

29 March 2016

Assessment of the NBB-SSS against the CPMI-IOSCO Principles for Financial Market Infrastructures

The NBB-SSS is the Central Securities Depository (CSD) for dematerialised fixed-income securities in Belgium ; i.e. government securities and corporate debt. The system is operated by the NBB. NBB-SSS participants – more than 80 entities, both domestic and international – can settle transactions in EUR by book-entry on a delivery-versus-payment basis in central bank money. The NBB-SSS holds more than € 570 billion in assets and has a yearly turnover of EUR 8919 billion (in 2015).

In February 2015, the NBB-SSS has migrated to a new settlement platform (“RAMSES”) in view of its migration to T2S in March 2016. The NBB-SSS has also discontinued the automatic securities lending and borrowing service.

This assessment has been performed by the Oversight team of the NBB, which is fully independent from the operational departments of the NBB (such as the NBB-SSS).

Oversight has assessed the NBB-SSS against the applicable CPMI-IOSCO Principles for Financial Market Infrastructures (PFMIs ; an overview of these PFMIs can be found in Box 1 on page 129 of the FSR 2013), taking into account the specifics of a central bank infrastructure, where relevant.

The table below gives an overview of the ratings of the 24 Principles. A detailed assessment of each Principle is given below.

Assessment category	Principle
Observed	1, 2, 4, 5, 7, 8, 9, 11, 13, 15, 18, 20, 21, 22, 23
Broadly observed	3, 12, 17, 19
Partly observed	-
Not observed	-
Not applicable	6, 10, 14, 16, 24

PRINCIPLE 1 LEGAL BASIS

The Terms & Conditions of the NBB-SSS have been amended to take into account the migration to T2S. After the finalisation of this new version, an external legal opinion confirming the validity and enforceability of the new Terms & Conditions under Belgian law should be provided. In addition, it is recommended to further assess the impact of recovery/resolution measures that can potentially affect participants considering the recent regulatory evolutions in this domain.

PRINCIPLE 2 GOVERNANCE

The NBB has documented objectives, governance arrangements for the Board and management level and a documented risk-management framework. In the last years, progress has been made to enhance compliance with the Governance Principle via the publication of a Mission Statement, the establishment of a User Committee and of a Management Committee. The publication of its “conflicts of interest” policy has answered the remaining open Oversight recommendation regarding this Principle.

PRINCIPLE 3 FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS

The PFMI requires that FMIs analyse the risks borne from and posed to other entities. More specifically, an analysis has to be made of the settlement and funding flows in the FMI. The impact on the well-functioning of the market and the system from either the default or operational outage of the largest participant has to be analysed. The desktop analysis made by the NBB-SSS reveals a concentration of activity with a limited number of participants. The analysis was made based on data from the NBB-SSS only while some NBB-SSS participants also participate in other CSDs. Analyses made by individual CSDs have a more limited value in the new T2S context. Therefore, the reliance on a T2S simulator addressing the impact of the outage or default of one or more T2S participants would allow the CSDs to observe the PFMI in a meaningful way.

CREDIT AND LIQUIDITY RISK MANAGEMENT (PRINCIPLE 4 CREDIT RISK, PRINCIPLE 5 COLLATERAL, PRINCIPLE 6 MARGIN, PRINCIPLE 7 LIQUIDITY RISK)

Participants can buy securities in the NBB-SSS with the cash (EUR) on their dedicated cash account in the books of the central bank. This account is funded by the NBB-SSS participants from their main T2 account with the NBB. As long as there is sufficient cash on this dedicated account, settlement will take place. The NBB-SSS does not provide credit to its participants neither in the settlement process, nor for any other purpose. Such credit could be provided, where needed, by the NBB. The credit provision by the NBB as central bank complies with the ESCB monetary policy framework which imposes full collateralisation of the positions, with the application of commonly agreed haircuts. The NBB is not exposed neither to any liquidity risk against the Euro.

