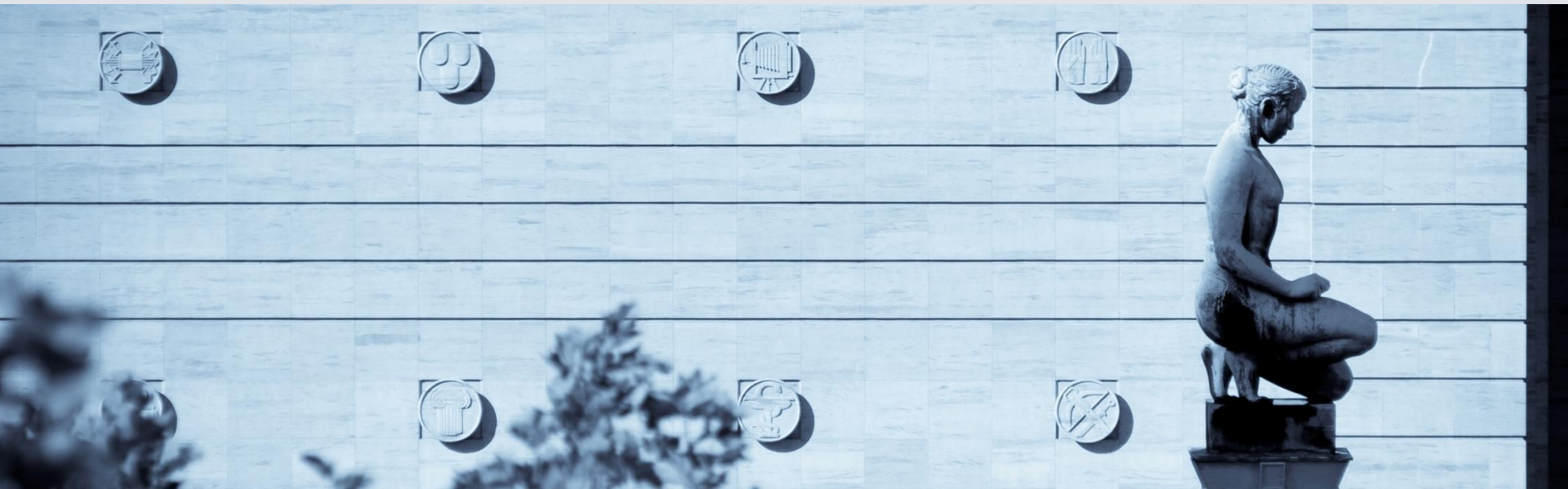


AMI-SeCo Belgian National Stakeholders Group (BENSG)

