is the deadline by which invoices and 'expected' invoices should have been matched and netting statements should have been submitted for matching, it is the Business Day prior to the Netting Match Completion Date, this is to allow for matching and any necessary remedial action, including the correction of invoices and the netting statements themselves, to be completed no later than close of business on the Netting Match Completion Date
- Close of business on the Netting Match Completion Date is the deadline for resolving any issues preventing matching of all netting statements, and thereby invoices and 'expected' invoices referenced by the netting statement, submitted to the process prior to and on, the Netting Final Submission Date, it is 1 Business Day prior to the 'Actual Netting Payment Date' specified in the netting statement, allowing time for Treasury to complete the funds transfer
- If netting statements and/or invoice documents are submitted, either new or as a correction to a document previously submitted to the process, after close of business on the Netting Final Submission Date but before close of business on the Netting Matching Completion Date, then both parties are obliged to make all best efforts to ensure that matching is successfully completed by start of business on the Actual Netting Payment Date (n.b. this would require intra-day matching of invoices or at least corrections of previous invoices if a netting statement referencing match invoices is to be submitted subsequently and ahead of close of business)
- If netting statements and/or invoice documents are submitted after close of business on the Netting Matching Completion Date, then they will be rejected from the process. Reversal Invoices will not be rejected after Invoice Matching Completion date if they refer to an invoice that is unmatched (i.e. Mismatched, Pending or Error) after Netting Matching Completion date.
- If an invoice that is subject to netting is not included on a matched netting statement by the start of business on the Actual Netting Payment Date then it can either be
  - processed as an invoice not subject to netting since the matched netting statement cannot be further amended as the deadline for submitting amendments is passed. This will require that the invoice is removed (reversed in case of full invoices, or amended or cancelled in case of pro-forma invoices) and restated with the new Actual Payment Date and as not subject to netting.
  - processed as an invoice subject to netting with a new Actual Netting Payment Date. This will require that the invoice is removed (reversed in case of full invoices, or amended or cancelled in case of pro-forma invoices) and restated with the new agreed Actual Netting Payment Date and for a new netting statement to be submitted referencing the restated invoice once it is matched.
- If a netting statement is not matched by the start of business on the Actual Netting Payment Date then either
  - the matched invoices referenced on the netting statement must be processed as invoices not subject to netting (requiring that they are restated). This means that matched (matched, agreed matched or tolerance matched) invoices can be exceptionally reversed (in case of full invoices), amended or cancelled (in case of pro-forma invoices) and restated after Invoice Match Completion Date IF they are subject to netting and IF the Netting Statements

on which they are referenced are NOT yet Matched by the start of the Actual Netting Payment Date.

- a new Actual Netting Payment Date must be agreed and the Netting Statements must be resubmitted with the new Actual Netting Date. The choice should be made by the counterparty who did not cause the delay. In the latter case the Actual Netting Payment Date on the Netting Statement will be later than that on the matched invoices referenced by the Netting Statements.

N.B. The Payer's time zone is the time zone in which the deadlines are measured since it is the Payer that must make the cash transfer.

## **Treatment of Rounding for Financial Products (in scope for eSM Phase 2)**

This standard requires that all compliant organisations adopt the following approaches when calculating settlement amounts for financial products:

- Section 6.1 of the 2005 ISDA Commodity Definitions (Calculation of a Floating Amount) will be used in order to eliminate rounding differences caused by density conversion factors between Floating Prices with different Units of measure (e.g. metric tons vs. barrels/gallons)
- All indexes shall be rounded to a specified number of decimal places, as defined for each index identified in the Commodity Reference "Static Data" tables published and maintained in conjunction with this standard.
- The 'common method' or 'round up' algorithm will be used to calculate rounded values.
- The currency unit of measure MUST be specified.

N.B. it is the aim of the work group to reduce the tolerance permitted by the standard, at least for financial instruments, over a target time period of 2 years, by which time organisations will be expected to have adopted these standard calculations and rounding guidelines.

## **Agreed Matching of Invoices**

If an invoice and 'expected' invoice mismatch then the two counterparties are not permitted to manually agree a match between the two documents, and will continue the settlement process outside of the automated eSM process environment.

In case of a mismatch or a tolerance match, the eSM process will return a difference report identifying the differences between the Official invoice Document and Shadow Invoice Document ('expected' invoice). The difference report will identify the discrepancies between the 'Summary' sections of the two invoices, it will only identify individual discrepancies in the 'Detail' section if both Buyer and Seller have opted to send in the detailed sections.

## **Tolerance Matching of Invoices**

The eSM Standard requires that a single central set of tolerances are defined by currency (for NetAmount, VATAmount and GrossAmount) and maintained on a yearly basis to support matching of invoices sums that fall within the tolerance. Whilst tolerances are permitted by the standard they will be maintained and applied to the matching algorithm for invoices. The application of tolerances for Netting Statements is out of scope for eSM Phase 1. The application of tolerances to the matching of invoices will result in some invoices being matched even though the financial sums specified are not precisely equivalent.

By agreeing a tolerance match both counterparties are agreeing to accept the terms of the invoice issued by the Official Document Issuer (Payee), regardless of discrepancies with the 'expected' invoice issued by the Shadow Document Issuer (Payer). Tolerance matching must be an optional feature of the process and must only lead to a match if the Shadow Document Issuer has elected to accept tolerances.

The eSM process will return a difference report specifying the difference between the invoiced and expected sum. The difference report will identify the discrepancies between the sums in the 'Summary'

sections of the two invoices; it will only identify individual discrepancies in the sums within the 'Detail' section if both Buyer and Seller have opted to send in the detailed sections and use them for detailed matching regardless of the matching of the invoice data.

## **Treatment of Tax and Accounting Rules (Under construction)**

As stated in Section 3.3 Requirements of electronic Settlement Matching the treatment of e-invoices within the process should be compliant with tax and accounting rules on a local, regional and international basis; the following requirements are therefore defined for this standard:

- 1) To be compliant with the e-Invoicing requirements in each jurisdiction where it is deployed
- 2) To be compliant with the tax requirements in each jurisdiction where it is deployed
- 3) Not to validate tax information against legal requirements, but to permit:
  - a. Matching of relevant tax information if either counterparty believes that the tax treatment should be included in matching
  - b. The optional inclusion by counterparties, but not the matching, of tax information if neither counterparty believes that the tax treatment should be compared
- 4) To permit tax only invoices relevant in the case of settlement of double taxation where a separate tax only amount is invoiced in addition to the normal deal invoice.

Given the possibility for users of the eSM process to apply the accounting status of an eSM document at their choice in or after the eSM process, the above-mentioned requirements are included in the eSM specifications but do not enforce the accounting applicability.

## **E-invoicing and Tax Laws Compliance by Region (Under Construction)**

This section specifies the relevant laws by region/locality and summarises the current state of compliance of this standard with the specified laws.

### **EUROPEAN UNION (EU)**

Article 2.2 of Directive 1999/93/EC specifies the use of "advanced electronic signature" for the purpose of e-invoicing where it is defined that:

*"advanced electronic signature" means an electronic signature which meets the following requirements:*

- (a) it is uniquely linked to the signatory;*
- (b) it is capable of identifying the signatory;*
- (c) it is created using means that the signatory can maintain under his sole control; and*
- (d) it is linked to the data to which it relates in such a manner that any subsequent change of the data is detectable."*

The eSM process is fully compliant with the requirement of "advanced electronic signature" as this standard re-uses the communications requirements specified for other EFET processes (see Chapter 6 Communication Protocol and Interfaces).

Article 233 (2) of EC TAX Directive 2006/112/EC states that:

*"Member States may also ask for the advanced electronic signature to be based on a qualified certificate and created by a secure-signature-creation device, within the meaning of points (6) and (10) of Article 2 of Directive 1999/93/EC"*

and

*"Member States may also, subject to conditions which they lay down, require that an additional summary document on paper be sent."*

The eSM process is also compliant with these optional additional criteria introduced by the TAX Directive in addition to the basic e-invoicing Directive 1999/93/EC insofar as they affect implementation of the process: to be compliant implementation of the process within the EU is likely to require:

- 1) a "secure-signature-creation device" such as card readers and pin numbers
- 2) a set of reports on data within the eSM process compliant with the various local format requirements for "summary documents"

### **UNITED STATES (US) (NOT IN SCOPE OF ESM PHASE 1)**

No specific requirements for e-invoices or tax compliant invoices have been identified which affect the scope of this standard for the US.

### **OTHER LOCALITIES**

- Switzerland: covered by requirements specified for the EU
- Norway: covered by requirements specified for the EU
- Canada: no specific requirements for e-invoices or tax compliant invoices have been identified which affect the scope of this standard for Canada
- Japan: no specific requirements for e-invoices or tax compliant invoices have been identified which affect the scope of this standard for Japan
- Singapore: no specific requirements for e-invoices or tax compliant invoices have been identified which affect the scope of this standard for Singapore.

## **Processing of 'Alleged' Settlement Documents**

It is foreseen that implementation of the eSM process will include the ability to generate settlement documents received from the counterparty to avoid the case where the eSM process, and consequently payment, is delayed by the Payer should they be unable to generate the 'expected' document and to facilitate 'click & return' manual approval.

## **Ordering of invoice Line Items**

In order to have a performant matching engines and algorithms, it has been decided to adopt a standard way of ordering line items at invoice level.

