

Minutes of the 12th User Committee Meeting 08-03-2018



Chairman: Bart Baudewyn (BNP Paribas Fortis)

Members: Dominique Dalle (replacing Philippe Lepoutre; BDA), Olivier De Bruyn (KBC), Nicolas Peckel (replacing Lieven Libbrecht; Euroclear Bank), Jean-Paul Rousseau (Febelfin), Luc Goossens (Belfius), Antoine Denayer (BNP Paribas SS), Sofie Janssen (BNY Mellon), Pieter Samyn (ING ; excused) ; Elly Van As (CitiBank ; excused)

Secretary: Renan van der Wolf (replacing Koen Geenen; NBB-SSS)

NBB-SSS: Marc Lejoly, Jimmy Steenhout, Renan van der Wolf

Date: Tuesday 8 March 2018 from 10:00 – 12:30 CET, followed by a seated lunch

Venue: Room 9, 5th floor, de Berlaimontlaan 14, Brussels

Introduction

- The minutes of the last UC meeting were approved via written consultation.
- The agenda of the UC meeting was approved
- Composition of the UC:
 - o Lieven Libbrecht (Euroclear Bank) will face new challenges in a new job and will not take part anymore in the UC.
 - o Philippe Lepoutre will enjoy a well-deserved retirement. His substitute has not yet been designated.
 - o Bart Baudewyn will leave the UC. His substitute is still to be appointed.
 - o BNY Mellon, represented by Sofie Janssen, is welcome for its first UC.
- Chairmanship
 - o With Bart Baudewyn leaving the UC (special thanks for his dedication to the UC during all these years), the UC must designate a new chairman. There is no formal election process, so the UC agreed to appoint a new chairman based on the following principles:
 - § It should be a rotating position among the members of the UC (NBB-SSS participants).
 - § There must be no strong disagreement concerning the elected chairman.
 - o Olivier De Bruyn (KBC), with the support of KBC, presented his candidature and it was accepted by the members. The two excused members of the UC have also confirmed not having strong disagreement by e-mail and accepted his nomination. The nomination of Olivier De Bruyn as chairman of the UC is thus confirmed.

1. NBB-SSS Facts and figures

- Settlement volumes: the number of transactions and cash volumes are stable and in line with the expectations.
- Issuance activity: the outstanding amount issued by the NBB-SSS decreased by 1,6% during S2/2017, in nominal amounts from €635 billion to €625 billion. However, over all 2017 the outstanding amount grew by 2% from €613 billion end 2016. The public securities issued by the Belgian State grew at 0,50% over 2017, the corporate bonds grew with 4,4%.
- Settlement ratio:

- o The settlement efficiency is one of the key indicators for a CSD. Participants MUST settle on ISD and this has been stated explicitly in the CSD-R and therefore in the NBB-SSS T&C.
- o In the NBB-SSS, a penalty mechanism is already in place to encourage the Participants towards fewer penalties and to ensure that they strive for reducing settlement fails.
- o The penalties significantly dropped when the NBB-SSS started offering to the Participants the Daily Performance Dashboard with the statistical information on the settlement fails.
- o However:
 - § The settlement ratio of the NBB-SSS is now below the one of T2S, even if the NBB-SSS has only bonds and that T2S also has shares. The major part of the penalties are the LATE instructions (50%).
 - § The behaviour of some participants on stripping and reconstitution had lately a big impact on the ratio. Primary Dealers/Recognized Dealers send one instruction to participate to a stripping/reconstitution, which automatically creates several other instructions in the system, but then do not have the security. It creates for each of those instruction a fail. The cancellation of all the underlying instructions is also an intensive manual task. It must also be noted that some instructions are sent with an ISD in the past, which also creates penalties for the underlying transactions.
To limit these problems, the Belgian Debt Agency will adapt its T&C with the primary dealers to allow the NBB-SSS to cancel all stripping/reconstitution instructions not settled by 17:45 and to forbid sending stripping/reconstitution instructions with ISD in the past (even if technically it stays possible).
The NBB-SSS is currently implementing an automated solution to cancel all pending stripping/reconstitution instructions and in the meantime, has found a workaround to ease the cancellation of the underlying instructions.
 - § The NBB-SSS wonders about rising the level of the penalties and is reluctant to setup a "name and shame" mechanism.
- o When asked about the possible causes of this decrease of the settlement ratio and what could improve it, the members of the UC have two main points:
 - § The LATE problem comes from down the chain and without a financial incentive, nothing will happen. Having a simulation of how much the future CSD-R penalties would be could help to raise the awareness of the chain and improve the behaviour.
 - § The daily report could be improved with a monthly report giving statistics about which of the counterparties of a participant are causing him the most problems.

