

NBB-SSS and TARGET2 from 8 December 2008 onwards

NBB-SSS User meeting

Banque Centrale de Luxembourg

March 6th 2008



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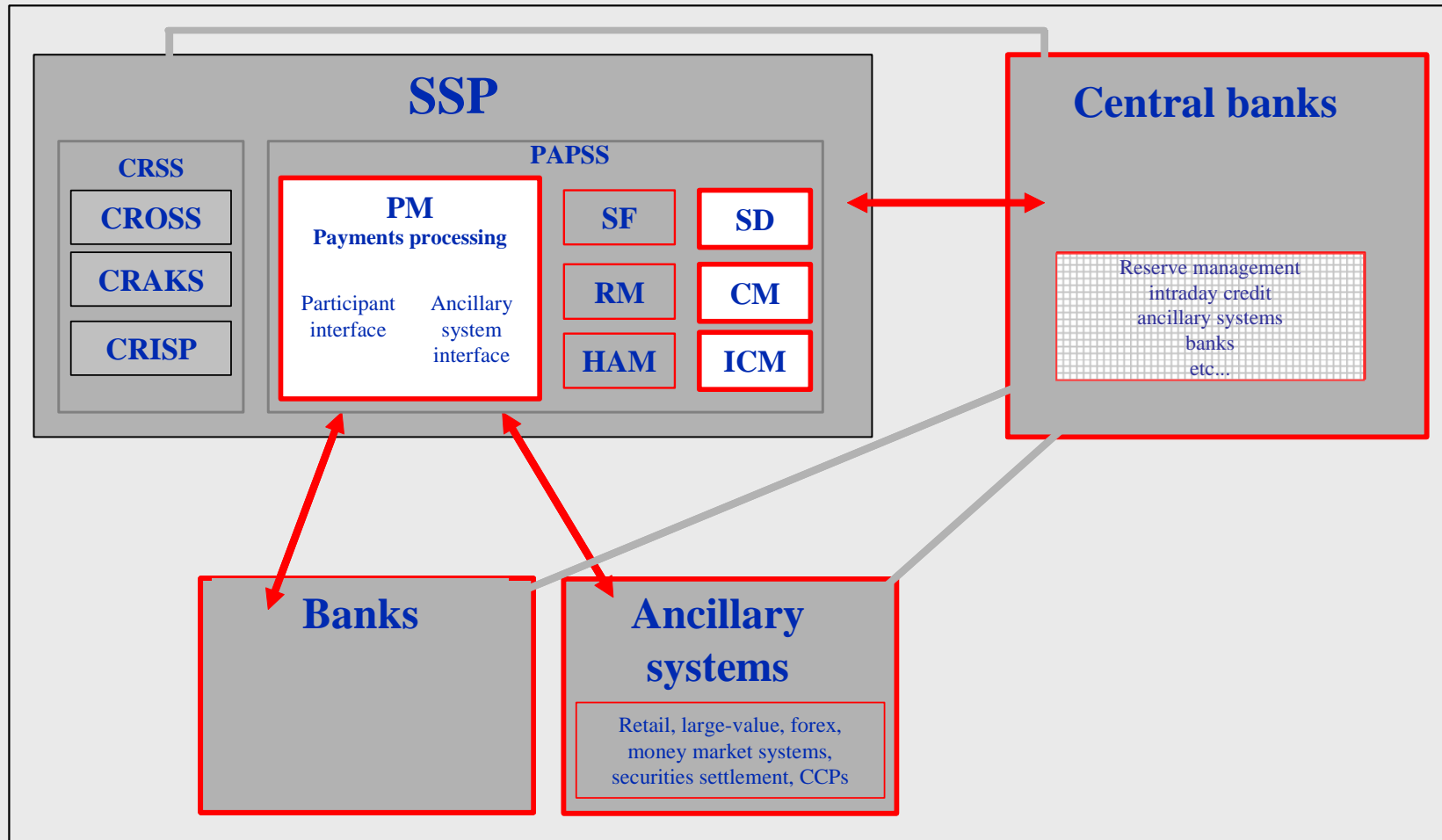
 **NationalBank**
OF BELGIUM
Eurosystem

Overview

1. TARGET2 - Introduction
2. Profile of NBB-SSS
3. TARGET2: use of ASI for NBB-SSS
4. Modus operandi NBB-SSS: today
5. Modus operandi NBB-SSS: tomorrow
6. Flows of liquidity transfers
7. Planning and way forward
8. Overview testing
9. Miscellaneous



1. TARGET2 - Introduction



Migration Strategy TARGET → TARGET2

▶ Governing Council ECB

Mandatory Migration to the SSP of TARGET2 within 4 years of:

- Payments between market participants
- Settlement Ancillary Systems
- Settlement of open market operations

▶ Board NBB

- Maximal migration to **TARGET2-BE**
- Migration period of 2 years

▶ Current planning

- Maximal migration
- Migration period of 1,5 year



2. Profile of NBB-SSS

2.1. NBB-SSS is an integrated SSS

- CSD/SSS: Belgian Government debt (OLOs, Treasury certificates, Strips) and growing number of emissions of Private debt securities
- Cash and securities managed by NBB
- Gross settlement of cash and securities legs (DVP-model 1)
- No cross border settlement (≠ ESES platform of Euroclear)
- No night time settlement (≠ ESES platform of Euroclear)



2. Profile of NBB-SSS

2.2. Some terminology (=NBB-SSS jargon)

- *NBB-SSS Participant: financial institution holding securities in NBB-SSS*
- *NBB-SSS Settlement Bank (SB): NBB-SSS Participant settling the cash leg of its own NBB-SSS operations on cash account at NBB (and in some cases) these of another NBB-SSS Participant acting as Settlement Bank Client.*
- *NBB-SSS Settlement Bank Client (SBC): NBB-SSS Participant using a NBB-SSS Settlement Bank for the settlement of the cash leg of its NBB-SSS operations*
- *NBB-SSS Settlement Bank Agent (SBA): Direct T2 participant providing liquidity on the NBB-SSS Settlement Bank's cash account. No use of a SBA if SB is a TARGET2 Direct participant*





NBB - SSS

Securities Account Institution **A**

Cash Account Institution **A**

A = NBB-SSS participant

A = NBB-SSS settlement bank



Payment Module

PM Account Institution **A**

A = T2 direct participant = T2 AS Settlement Bank

NBB-SSS jargon

T2 jargon





NBB - SSS

Securities Account
Institution **B**

B = NBB-SSS participant

Cash Account
Institution **B**

B = NBB-SSS settlement bank
A = NBB-SSS SBA for SB B



Payment Module

PM Account
Institution **A**

A = T2 direct participant
= T2 AS Settlement Bank
(T2 jargon)



Institution B = T2 indirect participant or customer of institution A

NBB-SSS jargon





NBB - SSS

Securities Account
Institution **C**

C = NBB-SSS participant
C = NBB-SSS settl. bank
client of institution **A**

Cash Account
Institution **A**

**A = NBB-SSS settlement
bank**



Payment Module

PM Account
Institution **A**

**A = T2 direct participant
= T2 AS Settlement Bank**

NBB-SSS jargon

T2 jargon



3.TARGET2: Use of ASI for NBB-SSS

- ▶ ASI: Ancillary System Interface
 - Interface of TARGET2 (T2) for Ancillary Systems (AS)
 - 6 Settlement procedures of which procedure 1 and 3 will be used for NBB-SSS
- ▶ Advantages of ASI
 - Standardised interface for all settlement banks (Belgian and foreign) in NBB-SSS for shifting liquidity between T2-SSP and NBB-SSS
 - Pricing: Ancillary Pricing Scheme and Principles are applied to NBB-SSS



4. Modus operandi NBB-SSS: today

4.1. Settlement of Cash leg

- ▶ NBB-SSS transactions are settled on current account (CA)(RECOUR) of NBB-SSS Participants acting as Settlement Bank (SB)
- ▶ As not all NBB-SSS Participants settle on their own account, some use a SB.
- ▶ Full payment capacity on the CA of SB is available for NBB-SSS settlement:
 - account balance
 - (+ credit line, only available for SB established in Belgium)



4. Modus operandi NBB-SSS: today

4.2. *Transfers of liquidity to NBB's CA*

- ▶ For Luxemburg SB via TARGET2
- ▶ SB not participating directly in TARGET2 use a SBA
 - Two Luxemburgs SB are in this situation
- ▶ How?
 - Standard MT202 (Y-copy) via TARGET2 to NBB
 - receiver= NBBEBEBB203



5. Modus operandi NBB-SSS: tomorrow

5.1. Settlement of Cash leg

- ▶ Settlement of NBB-SSS transactions on NBB's current account (CA) of NBB-SSS Settlement Bank (SB) (as today BUT)
 - 🙌🙌🙌🙌 : with Use of Dedicated Liquidity for NBB-SSS (DLNS) on this CA (**NEW**)
 - 🙌🙌🙌🙌 : DLNS delivered through Liquidity Transfers crediting the Mirror Account of NBB-SSS in PM (**NEW**)



5. Modus operandi NBB-SSS: tomorrow

5.2. *Transfers of liquidity for DLNS*

▶ **Liquidity Transfer from PM to NBB-SSS**

- Initiated by the SB and entered in PM crediting Mirror Account NBB-SSS in PM. (If need be: use of a SBA)
- Use of MT202 or ICM

▶ **Liquidity Transfer from NBB-SSS to PM**

- Initiated and entered by the SB in NBB-SSS crediting Technical Account of NBB-SSS in NBB CA
- Use of MT202