5 December 2017

Yvan Timmermans
Chairman



Agenda

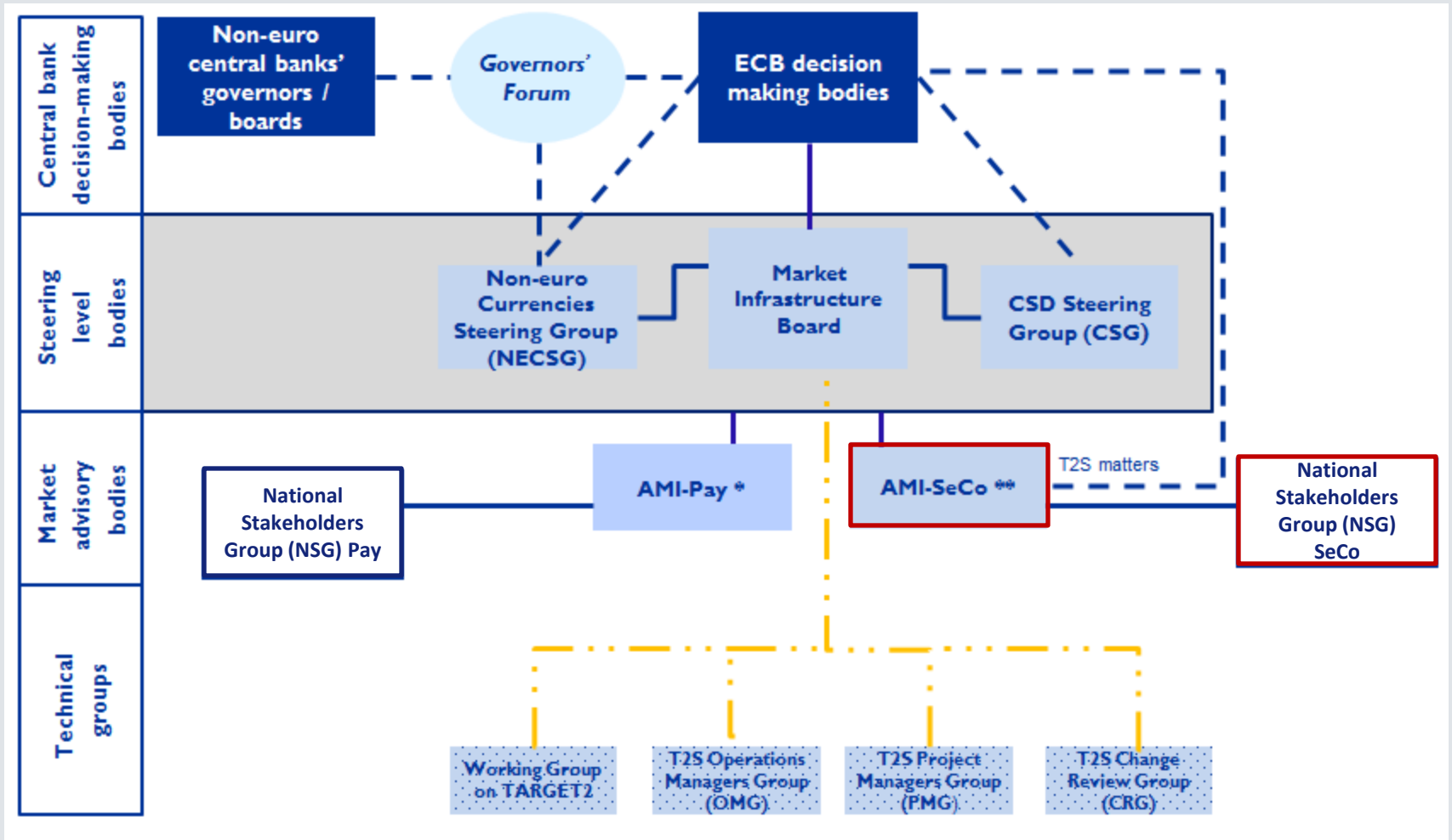
- ▶ Welcome
- ▶ Objectives of the AMI-SeCo BENSG
- ▶ Eurosystem deliberations on taking collateral in Eurosystem credit operations
 - ▶ Settlement of collateral for monetary policy operations in T2S only
 - ▶ Realignment of Eurobonds in T2S
- ▶ T2-T2S consolidation: impact on liquidity management
- ▶ Collateral management harmonisation
- ▶ T2S calendar: T2S on T2 closing days



Objectives of the AMI-SeCo BENSIG



Governance structure



AMI-SeCo

- ▶ Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo):
 - took over the responsibilities of the T2S Advisory Group and the Contact Group on Euro Securities Infrastructures (COGESI)
 - facilitates an active dialogue with market participants on issues related to:
 - clearing and settlement of securities
 - collateral management
 - brings together representatives of banks active in the European Union in their role as T2S users, CSDs, CCPs and national central banks



AMI-SeCo BENSG

▶ Objectives:

- Involvement of national stakeholders in the work of the AMI-SeCo
- Supporting financial market integration in the field of securities clearing and settlement and collateral management
- Providing advice on financial market infrastructures managed by the Eurosystem including related projects
- Acting as an advisory body for all the issues related to the development, implementation and operation of T2S



AMI-SeCo BENSIG

► Composition:

- **Chairperson:** Yvan Timmermans
- **Secretary:** Julie Vissers

- James Cunningham (BNY Mellon)*
- Kris De Nul (KBC)*
- Marc Lejoly (NBB)*
- Luc Goossens (Belfius)
- Jean-Pierre De Snoeck (BNP Paribas Fortis)
- Patrick Close (BNP Paribas Fortis)
- Sofie Janssen (BNY Mellon)
- Elly van As (Citibank)

- Françoise Guebs (Degroof-Petercam)
- Edwin De Pauw (Euroclear)
- Damien Roegiers (Euronext)
- Jean-Paul Rousseau (Febelfin)
- Piet Samyn (ING)
- Olivier De Bruyn (KBC)
- Gunther Janssens (KBC)
- Anne Mairesse (LCH)
- Jimmy Steenhout (NBB-SSS)
- Elena Migliore (SWIFT)

* Also AMI-SeCo members



Eurosystem deliberations on taking collateral in Eurosystem credit operations

Settlement of collateral for monetary policy operations in T2S only



Settlement of collateral for monetary policy operations in T2S only

▶ What?

