

NBB-SSS and TARGET2 from 23 June 2008 onwards

NBB-SSS User meeting for NBB-SSS settlement banks
not participating directly in TARGET2

National Bank of Belgium
22th April 2008



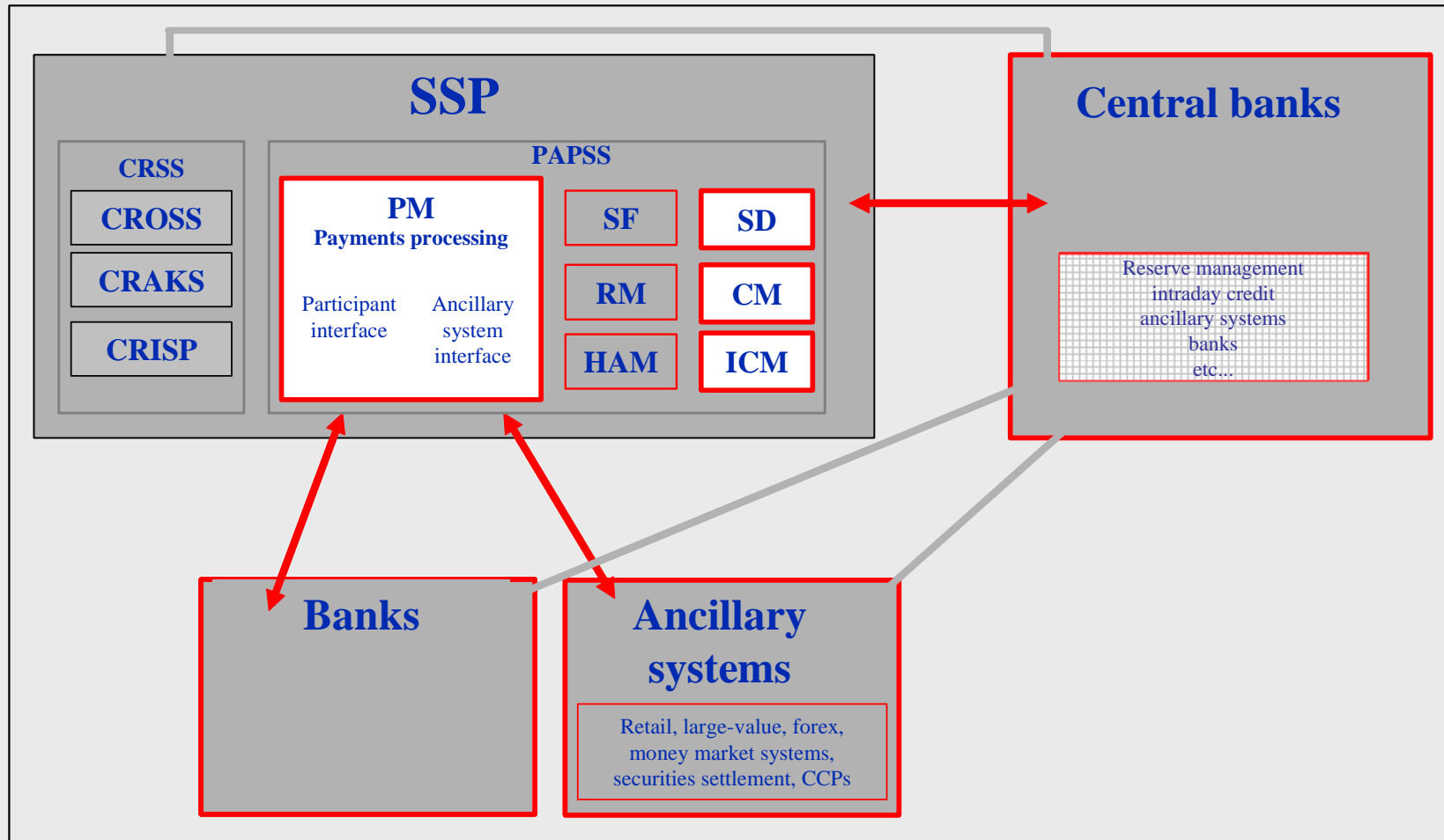
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Overview

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2. Profile of NBB-SSS
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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
 - 20/10/2008: settlement CEC/UCV on TARGET2
 - 28/11/2008: Settlement Euroclear Belgium on ESES platform of Euroclear



Migration Strategy TARGET → TARGET2

▶ Current planning (Cont.)

- 08/12/2008: NBB-SSS linked to TARGET2
- 10/06/2009:
 - monetary policy operations (open-market operations through connected payments) on PM/SSP
 - creditline, monetary reserves and standing facilities on SSP
 - ◆ for direct TARGET2-BE participants and
 - ◆ branches and subsidiaries that opt to open "special purposes account" in PM. Others banks continue to use their account(s) in NBB's CA.
 - All other operations (Cash, bondcenter, invoices,..) are in principle settled on account of direct participant in TARGET2
- CEMUC continues to settle in RECOUR (= NBB's Current Accounts) till it ceases to exist (1Q2009?)