▶ **Automatic Liquidity transfer from NBB-SSS to PM**

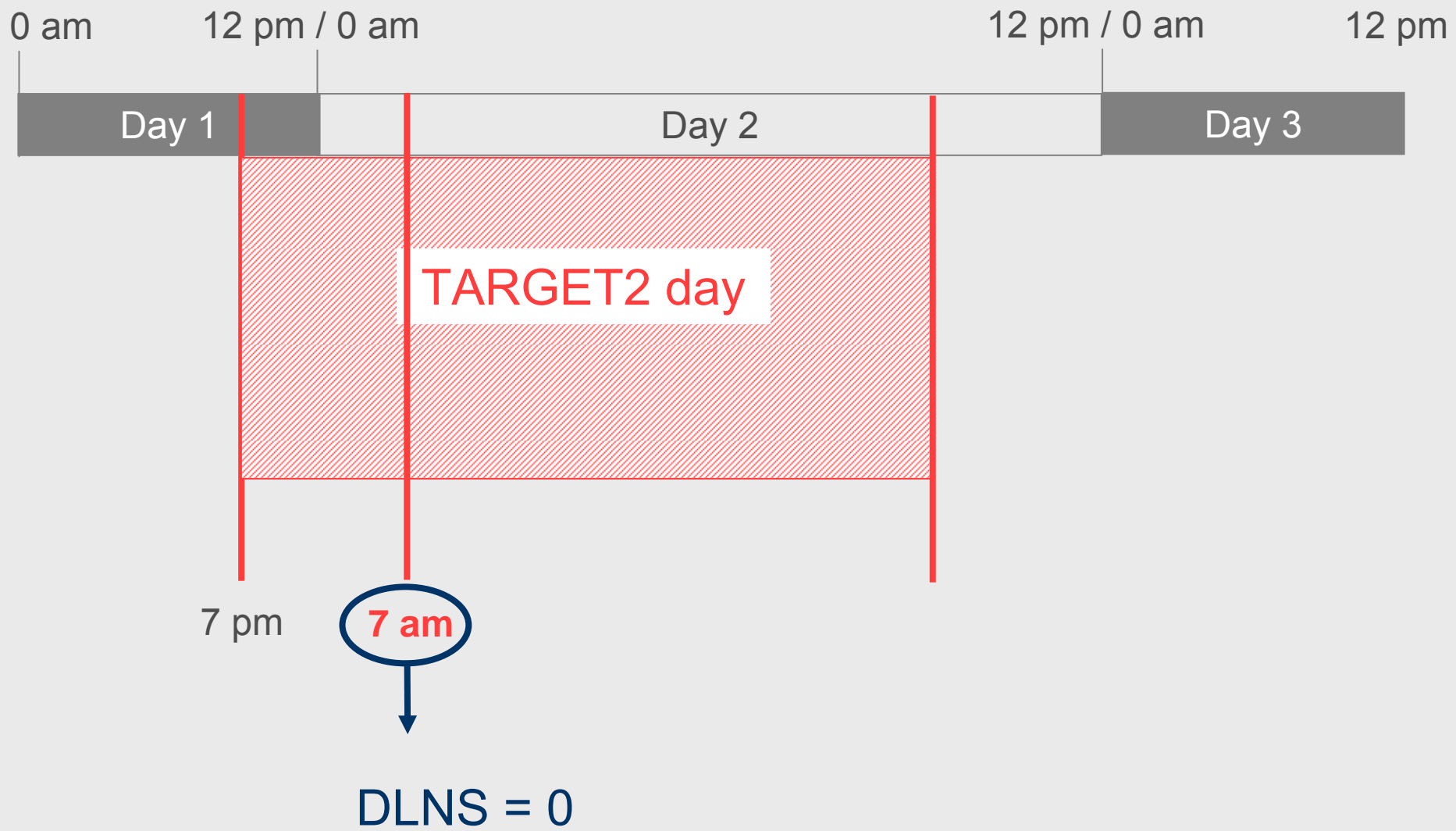
- Created by NBB-SSS
- Automatic and mandatory end of day transfer of DLNS from NBB-SSS to PM

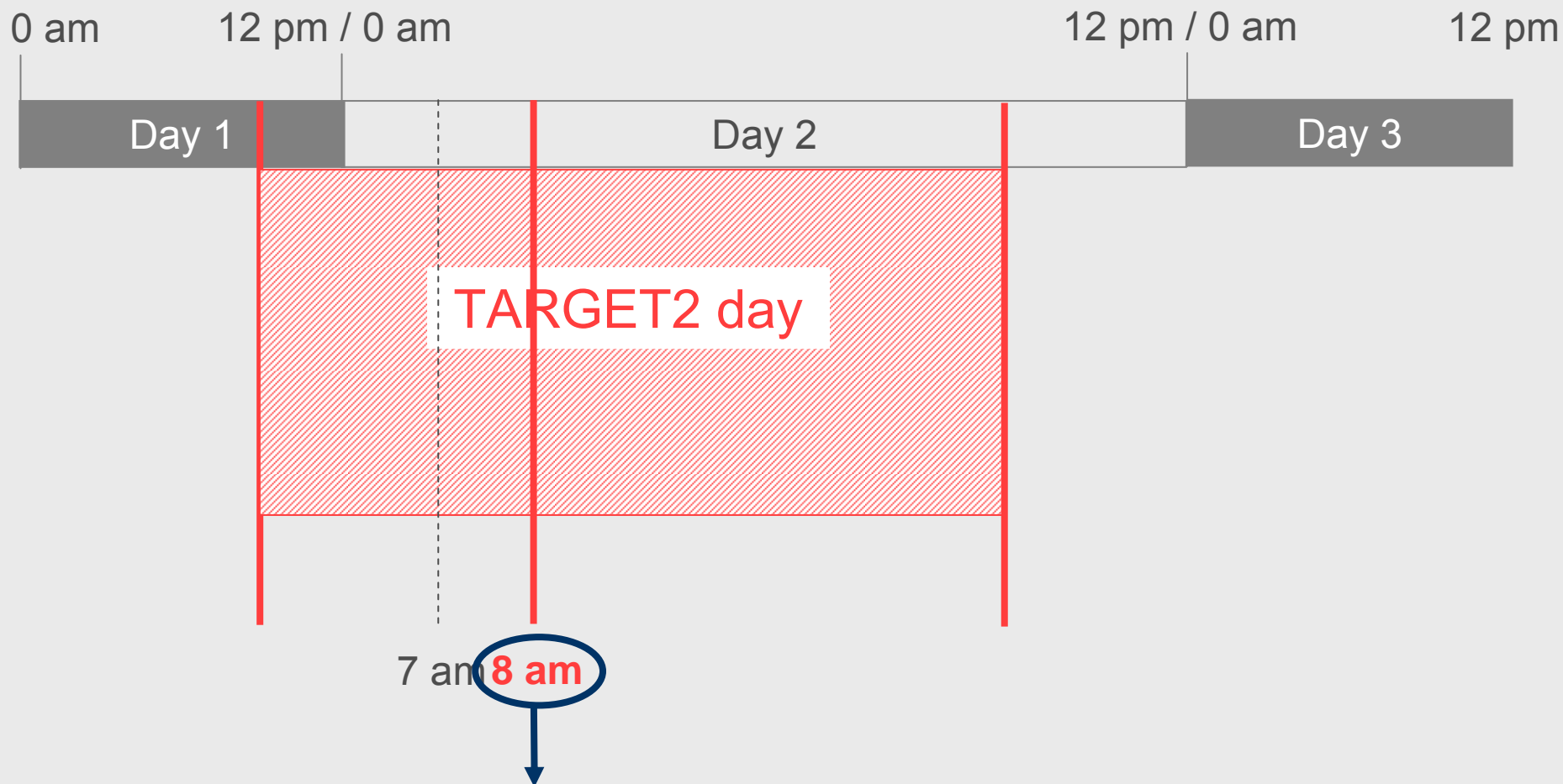


5. Modus operandi NBB-SSS: tomorrow

5.3. Use of DLNS: Detailed Description



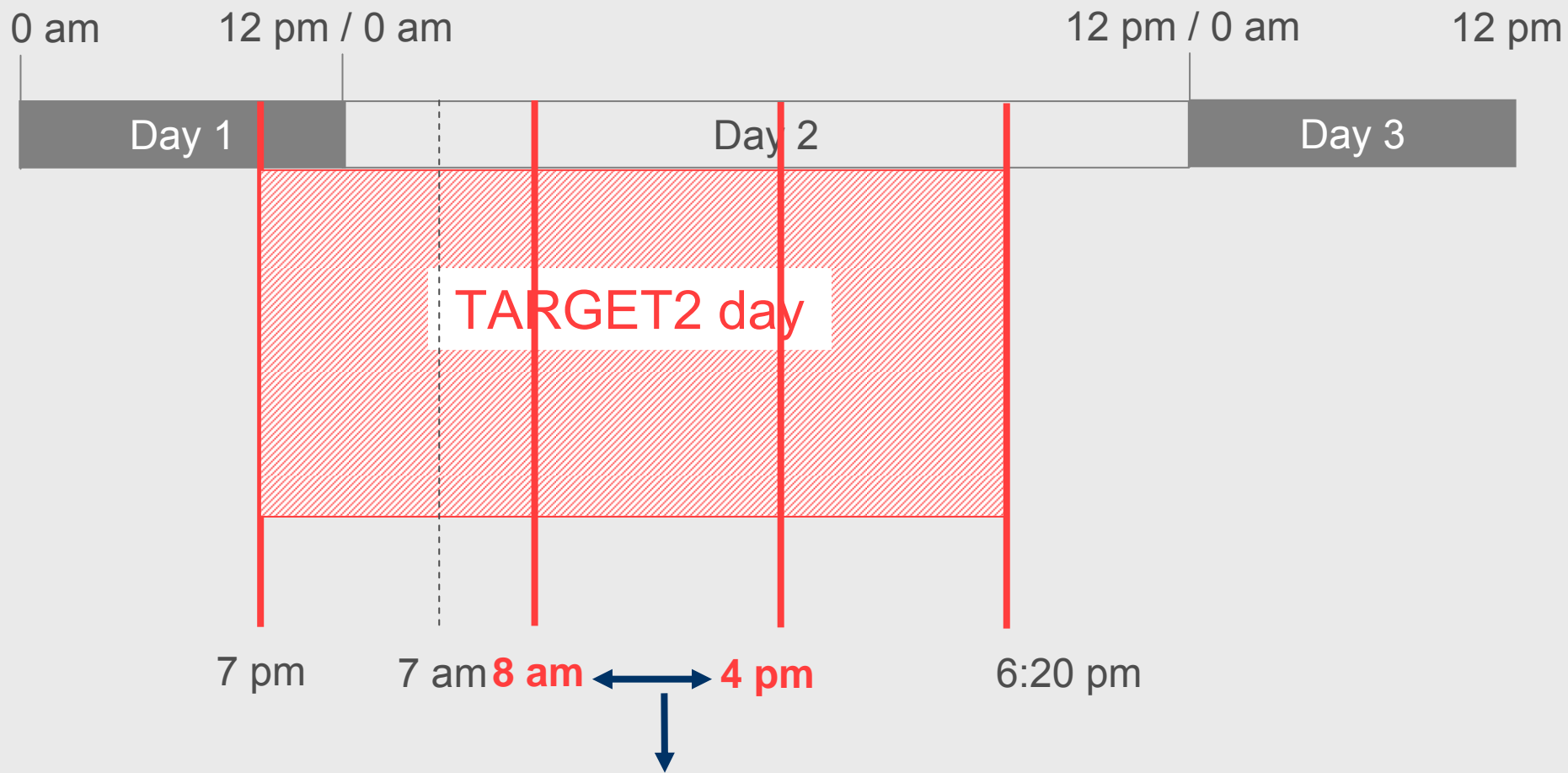




Transfer of liquidity from PM to NBB-SSS:

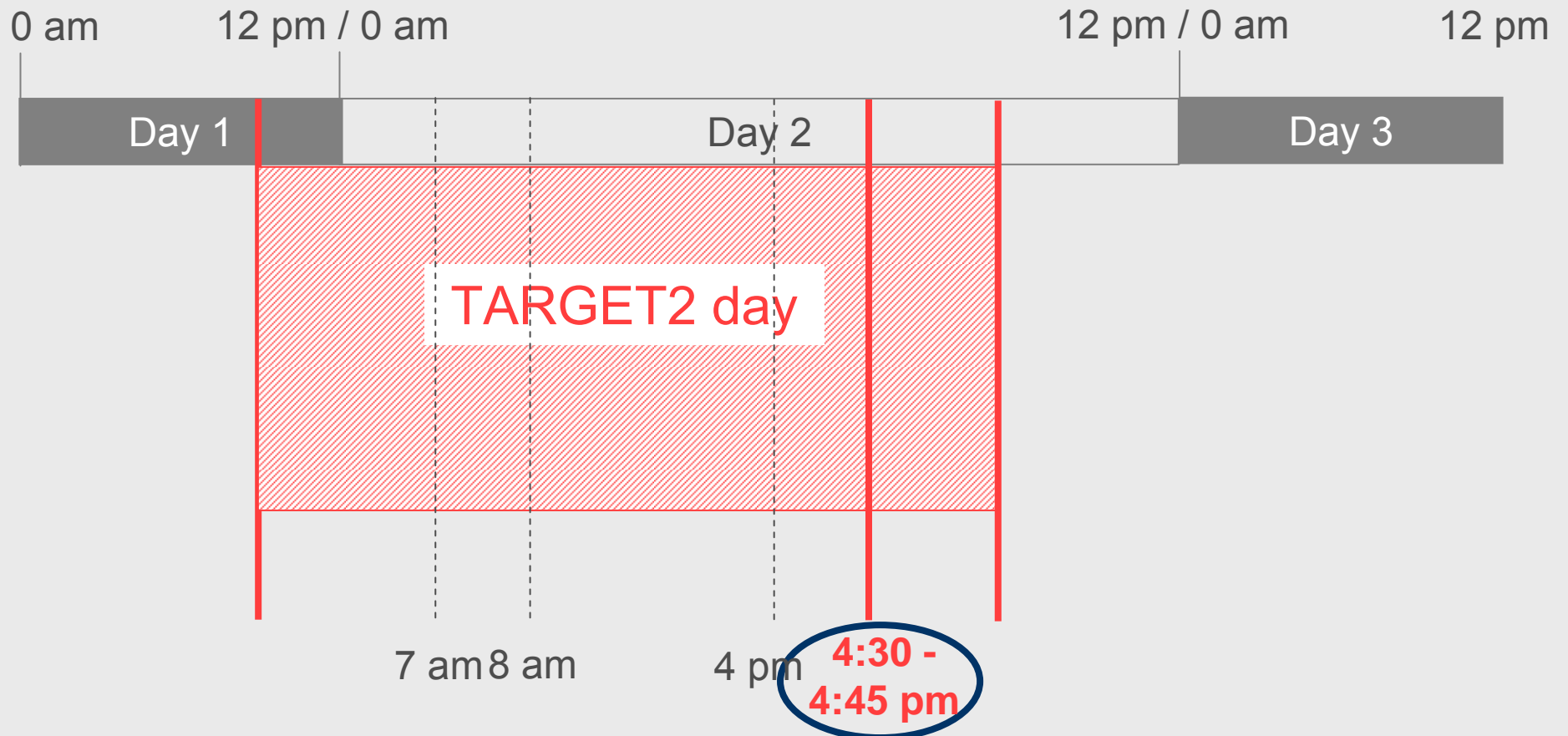
- initiated by the SB (or its SBA)
- using ICM or MT202 crediting mirror account NBB-SSS in PM
- creating DLNS on NBB-CA





Transfer of liquidity from PM to NBB-SSS & vice versa





Transfer of DLNS to PM:

- initiated by NBB-SSS
- squaring DLNS to 0



5. Modus operandi NBB-SSS: tomorrow

5.3. Use of DLNS: Summary

- At start of day NBB-SSS (Day 2 at 8 am):
 - DLNS= 0
 - SB (or its SBA) transfer of liquidity from PM to DLNS
- After end of day NBB-SSS (4.30-4.45pm):
 - NBB-SSS transfer of DLNS to PM
 - Initiated by NBB-SSS



5. Modus operandi NBB-SSS: tomorrow

5.3. Use of DLNS: Summary (Cont.)

During the DVP opening time of NBB-SSS (8 am – 4 pm):

- Additional increase of DLNS via ICM or MT202 in PM initiated by SB (or its SBA)
- Decrease of DLNS via MT202 from NBB-SSS to PM by SB
- Decrease (in case of a purchase of securities) or increase (in case of a sale of securities) of DLNS on basis of settlement of NBB-SSS transactions (Trade/DVP and corporate actions)



5. Modus operandi NBB-SSS: tomorrow

5.4. Impact Analysis

- ▶ NBB-SSS settlement banks that are not a T2 direct participant should appoint an Agent
- ▶ NBB registers NBB-SSS as Ancillary System using procedures 1 and 3 of the Ancillary System Interface
- ▶ T2 Static Data register the unique relation between AS NBB-SSS (mirror account) and T2 direct participant (SB or SBA)
- ▶ NBB-SSS Static Data register the unique relation between NBB-SSS Settlement Bank and its T2 direct participant



5. Modus operandi NBB-SSS: tomorrow





5.4. Impact Analysis (cont.)

- ▶ NBB opens a Mirror Account for NBB-SSS in the Payment Module through which all liquidity transfers pass
- ▶ NBB opens a Technical Account for NBB-SSS in the NBB's Current Accounts through which all liquidity transfers pass
- ▶ All NBB-SSS settlement is done exclusively on basis of DLNS (Dedicated Liquidity NBB-SSS)



5. Modus operandi NBB-SSS: tomorrow

5.4. Impact Analysis (cont.)

- ▶  : All other settlements/payments continue to be done on "normal" liquidity on CA of customer
 -  : Consequence: If a Luxemburg bank has to cover other operations on its NBB account it has to use the "normal" liquidity transfers (point 4.2.)
 - limited number of operations (e.g. invoices & penalties directly debited on account)
 - temporary situation: June 2009: direct debit (MT204) or credit (MT202) on PM account



5. Modus operandi NBB-SSS: tomorrow

5.4. Impact Analysis (cont.)

NBB-SSS Registration Forms

- ▶ (2000 : Ancillary System NBB-SSS)
- ▶ (1000 : Mirror Account)
- ▶ (2001 : Ancillary System's Settlement Banks = *TARGET jargon*)
- ▶ 2002 : "Debit Mandate for Ancillary System settlement" sent
 - by NBB-SSS
 - to TARGET2 Direct participant (SB or SBA NBB-SSS = *NBB-SSS jargon*)