National central banks of the Eurosystem would only take collateral for monetary policy operations on securities accounts in T2S participating CSDs (i.e. no longer in the ICSDs/Cyprus CSD)

▶ When?

- Deliberations: not yet a decision
- If decided, not before ECMS (2022)



Settlement of collateral for monetary policy operations in T2S only

▶ Why?

- go-live T2S
- new ECMS
- ICSDs' announcements of enabling their customers to get maximum benefits from the existence of T2S (same level of service in EB/CBL and Euroclear France/ CBF- LuxCSD)



Potential Benefits

- ▶ Enabling Eurosystem counterparties to use and consolidate activity in T2S
- ▶ Decreasing / eliminating the difference between domestic and cross-border mobilisation
- ▶ Streamlining Eurosystem collateral management procedures
- ▶ Limiting complexity and cost of an ECMS (single interface)
- ▶ Improving transparency about collateral management framework



Impacts

- ▶ Assets issued in (I)CSDs outside of T2S, would be held and settled through links between T2S participating CSDs and these non-T2S participating (I)CSDs
- ▶ Policy not limited to Eurobonds but potentially to all eligible securities held through links in ICSDs
- ▶ Central bank collateral receiving account in a T2S CSD
- ▶ Sourcing account of counterparties: free choice
- ▶ An efficient realignment would be required at issuer (I)CSD-level for most cross-CSD settlement transactions



Impacts for Belgian counterparties (1)

- ▶ NBB could not receive collateral in Euroclear Bank anymore (also via the Bridge) nor for Belgian banks nor for other euro area banks (CCBM)
- ▶ Idem for Banque Centrale du Luxembourg that would not be CCB for CBL anymore
- ▶ Euroclear Belgium and NBB-SSS have no links
- ▶ NBB has an exemption to forbidden remote access of NCBs to foreign CSDs and could open an account in Euroclear France for receiving collateral



Impacts for Belgian counterparties (2)

- ▶ Transfer of eligible securities to an NBB account in EF;
or
- ▶ Transfer of eligible securities to a Correspondent Central Bank account in its national CSD that has an important network of links (CCBM)
- ▶ Settlement that was previously domestic (transfer on NBB account in EB) will become cross-system (efficiency and costs ?)



Eurosystem deliberations on taking collateral in Eurosystem credit operations

Realignment of Eurobonds in T2S

Edwin De Pauw (Euroclear)





Post-trade made easy

T2S XCSD settlement of Eurobonds

BENSG

Edwin De Pauw – December 2017



Post-trade made easy

Background

- ❑ Eurosystem new collateral management systems (ECMS) would allow NCBs to receive collateral for Eurosystem credit operations only in a T2S CSD

- ❑ Market demand to enable efficient XCSD settlement on T2S platform of Eurobonds issued in the ICSDs for:
 - Eurosystem credit operations,
 - T2S auto-collateral on stock and on flow and
 - Standard settlement

Note: Eurobonds issued in the ICSDs represent:

- €9.2 Trillion value
- 25% of all outstanding marketable assets Eurosystem-eligible collateral

(Source: ECB „Advancing financial market integration”, Government Borrowers Forum, May 2017)



Post-trade made easy

Scope

- ❑ Offer a single and efficient access to:
 - CSD counterparts (intra CSD settlement)
 - Counterparts in other T2S CSD (cross-CSD settlement)
 - ICSDs counterparts (external settlement*)

- ❑ Cross-CSD settlement of Eurobonds will primarily be offered for the following instruments
 - Debt instruments
 - Issued with the ICSDs
 - Denominated in any currency (Euro and Non-Euro*)
 - ECB eligible

- ❑ Subject to demand, the service could be extended to any other T2S-out security, provided it is Bridge eligible

**according to T2S CSD service offering*



Post-trade made easy

Service solution – main features

- ❑ CBF and EF act as Technical Issuer CSD for Eurobonds in T2S
- ❑ CBF and EF will open a 'cross-CSD holding account' with each other, to track those positions which are not yet realigned through the ICSDs
- ❑ Settlement between CBF and EF participants with immediate finality on T2S and not conditional on realignments between CBF and EF in the ICSDs
- ❑ As needed, CBF and EF will trigger realignments of their cross-CSD holdings through the ICSDs

