

Minutes of the 10th User Committee Meeting 06-03-2017



Attendance:

Chairman: Bart Baudewyn (BNP Paribas Fortis)

Members: Steve Moens (BDA), Olivier De Bruyn (KBC),
Pieter Samyn (ING), Pierre Paul Stacanov (Euroclear Bank), Elly
van As (Citibank), Luc Goossens (Belfius), Gil Vanden Broeck
(BNP Paribas SS), Jean-Paul Rousseau (FebelFin)

Secretary: Renan van der Wolf (NBB-SSS)

NBB-SSS: Jimmy Steenhout, Pascal Mareschal

Introduction

- The minutes of the last UC meeting have been approved.

1. NBB-SSS Facts and figures

- Graphics and figures have been distributed concerning the settlement volumes, the issuance activity, the evolution of the total outstanding and the settlement ratio. The differences between the methodologies of T2S and Ramses to compute the settlement rate have also been re-explained (partially settled instructions taken into account as settled by T2S, etc.).
- The same observation as previously has been made: the settlement ratio became lower since the migration to T2S and has not yet recovered. NBB-SSS has set up a system sending daily e-mails to each participant having 10 or more penalties. The UC members have asked to get these e-mails when their firm is concerned. This was already the case for all members apart from Mr. Stacanov who has been added to the SPOC list and will now receive it.
- When asked about the reasons that could explain the settlement rate, the UC members have mentioned :
 - o (Small) Participants hold their instructions because of fear of having several days penalized with LACK if the securities are not on the account, so they send it later to get fined with only one LATE which is cheaper.
 - o Some other CSDs have no penalties, among them OeKB who has very high settlement ratio. It is true that OeKB has (almost) no penalties, however the Austrian Securities Authority seems to have huge ones compared to NBB-SSS : in summary 0,5% of the market value of the securities is charged each day from SD 10.30 AM already to SD+3 for instructions which do not settle on SD. On SD2 and SD3 OeKB itself adds buy in costs and 350€ handling costs. This could explain the excellent settlement rate of OeKB.
 - o The UC members think that the penalties could be the source of the low settlement ratio and suggest to decrease or to suppress the penalties. Decreasing the LACK penalty could help the participants to send their instructions sooner (because more days of LACK would be required to be equal to a LATE), but it will not improve the settlement ratio seeing that the instructions will still not settle. Suppressing penalties (which are already very low compared to some other CSDs with a good settlement ratio) will most likely not help to improve the settlement ratio.
 - o There is no more "borrowing & lending" service to ensure that the securities are there and so to prevent a LACK. The lending and borrowing service

- o was discontinued as from phase 1. The effect of the lending and borrowing functionality was extremely limited.
 - o Some platforms (like EOC) wait for the settlement to happen in their system before sending the instructions to the NBB-SSS. Some others, like Citibank, do not wait to send the instructions.
 - o Some small participants are now "indirect" participants behind participants, which increases the "settlement chain".
- NBB-SSS mentioned also that if GBP and JPY, who work with T+0, have a similar/better settlement ratio than us, then the reason may be inefficiencies in the settlement chain.
- Considering the whole discussion, NBB-SSS thinks that the reason why the settlement rate is low doesn't lie in the penalties current level but more in inefficiencies in the settlement chain (not having the securities available on T+2 should be an exception, which it is not).
- Follow-up: a survey will be sent to participants to investigate about what are the reasons behind the settlement inefficiencies and what their incentive would be to 'behave' properly or what the NBB-SSS could do to help.

2. Service review

- Graphic has been distributed concerning the availability of Ramses and T2S. KPIs of the SLAs are respected.
- T2S
 - o On the 10/8/2016, the NTS started at 21:30 instead of 20:00 because of the abnormal termination of the LCMM program caused by an instruction sent by a customer. This instruction was revalidated by the support teams and the program restarted after.
 - o On the 1/12/2016, a T2S incident caused a delay concerning the sending of the notifications to the participants. Seeing that not having the notifications could cause settlement problems, the NBB-SSS Management Committee decided to waive all penalties LACK/MONY for settlements on 2/12/2016 with ISD 1/12/2016 as participants' liquidity management could have been hindered.
 - o After the wave 3 of T2S (mid-September), many incidents occurred: delays on the start of NTS, delays in sending the EOD reports, delays in sending the outbound messages during SOD, delays in sending NTS notification (sese.025), delays in sending cut-off related messages (camt.019), impacts on T2 for the liquidity transfers at the EOD (delays in the closing of T2), network "NACK" for A2A queries, etc.
 - o On the 16/12/2016, a conference call was held with CSDs and DCPG where T2S stated that DCPs/CSDs behaviour differs from volumetric assumptions (questionnaires to DCPs) on which T2S is built and told the DCPs to :
 - Avoid the usage of single messages during EoD and SoD.
 - Avoid the usage of a single instruction bundled in a file.
 - Avoid sending instructions during high congestion periods (EoD & SoD).