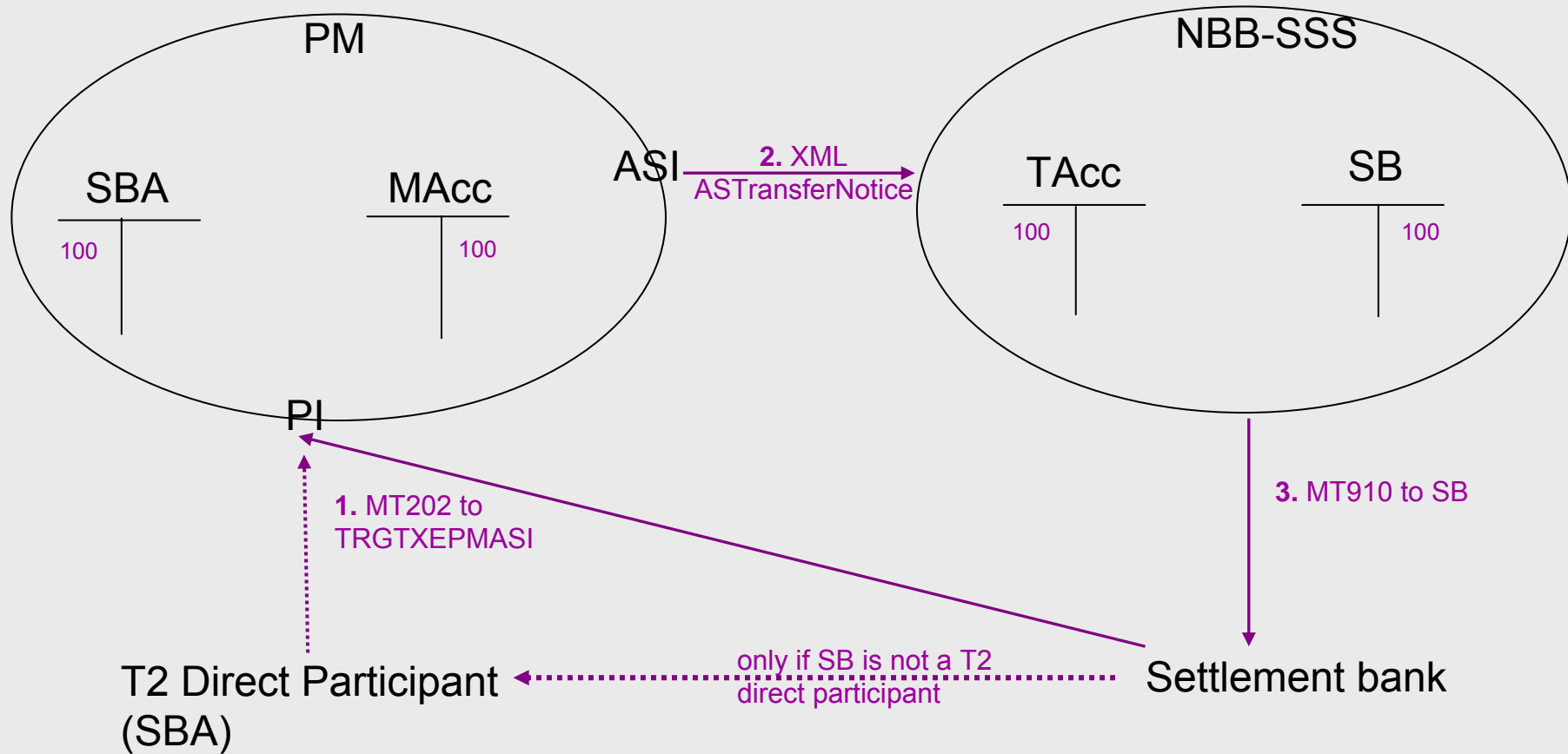
6. Flows of liquidity transfers

- ▶ Specific BICs to be used in the liquidity transfer
 - When the settlement bank (agent) sends an MT202 to Payment Module:
 - receiver = **TRGTXEPMASI** in Y-copy mode
 - When the settlement bank sends an MT202 to NBB-SSS :
 - receiver = **NBBEBEBB216** in V-shape mode (standard mode)
 - Identification of the Mirror Account (on PM) and the Technical Account (on NBB's CA):
 - field 57A = **NBBEBEBBMAC**



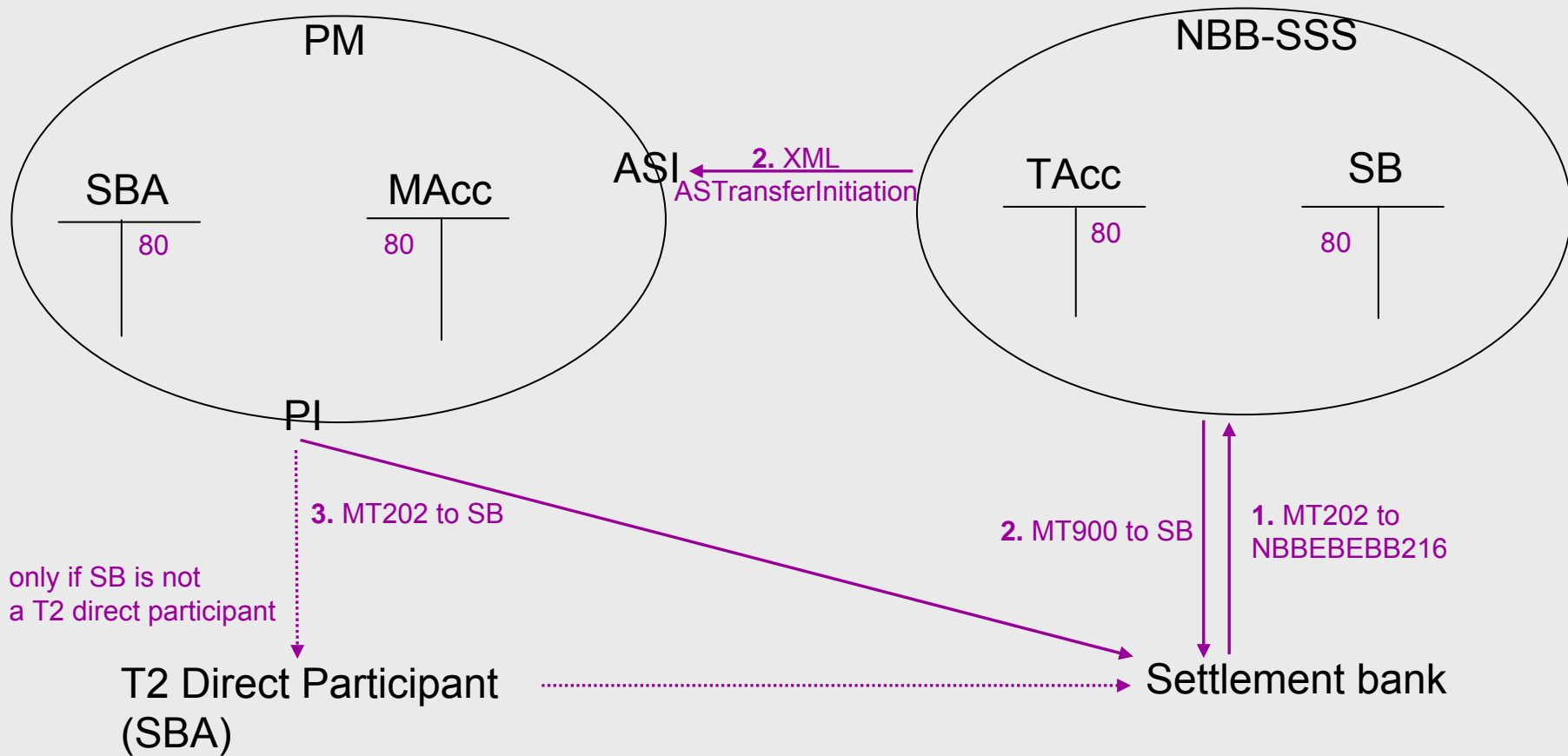
6. Flows of liquidity transfers

▶ From Payment Module to NBB-SSS



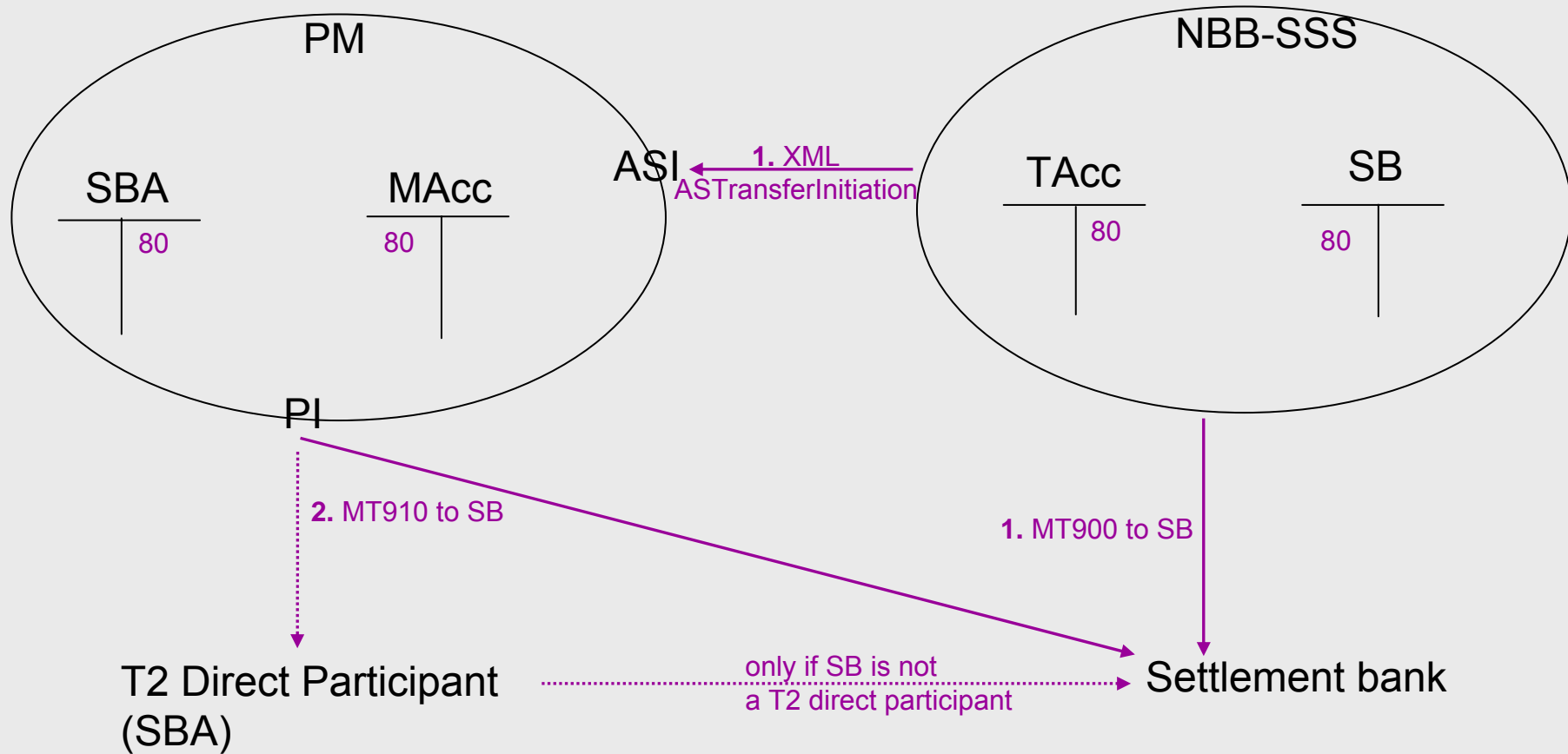
6. Flows of liquidity transfers

▶ From NBB-SSS to Payment Module



6. Flows of liquidity transfers

▶ End of day from NBB-SSS to Payment Module



7. Planning and way forward

- ▶ NBB-SSS SB appoint a **project manager**
 - before 15th April 2008
 - email to: sss@nbb.be
- ▶ User Testing Guide: June 2008
- ▶ Static data * testing: 1st September 2008
- ▶ User Testing: 13 Oct until 14 Nov 2008
- ▶ Update NBB-SSS regulations: June 2008 (active from 08/12/2008)
- ▶ Static data * production: 1st Nov 2008
- ▶ Go Live **8 December 2008**