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**

A = NBB-SSS participant

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





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 Belgian and foreign SB via TARGET2
- ▶ SB not participating directly in TARGET2 use a SBA
- ▶ How ?
 - Standard MT202 in Y-Copy via TARGET2 to NBB
 - Crediting the PM account of NBB



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 towards its SBA
 - Entered by SBA in PM/SSP crediting Mirror Account NBB-SSS in PM: SBA uses MT202 (Y- Copy)

- ▶ **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 (or fax for non-SWIFT Users)

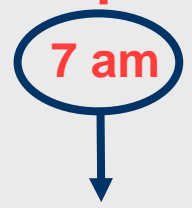
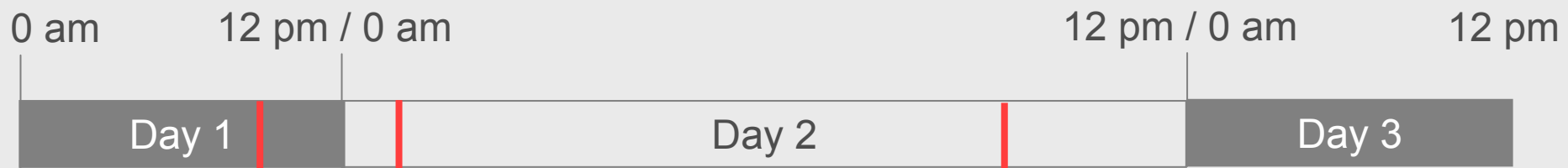
- ▶ **Automatic Liquidity transfer from NBB-SSS to PM**
 - Created by NBB-SSS
 - Automatic and mandatory end of day transfer of DLNS from NBB-SSS to PM account of SBA