The following order sequence keys have to be applied:

1. TradeDate
2. DeliveryStartDate
3. DeliveryEndDate

This sequence should not block the algorithm to find other random matching candidates but aims at optimizing the computing time of the matching process.

## **Ordering of Netting Statement Line Items**

In order to have a performant matching engines and algorithms, it has been decided to adopt a standard way of ordering line items at netting statement level

The following order sequence key has to be applied:

1. InvoiceDate

This sequence should not block the algorithm to find other random matching candidates but aims at optimizing the computing time of the matching process.

## 4 Electronic Business Processes – Overview

### 4.1 Introduction

#### Overview

eSM is an electronic document based process for the settlement of physical and financial wholesale energy and commodity transactions that is designed to address the flaws in the current settlement processes identified in section 3.1 Current Business Processes and deliver the benefits of automation identified in Section 3.2 Benefits of electronic Settlement Matching. The process makes use of electronic settlement documents, which can replace the paper equivalent for tax and audit purposes, to facilitate automated matching, with or without applying tolerances. The content and treatment of each electronic settlement document within the process has been specified with the intention of being compliant with regional and local tax and accounting rules, where appropriate, permitting eSM to be deployed as a fully paperless process on an international basis. However, the process may also be operated in parallel with an existing paper-based process to gain the benefits of electronic matching whilst retaining the status of the paper documents, perhaps during a period of cut-over to fully paperless operation; the electronic documents contain explicit statements concerning their tax status relevant to the mode of deployment as 'full' or 'pro-forma' documents. Finally, a paper-equivalent input can be based on successful eSM matched documents.

The scope of the eSM business process includes the following functionality:

- Matching of invoice documents containing transaction level line items
- Matching of netting statements containing invoice summary level line items (out of scope of eSM Phase 1)
- Detection and identification of discrepancies between Payee (Supplier) and Payer (Customer) versions of these document types
- Subsequent cancellation, or, in the case of invoices, optional manual agreement of the documents.

The eSM process is designed to support netted and un-netted settlement. The process therefore comprises separate but related dialogues for matching Payee with Payer versions of the two types of business document: invoices and netting statements.

In the eSM process can be started by the Official Document Issuer of the shadow Document Issuer, not later than 1 business day prior to the payment date as stipulated by the Master Agreement governing the transactions in scope of the eSM process.

Official Invoice Document and Shadow Documents start their process lifecycle as 'Unmatched', prior to any matching algorithm.

Final statuses for eSM documents are:

- Matched
- Matched with Tolerance
- Mismatched (Timed-Out)
- Unmatched (Timed-Out)

## Invoice Matching Dialogue

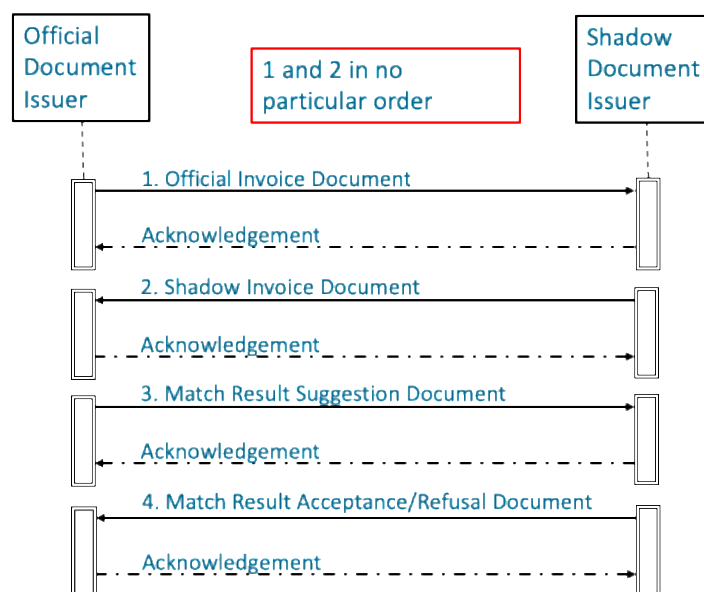


Figure 1 Invoice Matching Dialogue shows that the Official Document Issuer, who receives payment, and the Shadow Document Issuer who makes payment, exchange Official invoice document and Shadow Invoice document ('expected' invoice documents).

These documents are compared independently by both counterparties and through a subsequent exchange of Match Result Suggestion and Match Result Acceptance messages, a mutually agreed and fully audited result is reached: that the Official invoice document and Shadow invoice document ('expected' invoice) either match (full or tolerance) or mismatch. The automatic process requires the process to trigger the dialogue (or exchange of status results) and propose a result based on the availability of the Shadow invoice document ('expected invoice') as submitted by the Official Document Issuer (Payee), either a match or mismatch, which the Shadow Document Issuer (Payer) will independently verify responding with an official acceptance if they agree or refusal if they disagree. A full audit trail is created proving that each counterparty has checked and agreed to the result should there be any subsequent dispute.

The Shadow invoice document ('expected') represents the Payer's view of the Payee's invoice (Official Invoice Document) that they expect to receive, it is effectively a replica of the actual invoice document not a credit note for the same sum; it is constructed in such a way that it contains all financial and fiscal information as present of an Official Invoice Document without it having that official status to avoid any implication that the Payer has assumed responsibility for the issuing of invoices. As identified above, the accounting status of the esM document can be freely chosen by the users of the process (timing and sequence at the start, during or after the eSM process).

For matching of the invoice and 'expected' invoice documents to be possible, both counterparties must share a common view of what information should be included on the Official invoice document and 'expected' invoice documents. For more information on the specification of standard invoice documents and netting statements see Chapter 5 Electronic Business Processes – by Document Types and the CpML® documentation for electronic Settlement Matching. The standard invoice document format contains information known as the "Aggregation Keys" which specify the scope and content of the document, comprising fields such as payment date etc. An invoice and an 'expected' invoice with the same "Aggregation Keys" will have the same scope and include the same set of detailed transactions: those that share the same payment date etc. The 'Aggregation Keys' are used to identify a candidate matching pair of invoice and Shadow invoice document ('expected' invoice) documents which contain the same set of detailed line items and should match, pairs of these documents are compared by the Official document Issuer (Payee) and the Shadow Document Issuer (Payer) within the invoice matching dialogue and any discrepancies detected. The use of detailed line-item



documents is a process specific setting. Users of the eSM process have the choice of supplying this detailed dataset or not, and can choose to apply matching at line-item level as default or only if the invoice documents mismatch. If the two documents are found to contain discrepancies, then the counterparties can either correct the discrepancies to achieve a match or they may choose to retain the 'Mismatch' status and sort out the issues outside of the automated eSM process.

The mechanism for correcting discrepancies to achieve a match is standardised: all documents issued (Official Invoice Documents and Shadow Invoice Documents) are treated by the process as being subject to accounting rules and must be reversed with a full cancellation note, a new document with a new unique invoice number may be issued in place of the erroneous original document.

If the Shadow Document Issuer (Payer) has chosen to permit the use of the defined tolerances during matching of financial fields (NetAmount, VAT and GrossAmount) then if the 'mismatch' is due only to discrepancies in the financial sums and these fall within the defined tolerance limits then the Match Result Suggestion message will be generated for a 'tolerance' match. The application of the tolerance, as specified by the Shadow Document issuer will lead to the acceptance of the Official Document Issuer GrossAmount and generate a Match Result Acceptance message for a tolerance match. Tolerance Matching rules and parameters will be treated in the Best Practice section of the eSM standard and will be updated during the lifecycle of the eSM standard its implementation.

And once matched, **if not subject to netting**, the documents may NOT be reversed, amended or cancelled up until nor after the Invoice Match Completion Date deadline.

The matching of line items happens if both parties have submitted them and does not influence the status of the Invoice Document matching process. Process information on line item matching is included as 'information' onto the Match Result documents.

**In scope for eSM Phase 2:** Matched invoices which are **subject to netting** may be reversed up until the Netting Match Completion Date deadline. After the Netting Match Completion Date they can NOT be reversed, or cancelled anymore. There is one exception to this general rule: a matched invoice subject to netting may be reversed or amended even after the Netting Match Completion Date ONLY if the Netting Statement on which it is referenced is NOT yet Matched by the start of the Actual Netting Payment Date. (This will happen when a Netting Statement was not matched and when the counterparties decide to restate the referenced invoices with a new Actual Payment Date and as not subject to netting).

## **In scope for eSM Phase 2: Netting Statement Matching Dialogue**

All invoices matched in the Invoice Matching Dialogue that are subject to netting must be referenced on a netting statement submitted to the Netting Statement Matching Dialogue. Note that netting is mandatory for all financial invoices and for any physical invoices marked as subject to netting, whereas physical invoices not subject to netting may not be referenced on a netting statement submitted to this dialogue.

The document flow is shown in **Error! Reference source not found.** On submission to the process the netting statement is cross validated against the invoices to which it refers, if they have been previously submitted and are already 'known' to the process. The validation ensures that each invoice is subject to netting, is in a final matched state and that the financial sums on the netting statement correctly match the values on the matched invoices, so avoiding inconsistencies with the underlying invoices. Invoices matched outside the eSM process can also be referenced on a netting statement to gain the benefits of netting, but such invoice references cannot be validated against the actual invoices since they are not 'known' to the process and are assumed to have been matched outside the scope of eSM.