2. Service review

- Availability and incidents
 - o During the period 03/2017-12/2017, there were 9 T2S INC with a duration longer than 30 minutes. Most T2S incidents happened during the start of the SOD process or at the start of the NTS, moments which are considered by the NBB-SSS UC of lesser importance. The UC also mentioned in a previous meeting that they only want to be informed when the incident is still ongoing at 7 AM. For information, the NBB-SSS cannot communicate on T2S incidents without the permission of the T2S Settlement and Crisis management.

Therefore, the best source for information about the T2S status is its website (<https://www.ecb.europa.eu/paym/t2s/html/index.en.html>).

- o T2S started 2017 being rather unstable but with the Action Plan implement by the 4CBs in Q2/2017 and beyond, the stability improved. At end of 2017 and after all migration waves, T2S was acknowledged as a stable platform.
- o RAMSES shows very high availability figures.

3. NBB-SSS production

- New single Service contract for new issuances
 - o The NBB-SSS merged the three existing contracts in one to simplify the administrative procedure. This was done along with the update of the T&C of the NBB-SSS and the new version of the T&C and of the contract become applicable starting from the 01 March 2018.
 - o It must also be noted that the deadline to perform an early redemption has been harmonized for the different types of securities and set to 5 business days prior to the redemption date.
- Penalties and monitoring: see "1.NBB-SSS Facts and figures"

4. Status T2S and RAMSES releases

- DvP in GBP
 - o A modification has been performed in the new version of the NBB-SSS T&C in February 2018 in the chapter 4.1.4 "Currencies", where the following sentence has been removed: "For all other Foreign currencies, the cash settlement occurs outside the NBB-SSS and the transactions are processed based on Free Of Payment Instructions on T2S.". The NBB-SSS has been required by the Oversight of the NBB to adapt this sentence because it could be misleading: one could understand that for all other Foreign currencies, a DvP is possible through the NBB-SSS by doing a Free of Payment transaction and settling the cash outside the NBB-SSS. However, this is not correct: for all other Foreign currencies, only Free of Payment transactions are possible in the NBB-SSS. Since this adaptation has been required by the Oversight of the NBB and is not controversial, it was done directly in the new version of the Terms & Conditions before its application date.
 - o The DvP in GBP has been active since 1/3/2018 and the precondition for the participants to use it is to update their static data with a GBP cash account and the BIC11 of cash account holder at Bank of England. An e-mail was sent to update the static data for the types of accounts (OW/OM/IS) and for DvP in GBP with deadline 1 March 2018 but there was no reply concerning the DvP in GBP.
 - o When asked about the reasons why there is no interest in this functionality, the members explained that it was not financially interesting to use it for one currency, but that it would be if a solution was found to have all currencies available and even more if the corporate actions were processed by the NBB-SSS.
 - o The NBB-SSS will soon launch the "Valhalla" project, aiming at providing such a solution. It will begin with a tender to open one account in commercial money for all currencies.
- Pending change requests for RAMSES releases
 - o Last release (production date 17/02/2018) has been delivered with the following change requests:
 - § Capitalisation of interest
 - § SWIFT messaging at account level

- § Foreign currency DVP
- Upcoming release (production date 08/06/2018):
 - § Cancellation of a stripping/reconstitution instruction enforced at 17.45 when lack.