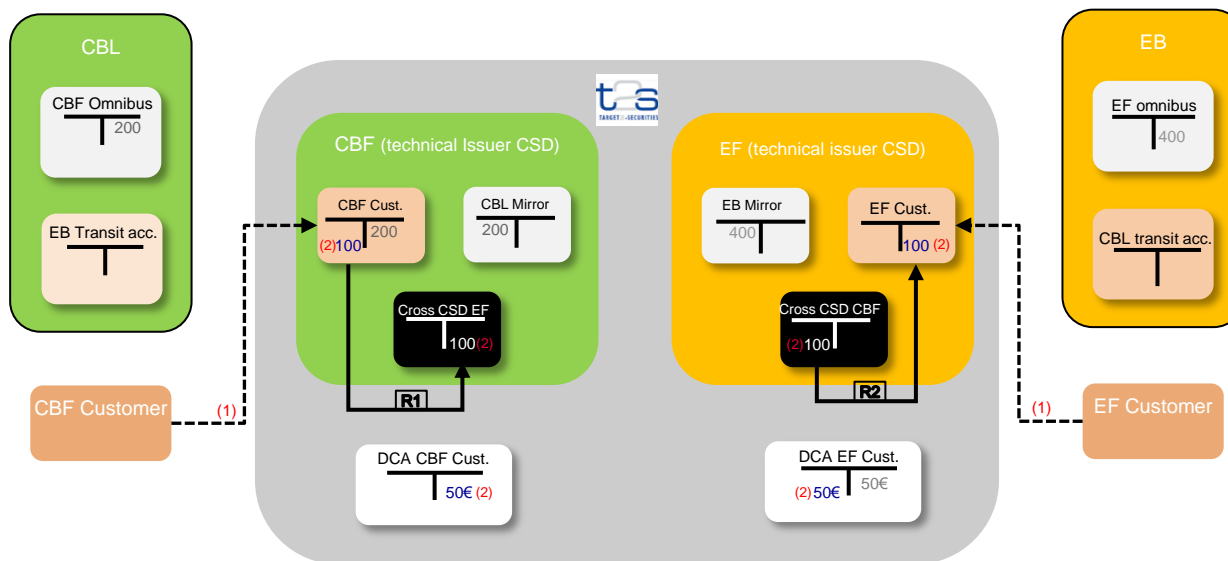
- ❑ T2S CSDs other than CBF and EF can also offer cross-CSD settlement of Eurobonds, by becoming Investor CSD in CBF or EF

- ❑ This setup allows for efficient cross-CSD settlement between all such T2S CSDs without changing current T2S functionalities

Annex – detailed flows

Scenario: DVP between a customer of CBF and a customer of EF.

CBF customer instructs a DVP to EF customer for 100 shares and €50.



Amount in grey: Initial position (cash or shares)

Amount in blue: movement of shares/cash related to the trades

DVP from CBF's client to a counterparty in EF:

Initial situation:

- CBF is holding 200 via CBL
- EF is holding 400 via EB

Settlement flow

1. CBF and EF customers send their transactions to their respective CSDs.
 - The instructions match in T2S, and T2S generates the realignments.
2. Settlement takes place:
 - In CBF:
 - CBF customer account is debited,
 - R1 (triggered by T2S): EF Cross CSD account is credited.
 - In EF:
 - R2 (triggered by T2S): CBF Cross CSD account is debited
 - EF customer account is credited.

Situation after settlement finality is achieved on T2S:

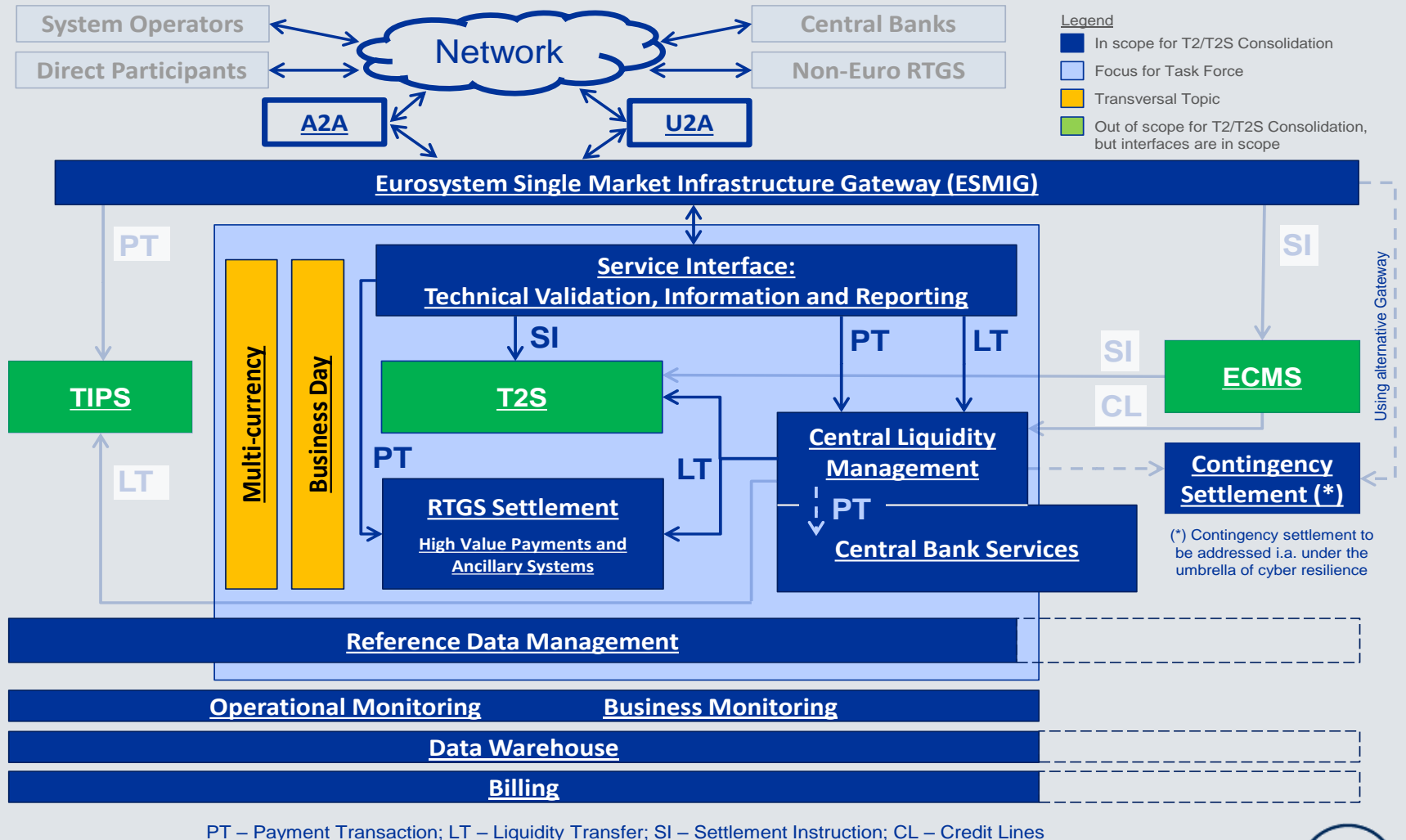
- EF is still holding 400 via EB
- In addition, EF is holding 100 via CBF (and CBL).
- CBF is still holding 200 via CBL, whereby 100 of that is the holding of EF in CBF.

T2-T2S consolidation: impact on liquidity management

Patrick Heyvaert (NBB)



High level overview



T2-T2S Consolidation

- ▶ New Central Liquidity Management (CLM)
 - Transactions with Central Banks
 - Credit line
 - Manage and monitor liquidity
 - RTGS and AS, TIPS, T2S

- ▶ RTGS Services
 - Settlement of high-value payments
 - Settlement of AS transactions
 - One or multiple RTGS accounts
 - Settlement mechanism almost unchanged