The DCPs turned down that request arguing that it is the system which must adapt to the market behaviour and not the opposite.
 - o An action plan was then designed by the 4CBs to adapt the infrastructure and was finalised on the 7/1/2017. The result is that T2S is now back to stable.
 - o The T2S wave 4 has been successful and the migration weekend ended ahead of schedule. From the T2S wave 3 to the T2S wave 4, the number of

instructions have doubled, the number of securities account increased from 14.000 to 20.000, the number of EOD reports increased from 50.000 to 80.000 and the number of daily ISIN updates increased 35.000 to 84.000.

– RAMSES

Two critical incidents occurred:

- On the 29/8/2016 at 08:11:43 (INC278968): the “Emission Profile & Reception Profile” of NBB has been deactivated in SWIFT, so no Swift messages could be exchanged using the Swift network. It had an impact on ICPs and lasted 02:22.
- On the 19-12-2016 at 11:15:16 (INC295835): an issue with the SNAT network interface of Ramses prevented messages from being exchanged with T2S. It had an impact on ICPs and lasted 1:03.

3. NBB-SSS production on T2S

– Replacement of NPAPI signing applet by Ramses own signature application :

- A presentation has been distributed to the members of the UC explaining what the replacement is about.
- In summary, the end-users will have to upgrade their browsers and Java to be able to continue to sign operations in Ramses.
- The NBB-SSS proposed to do the migration during the Easter week-end. The proposal was welcomed but the members must first check with their IT teams if feasible.
- The NBB-SSS has also asked the UC members if they had already a suggestion concerning the start date of the test in the UTEST environment, but as for the migration date they must consult their IT teams first.
- Follow-up :
 - A written procedure has been sent to the members of the UC to confirm the feasibility of migrating during the Easter week-end and to define a test date.
 - The end user manual will be posted on the NBB-SSS sharepoint, as well as the hash calculation.
 - More info will be given during the info session.

– Opening and closing days in 2017 for the NBB-SSS :

- A presentation has been distributed to the members of the UC explaining when the NBB-SSS will be closed at the same time T2S is open and what will happen during these days.
- In summary, some T2S-connected CSDs will be open and others will be not. The members of the UC are quite amazed by this situation and are open to offer their support for harmonization. Discussions are ongoing at T2S level to align the calendars of T2S and T2 to avoid such situation.
- The semt.002 messages are needed by some UC members even if the NBB-SSS is closed, so they will be sent by the NBB-SSS to its participants.
- Most important recommendation from the NBB-SSS to its participants: do not send anything on those days (14/4, 17/4 and 1/5) and do not send any instruction with ISD on those days.
- A testing in UTEST will take place on the 17/3 and on the 20/3 (T2 is closed).
- Follow-up :
 - The members of the UC who would like to participate in the testing in UTEST must inform the NBB-SSS.

- The results of the test will be shared with the members of the UC.

4. Status T2S migration and releases

- Current planning for T2S production environment:
- Release 1.3 : a presentation has been distributed
 - Delivery of the documentation : 20/02/2017
 - UTEST : 28/04/2017
 - Production : 08/07/2017
 - CR496: add "Corporate Action Event Identifier" and reason code "Cancellation due to transformation (CANT)" in sese.024 transaction status advice. The NBB-SSS will translate also this into the MT548. The first part has been tested (if a sese.024 contains a CA id, then this id is replicated in the MT548).
 - CR532: Hold/Release indicator at securities account level should not override the value of this parameter in the instruction
 - CR549: Statement of Transactions and Statement of Settled Intra-Position Movements reporting for Partially Settled transactions to be made SMPG compliant.

Example of a partial settlement over two business days

Instructed Quantity: 10,000 units – 25,000 EUR

Settled Day 1 4,000 units – 10,000 EUR (Partially)

Settled Day S+1 6,000 units – 15,000 EUR

	Settlement Date S	Settlement Date S+1
SMPG Guidelines	Settled Quantity : 4,000 units Settled Amount : 10,000 EUR	Settled Quantity : 6,000 units Settled Amount : 15,000 EUR
T2S Reporting	Settled Quantity : 4,000 units Settled Amount : 10,000 EUR	Settled Quantity : 10,000 units Settled Amount : 25,000 EUR

- CR573: Reporting of actually impacted securities Sub-Balance Type in settlement confirmation, Intra-position movement confirmation and Intra-balance movement confirmation messages.
 - Currently, the Securities Sub-Balance Type within the sese.025 (settlement confirmation) provides the information from the sese.023 (settlement instruction) and does not reflect the Securities Sub-Balance Type that was used for the settlement. Furthermore, the semt.015 (Intra-position movement confirmation) does not report the correctly impacted position type in case the account is earmarked at account level.
 - Benefits reconciliation by participants and CSDR compliant reporting by CSDs.
- T2S-0576: Handling of leading and trailing "blanks" and "/" in A2A and U2A attributes.
 - If an A2A reference field or U2A text field content starts or ends with blanks, T2S currently deletes these starting and ending blanks for further processing. Due to this, it is currently possible that the next/last character after/before the blank is a character that is not allowed as first/last character.
 - In case the content of this field has to be reported back to the customer the outbound message is not valid. Therefore the use of leading blanks followed by "/" at the beginning or trailing blanks