8. Overview testing

1. LIQUIDITY TRANSFERS

- From Payment Module to NBB-SSS
 - When?
 - ◆ Beginning of test day because DLNS at the start = 0 and
 - ◆ during the opening hours of NBB-SSS
 - How?
 - ◆ Sending an MT202 through Participant Interface and
 - ◆ Via ICM "Enter Liquidity Transfer to Mirror Account"
 - ◆ NBB-SSS sends an MT910 after crediting DLNS
 - Who?
 - ◆ SB (via SBA if SB is not a T2 direct participant)



8. Overview testing

1. LIQUIDITY TRANSFERS (cont.)

- From NBB-SSS to Payment Module
 - When? as DLNS is available
 - How ? Sending an MT202 to NBB-SSS
 - Who ? The SB
 - NBB-SSS sends an MT900 after debiting DLNS

2. DVP-operations

- NBB-SSS simulates some DVP operations
- Debits subject to availability of DLNS



8. Overview testing

3. End of day liquidity transfers

- From NBB-SSS to Payment Module
- What? DLNS are put at 0
- When? After the last cycle of DVP operations
- How? No input needed from the SB ⇒ automatically started by NBB-SSS procedure
- Mandatory
- NBB-SSS sends an MT900 squaring DLNS



8. Overview testing

4. Contingency testing

- Liquidity transfers from PM to NBB-SSS
 - TARGET2-LU : Standard domestic procedures of home NCB (BcL)
 - ◆ input in ICM by SB(A), or
 - ◆ BcL on behalf of T2 Direct participant, or
 - ◆ ... ?
- Liquidity transfers from NBB-SSS to PM
 - Intraday: fax by SB to NBB-SSS

5. User Testing Guide:

- dates, scenario's, contacts, formats of payment messages



9. Miscellaneous

- ▶ **MT950** Current account NBB:
 - unchanged (small exception *Liquidity transfers*)
- ▶ Intraday notifications of NBB-SSS Settlement transactions via **MT900** and **910**: unchanged
- ▶ Intraday notifications of NBB-SSS liquidity transfers via **MT900** and **910**: new
- ▶ **Wirow Fin Markets**:
 - Securities module: unchanged
 - Payment Systems module:
 - Change of the global position
 - Details on DLNS
 - Details on liquidity transfers via ASI



Impact On NBB-SSS

Luxemburg 06 March 2008

Luc EICHER / Marc LEJOLY



NBB-SSS

- ▶ Fees: no change due to T2
 - securities instruction fee: € 0,24 - 1,23 - 1,63
 - cash leg DVP: € 0,15 / transaction (debit side)

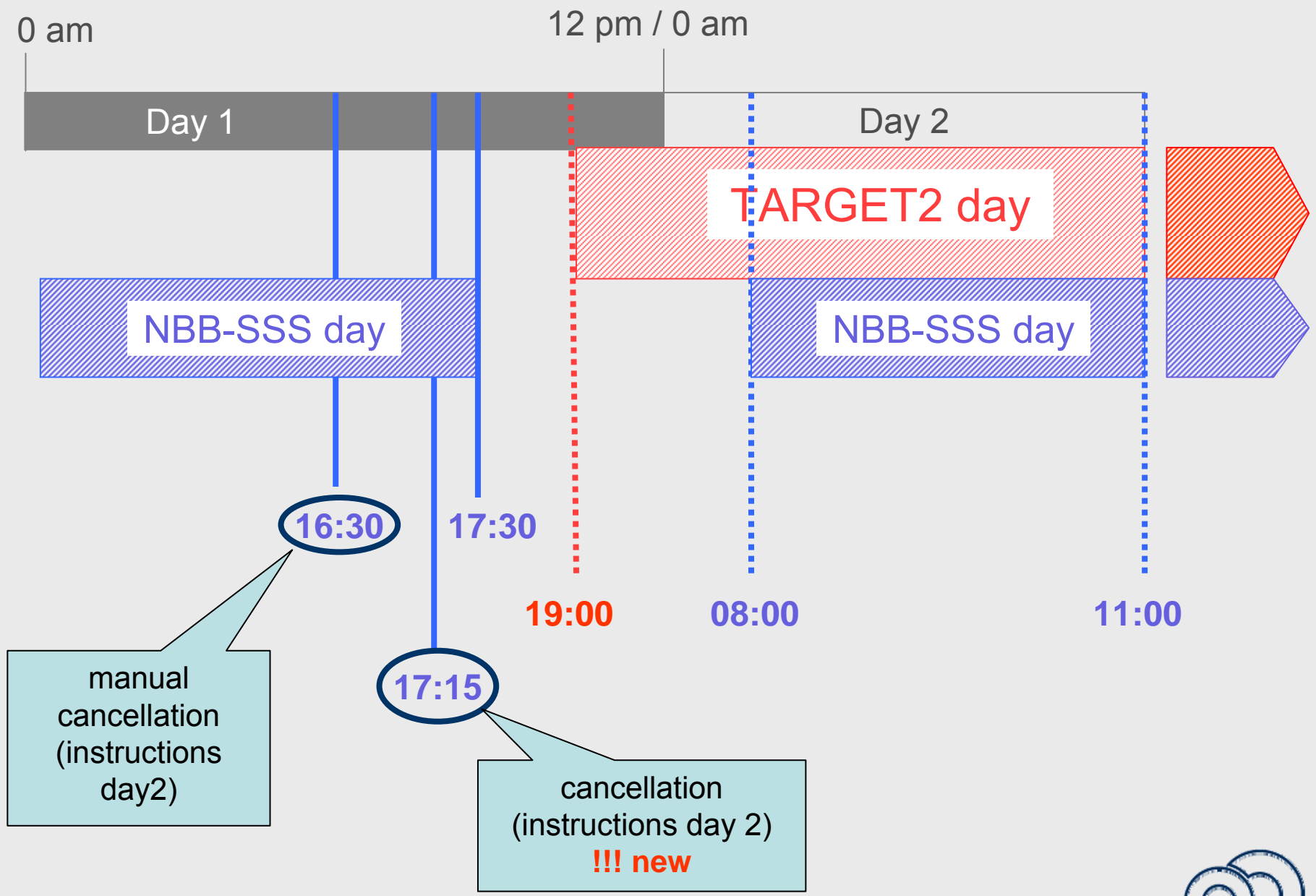
- ▶ Regulations:
 - new annex liquidity transfers
 - deadlines for liquidity transfers