T2-T2S Consolidation

▶ Common Services

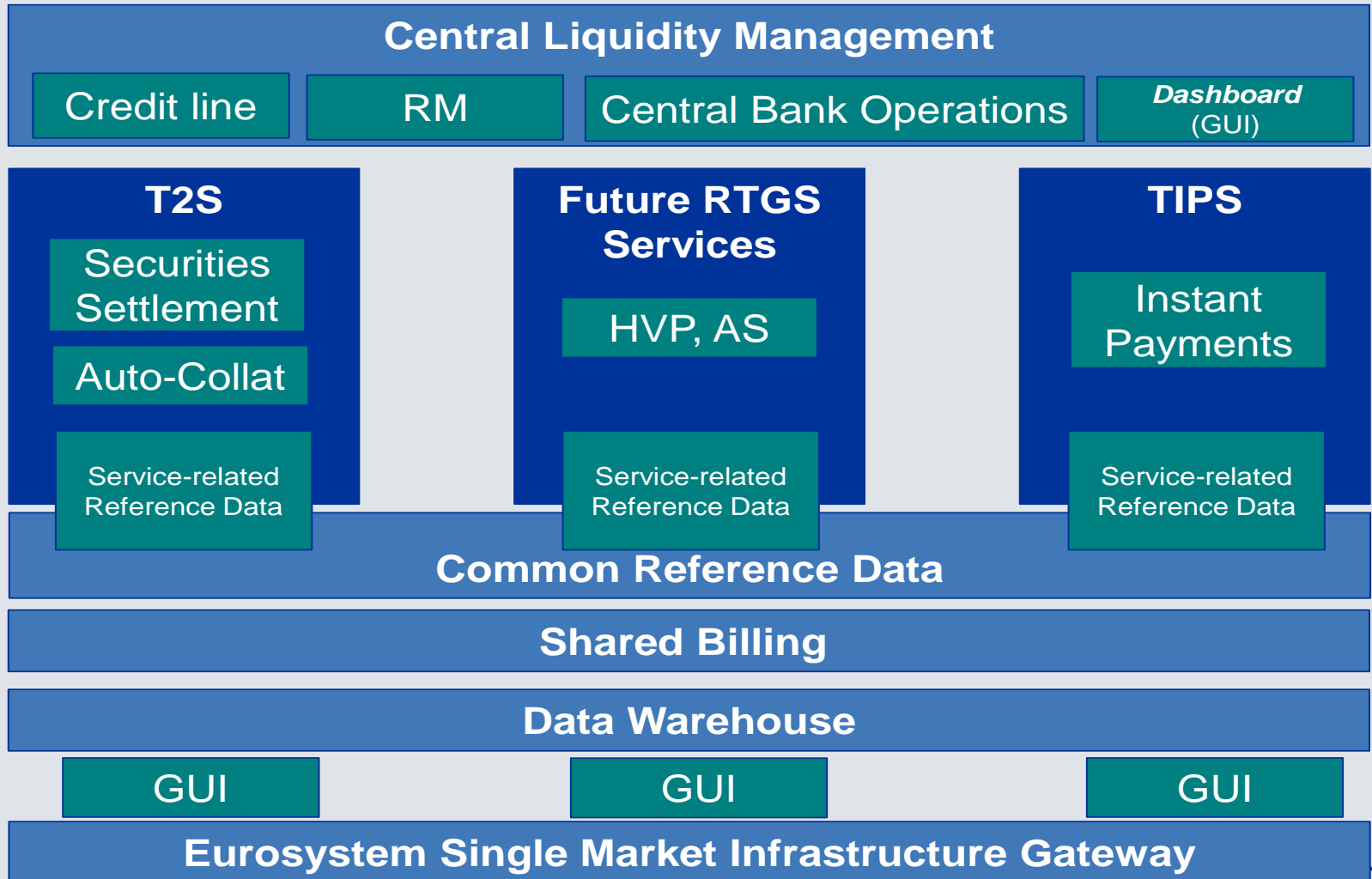
- Reference data
- Datawarehouse
- Billing