The net Payee initiates the matching process and issues a Matching Result Suggestion to the net Payer who validates and accepts the result through the issue of a Matching Result Acceptance message or refuses it through issue of a Matching Result Refusal message. Netting statement candidate matching

pairs are identified by the 'Netting Information' section; if this section in two documents contains the same values then the documents are understood to refer to the same netting 'scope' and the documents are matched since they should contain the same invoice summary data. As well as identifying netting statements for matching, the 'Netting Information' can also be used to associate matched netted invoices within the process which fall within the scope of the netting statement but which are not currently included.

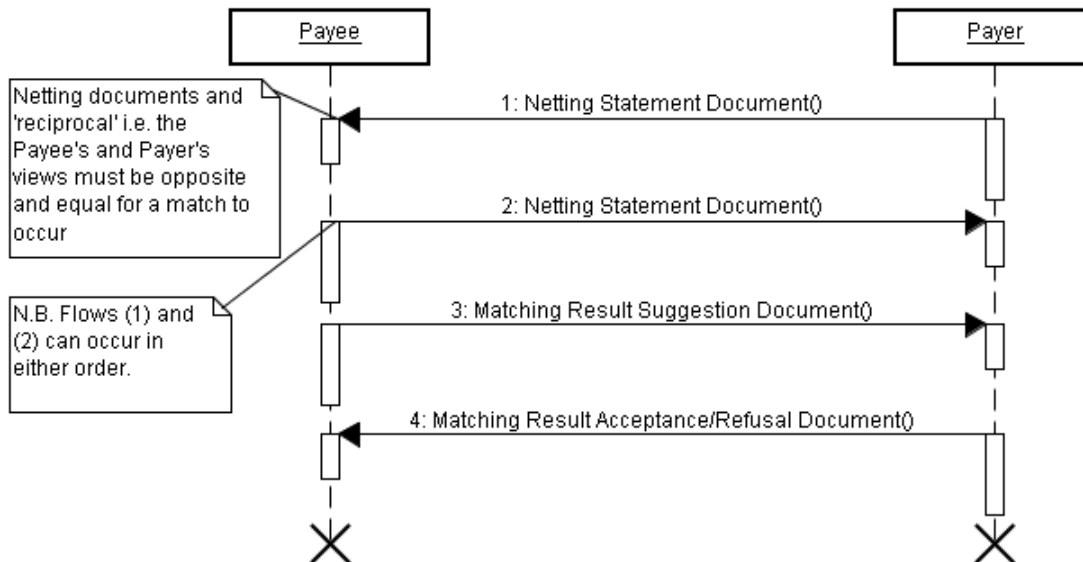


Figure 2 Netting Statement Matching Dialogue

Netting statements show the netting calculation from the independent perspective of each counterparty meaning that the Payer's sales must be matched with the Payee's purchases and vice versa. Since netting statements do not have the status of invoices for accounting or tax purposes they may be amended to resolve discrepancies.

Since invoices not known to the process may be included in a netting statement, a netting statement referencing invoices, none of which are known to the process can be submitted for matching since the Netting Statement Matching dialogue is independent of the Invoice Matching dialogue although it is required for any invoices subject to netting.

Matched netting statements may be amended within the process until the Netting Match Completion Date deadline. Once the deadline is passed matched netting statements may not be further processed. If the deadline is passed and the netting statement is in an unmatched state (eg pending or mismatched), it may be amended or cancelled and resubmitted with a new Actual Netting Payment Date. In the latter case the Actual Netting Payment Date on the Netting Statement will be later than that on the matched invoices referenced by the Netting Statements.

A netting statement will be set to the 'Cancelled' state if a referenced matched invoice known to the process is reversed, amended or cancelled (as permitted), or should an 'unknown' invoice referenced on a netting statement subsequently be submitted.

## 4.2 High Level Business Document Flows

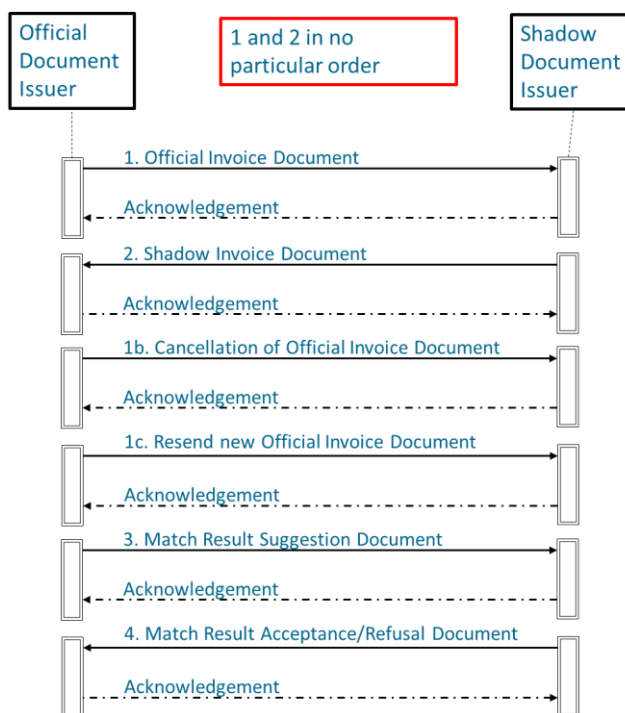


Figure 3 Invoice Matching Document Flow

### High Level Invoice Document Dialogue

The Shadow Invoice Document issuer (Payer) and the Official Invoice Document Issuer (Payee) each submit their versions of the Invoice Document, containing an Official Invoice document or Shadow Invoice document ('expected' invoice), to the process. Cancellations or Credit notes may not be submitted to the Invoice Document Dialogue for matching, they may only be used to reverse a referenced invoice (Shadow Invoice Document and/or the Official Invoice Document) already known to the process. The new document is validated on submission to the process and is either accepted or rejected, for example if the submission deadline has expired or the Aggregation Keys are not unique in the set of active Invoice Documents. Accepted and format-valid documents are sent to the counterparty. Through the use of an acknowledgement/rejection message, each party accepts receipt of, or rejects (due to processing errors), the counterparty Invoice Document. If the document is accepted by the counterparty then it is considered to have fully entered the process and is assigned the state 'Pending' in both the Official Document Issuer (Payee) and Shadow Document Issuer (Payer) instances of the process and a Process Result message will be exported by the process specifying the state change to the document.

Once an Invoice Document is in the 'Pending' state it is subject to matching. Invoice Documents in the Unmatched state and which share the same unique set of values in their 'Aggregation Keys' are automatically matched together. The Official Document Issuer (Payee) party takes the lead in the process and compares the two documents according to the appropriate matching mechanism (see Section General Match Processing of Documents below).

Once a result is found the Official Document Issuer (Payee) sends a 'Match Result Suggestion' message to the Shadow Document Issuer (Payer) proposing an automatically calculated result. If a 'Match' has been calculated then a 'Match Result Suggestion' with the match result 'Matched' is sent. If a 'Mismatch' has been calculated a 'Match Result Suggestion' with the match result 'Mismatched' is sent. If a 'Tolerance Match' has been calculated and tolerances are accepted by the Payee a 'Match Result

'Suggestion' with the match result 'Tolerance Matched' is sent, otherwise a 'Match Result Suggestion' with the match result 'Mismatched' is sent to the Shadow Document Issuer (Payer).

The Shadow Document Issuer (Payer) either accepts or rejects the 'Match Result Suggestion' message through the use of the Acknowledgement document or Rejection document. If the 'Match Result Suggestion' message is accepted by the Shadow Document Issuer (Payer), then the two Invoice Documents that comprise the candidate matching pair are both assigned the interim state of 'Match Suggested' in both the Payee and Payer instances of the process and a Process Result message will be exported by the process specifying the state change to the document(s). If the 'Match Result Suggestion' is rejected by the Shadow Document Issuer (Payer) then both Invoice Documents are assigned to the final 'Mismatched' state in both the Payee and Payer instances of the process as there is a fundamental problem agreeing a result between Payee and Payer and a Process Result message will be exported by the process specifying the state change to the document(s).

Otherwise the Shadow Document Issuer (Payer) applies the standard matching mechanism to the Invoice Documents in the 'Match Suggested' state and compares the result with that suggested by the Official document Issuer (Payee). If a 'Match' has been suggested and the Shadow Document Issuer (Payer) also calculates a 'Match' then a 'Match Result Acceptance' with the match result 'Matched' is sent by the Shadow Document Issuer (Payer) to the Official document Issuer (Payee). If a 'Mismatch' has been suggested and the Shadow Document Issuer (Payer) calculates a 'Mismatch' or a 'Tolerance Match' then a 'Match Result Acceptance' with the match result 'Mismatched' is sent by the Shadow Document Issuer (Payer) to the Official document Issuer (Payee). If a 'Tolerance Match' has been suggested and the Shadow Document Issuer (Payer) also calculates a 'Tolerance Match' then if tolerances are accepted by the Shadow Document Issuer (Payer) a 'Match Result Acceptance' with the match result 'Tolerance Matched' is sent by the Shadow Document Issuer (Payer) to the Official document Issuer (Payee), otherwise a 'Match Result Acceptance' with the match result 'Mismatched' is sent. In all other cases a 'Match Result Refusal' is sent by the Shadow Document Issuer (Payer) to the Official document Issuer (Payee).

The Official document Issuer (Payee) acknowledges the reception of either the 'Match Result Acceptance' or 'Match Result Refusal' message through the use of an Acknowledgement or Rejection document. If either message is rejected or if a 'Match Suggestion Refusal' message has been sent by the Shadow Document Issuer (Payer) and accepted by the Official document Issuer (Payee), both Invoice Documents are assigned to the final 'Mismatch' state in both the Official document Issuer (Payee) and Shadow Document Issuer (Payer) instances of the process as there is a fundamental problem agreeing a result between Official document Issuer (Payee) and Shadow Document Issuer (Payer) and a Process Result message will be exported by the process specifying the state change to the document(s).