5. Modus operandi NBB-SSS: tomorrow

5.3. Use of DLNS: Detailed Description

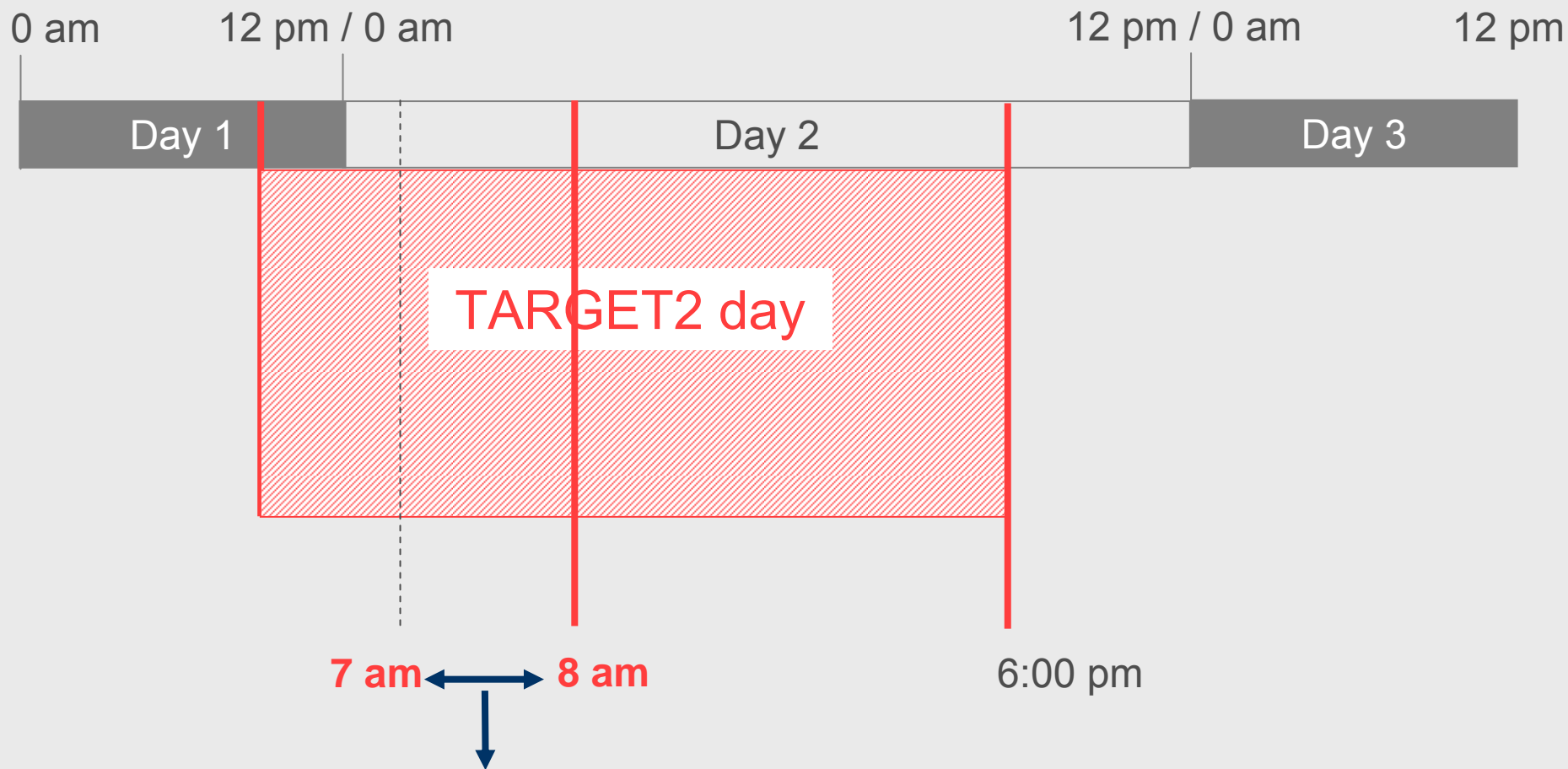




6:00 pm

DLNS = 0

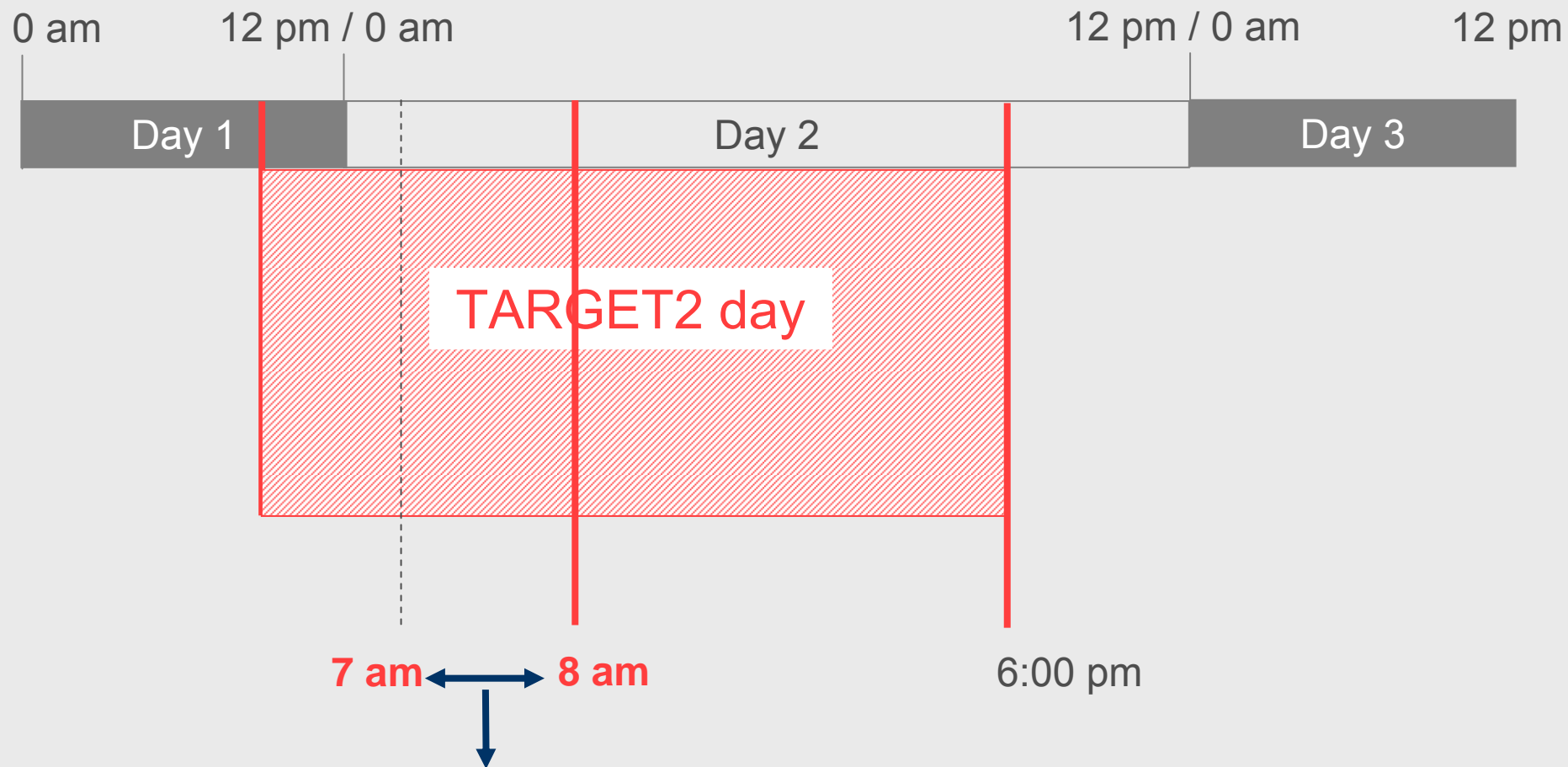




Transfer of liquidity (Optional for SB) :

- Balance mon.reserves and/or credit line in CA of SB (indirect T2 participant) to its SBA (direct T2 participant)
- Payment sent by SB to CA debiting CA. NBB sends payment via TARGET2 to SBA