▶ ESMIG

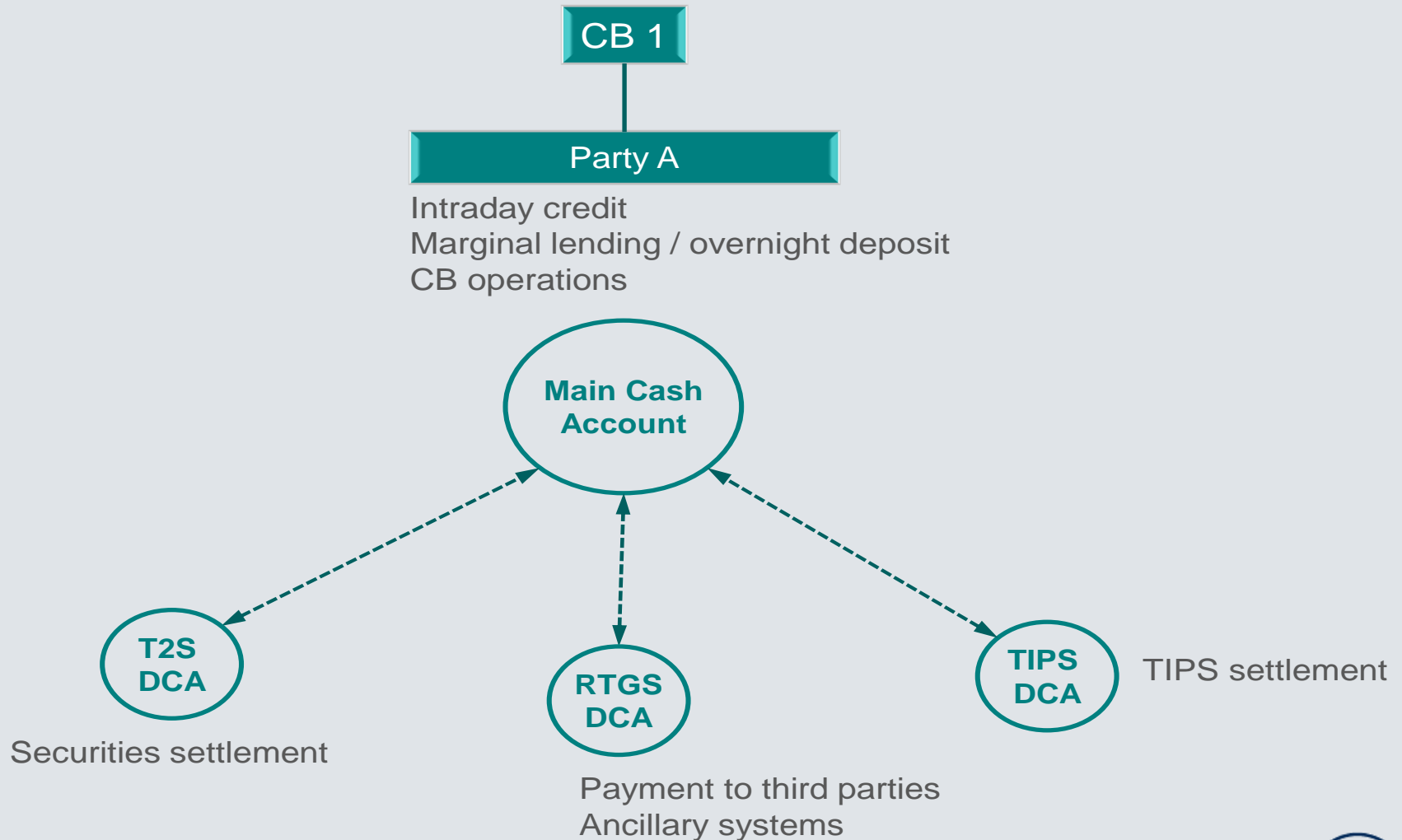
- Unique entry point for all Eurosystem Market Infrastructures
- Network agnostic
- A2A and U2A