If the Official document Issuer (Payee) accepts a 'Match Result Acceptance' message, then an officially confirmed result has been automatically agreed and the two Invoice Documents that comprise the candidate matching pair are both assigned the state specified in the Match Result Acceptance message sent by the Shadow Document Issuer (Payer): 'Matched', 'Mismatched' or 'Tolerance Matched' in both the Official document Issuer (Payee) and Shadow Document Issuer (Payer) instances of the process and a Process Result message will be exported by the process specifying the state change to the document(s). If the Official document Issuer (Payee) suggested a 'Tolerance Match' and the Shadow Document Issuer (Payer) presented a 'Mismatch' then the automatically agreed result is a 'Mismatch' since a 'Tolerance Match' is a special case of a 'Mismatch' that can only be accepted if both counterparties apply the Shadow Document Issuer's tolerance settings.

If the documents are in the 'Mismatched' state then counterparties may wish to reverse or cancel one or both Invoice Documents or they may leave them into the 'Mismatch' status in order to manually continue the settlement process outside of the automated eSM process.

If both counterparties believe themselves to be the Shadow Document Issuer (Payer) or the Official document Issuer (Payee) then the invoices will not be identified for matching and the error will need to be noticed and remedied in the same way as a mismatch.

(In scope for eSM Phase 2) An Invoice Document, subject to netting, being assigned the state of 'Matched' or 'Tolerance Matched' may optionally (at the implementers discretion) be compared against the set of 'current' netting statements and if the invoice falls within the scope of the a 'current' Netting

Statement, defined by the 'Netting Information', then the 'Process Result' message will also include information identifying the Netting Statement(s) that may now reference this newly matched invoice.

This completes the automated matching dialogue for the Invoice Documents.

## **High Level Invoice Cancellation Dialogue**

Either counterparty may initiate the Invoice Cancellation dialogue for one of their own Invoice Documents within the process by submitting a Cancellation message referring to a current Invoice Document (Official Invoice Document or Shadow Invoice Document) and Version. The document is validated on submission to the process and the document is either accepted or rejected. A cancellation must contain a reference to an existing Invoice Document version in a state that permits cancellation. If accepted the Cancellation message is sent to the counterparty. The current cancellation implementation of the eSM process covers both cancellations and reversals.

Through the use of an acknowledgement/rejection message, the counterparty accepts receipt of, or rejects (due to processing errors), the Cancellation message. If the message is accepted by the counterparty, then it is considered to have fully entered the process. The current version of the referenced Invoice Document version is assigned the state of the 'Cancelled' in both counterparty instances and removed from further processing and a Process Result message will be exported by the process specifying the state change to the document(s).

The dialogue is valid for official invoice documents and shadow invoice documents.

It is permitted to cancel official invoice documents and shadow invoice documents Invoice ahead of the defined deadlines, if it is in the 'Unmatched', 'Error', 'Matched', 'Agreed Matched' or 'Mismatched' states. If the document is in the 'Matched', 'Error', 'Agreed Matched', 'Tolerance Matched' or 'Mismatched' state then the counterparty document will be returned to the 'Pending' state to participate in future matching with the re-stated invoice; if it is pending, the counterparty document will stay pending.

A new Invoice Document with the same Document ID but a higher version number than the 'Cancelled' document may subsequently be submitted to the process.

## **High Level Acknowledgement/Rejection Dialogue**

The recipient of a document will reply with either an Acknowledgement document or a Rejection document. Receipt of an Acknowledgement document will indicate that the counterparty in the dialogue has not only received the previous document issued in the course of this specific dialogue (concurrent dialogues are possible) but that the referenced document is 'Well Processed', that is it contains acceptable data that permits the dialogue to continue without intervention. Receipt of a Rejection document conversely will indicate that the counterparty cannot proceed with the dialogue due to an exception relating to the data contained in the previous document exchanged within the dialogue to which the Rejection document explicitly refers. In this case the documents involved may be set to the 'Error' state, meaning intervention is required to resolve the exception and a Process Result message will be exported by the process specifying the state change to the document(s). Such intervention may result in an Cancellation dialogue depending on the status of the invoice at the time of the exception. Alternatively, in the case of an Invoice document which cannot be amended, if after investigation it is found that the document can re-enter the process then the Invoice document will have to be resent with a higher document version whereby a Process Result message will be exported by the process specifying the state change to the document(s).

## In scope for eSM Phase 2: High Level Netting Document Dialogue

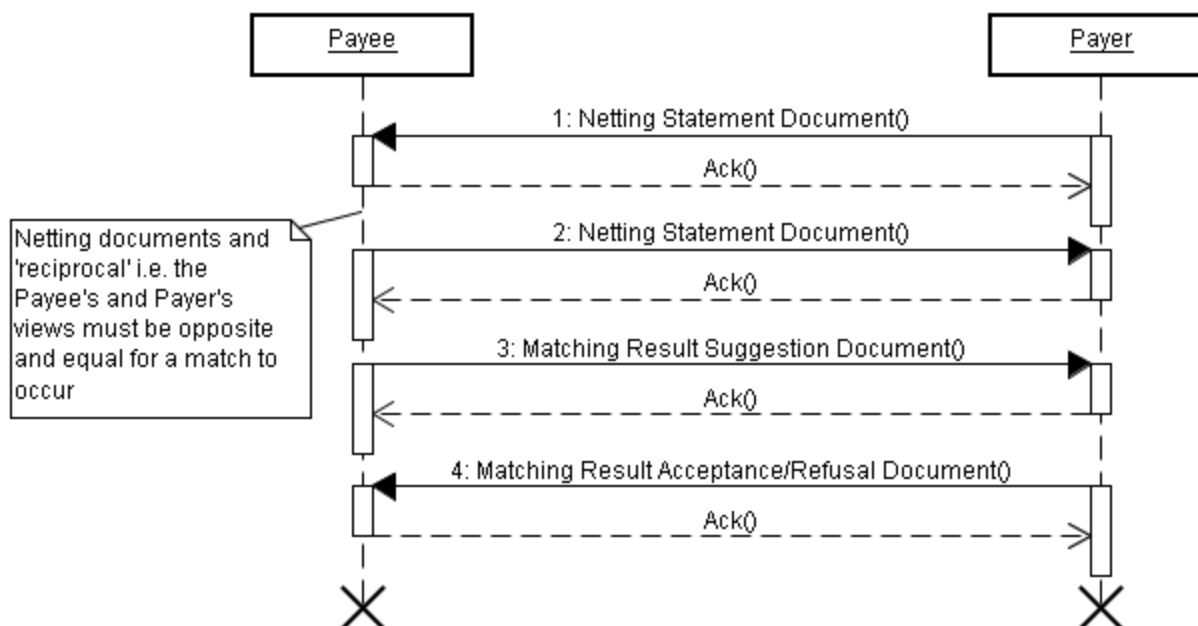


Figure 4 Netting Statement Matching Document Flow

The net Payer and the net Payee each submit their versions of the Netting Statement to the process. The document is validated on submission to the process and the document either accepted or rejected, for example if the submission deadline has expired or the Netting Information is not unique in the set of active Netting Statements. The references to invoices contained within the Netting Statements are validated against the set of current invoices (but not 'expected' invoices), if any referenced invoices are not subject to netting and/or not in the 'Matched', 'Tolerance Matched' or 'Agreed Matched' state, or if they differ in the invoiced amounts then the Netting Statement will be rejected. Accepted Netting Statements which pass validation are sent to the counterparty.

Through the use of an acknowledgement/rejection message, each party accepts receipt of, or rejects (due to processing errors), the counterparty Netting Statement. If the document is accepted by the counterparty then it is considered to have fully entered the process and is assigned the state 'Pending' in both the Payee and Payer instances of the process and a Process Result message will be exported by the process specifying the state change to the document. If there are any current invoices that fall within the scope of the 'Pending' Netting Statement, defined by the 'Netting Information', then the 'Process Result' message may optionally (at the implementers discretion) also include information identifying the 'missing' Invoice Document(s) that could be referenced by the Netting Statement.

Once a Netting Statement is in the 'Pending' state it is subject to matching. Netting Statements which are in the 'Pending' state and which share the same unique set of values in their 'Netting Information' are automatically matched together. The Payee party takes the lead in the process and compares the two documents according to the appropriate matching mechanism (see Section General Match Processing of Documents below).

Once a result is found the Payee sends a 'Match Result Suggestion' message to the Payer proposing an automatically calculated result: either a 'Match' or a 'Mismatch' between the two identified Netting Statement documents. The Payer either accepts or rejects the 'Match Result Suggestion' message through the use of the Acknowledgement document or Rejection document. If the 'Match Result Suggestion' message is accepted by the Payer, then the two Netting Statements that comprise the candidate matching pair are both assigned the interim state of 'Match Suggested' in both the Payee and Payer instances of the process. If the 'Match Result Suggestion' is rejected by the Payer then both Netting Statements are assigned to the final 'Error' state in both the Payee and Payer instances of the process as there is a fundamental problem agreeing a result between Payee and Payer and a Process Result message will be exported by the process specifying the state change to the document(s).