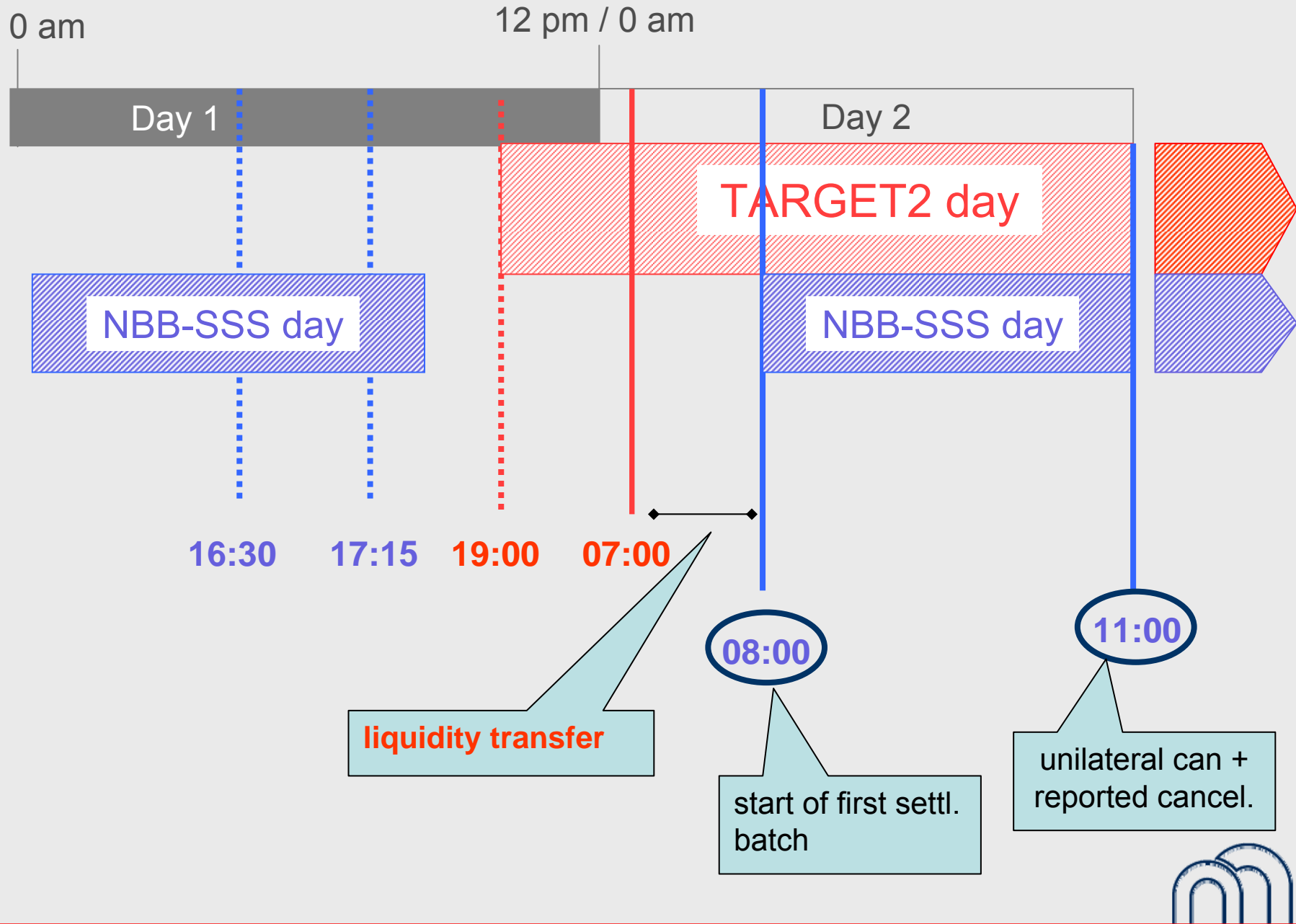


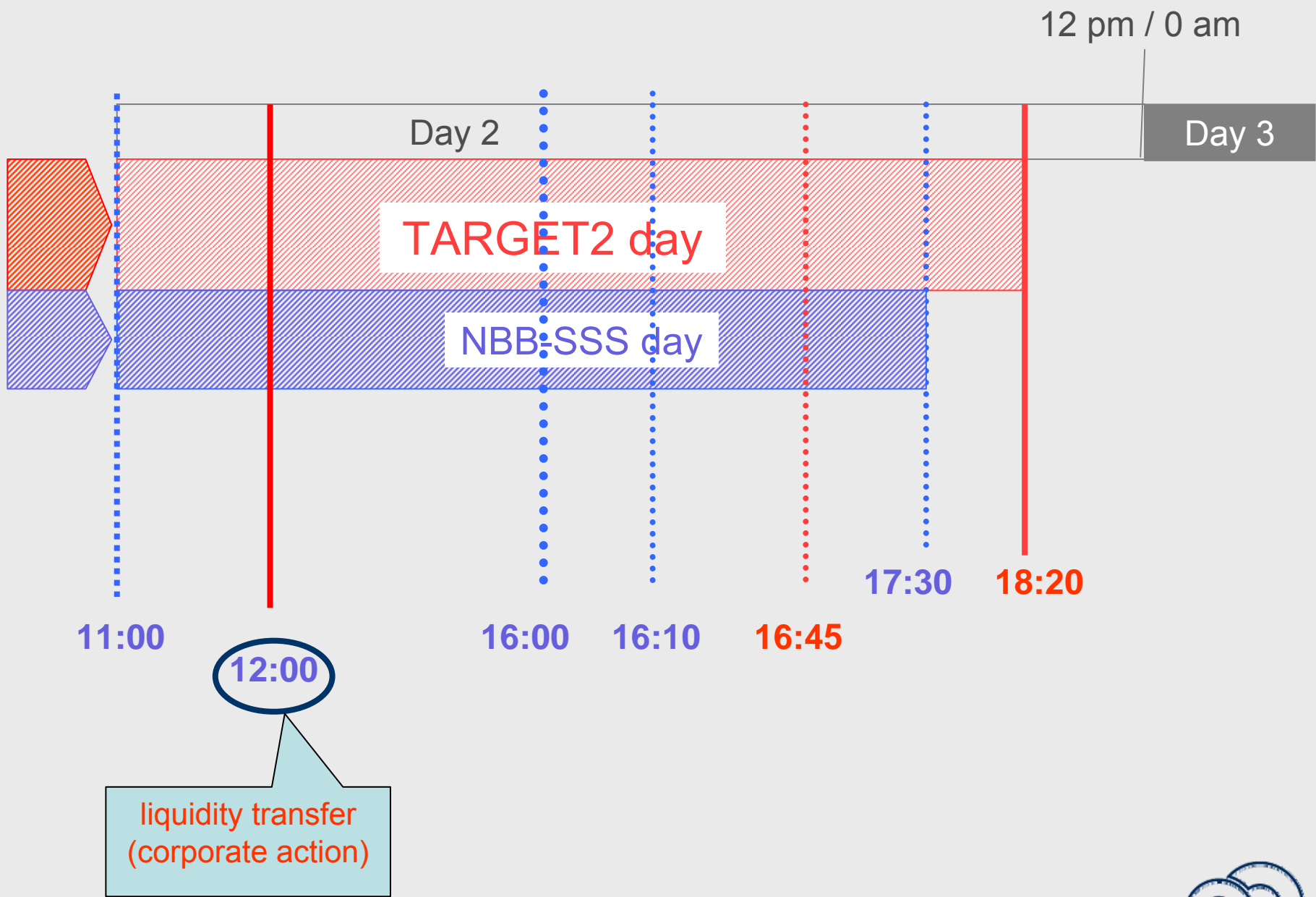
NBB-SSS: Deadlines

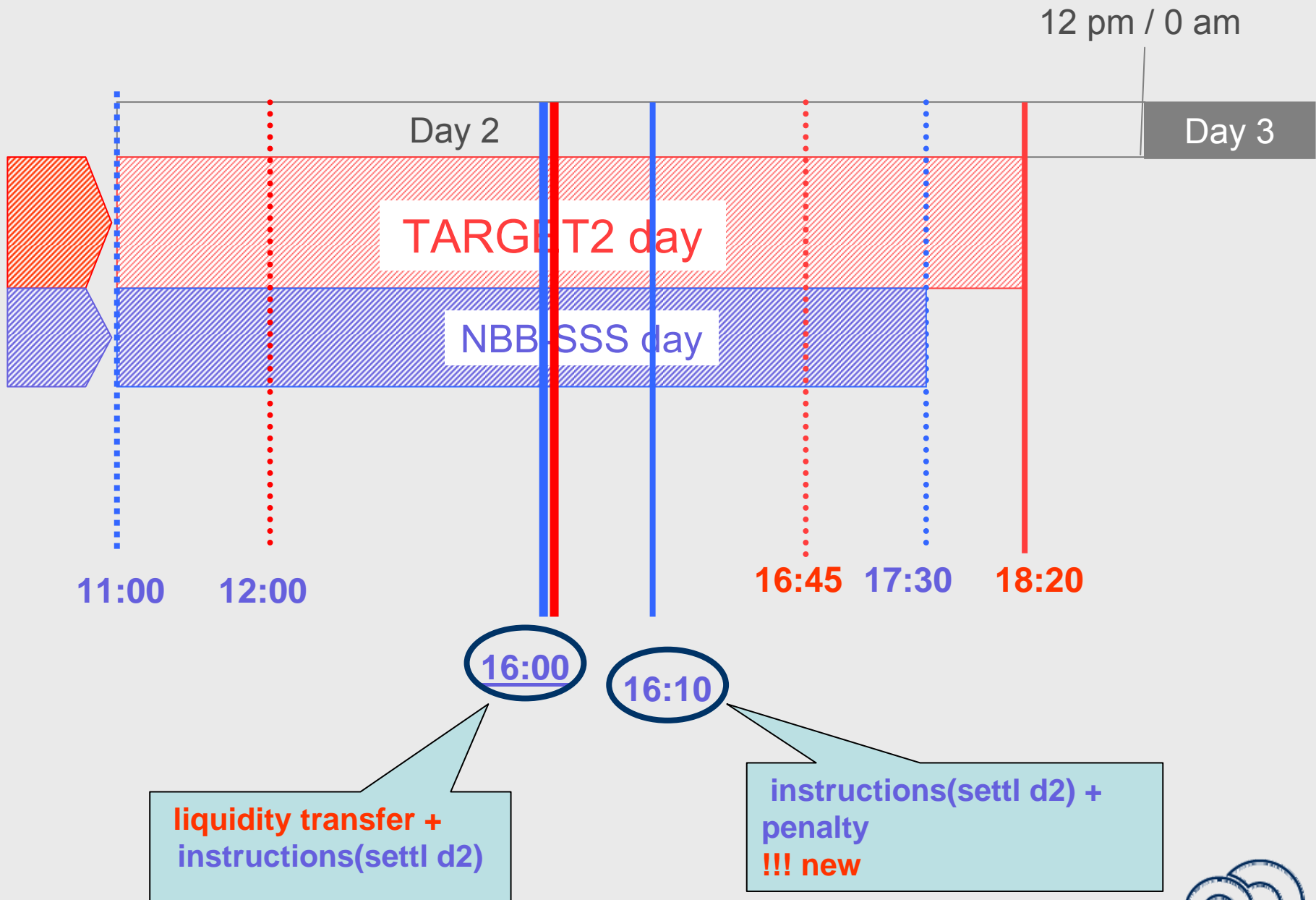
- ▶ receipt of instructions:
 - reminder:
 - instructions must be sent as early as possible
 - matching as early as possible (ECSDA: standard 3)