- preceded by "/" needs to be prohibited to ensure valid outbound messages.
 - o T2S-0595: Allow settlement restrictions and settlement instructions to impact positions other than the earmarked restriction type used at the securities account level.
 - Currently, any existing earmarked and deliverable positions are not accessible and can no longer be used by the participant once an account is earmarked at the securities account level. The participant must empty these positions and cancel or settle any related pending instructions before earmarking an account at the securities account level.
 - T2S should also modify the approach regarding pending instructions so that any static data updates on the earmarking at account level are taken into account at the next SoD on pending instructions.
 - o T2S-0637: T2S enhanced bundling of messages during night-time settlement reporting.
 - NTS outbound messages are always sent in file mode. T2S-0637 will speed up the file creation process and a "NTS reporting final message" camt.019 will be sent –if subscribed to- after NTS file bundling and report the number of all files prepared for the recipient.
 - CSDs, DCPs and ICPs can opt to receive this "final message" which NBB-SSS will implement.
- More info on <http://www.ecb.europa.eu/paym/t2s/governance/tg/html/crg.en.html>
- There are ongoing discussions at T2S level to define a yearly release planning for T2S. The major release *.0 would each year be planned in June. A subsequent minor release *.1 would then follow in November. Whether this release would be aligned with SWIFT is still under discussion.
- Change request submitted by BNP Paribas Fortis: it can be (partially) implemented but there is no timing yet.
- Possibility for the participants to introduce change requests: using a specific template, the participants can now ask for specific change requests. The procedure adopted during the UC is to send the templates filled in to NBB-SSS for a first review in order to have it presented at the next UC with a cost in units. Therefore, the UC will be able to decide which change requests to implement given a total budget in units.
- Follow-up: post the CR template on the sharepoint.
- DvP in foreign currencies : a presentation has been distributed
 - o The Oversight has required the NBB-SSS to implement DvP in foreign currencies.
 - o DvP in GBP will be possible but the official agreement from the Federal Reserve for USD must still be received.
 - o The analysis has been written and accepted by the software provider of the NBB-SSS and the project will be in two phases :
 - The first will be the setup of the static data and of the necessary functionalities (with manual interventions for some).
 - The second will depend on the appetite of the market for this new service and would be the further automation of some functions and adding the CA management.

- The fees are still under investigation but will depend on the answer of the Federal Reserve.

5. Miscellaneous

- Signed e-mails
 - An internal policy concerning the certificates that can be used must be first defined at NBB level.
 - In the meantime, the alternative is to send MT599 for sensitive operations.
- Bulking messages
 - Based on the production volumes, we have defined several bulking windows to send messages to T2S. In order for the bulking to be transparent for the users, during these time windows a bulk file is produced each time there are 40 messages pending. These messages are bundled in a file that is sent to T2S.
 - The time windows are the following :
 - 09:50 and 10:45
 - 11:50 and 12:30
 - 16:15 and 16:55
 - 18:15 and 07:30
 - This already implemented in test environment and will be in production.
- DCPs and MT535/MT536: in order to speed up our end-of-day process, the NBB-SSS suggests that the DCPs do not request the MT535 and the MT536 but get this information directly from T2S as T2S is the “Golden record”. The DCPs can also benefit from this seeing that the MT535 and MT536 are not free of charge and that they will not have to wait the NBB-SSS internal translation/processing of those messages.
- Changing the static data of a security after its start date: given some requests we received lately that involves a lot of work, we will start applying the article §.8.2.2.2. of our T&C and charge 250 EUR for such requests.
- New version of the T&C of the NBB-SSS :
 - First new release for 1/1/2018, including DVP foreign currencies, opening days when T2 closed, no double penalty LATE/PREA on same instruction but only a LATE, the use of DKK, the first part of the CSD Regulation, etc. The goal is to consult the UC by September 2017.
 - Other release already planned on the 1/1/2019 with the penalty mechanism foreseen by the CSD-R.
- The NBB-SSS has signed the ISO20022 Harmonization Charter :
 - The SWIFT User Guide will be on SWIFT MyStandards.
 - The NBB-SSS will discourage the use of MT15022.
 - Financially: but not yet in 2018/2019
 - Functionally: for newly developed functions (not upgrades of existing functions)
- CSD links: some CSDs have approached the NBB-SSS to open links as investors but nothing is yet carved in stone.

- The NBB-SSS thanks its participants for their efforts to respond on the written consultation on inactive accounts (and closing them if possible) and the collection of the LEI (participants and issuers).

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