SETTLEMENT (PRINCIPLE 8 FINALITY, PRINCIPLE 9 MONEY SETTLEMENTS, PRINCIPLE 10 PHYSICAL DELIVERIES)

The NBB-SSS settles intra-day with immediate finality. Money settlements take place in central bank money. The NBB-SSS does not offer physical settlement. All securities that are settled in the system are dematerialised or immobilised and settled in book-entry form.

PRINCIPLE 11 CENTRAL SECURITIES DEPOSITORIES

Through its accounting procedures, including the segregation of assets belonging to the NBB, the different participants and their underlying clients, the NBB-SSS protects

investors from custody risk. The Terms & Conditions ensure the full protection of underlying clients' assets against the default of the NBB-SSS participant that is their custodian.

PRINCIPLE 12 EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS

The NBB-SSS system allows participants to eliminate principal risk for transactions in EUR by ensuring that the final settlement of the cash leg and securities leg occur only when the other leg settles. For transactions in other currencies (mainly USD, GBP, CHF, NOK), the NBB-SSS does not provide DVP settlement as the securities leg is FOP settled within the NBB-SSS while the cash leg is settled outside the system. This relates to 1.39% of the total value of transactions settled (in 2015). The NBB-SSS has been requested to adapt its settlement processes in order to provide for a DVP arrangement (i.e. final settlement of one leg occurs if and only if the final settlement of the linked leg occurs – on a gross (trade-by-trade) or net basis) for primary and secondary market transactions in all applicable currencies.

DEFAULT MANAGEMENT (PRINCIPLE 13 PARTICIPANT-DEFAULT RULES AND PROCEDURES, PRINCIPLE 14 SEGREGATION AND PORTABILITY)

The NBB-SSS's new Terms & Conditions describe the procedure in case of participant default and define the moment of entry, moment of irrevocability and moment of settlement finality of transfer orders in line with the "Collective Agreement" which defines these moments in a harmonised way across all T2S CSDs.

PRINCIPLE 15 GENERAL BUSINESS RISK

The NBB monitors if the costs and revenues of the NBB-SSS are in balance and takes remedial action if needed. With a slightly increasing securities depot and a custody fee basis system, the NBB-SSS relies on a stable stream of revenues.

PRINCIPLE 16 CUSTODY AND INVESTMENT RISKS

All securities processed by the NBB-SSS are safekept directly within the NBB-SSS. The NBB-SSS does not rely on custodians.

PRINCIPLE 17 OPERATIONAL RISK

The NBB-SSS maintains high levels of operational reliability, including since the launch of the new RAMSES platform. Cyber resilience is a new specific attention point for the NBB-SSS in terms of operational risk. Considering the regulatory evolutions in that domain, the Overseers have recommended the NBB-SSS to perform a fully-fledged assessment of its cyber resilience against the principles of the CPMI guidelines on cyber resilience in financial market infrastructures including an adequate holistic approach covering aspects like governance structure, business continuity and ad-hoc communication plans and legal aspects and to regularly update this assessment in line with the evolving guidelines and standards.

The adequacy and the effectiveness of the NBB policies in that domain will be reviewed on a regular basis accordingly.

CSDs should – considering their systemic importance for the well-functioning of financial markets – analyse the impact of a long-term IT outage (extending on several days), notwithstanding the business continuity measures implemented in order to cope with the two hours resumption time. Therefore, it is recommended that the NBB-SSS further assesses the potential consequences of a scenario of a long-term unavailability of its RAMSES platform and/or of T2S and develops alternative (manual) procedures to ensure (partial) business continuity under such extreme scenarios.

PRINCIPLE 18 ACCESS AND PARTICIPATION REQUIREMENTS

The NBB-SSS's access criteria are objective, risk-based, and publicly disclosed. They guarantee fair and open access.