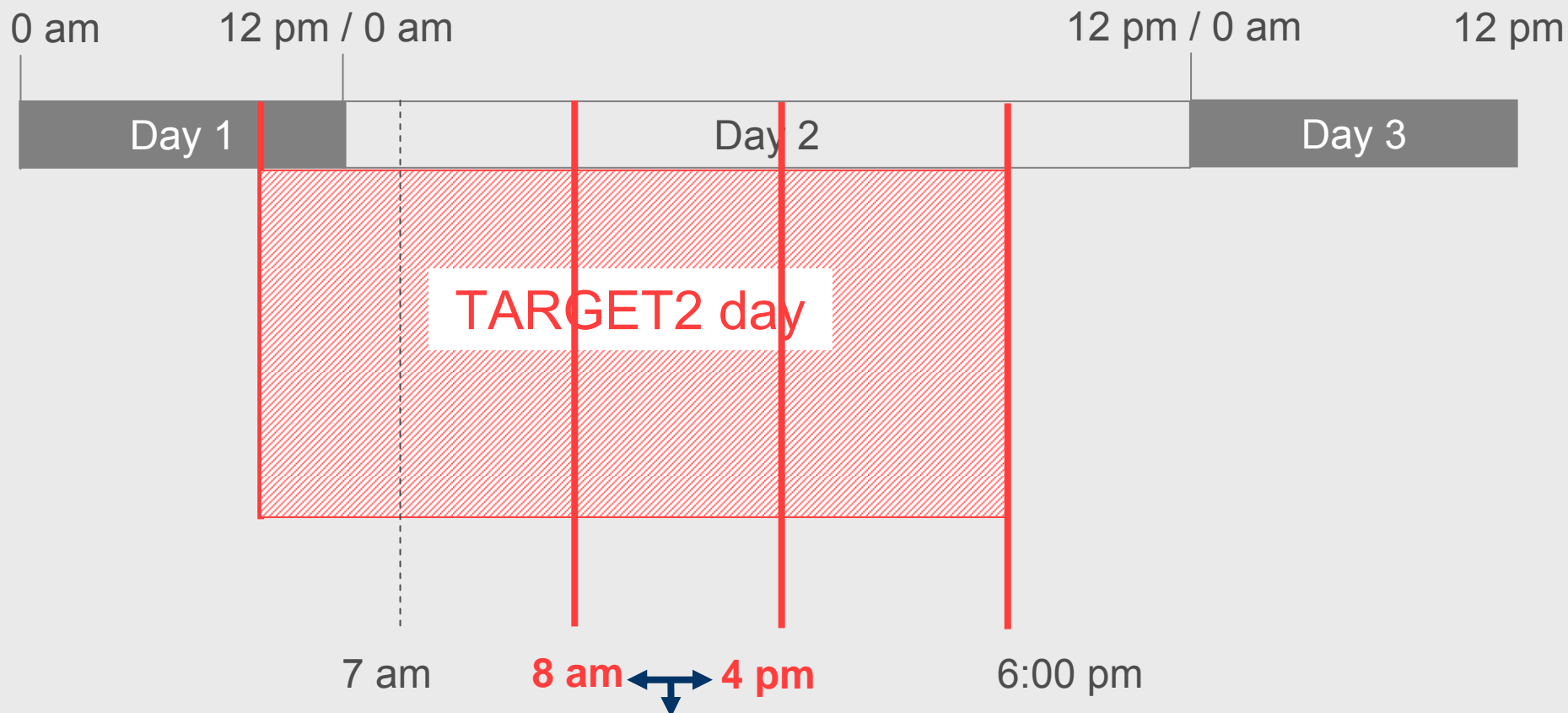




Transfer of liquidity from PM to NBB-SSS (Mandatory for SB):

- initiated by the SB towards SBA and entered by the SBA in PM/SSP
- SBA uses MT202 (Y-copy) crediting mirror account NBB-SSS in PM
- creating DLNS on NBB-CA of the SB





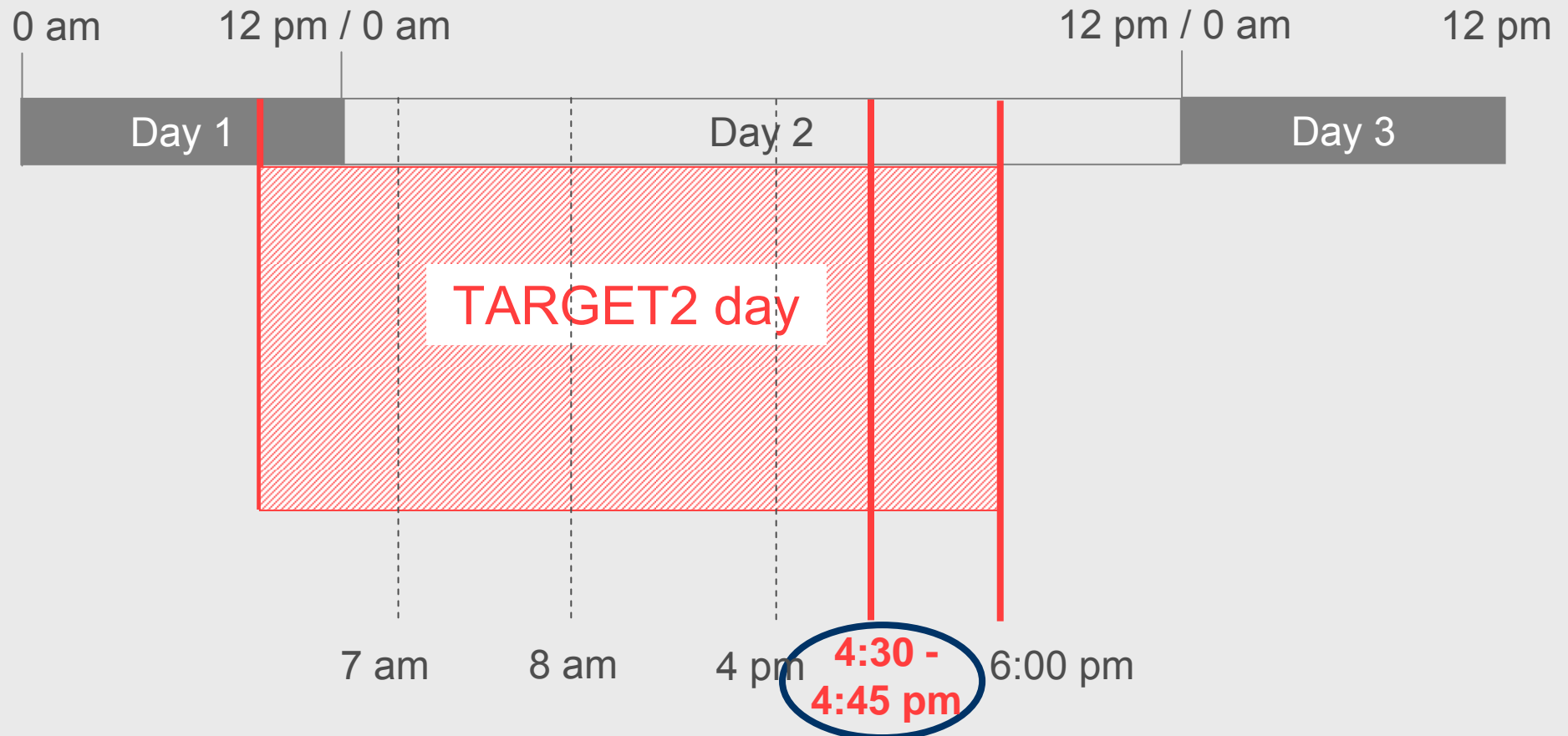
Transfer of liquidity from PM to NBB-SSS