5. Miscellaneous

- Self-certification (specified in the NBB-SSS T&C v.03/2018, Art. 7.4.7):
 - TARGET2 (incl. TARGET2-BE) does it since 2007 for critical participants and starting from 2018 for all participants. The content is a questionnaire based on PFMI and approved by TARGET2 and the MIB with requirements on IT security and BCP.
 - With the CSD-R, it becomes also mandatory for the participants of the NBB-SSS, as specified in the new T&C.
 - In practice, the NBB-SSS and TARGET2-BE will launch the self-certification at the same time, use the same questionnaire and send one letter signed by the Head of Service of Payments (TARGET2-BE) and Securities (NBB-SSS)) to the NBB-SSS SPOCs and the TARGET2-BE SPOCs, requesting to answer separately to both (or to only one if not member of the other). This process has been approved by the NBB Audit and will start in June 2018 at the earliest.
- BCP End-to-end testing: this is mandatory in the T2S Manual Of Procedures and also becomes appropriate along with the CSD-R. The goal is to test the application of the BCP of the NBB-SSS and the ones of its participants at the same time. The participants who will be required to participate will be, at first, the ones marked as key by the identification process also required by the CSD-R. The NBB-SSS will propose two dates and the key participants will then tell which dates are fine for them (one or both). The NBB-SSS will then balance the number of participants among the two dates and communicate the results. The first BCP tests with the participants will be done in S2/2018 with the aim of testing the second site. Further details will be communicated to the concerned participants.
- Due diligence questionnaires and questionnaires for audit purposes: more and more questionnaires are sent and the NBB-SSS wants to streamline the process. Therefore, it proposes to use AFME Due Diligence Questionnaire for all due diligence and audit exercises, will fill it and maintain it up-to-date (be it with new questions added to the AFME questionnaire or with new answers). If possible, the questionnaire will be published on the NBB-SSS website and the participants will be noticed when an update has been done. The members of the UC agree with this proposal.
- Grouping issuer invoices per Paying Agent: tests are still ongoing and the participants will be informed when the tests are finished.
- E-signed e-mail (application of NBB-SSS Terms and conditions Annex 16)
 - The NBB has defined an acceptance policy concerning the certificates used to sign e-mails, based on the EU list of recognized Certification Authorities¹(CA). This list contains approximately 2.000 institutions of which 12 are from Belgian origin. The NBB has already accepted these 12 Belgian CAs and the full European list will be added in the future. The Participants will be required to use certificates created by one of these trusted entities. If the entity having created the certificate of the participant is one the EU list but not yet recognized by the NBB, a procedure can be used to make it accepted by the NBB. Sending e-signed e-mails is required in T&C since 2016 and until now, the NBB-SSS was tolerant but it will not be possible anymore in the future.

¹ <http://tbrowser.tsl.website/tools/>
<https://ec.europa.eu/digital-single-market/en/news/eu-trusted-lists-certification-service-providers>

The NBB-SSS proposes to give until the 31/12/2018 to be compliant (i.e. sending e-signed e-mails using a certificate issued by one the EU trusted CA) and then to grant a grace period until the 30/06/2019. This should give enough time to all participants to, if necessary, create a project and implement the necessary changes to be compliant. Starting from the end of the grace period, only e-signed e-mails using a certificate issued by one the EU trusted CA will be accepted as coming from its sender. The members of the UC agree with the proposal. An e-mail will be sent to all SPOCs to confirm it.

- SWIFT MyStandards: all MT and MX messages have been published but so far it is not being used by Participants. However, new messages (penalties reporting, etc) and adaptations of existing messages (T2S release, etc) will be only documented in MyStandards. Consultation is free of charge. SWIFT will soon launch an initiative aiming at the design of a migration plan (from 15022 to 20022).
- Easter weekend – 1 May: the NBB-SSS is “open” but in “limited mode” (no updates of static data, no new issuance programs, etc, only FoP settlement). Further details were published in November 2017 on the website and sent by e-mail. A reminder will be sent by e-mail to SPOCs and Production in March 2018. Starting from 2019, all T2S CSDs should be aligned to the T2S calendar and be opened only if there is a “open” T2S currency. It means that the 1 May will be open but Good Friday and Easter Monday will be closed.
- Upgrade to Windows 10: it has been performed successfully at NBB. However, the NBB-SSS recommends phasing the deployment (first with a subset of users, then with all if successful). The experience of the NBB-SSS is that Windows 10 performs better with IE than with Google Chrome, notwithstanding that our general past recommendation to prefer google Chrome remains valid. It is also advised to not change to the new browser “Edge” (designed for Windows 10).
- E-invoices: the NBB is currently aiming at being able to send electronic invoices because of the several advantages (more efficient than paper invoices, particularly for Participants abroad, better access to the right addresses, possibility to forward, etc). The current target date is mid-2019 at NBB level but the NBB-SSS is exploring alternative solutions which can be delivered sooner for its participants.
- Sending securities static data: this functionality exists in Ramses in ISO20022 and the data are the same as the ones sent to T2S. If there is an interest to further develop this functionality, the members of the UC can submit a change request detailing their needs.