Otherwise the Payer applies the standard matching mechanism to the Netting Statements in the 'Match Suggested' state and compares the result with that suggested by the Payee and a Process Result

message will be exported by the process specifying the state change to the document(s). If the results agree then the Payer sends a 'Match Result Acceptance' message to the Payee, otherwise a 'Match Result Refusal' document is sent.

The Payee acknowledges the reception of either the 'Match Result Acceptance' or 'Match Result Refusal' message through the use of an Acknowledgement or Rejection document. If either message is rejected or if a 'Match Suggestion Refusal' message has been sent by the Payer and accepted by the Payee then both Netting Statements are assigned to the final 'Error' state in both the Payee and Payer instances of the process as there is a fundamental problem agreeing a result between Payee and Payer and a Process Result message will be exported by the process specifying the state change to the document(s).

If the Payee accepts a 'Match Result Acceptance' message, then an officially confirmed result has been automatically agreed and the two Netting Statements that comprise the candidate matching pair are both assigned the state of 'Matched' or 'Mismatched', depending on the confirmed result, in both the Payee and Payer instances of the process and a Process Result message will be exported by the process specifying the state change to the document(s).

This completes the automated matching dialogue for the Netting Statements.

If the documents are in the 'Mismatched' state then counterparties must amend one or both Netting Statements to reinitiate the automatic matching dialogue, they may not be matched manually through the agreed matching mechanism.

If both counterparties believe themselves to be the Payer or the Payee then the netting statements will not be identified for matching and the error will need to be noticed and remedied in the same way as a mismatch.

## **In scope for eSM Phase 2: High Level Netting Statement Document Cancellation Dialogue**

Either counterparty may initiate the Netting Statement Cancellation dialogue for one of their own Netting Statements within the process by submitting a Cancellation message referring to a current Netting Statements and Version. The document is validated on submission to the process and the document is either accepted or rejected. A cancellation must contain a reference to an existing Netting Statement version in a state that permits reversal. If accepted the Cancellation message is sent to the counterparty.

Through the use of an acknowledgement/rejection message, the counterparty accepts receipt of, or rejects (due to processing errors), the Cancellation message. If the message is accepted by the counterparty then it is considered to have fully entered the process. The current version of the referenced Netting Statement version is assigned the state of the 'Cancelled' in both counterparty instances and removed from further processing and a Process Result message will be exported by the process specifying the state change to the document(s).

It is permitted to cancel a Netting Statements, ahead of the submission deadline, if it is in the 'Pending', 'Error', 'Matched' or 'Mismatched' states.

A netting statement is also set to the 'Cancelled' state if a referenced Invoice changes state as the result of another dialogue.

A new Netting Statement with the same Document ID but I higher version number than the 'Cancelled' document may subsequently be submitted to the process.

## **4.3 Business Document Processing**

### **General Match Processing of Documents**

The Shadow invoice document issuer (Payer) and the Official Invoice document issuer (Payee) each independently executes the matching process. The process comprises two parts:

- a) Retrieval - for each invoice document created by the local party and in the 'Pending' state, that party continually tries to retrieve from the set of received invoice documents, with a status of 'Unmatched', a document with matching Aggregation Keys to those of the local document currently being processed. Per Aggregation Key set, only one counterparty document can be retrieved as only one invoice, with the same Aggregation Keys and version (duplicates not allowed), from either party is allowed to be in the Unmatched state at any one time.
- b) Comparison - once a candidate matching pair of invoice is retrieved or has been identified by a 'Match Result Suggestion' message the documents are compared according to the rules defined for matching Invoice Documents.

The following general rules define when two documents may be considered identical for business purposes:

1. Two document field values (XML attributes or elements) are called identical if they consist of the same sequence of characters. Leading and trailing blanks are not accepted within document fields (see CpML ® eSM documentation for field validation rules). Should the values be based on a numeric data type, the respective formatting rules apply. I.e., 1.0 matches with 1 or 100 matches 10E2. Equality of values is given if two numeric values are considered equal according to the XML Schema standard (<http://www.w3.org/TR/xmlschema-2/>).
2. Two document *sections* are called identical if the respective values of all key fields are identical or are considered equivalent following the rules defined for matching the fields in question (e.g. within a tolerance). A section is defined as a sequence of XML elements. Such a sequence may either be the header part of a document or a *repeatable section*. Optional document fields and substructures count as part of the section.
3. Independent of the cardinality of an XML section, a repeatable section may be ordered or unordered. If a repeatable section is ordered, the order of the sections is defined by their sequential appearance.
4. Two lists of an unordered repeatable document section are called identical if there exists a one-to-one mapping between the sections of the one list and the sections of the other list such that each pair of sections is identical and all sections can be mapped.

In summary two different documents are considered identical if there exists

- a one-to-one mapping between all corresponding lists of ordered repeatable sections of the two documents such that each pair of sequences is identical,
- a one-to-one mapping between all corresponding lists of unordered repeatable sections of the two documents such that each pair of sequences is identical,
- a one-to-one mapping between the two sets of remaining sections of the two documents such that each pair of sections is identical.

## Match Processing of Invoice Documents

The invoice from the Official Invoice Document Issuer (Payee) and the Shadow Invoice Document from the Shadow Invoice Document Issuer (Payer) are considered matched if all key fields are equivalent since the document produced by the Official Invoice Document Issuer (Payee) and the document produced by the Shadow Invoice Document Issuer (Payer) must both describe the same cash flow from the Official Invoice Document Issuer's (Payee) perspective. The identity of the Official Invoice Document Issuer (Payee) and Shadow Invoice Document Issuer (Payer) is included in the 'eSM Process Information' section and matched so that a discrepancy as to the role of each counterparty will be detected. There is no need therefore to take account of the perspective of the author of the document when matching, i.e. it is not necessary to take account of oppositely signed numeric values.

The matching will start at summary level and, depending on the static data options/settings chosen per eSM process application, be performed by default on trade level (or only in case of a mismatch of the summary).

A tolerance match is deemed true if two Invoice documents differ only in their cash amounts (NetAmount, VATAmount and GrossAmount) within the tolerance. The tolerance is applied to the matching of specific 'PriceType' and QuantityType fields such that two fields are deemed to match if the



two values from each document being compared vary one from another by exactly or less than the percentage AND the absolute value specified in the tolerance for the appropriate currency (where both types of tolerance are defined). All values for each currency are defined within the eSM Shadow Invoice document and may, in the near future, be maintained as 'Static Data' on [www.efet.org](http://www.efet.org). Tolerances for the Summary and Detail data are separately defined and must be appropriately applied during matching of the relevant sections.

## **Matching of Tax Information in Invoice Documents**

Tax Information sections in the Invoice Document will be always be matched.

## **In scope for eSM Phase 2: Match Processing of Netting Statement Documents**

A netting statement from a Payee is considered to match a netting statement from the Payer if for:

- 1) The 'Netting Information' section all key fields are equivalent
- 2) The 'Summary' section all key fields are equivalent.
- 3) The 'Counterparty Information' sections all key fields are equivalent
- 4) The 'Purchases' section in one netting statement all key fields are equivalent to the key fields in the 'Sales' sections in the other netting statement.

## **Invoice and Netting Documents flagged as 'Timed-Out'**

If an Invoice Document has not been assigned to the 'Matched' state by close of business on the Invoice Final Submission Date (based on the Payer's time zone), then it will be flagged as 'Timed-Out'.

In scope by eSM Phase 2: If an invoice document which is subject to netting has not been referenced on a netting statement by close of business on the Netting Final Submission Date (based on the Payer's time zone), then it will be flagged as 'Timed-Out for Netting'.

In scope for Phase 2: If a netting statement document has not been assigned to the 'Matched' state by close of business on the Netting Final Submission Date, then it will be flagged as 'Timed-Out for Matching'.

## **State Changes Exported from the Processes**

The process issues Process Results the backend process which provide information including: state changes to each invoice and netting statement as it is processed and 'difference' reports in the case of a pair of invoices being assigned to the 'Agreed Matched' or 'Tolerance Matched' state.

## 5 Electronic Business Processes – by Document Types

This section has to be read in conjunction with the eSM CpML document and the Appendix A Definition of eSM Types and Codes

The appendix provides the reference to the list of all the types and codes that are valid within the eSM. Wherever this document is referenced the codes associated with the attribute referenced must be obtained from this source. In particular the code lists contained in the appendix may evolve independently from this section.

Within the following sections the following conventions are used to describe how each field is treated:

- Mandatory: must be present in the document
- Optional: may or may not be present in the document
- Conditional: Mandatory or Optional depending on the business rule
- Key: a matching field
- Information: a non-matching field
- Key Tolerance: a matching field subject to a tolerance
- Key Reversal: a matching field that must precisely off-set the field as part of the reversal dialogue

### 5.1 Naming and Typing Conventions

Document rules check the validity of data within a given document against the document type definition.

Agreed abbreviations for document types:

- "INV" for Invoice document
- "NET" for Netting document
- "REJ" for Rejection
- "MRS" for Match Result Suggestion
- "MRA" for Match Result Acceptance
- "MRR" for Match Result Refusal
- "ACK" for Acknowledgement
- "CAN" for Cancellation
- "PRS" for Process Result
- "RAC" for Reactivation

#### 1. Partner Identification

The counterparty IDs used in eSM Documents are globally unique IDs (SSDSIDs) and so shall be identical to the codes used to identify counterparties in the eCM process [1].