- see previous slide

Transfer of liquidity from NBB-SSS to PM account of SBA:

- initiated by the SB towards NBB CA
- using MT202 (or fax) crediting "technical account" NBB-SSS in NBB's CA
- debiting (or balancing to zero) DLNS on NBB-CA towards SBA in PM/SSP

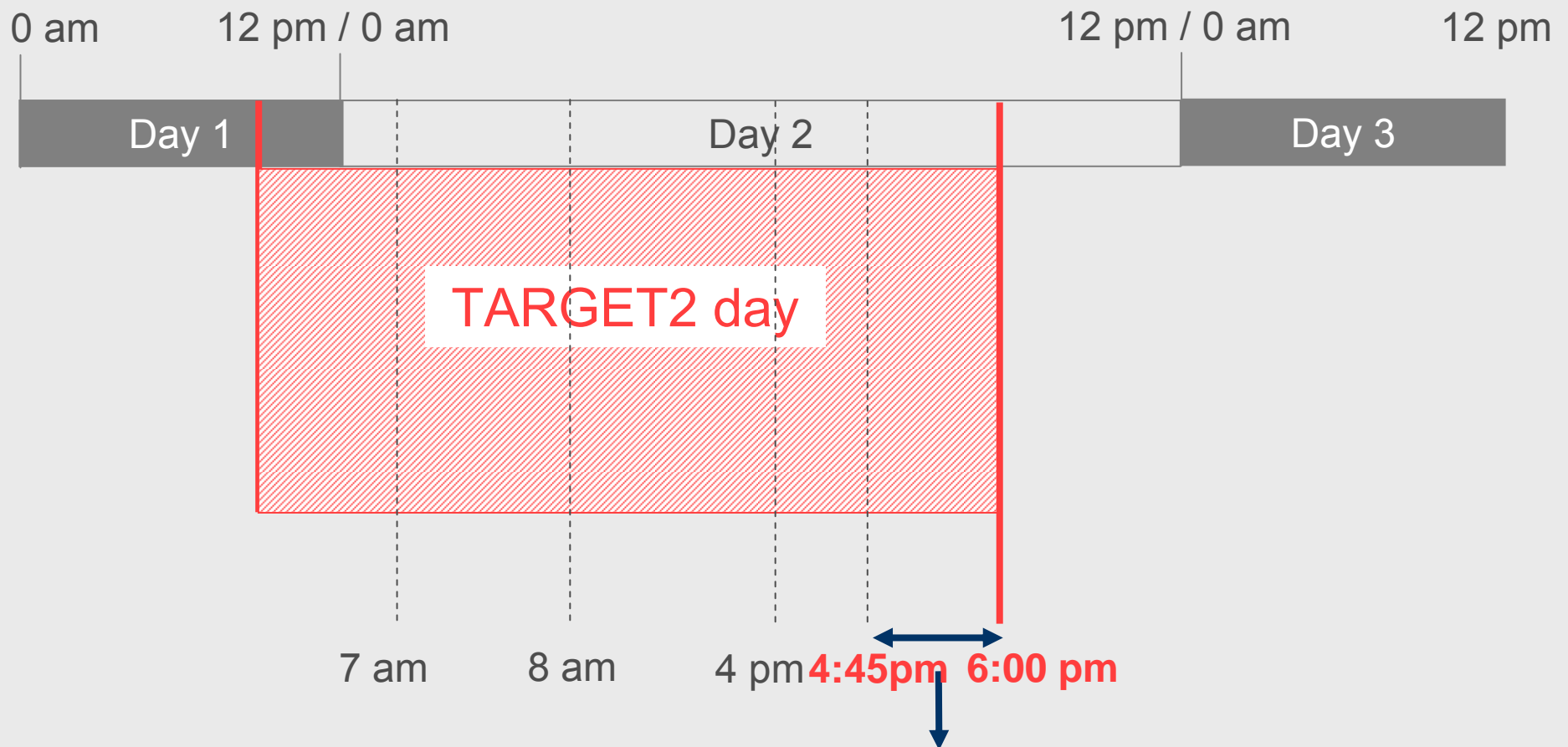




Transfer of DLNS to SBA account in PM:

- initiated automatically by NBB-SSS
- squaring DLNS to 0 of the SB towards SBA's account in PM/SSP





Transfer of liquidity of SB to its NBB-CA :

- initiated by SB towards SBA and entered by the SBA in PM/SSP
- SBA uses MT202 crediting **normal PM account** of NBB in SSP
- payment received NBB CA crediting SB's CA for fulfilment of its monetary reserves obligations



5. Modus operandi NBB-SSS: tomorrow

5.3. Use of DLNS: Summary

- Start of daylight settlement of TARGET2 (Day between 7 am and 8 am):
 - transfer of liquidity (monetary reserves and or credit line) from CA of SB (indirect T2 participant) to its SBA (direct T2 participant)
 - DLNS = 0
 - SB transfers liquidity from PM to DLNS via its SBA



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 (via its SBA)
- Decrease of DLNS via MT202 from NBB-SSS to PM by SB initiated by SB itself
- 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

5.3. Use of DLNS: Summary

- After end of day NBB-SSS (4.30 - 4.45pm):
 - NBB-SSS transfer of DLNS to SBA account in PM
 - Initiated by NBB-SSS
 - DLNS = 0
- End of day T2 (Day 2 between 4.45 pm - 6.00 pm):
 - transfer of liquidity to NBB CA of SB by SBA via PM
 - crediting CA of SB for fulfilment of its monetary reserves obligations



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)
- ▶ : All other settlements/payments continue to be done on "normal" liquidity on CA of customer
 - : Consequence: "normal" liquidity transfers are still needed (point 4.2.)