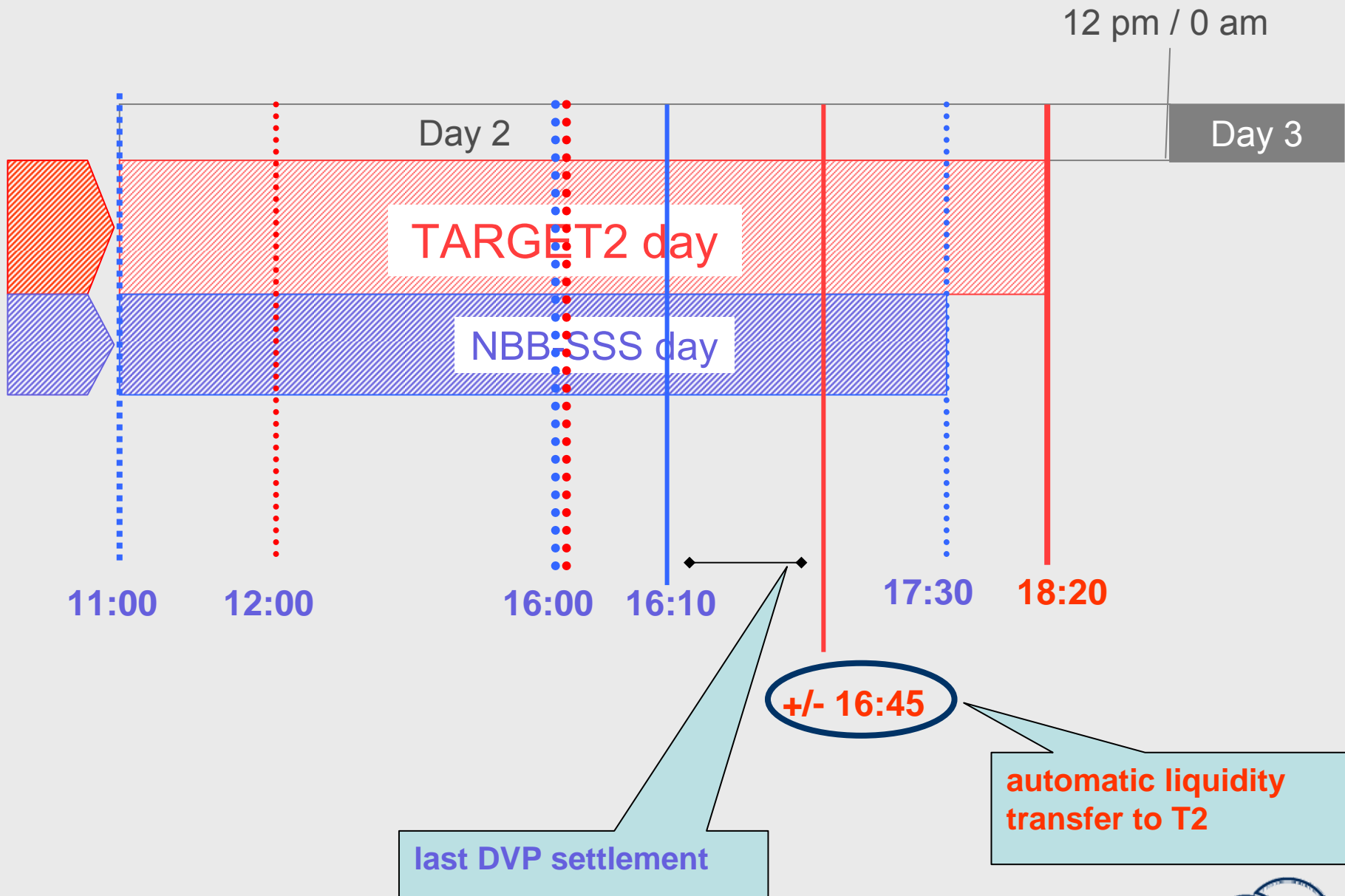












NBB-SSS: Deadlines (I)

▶ receipt of instructions:

- day 1 (settlement day 1):
 - 16:30: manual cancellation (settl. day 2)
 - 17:15: cancellation (settl. day 2)
- day 2 (settlement day)
 - 11:00: unilateral cancellation and postponed instructions cancellation
 - 16:00: same day transactions
 - 16:10: same day transactions + penalty
- reminder:
 - instructions must be sent as early as possible
 - matching as early as possible (ECSDA: standard 3)



NBB-SSS: Deadlines (II)

- ▶ liquidity transfers:
 - start of day: 08:00
 - **!! 11:15**: major settlement batch
 - corporate action (coupon + redemption): 12:00
 - last transfer: 16:00

 - **!!! 16:45** transfer to T2



NBB-SSS:

- ▶ due to T2 constraints: participants and settlement banks have to respect **strictly** the deadlines;
 - otherwise: postponed to next business day/
cancelled!
- ▶ €250 penalty:
 - late liquidity transfer;
 - late sending of instruction



NBB-SSS - News

Brussels 29 January 2008



Marc LEJOLY



NBB-SSS: IT news

- ▶ MT548: CMIS (counterparty missing)

- ▶ Wirow:
 - Link Cash and Securities
 - Optimisation in load



MT548: CMIS

- ▶ Upgrade of our MT548 in case of CMIS
 - counterparty missing

- ▶ Try to find another instruction which could have matched if:
 - other counterparty
 - other trade and/or settlement date
 - other cash amount and/or nominal amount
 - other amount in far leg of a repo
 - other isin
 - other direction of trade



MT548: CMIS

▶ If CMIS + positive look-up then

- upgrade feed-back by providing:
 - the type of difference
 - the reference of the instruction of the counterparty
 - the data sent



MT548: example

▶ You send MT 541

:20C::SEME//0582221
:98A::TRAD//20080104
:98A::SETT//20080109
:35B:ISIN BE0000307166
:36B::SETT//FAMT/1000000,
:97A::SAFE//1008xxxxxxxxx
:22F::SETR/NBBE/10XX
:95R::DEAG/NBBE/xxxx
:95R::REAG/NBBE/ABCD
:95P::PSET//NBBEBEBB216
:19A::SETT//EUR2000000,

▶ Current reply if no matching possible

:20C::RELA//0582221
:25D::MTCH//NMAT
:24B::NMAT//CMIS



MT548: example

:20C::RELA// 0582221
::25D::MTCH//NMAT

:24B::NMAT//DMON
:70D::REAS//RELA//XYZ
SETT//1500000,

:24B::NMAT//DQUA
:70D::REAS//RELA//XYZ
SETT//FAMT/2500000,

No matching possible, but

your counterparty has instructed with same ISIN, same trade date, same settlement date,... except that the amounts are different.

The reference of his instruction is XYZ.

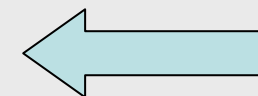


NBB-SSS

▶ MT548: CMIS

▶ Wirow-Securities:

- Link Cash and Securities
- Optimisation of the load (in production)





Query parameters

Accounting date : 10/1/2008 modified after : before :

Account(s) : PARTICIPANTS CLEARING(WF) for : Credit

Counterparty :

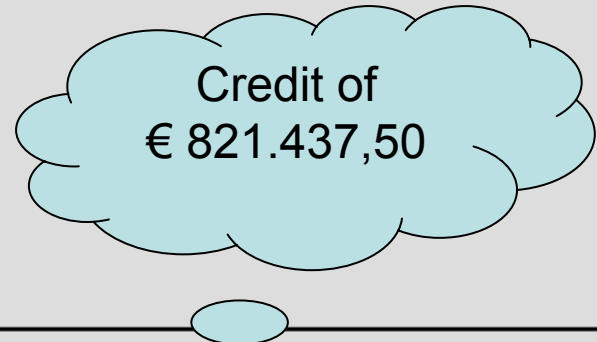
Transaction type: ...

NBB internal reference :

Amount : 821437,50

Transaction status : All Ready for execution Executed

Main external reference (starts with ...)



Result

Sort by : Credit account, debit account

Line	External reference (main/additional)	NBB reference	Type	Debit account	Credit account	Amount	Status	Update
1	DVP81A12059 BE03782636030488	0801100010CL114	CLAUT	100-0015000-96	100-0	821.437,50	UI	10/01 18:33:00

Total for this page (page 1)

821.437,50

Final cumulated total (1 transaction)

821.437,50

No more records available.

Get data

Next page

Quit

Notification detail: your notification



Participant:
Notification Type: 88 Payment of interests
Trade date: 09/01/2008
Settlement date: 10/01/2008

Cancellable type: Cannot be cancelled
Status: Settled
Settled at: 10/01/2008 12:20:25.

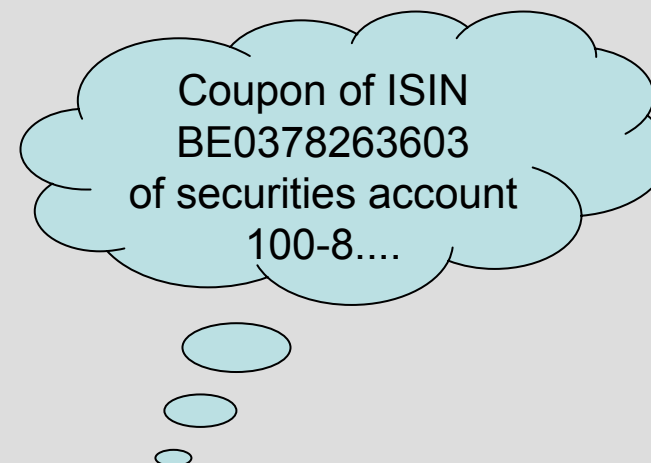
DVP reference: 81A12059
Cash reference: 0801100010CL114

Cash amount: 821.437,50 EUR
Withholding tax: 0,00
Interest: 821.437,50

Counterparty: 9999.National Bank of Belgium

Sending number:
Your reference: BE03782636030488

Customer:



Securities	Maturity date	Nominal amount	Securities account	Cash account
<u>BE0378263603</u> TB SOLVAY	10/01/2014	0,00 EUR	100-8 <input type="text"/>	100-0 <input type="text"/>

Wirow - Securities: optimisation of the load

▶ Before:

- every 15-20 minutes, Wirow-Securities is unavailable during "Data loading"
- 1 month of data available (backwards)

▶ Now:

- improve this "15-20" to approach "15"
- reduce the time of unavailability
- **3** months of data available (backwards)

▶ New features: (still to come)

- selection of corporate actions, electronic platforms,.....