#### 2. Document IDs

Often, documents are listed in reporting tools, as XSL stylesheets, etc. To provide a common syntax that is comprehensible and maintains uniqueness, a rule for creating unique Document IDs is defined as follows:

A combination of the following components:

- Document type abbreviation (e.g. "INV" for Invoice Document)
- DateCode (8 characters, in yyyyymmdd format),
- Locally & daily unique Internal Document ID (recommended min. 10 characters) of the sender side

N.B. This Document ID must be maintained independently of the payload for subsequent versions of the document since a change to the payload may cause the Document ID to change breaking the link

between versions of the document although it is expected that Internal Document ID has a unique meaning in the context of the payload document and cannot be amended for an invoice, credit note or netting statement.

- "@"
- Sender identification, i.e. SSDSID of the sender.

Examples:

INV\_20070610\_1234567890@BE0403170701\_11XELECTRABEL--Z

N.B. This is a convention but it is mandated for compliancy with the eSM Standard and must be used for document types, with the exception of Agreement Documents for which naming is defined below, as it is believed that it makes document tracking easier.

N.B. Only the following characters are allowed:

- letters
- numbers
- special characters: - \_ ( ) [ ] . @ \$ +

## 5.2 Invoice Document

### 5.3 Invoice Types and Subtypes

Invoice Documents created by the Shadow Document Issuer (Payee) and Official Document Issuer (Payer) must comprise detailed line items for the same set of underlying transactions if they are to be usefully compared within the eSM process i.e. it is necessary to match 'apples with apples'. The presence of detailed line items is depending on a flag whereby parties agree to exchange these details and when to use them for matching (default or only in case of invoice mismatch). The following set of Invoice Document types and subtypes have therefore been defined for the transaction types within the scope of the eSM process. If different transaction types can be invoiced together then they have been included as subtypes within the same type of Invoice Document.

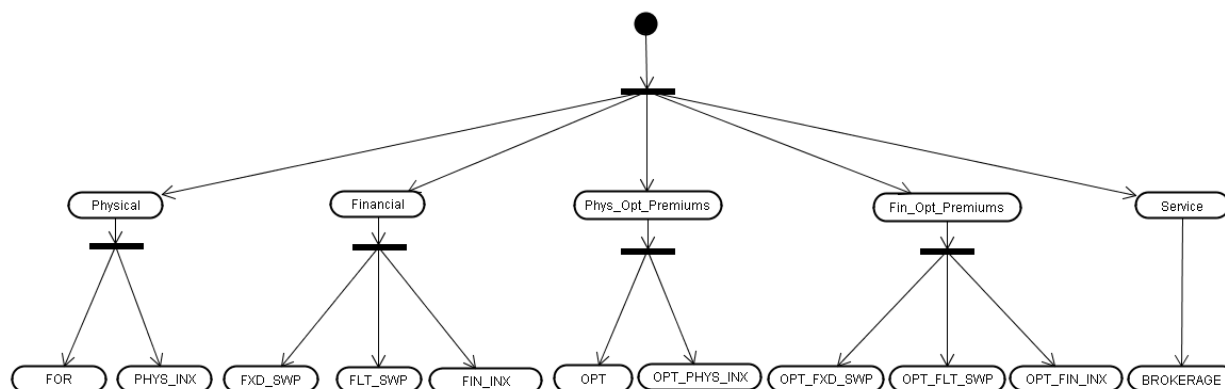


Figure 5 Invoice Types and Subtypes

Figure 5 Invoice Types and Subtypes shows the two levels of categorisation with eSM invoice types comprising:

- "Physical", for types of invoice dealing with payments related to physical forward transactions which comprises subtypes:
  - "FOR", physical forwards covering settlement of all types of fixed price physically delivered commodities within scope of the standard
  - "PHYS\_INK", physical indexed deals covering settlement of all types of index priced physically delivered commodities within scope of the standard
- **Now in scope for eSM Phase 2:** "Financial", for types of invoice dealing with payments related to financial transactions which comprises subtypes:
  - "FXD\_SWP", fixed swaps

- “FLT\_SWP”, floating swaps
- “FIN\_INX”, pay outs on exercised financial options on indexes
- **Not in scope for eSM Phase 1:** “Phys\_Opt\_Premiums”, for types of invoice dealing with payments related to physical option premiums which comprises subtypes:
  - “OPT”, covering options on physical fixed price forward deals
  - “OPT\_PHYS\_INX”, covering options on physical index settled forward deals
- **Not in scope for eSM Phase 1:** “Fin\_Opt\_Premiums”, for types of invoice dealing with payments related to financial option premiums which comprises subtypes:
  - “OPT\_FXD\_SWP”, covering swaptions for fixed swaps
  - “OPT\_PHYS\_INX”, covering swaptions for floating swaps
  - “OPT\_FIN\_INX”, covering options on a financial index
- **Not in scope for eSM Phase 1:** “Service”, for types of invoice dealing with payments related to services and which in this version of the eSM standard comprises:
  - “Brokerage”, covering settlement for broker fees.

The types and subtypes defined by this standard may be extended in future versions to cover settlement of a wider set of underlying transactions.

## 5.4 Invoice Document Field Description

See CpML ® documentation for eSM

## 5.5 Document specific Business Rules – Invoice

PM

## 5.6 Match Result Suggestion Document (MRS)

### Overview

The Match Result Suggestion Document forms a proposal from one counterparty to the other, if the process is part of an automatic matching dialogue the initiator will be the Official Document Issuer (Payee), if it is part of the agreed matching dialogue then either counterparty can trigger the issue of the message. The MRS differentiates between a Perfect Match suggestion (MRSP) and a Tolerance Match Suggestion (MRST)

The document is signed and therefore provides an auditable record.

PM

### Result Suggestion Document XML Schema

PM

## 5.7 Match Result Acceptance Document (MRA)

### Overview

The MRA differentiates between a Perfect Match suggestion (MRAP) and a Tolerance Match Suggestion (MRAT)

The document is signed and therefore provides an auditable record.

PM

## **Match Result Acceptance Document XML Schema**

PM

## **5.8 MisMatch Result Document (MMR)**

### **Overview**

The MMR document will be issued if the responder's matching result does not equal the initiator's matching result

The MMR document contains the mismatch result as calculated by the Responder so that both Official Document and Shadow Document Issuer have the results from both counterparties.

The document is signed and therefore provides an auditable record.

PM

## **Match Result Refusal Document XML Schema**

PM

## **5.9 Cancellation Document**

A Cancellation Document refers to a proforma Invoice document or Netting Statement and is used to inform the receiver of the sender's desire to remove the Invoice document or Netting Statement from the process.

PM

## **Cancellation Document XML Schema**

PM

## **5.10 Acknowledgement Document (ACK)**

An Acknowledgement document is sent when a document (except Acknowledgement and Rejection documents) are well-processed.

PM

## **Acknowledgement Document XML Schema**

PM

## **5.11 Rejection Document (REJ)**

A Rejection document is sent when a document (except Acknowledgement and Rejection documents) could not be well-processed. The reasons for the rejection are listed in the definition of ReasonCodes further down.

N.B. A place holder for a vendor specific rejection reason codes has been included in this document.

PM

## **5.12 Process Result Document (PRS)**

### **Overview**

The Process Result document is exported by the process to the 'local' environment. It provides feedback on the state changes to the settlement documents (invoices and netting statements) as they occur. In the case of a state change to 'Agreed Matched' or 'Tolerance Matched' it also contains information about the discrepancies between the Summary sections of the two invoices referenced in the match which in the case of a tolerance match is only the difference between the invoiced and 'expected' invoiced sums.

PM

### **Process Result Document XML Schema**

PM

## **5.13 Netting Statement Document Types**

The netting statement comprises purchases, sales and the balance for a netting payment date between them which is paid by the Payer to the Payee. Each invoice that has been received from and counterparty will contribute to the total purchases and each invoice issued to the counterparty will contribute to the sales made. For two netting statements to be meaningfully compared and matched they must contain the same sets of sales and purchases, i.e. they must comprise the same sets of underlying invoices. The 'scope' of a netting statement is defined by the 'Netting Information' which contains values for each field in the invoice 'Aggregation Keys'. If an invoice shares values in its 'Aggregation Keys' with those specified in the 'Netting Information' of a netting statement then they fall within the scope and should participate in netting if they are subject to netting and settle on the Netting Payment Date.

## **5.14 Netting Statement Document Field Description**

PM

## **5.15 Document specific Business Rules – Netting Statement Document**

These business rules apply generally to the document or to specific sections. In addition to the field specific rules defined in the table above these rules provide guidance on the composition and completion of a standard compliant NET document for the various products and instruments supported.

## **5.16 Netting Document Structure**

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## **6 Communication Protocol and Interfaces**

The reader is referred to the EFET eCM Standards v4.1 for information concerning this chapter. It is the intention of EFET to reorganise the standards documentation in the form of a free standing document for Communications Protocols and Interfaces and for each business process including eCM, eRR and eSM.

## **Appendix A. Definition of eSM Types and Codes**

See CpML ® documentation for eSM



## **Appendix B. Glossary of Data Elements and Terms**

### **B.1. Context Specific Data Elements in Alphabetic Order**

See CpML ® documentation for eSM

## Appendix C. Matching Tolerances by currency

### C.1. Tolerances for physical products – summary level

These tolerances may be applied to the summary amounts within the Shadow Invoice document. There are 2 ToleranceTypes specified: 'Percentage' and 'Absolute'

<b>Currency</b>	<b>Long text</b>	<b>Percentage Amount</b>	<b>Absolute Amount</b>
USD	US Dollar	n/a	<=50
EUR	Euro	n/a	USD50 equivalent
GBP	Pound Sterling	n/a	USD50 equivalent
JPY	Japanese Yen	n/a	USD50 equivalent
Other	Other	n/a	USD50 equivalent

### C.2. Tolerances for physical products – detail level

These tolerances may be applied to the detail amounts within the Shadow Invoice document.