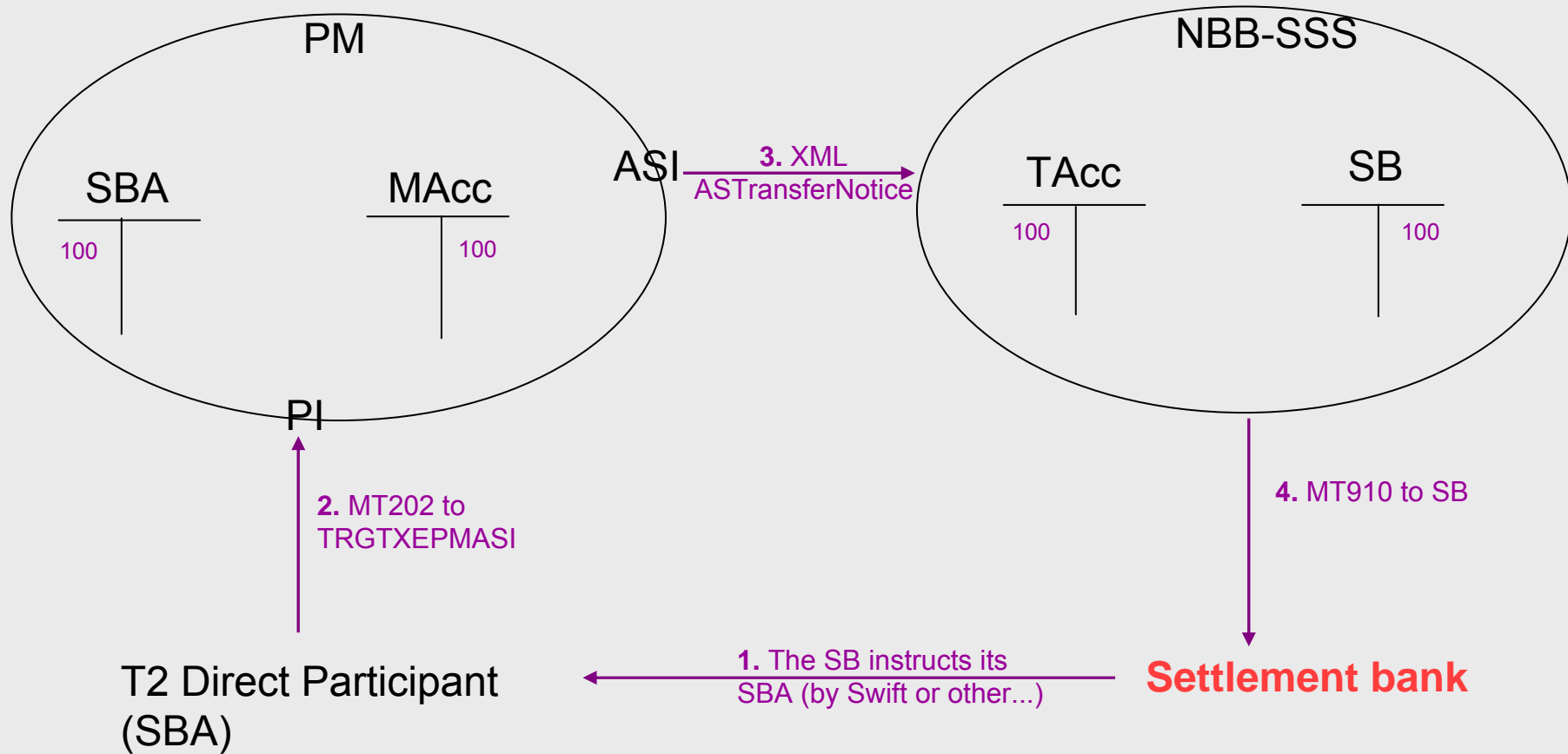
6. Flows of liquidity transfers

- ▶ 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**



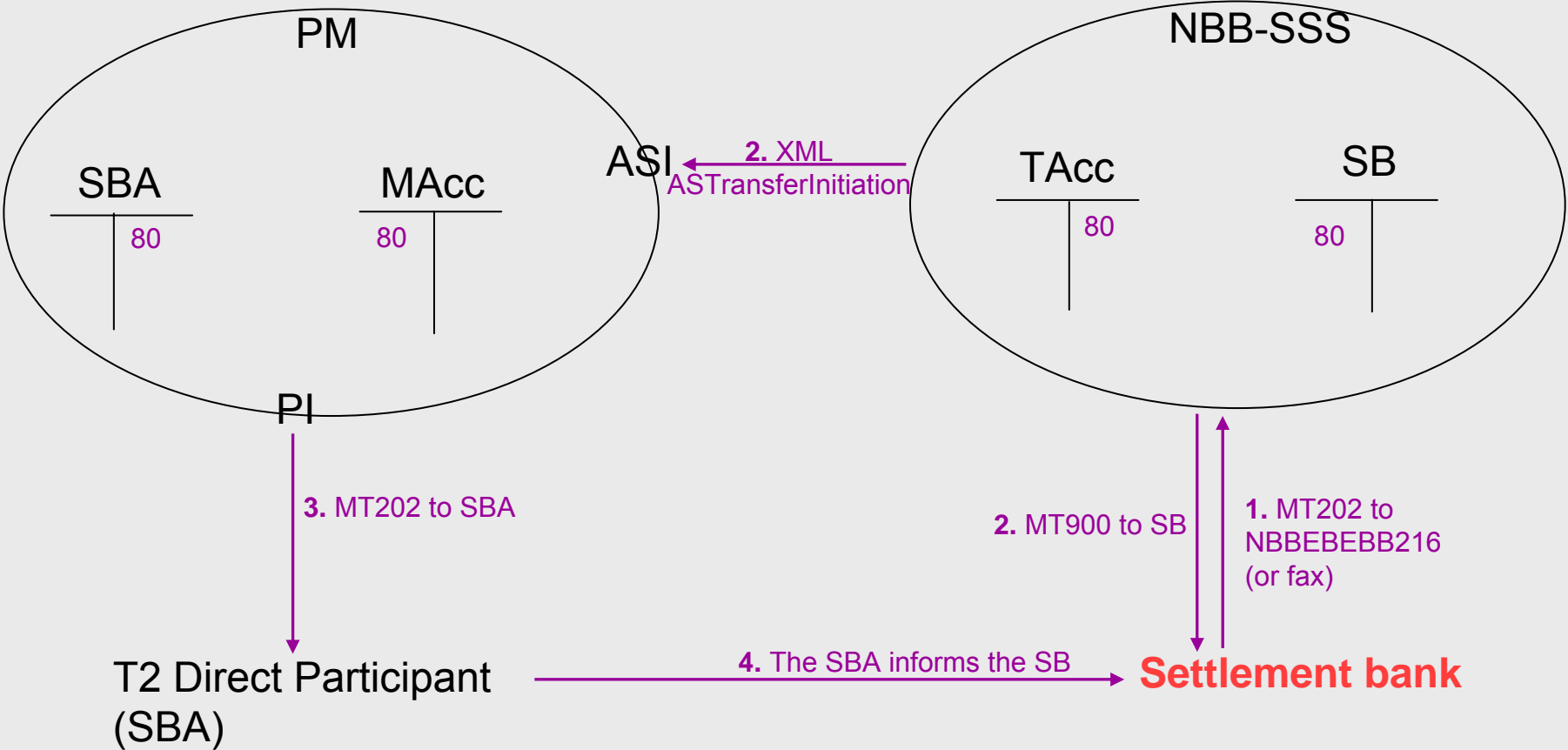
6. Flows of liquidity transfers

▶ From Payment Module to NBB-SSS



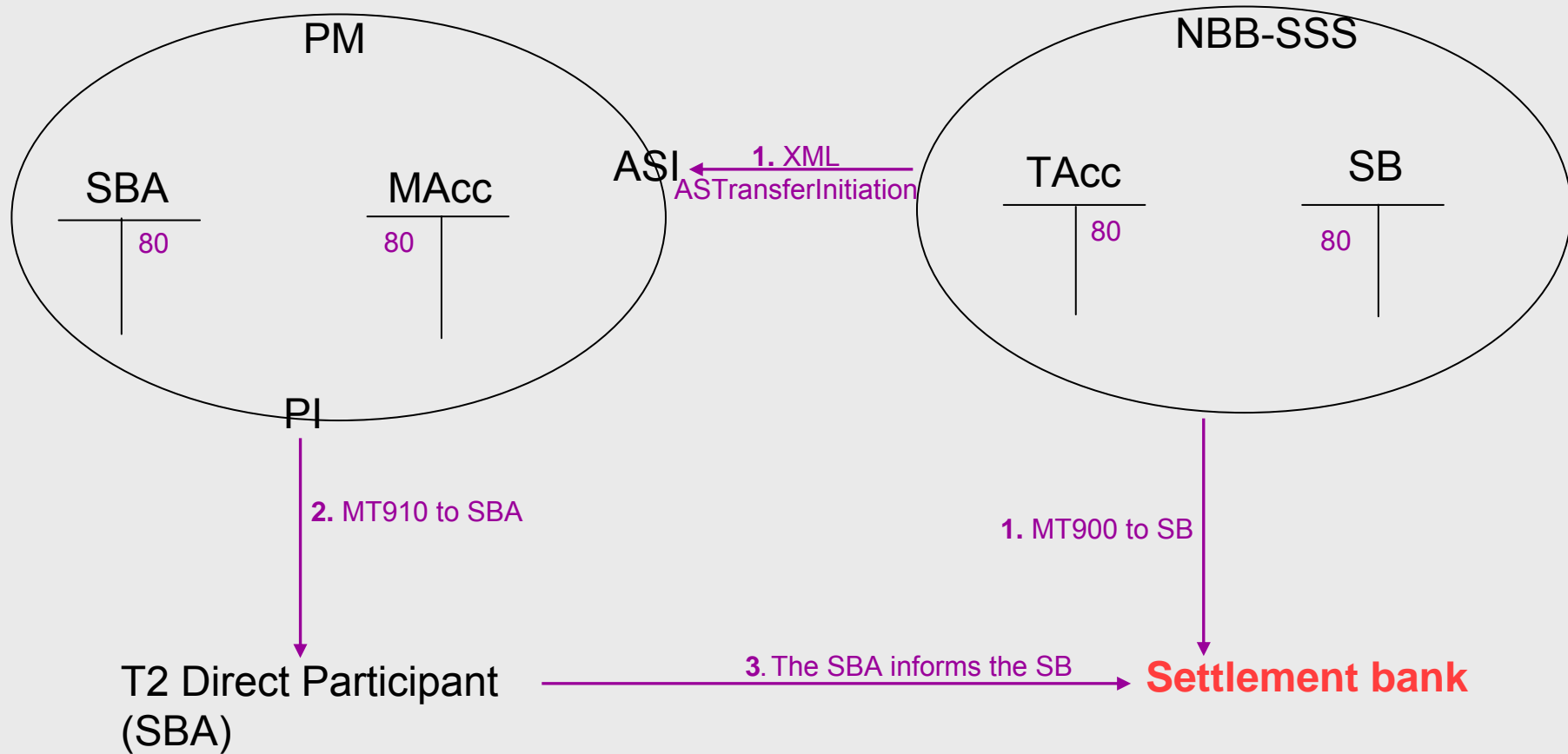
6. Flows of liquidity transfers

► 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 30th of 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)



8. Overview testing

1. LIQUIDITY TRANSFERS (cont.)

- From NBB-SSS to Payment Module
 - When? as DLNS is available
 - How and Who? Sending an MT202 to NBB-SSS by 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 from the SB ⇒ automatically started by NBB-SSS procedure
- NBB-SSS sends an MT900 squaring DLNS



8. Overview testing

4. Contingency testing

- Liquidity transfers from PM to NBB-SSS
 - TARGET2-BE participant (instructed by the SB): fax to NBB acting on behalf of TARGET2-BE participant in case ICM is unavailable at TARGET2-BE participant
- 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



10. Annex

The Settlement Bank is **NOT** Target2 Direct Participant and forms monetary reserves in NBB (1)

▶ Day-1

- **9 am - 4 pm** : Swift and non-Swift order with value Day for liquidity transfer from NBB to PM on account of the settlement bank in the books of its agent

▶ Day

- **7 am** : execution of liquidity transfer from NBB to PM on basis of the Swift and non-Swift order of Day-1
- **7 am - 8 am** : liquidity transfer from PM to NBB-SSS, initiated by the settlement bank and executed on the PM by its agent (mandatory)
- **8 am - 4 pm** : liquidity transfer from PM to NBB-SSS as between 7 am - 8 am (optional)

Timing in bold corresponds to action initiated by the Settlement Bank



The Settlement Bank is NOT Target2 Direct Participant and forms monetary reserves in NBB (2)

▶ Day

- **8 am - 4 pm** : liquidity transfer from NBB-SSS to PM towards the account of the settlement bank in the books of its agent, initiated by settlement bank
- 4:30 pm : NBB-SSS end of day liquidity transfer from NBB-SSS to PM towards the account of the settlement bank in the books of its agent, initiated by NBB-SSS
- **5 pm - 5:30 pm** : liquidity transfer from PM to NBB, initiated by the settlement bank, and executed on PM by its agent. Crediting CA of SB.
- 6:35 pm : forming of monetary reserves in NBB

Timing in bold corresponds to action initiated by the Settlement Bank



The Settlement Bank is NOT Target2 Direct Participant and forms monetary reserves in NBB