NBB-SSS - T2S

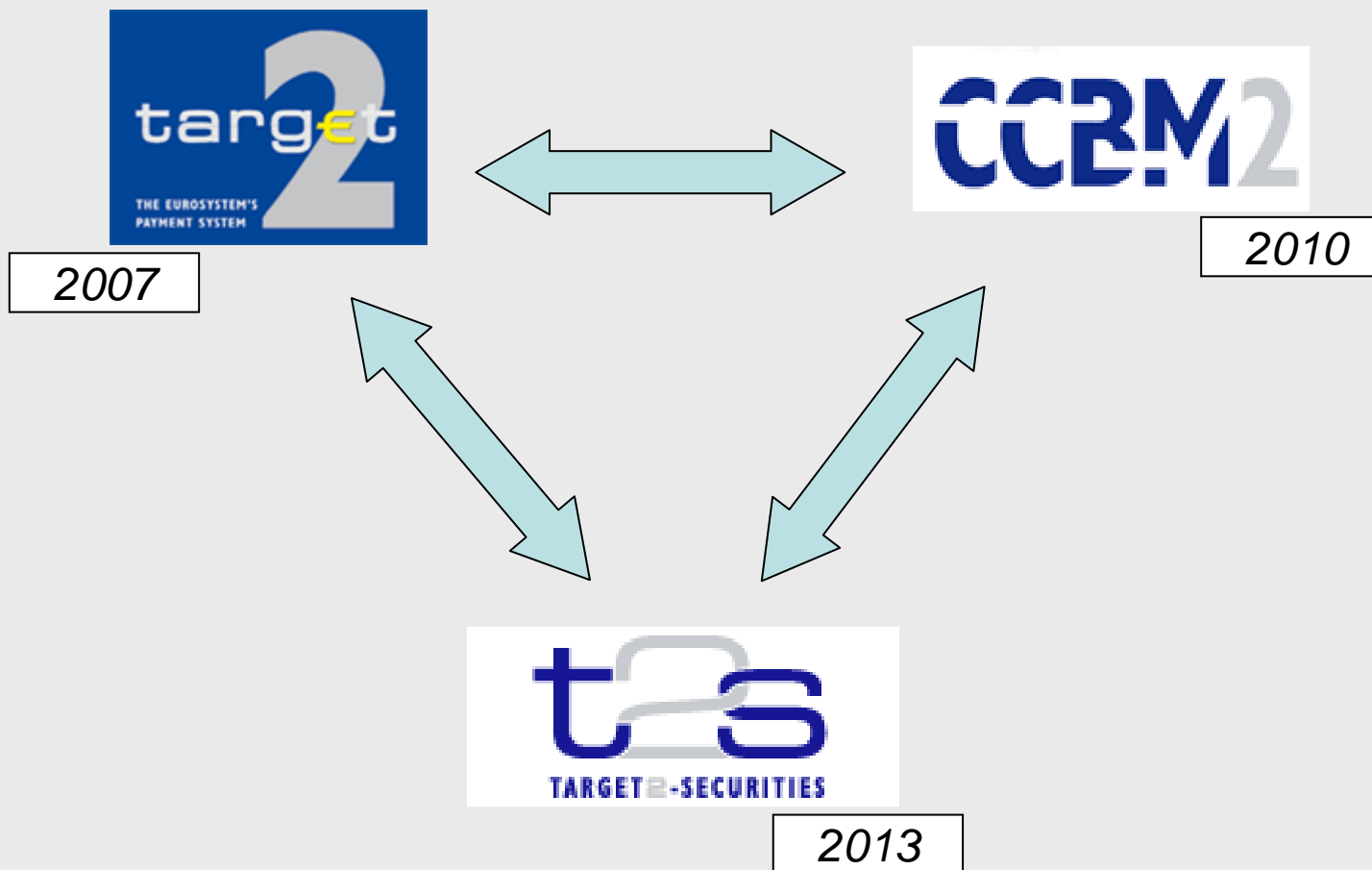
Brussels 29 January 2008



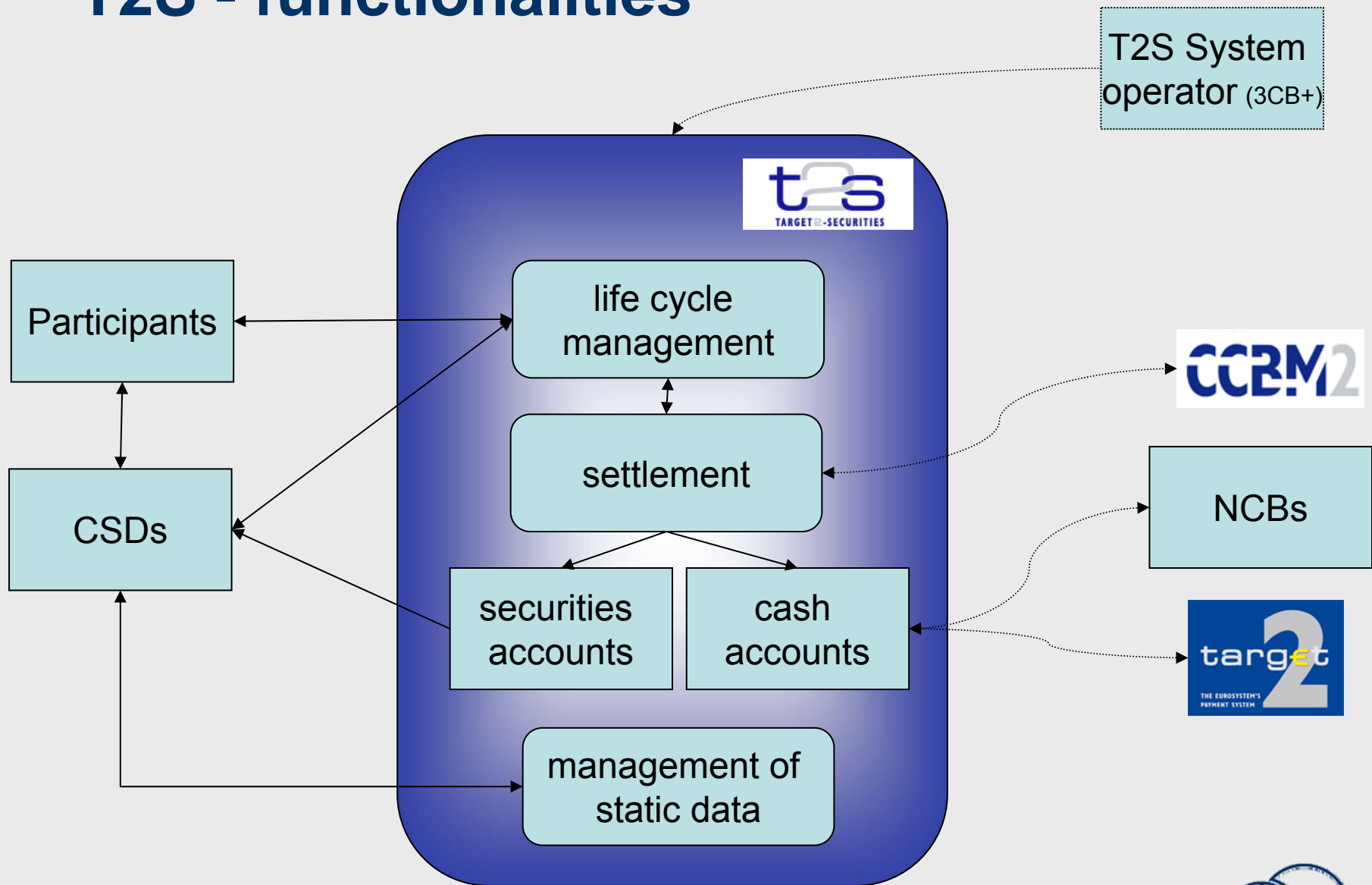
Dirk JANSSENS/Marc Lejoly



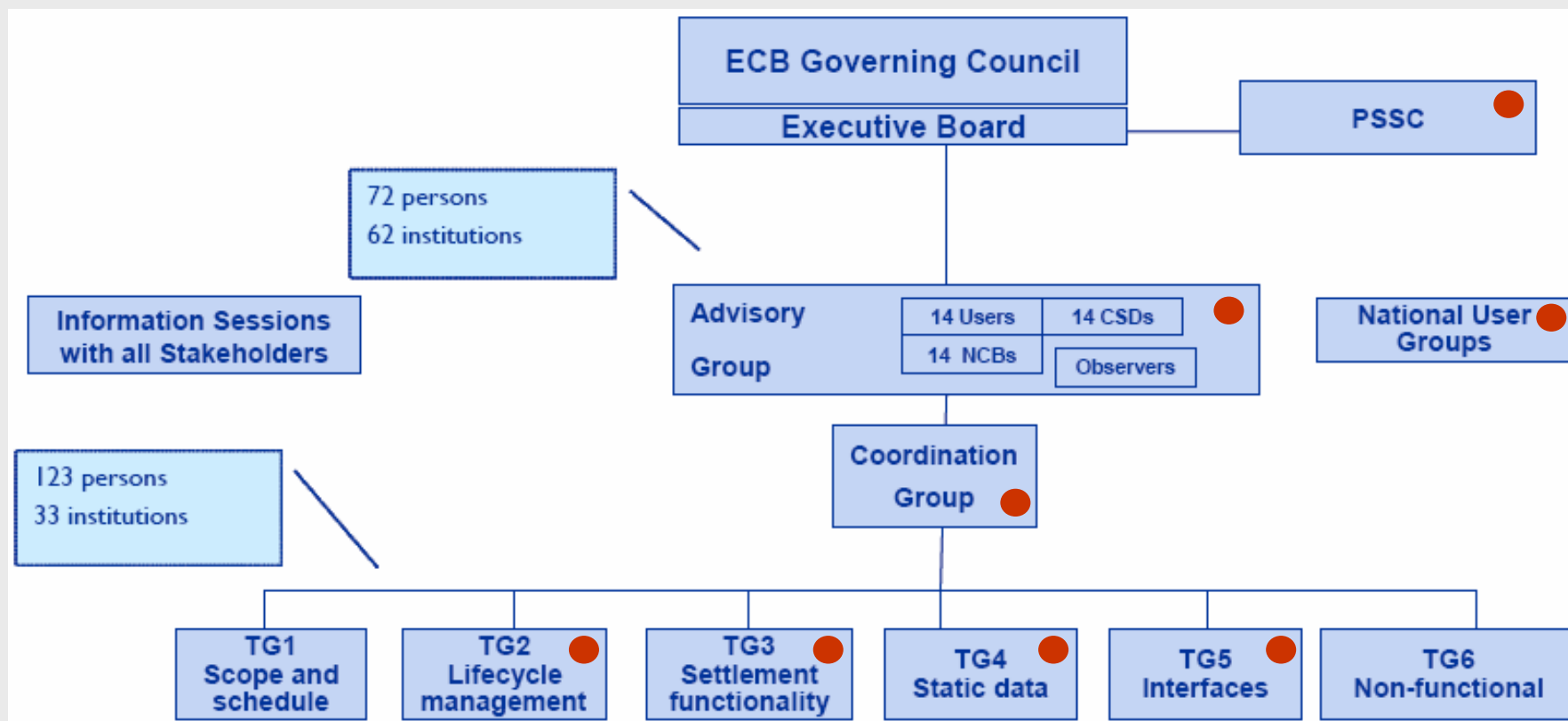
T2S - context



T2S - functionalities



T2S - governance structure



T2S

- ▶ possible impact on NBB-SSS:
 - settlement (securities + cash) -> T2S
 - securities, accounts, participants to be defined in T2S as well
 - (in)direct connectivity for participants
 - unified procedures and operating hours (+ night time)
 - Wirow -> ICM?
 - bond lending?
 - repo via 1 instruction?
 - SWIFT standards (15022 -> 20022?)
 - X/N (solution via 'CoSD')



T2S

- ▶ present state:
 - market consultation (till end of March)
 - decision GC: 17 July 2008
 - commitment of CSDs: **04.07.08**

- ▶ more info: www.ecb.europa.eu



▶ Question time



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request, question?

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