<b>Currency</b>	<b>Long text</b>	<b>Percentage Amount</b>	<b>Absolute Amount</b>
USD	US Dollar	n/a	<=50
EUR	Euro	n/a	USD50 equivalent
GBP	Pound Sterling	n/a	USD50 equivalent
JPY	Japanese Yen	n/a	USD50 equivalent
Other	Other	n/a	USD50 equivalent

### C.3. Tolerances for financial products – summary level

These tolerances apply to the summary amounts within the Invoice document.

<b>Currency</b>	<b>Long text</b>	<b>Percentage Amount</b>	<b>Absolute Amount</b>
USD	US Dollar	n/a	<=50
EUR	Euro	n/a	USD50 equivalent
GBP	Pound Sterling	n/a	USD50 equivalent

JPY	Japanese Yen	n/a	USD50 equivalent
Other	Other	n/a	USD50 equivalent

#### C.4. Tolerances for financial products – detail level

These tolerances apply to the detail amounts within the Invoice document.

<b>Currency</b>	<b>Long text</b>	<b>Percentage Amount</b>	<b>Absolute Amount</b>
USD	US Dollar	n/a	<=50
EUR	Euro	n/a	USD50 equivalent
GBP	Pound Sterling	n/a	USD50 equivalent
JPY	Japanese Yen	n/a	USD50 equivalent
Other	Other	n/a	USD50 equivalent

## Appendix D.E-Invoice TAX Requirements for EU Member States (Under construction)

MEMBER STATE	IS IT OBLIGATORY TO USE QUALIFIED CERTIFICATED AND SECURE-SIGNATURE-CREATION DEVICES FOR INVOICES SENT WITH ADVANCED ELECTRONIC SIGNATURES?	IS AN ADDITIONAL SUMMARY DOCUMENT ON PAPER OBLIGATORY FOR EDI?
Austria	Yes, where invoices contain a signature complying with the requirements of Article 2(3)(a) to (d) of the Signature Act certificated by a certification authority within the meaning of the Signature Act.	Summary paper document required (or certified electronic signature).
Belgium	Invoices sent electronically are accepted by the authorities provided that the authenticity of their origin and the integrity of their content are guaranteed, in particular by means of an advanced electronic signature which must meet the following requirements: a) it is uniquely linked to the signatory; b) it is capable of identifying the signatory; c) it is created using means that the signatory can maintain under his sole control and it is linked to data to which it relates in such a manner that any subsequent change of the data is detectable. It is not necessary to use a qualified certificate or a secure-signature-creation device.	Invoices sent electronically are accepted by the authorities in particular when they are sent in compliance with the EDI standard when the agreement between the parties relating to this interchange provides for the use of procedures guaranteeing the authenticity of the origin and integrity of the data. It is not necessary to send an additional summary document on paper.
Bulgaria	Yes, authorised access.	Not applicable
Cyprus	Certificated signatures and secure signature creation are not obligatory for invoices sent with advanced electronic signatures.	No additional summary document is required for invoices sent by electronic data interchange.
Czech Republic	Yes, such invoices must be sent with advanced electronic signatures (or electronic marks) based on a qualified system certificate pursuant to Act No 227/2000 on electronic signatures. Traders currently authorised to issue certificates are I.CA( <a href="http://www.ica.cz">http://www.ica.cz</a> ), Česká pošta ( <a href="http://qca.postsignum.cz">http://qca.postsignum.cz</a> ) and Identity ( <a href="http://www.eidentity.cz/app">http://www.eidentity.cz/app</a> )	No, an additional summary document on paper is not required.
Denmark	If an electronic (digital) signature is used, this must be based on an advanced electronic signature, which shall have a security level at least equivalent to, for example, an OCES certificate (Offentlige Certifikater for Offentlig Service – public certificates for public services). This means that another equivalent digital signature is equally acceptable. The electronic signature system	No additional document has to be sent on paper when using electronic data interchange (EDI). The use of EDI requires that a specific agreement exists between the buyer and seller laying down secure procedures for the electronic

	<p>provides security which is crucial for confidence, i.e.</p> <ul style="list-style-type: none"> <li>- authenticity : which provides the recipient of the invoice with reassurance that the invoice comes from the person who sent the invoice</li> <li>- integrity : provides reassurance that the invoice has not been changed in transit. Please also see <a href="http://www.digitalsignatur.dk">www.digitalsignatur.dk</a></li> </ul>	<p>exchange of invoices using EDI. Its use requires the parties to use and uphold the special methods and rules necessary for data security, the authenticity of the data origin and integrity of the data content.</p>
Estonia	No	No
Finland	Electronic signatures are not required.	An additional summary document need not be submitted in Finland when invoices are transmitted by electronic data interchange.
France	<p>It is not necessary for the signature to be based on a qualified certificate. However, the certification and signature device adopted must be sufficiently secure to guarantee the authenticity and the integrity of the electronically transmitted invoices.</p> <p>The enterprise to which the invoices are addressed must verify the authenticity and the integrity of the document by means of the data inserted in the electronic certificate attached to the electronic signature.</p>	<p>An enterprise issuing or receiving paperless invoices (Article 289a of the General Tax Code), regardless of who has physically transmitted or received the messages in its name and on its behalf, must ensure that a sequential recapitulative list of all the messages transmitted or received and any anomalies they may contain is kept and stored on paper or data medium during the storage period.</p>
Germany	Pursuant to Article 14(3)(1) of the Turnover Tax Act, the authenticity of the origin and the integrity of the content must be ensured, as a minimum, by a qualified electronic signature in accordance with the Signature Act of 16 May 2001, where invoices are sent electronically.	Pursuant to Article 14(3)(2) of the Turnover Tax Act, a summary invoice in paper form must also be sent when invoices are sent by electronic data interchange. The summary invoice may be sent electronically if it contains, as a minimum, a qualified electronic signature in accordance with the Signature Act.
Greece	The relevant provisions of Presidential Decree 150/2001 (Government Gazette 125/I/25.6.2001) apply to the sending of invoices with advanced electronic signatures, without a qualified certificate requirement. However, there is a requirement for creation of a digital signature by specific secure devices (marking mechanisms).	<p>This is required only where the taxable person effects supplies of goods or services outside Greece (in another Member State or in a third country).</p> <p>The additional summary document (on paper) must state at least the full particulars of the parties to</p>

		<p>the transaction and the total value of the transaction.</p> <p>The document is not required if the taxable person keeps copies of invoices with full content.</p>
Hungary	<p>Electronic invoices must be issued using advanced electronic signatures, time stamps, or electronic data interchange (EDI) systems. The definitions of advanced electronic signatures and time stamps are contained in Act XXXV of 2001 on electronic signature.</p> <p>Article 2 (15) 'Advanced electronic signature' shall mean an electronic signature that meets the following requirements:</p> <p>(a) it is uniquely linked to the signatory;</p> <p>(b) it is created by using means that the signatory can maintain under his sole control;</p> <p>(c) it is linked to the document to which it relates in such a manner that any change to the data of the document made subsequent to the execution of the signature is detectable.</p> <p>'Time-stamp' shall mean a form of verification that is permanently attached to or logically associated with an electronic document intended to verify that the electronic document existed in an unaltered form at the time of time stamping.</p> <p>'Qualified electronic signature' shall mean an advanced electronic signature that has been created by the signatory with a secure-signature-creation device and is attested by a qualified certificate.</p>	<p>Taxable persons are required to have monthly supplementary summary documents regarding the invoices sent by EDI. The provisions on accounting documents contained in the Act on accounting are applicable to the supplementary summary documents. The taxable person keeps one copy and sends the other copy to the customer. The document must contain the following:</p> <ul style="list-style-type: none"> <li>- the data relating to the issuer of the invoice: <ul style="list-style-type: none"> <li>i. name</li> <li>ii. address:</li> <li>iii. tax number (Community tax number, if there is one).</li> </ul> </li> <li>- the data relating to the purchaser: <ul style="list-style-type: none"> <li>i. name</li> <li>ii. address:</li> <li>iii. tax number (Community tax number, if there is one).</li> </ul> </li> <li>- serial number of the invoices issued in the given period;</li> <li>- the amount of the taxable base and the amount of the tax to be paid for the given period.</li> </ul>
Ireland	<p>No specific certification is required. Advanced electronic signatures are defined in Regulations. The definition lays down high level criteria which are technology neutral and if the invoice is issued in accordance with these criteria it is acceptable.</p>	<p>No additional summary documentation is required. However, taxable persons are required to produce paper copies of specified invoices following a request by a tax official.</p>
Italy	<p>By agreement with the recipient, the invoice may be sent electronically without macro-instructions or an executable code. The certification of the</p>	<p>The recipient's consent is necessary to send the invoice electronically. Therefore</p>