PRINCIPLE 19 TIERED PARTICIPATION ARRANGEMENTS

There is no sub-participant status in the NBB-SSS. As a rule, assets of participants' underlying clients are held in omnibus accounts. For that reason, the NBB-SSS does not have specific, detailed and identifiable information on the activities of individual underlying clients. However, the NBB-SSS has – based on the PFMI methodology – identified the proportion of activity that each direct participant conducts on behalf of indirect participants in relation to the direct participants' capacity. The questionnaire sent to the participants having the most underlying client depot has revealed the existence of 6 important underlying clients (based on securities depot). It is recommended that the analysis is expanded to turnover data (in order to make a distinction between "buy-and-hold" custodians, and more active players in the market) and that conclusions are drawn concerning the risks to which NBB-SSS may be exposed as a result of tiered participation arrangements. This outcome should be regularly reviewed and reported to the responsible governance bodies and adequate measures taken when required.

PRINCIPLE 20 FMI LINKS

The NBB-SSS has no links as investor CSD with other CSDs. Other CSDs may become participant in the NBB-SSS and are treated as regular participant. The NBB-SSS does not bear/pose any credit or liquidity risk.

EFFICIENCY (PRINCIPLE 21 EFFICIENCY AND EFFECTIVENESS, PRINCIPLE 22 COMMUNICATION PROCEDURES AND STANDARDS)

The NBB-SSS monitors KPIs such as the settlement efficiency and up-time on a daily basis. It regularly benchmarks its tariff structure with peers and client surveys and the user committee's input contribute to the NBB-SSS meeting users' expectations. The NBB-SSS uses internationally accepted communication procedures and standards.

TRANSPARENCY (PRINCIPLE 23 DISCLOSURE OF RULES, KEY PROCEDURES, AND MARKET DATA, PRINCIPLE 24 DISCLOSURE OF MARKET DATA BY TRADE REPOSITORIES)

The NBB-SSS is a domestic and low-risk system. It publicly discloses its Rule Book on its web site. Training and support are provided to participants on demand to further

facilitate their understanding of the system. Fees and statistical data, as well as the Disclosure Framework, are also published.

The below table summarises all recommendations to the NBB-SSS :

Principles	Issues of concern	Recommended action
<i>Serious and warranting immediate action</i>		
-	-	-
<i>To be addressed in a timely manner</i>		
-	-	-
<i>To be addressed in a defined timeline</i>		
3	Analysis of risks borne from and posed to other entities	For the sake of comprehensiveness of the risk assessment, the analysis of the settlement and funding flows in the NBB-SSS should be further conducted and complemented by the results of simulations to be conducted based on T2S-wide data.
12	DVP for foreign currencies	The NBB-SSS should provide for a DVP arrangement for primary and secondary market transactions for all eligible currencies.
17	Cyber resilience	Fully-fledged assessment of the NBB-SSS's cyber resilience to be performed against the principles of the CPMI guidelines on cyber resilience including an adequate holistic approach covering aspects like governance structure, business continuity and ad-hoc communication plans and legal aspects. Such assessment should be regularly updated in line with evolving guidelines and standards
17	Long-term IT outage	The NBB-SSS should analyse the impact of a long-term IT outage (unavailability of RAMSES and/or T2S) and develop adequate contingency procedures (incl. for issuance and asset servicing).
19	Tiered participation arrangements	In order to identify the extent of the potential risk arising from tiered participation arrangements, the NBB-SSS should identify and regularly review: (a) the proportion of activity (i.e. value of turnover) that each direct participant conducts on behalf of indirect participants in relation to the direct participants' capacity, (b) direct participants that act on behalf of a material number of indirect participants, (c) indirect participants responsible for a significant proportion of turnover in the system, and (d) indirect participants whose transaction volumes or values are large relative to the capacity of the direct participant through which they access the FMI to manage risks arising from these transactions.
<i>For consideration in the normal course of business</i>		
1	Legal basis	- obtain a legal opinion confirming the validity and enforceability of the new T&C under Belgian law; - further assess the impact of recovery/resolution measures potentially affecting participants in the NBB-SSS