	<p>date, the authenticity of the origin and the integrity of the content of the electronic invoice are guaranteed by applying the temporary reference and qualified electronic signature to each invoice or batch of invoices (Article 21(3) of Presidential Decree 633/1972). The qualified electronic signature is an advanced electronic signature based on a qualified signature, and generated by a secure device for generating the signature (Article 1(1)(h) of the Decree of 23 January 2004).</p>	<p>there is no requirement to print the invoice out on paper. However, the document must be made tamper-proof by qualified electronic signature and date reference.</p> <p>Therefore the obligation to send or deliver a paper document only arises when the recipient has not consented to electronic transmission. In that case, the standard provisions of Article 21 of Presidential Decree 633/1972 must be followed.</p>
Latvia	No details published	No details published
Lithuania	<p>Invoices sent by electronic means are accepted where advanced electronic signature defined by Law on Electronic Signature No VIII-1822 of 11 July 2000 of the Republic of Lithuania (as amended by Law No IX-934 of 6 June 2002) guarantees the authenticity of the invoice origin and the integrity of its contents. The Law is in accord with Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures.</p> <p>For the purposes of this Law, a qualified certificate means a certificate issued by a certification-service-provider who fulfils the requirements laid down by the Government or an institution authorised by it. The certificate must contain the following details:</p> <ol style="list-style-type: none"> <li>1) an indication that the certificate is issued as a qualified certificate;</li> <li>2) the identification of the certification-service-provider and the State in which it is established;</li> <li>3) the name and surname of the signatory or a pseudonym;</li> <li>4) specific attributes of the signatory if it is necessary for the purpose for which the certificate is intended;</li> <li>5) signature-verification data which correspond to signature-creation data under the control of the signatory;</li> <li>6) an indication of the beginning and end of the period of validity of the certificate;</li> <li>7) The identity code of the certificate provided by the certification-service-provider;</li> </ol>	<p>Invoices sent by electronic means are accepted in all cases where the authenticity of their origin and the integrity of their contents is guaranteed by electronic data interchange (EDI) as defined in Commission Recommendation 94/820/EC of 19 October 1994 relating to the legal aspects of electronic data interchange, and where interchange agreements provide for a procedure guaranteeing the authenticity and integrity of data.</p> <p>It is required to use EDI standards (UN/EDIFACT, XML standards). No additional summary document is required.</p>

	<p>8) the advanced electronic signature of the certification-service-provider issuing it;</p> <p>9) limitations on the scope of the use of the certificate, if applicable;</p> <p>10) limits of the value of transactions for which the certificate can be used, if applicable.</p> <p>For the purposes of this Law, a secure signature creation device means a signature creation device which meets all the requirements laid down in this section:</p> <p>1) the signature-creation-data used for signature generation can practically occur only once, and their secrecy is reasonably assured;</p> <p>the signature-creation-data used for signature generation cannot, with reasonable assurance, be derived and the signature is protected against forgery using currently available technology;</p> <p>3) the signature-creation-data used for signature generation can be reliably protected by the legitimate signatory against the use of others;</p> <p>4) secure signature-creation devices must not alter the data to be signed or prevent such data from being presented to the signatory prior to the signature process. Qualified certificates created by foreign certification-service-providers are deemed to be legally equivalent to qualified certificates created by certification-service-providers of the Republic of Lithuania if:</p> <p>1) They are created by a certification-service-provider accredited in the Republic of Lithuania;</p> <p>2) They are created by a certification-service-provider accredited in a Member State of the European Union;</p> <p>3) The certificate is guaranteed by a certification-service-provider of the Republic of Lithuania who fulfils the requirements for certification-service-providers creating qualified certificates laid down by the Government of the Republic of Lithuania or an institution authorised by it;</p> <p>4) The certificate is guaranteed by a certification-service-provider of a Member State of the European Union who fulfils the requirements for certification service-providers creating qualified certificates equivalent to those laid down by the Government of the Republic of Lithuania or an institution authorised by it.</p> <p>The Republic of Lithuania recognises certification-service-providers of other countries and the certificates issued by them where their recognition is based on international agreements.</p>	
Luxembourg	Invoices issued pursuant to the relevant current legal provisions may be sent either on paper or,	No details published



	<p>subject to acceptance by the customer, by electronic means. Invoices sent by electronic means are treated as invoices provided that the authenticity of the origin and integrity of the content are guaranteed</p> <p>- by means of an advanced electronic signature within the meaning of Article 2 of Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures; - or by means of electronic data interchange (EDI), as defined in Article 2 of Commission Recommendation 1994/820/EC of 19 October 1994 relating to the legal aspects of electronic data interchange, when the agreement relating to the interchange provides for the use of procedures guaranteeing the authenticity of the origin and the integrity of the data.</p> <p>Advanced electronic signature standards have not yet been defined.</p>	
<p>Malta</p>	<p>The Twelfth Schedule’s Item 11 caters for this and reads: Invoices by electronic means:</p> <p>1. Invoices containing the details specified in item 2, and subject to the acceptance by the customer, may be sent by electronic means, provided that the authenticity of the origin and the integrity of the contents are guaranteed as may be provided for by national legislation with regard to the use of electronic signatures, or as may be required and approved by the Commissioner.</p>	<p>No details published</p>
<p>Netherlands</p>	<p>No. An advanced electronic signature is required within the meaning of Article 2(2) of Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures (OJ L 13, 2000).</p> <p>An advanced electronic signature must meet the following requirements:</p> <ul style="list-style-type: none"> <li>- it is uniquely linked to the signatory;</li> <li>- it is capable of identifying the signatory;</li> <li>- it is created using means that the signatory can maintain under his sole control; and</li> <li>- it is linked to the data to which it relates in such a manner that any subsequent change of the data is detectable.</li> </ul>	<p>No. With regard to the possibilities of electronic invoicing, it was stipulated, with effect from 1 January 2004, that where electronic data interchange was used in accordance with the Recommendation of 19 October 1994 (EDI), a reconciliation statement in paper form would be required. On the basis of experience acquired in the meantime, the individual requirement of a reconciliation statement in paper form lapsed as of 1 January 2006. This means that henceforth, where EDI is used, the general requirement suffices that the data interchange agreement</p>

		provides for the use of procedures which guarantee the authenticity of the origin and the integrity of the data. This last general requirement may nevertheless mean that a paper-based reconciliation statement is required under certain circumstances. However, in that case, this is an "other method" (see question 30).
Poland	<p>Invoices can be issued, sent and stored in electronic form, provided that the authenticity of their origin and the integrity of their content is guaranteed:</p> <p>1) by means of a secure electronic signature within the meaning of Article 3.2 of the Act of 18 September 2001 on the electronic signature (Journal of Laws No 130, item 1450, as amended), verified by means of a valid qualified certificate, or</p> <p>2) by means of electronic data interchange (EDI), in accordance with the agreement on the European model of the electronic data interchange, when the agreement relating to the exchange provides for the use of procedures guaranteeing the authenticity of the origin of invoices and integrity of the content.</p>	No, in the case of invoices sent by electronic data interchange there is no obligation to supply their paper version. Neither is it required to prepare a paper summary of invoices issued in electronic form.
Portugal	Portuguese law does not require the use of qualified certificated and secure-signature-creation devices for advanced electronic signatures on electronic invoices.	<p>The Portuguese TAX Code stipulates that taxable persons issuing or receiving invoices electronically must retain paper lists identifying such documents for each tax period (month or quarter). The lists must identify the invoices – numbers and dates – and show the NIF (tax identification number) of both sender and recipient, as well as the amount of TAX paid and the total amount of the invoice. However, this stipulation of the Code is expected to be deleted.</p>
Romania	Yes – there is a need for advanced electronic signature, electronic data interchange system (EDI) or other electronic means accepted by the IT Department of Ministry of Public Finance.	Yes – a summary document on paper form, with all the invoices issued by electronic means within a calendar month by a taxable person

		<p>registered for TAX purposes, or with</p> <p>all the invoices received in a calendar month by every taxable person liable to pay TAX if the supplier is not registered for TAX purposes.</p>
Slovakia	<p>According to Section 75 (6) of Act No 222/2004 on TAX, as amended, an invoice may be issued in writing or electronically with the consent of the customer. The reliability of the origin and incorruptibility of the content of the electronically issued invoice must be guaranteed by the electronic signature pursuant to Act No 215/2002 on electronic signatures and amendments to some acts, as amended.</p>	<p>According to Section 31 of Act No 431/2002 on accounting, as amended, an accounting record (including an invoice) made by electronic means must be able to be transferred into written form. Transfer to written form is not required where a verifiable mark in technical form replacing a handwritten signature is used.</p> <p>Transfer from electronic form to written form and vice versa is secured in such a manner that the content of the accounts record in the new form is identical with the content of the 13 accounts record in the original form. This requirement is regarded as fulfilled if the accounting unit submits the accounts record in the original and new form, or their identical content is demonstrated in another way not disputed by any of the persons who work with the transferred record.</p>
Slovenia	<p>In accordance with the Electronic Commerce and Electronic Signature Act, a secure electronic signature certified with a qualified certificate must be used. In closed systems regulated entirely by contracts between a known number of contractual parties, an electronic signature that is not certified by a qualified signature may be used.</p>	No
Spain	No details provided	No details provided
Sweden	<p>Yes. In accordance with the Swedish TAX Act, electronic invoices may be sent by other electronic means in accordance with Article 22(3)(c), third subparagraph. The underlying condition in accordance with the Swedish Accounting Act and</p>	See answer opposite.

	the Swedish Tax Payment Act for both paper-based and electronic invoices is that they must be correct and not have been altered. No specific method is indicated in the legislation for the safety of the contents of an invoice. The Swedish Tax Agency has been granted powers to issue regulations on simplified invoices if needed, but has not yet issued any such regulations.	
United Kingdom	No	No