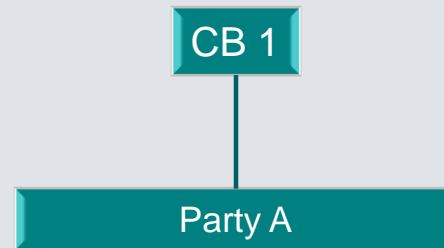
Shared functional modules



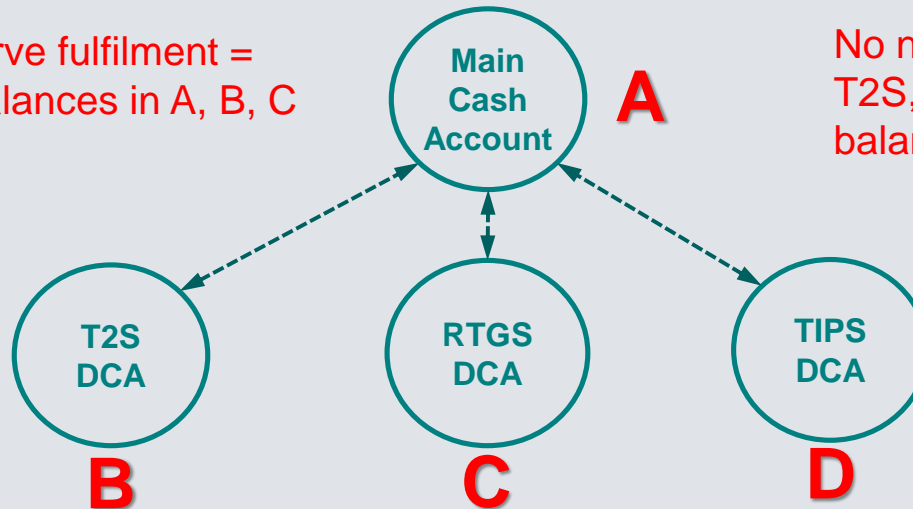
Basic model CLM and main account



Management minimum reserves



Minimum Reserve fulfilment =
Sum of cash balances in A, B, C
and D



No necessity to sweep the
T2S, TIPS and RTGS cash
balances at the end of the day

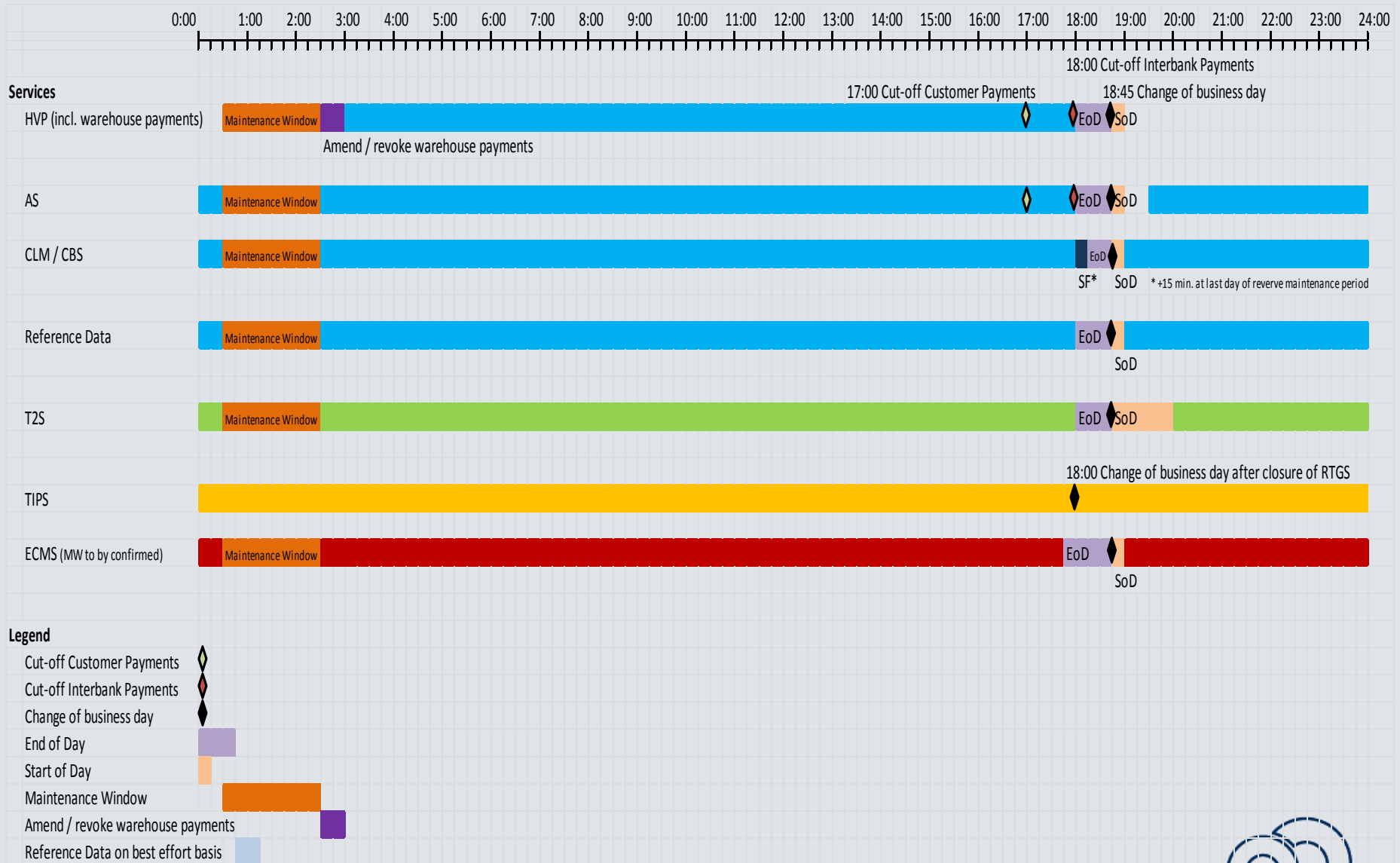


T2-T2S Consolidation – Key Benefits

- ▶ Centralised management and control over payment capacity
- ▶ Segregation of interaction with Central Banks from RTGS services
- ▶ Minimum reserve calculation and automated standing facilities
- ▶ Multi-vendor approach for connectivity
- ▶ Introduction of ISO20022
- ▶ Common reference data management
- ▶ Shared Data warehouse
- ▶ Longer opening hours for HVP settlement (under consideration)



Business day schedule



Collateral management harmonisation



Collateral Management Harmonisation Task Force (CMH-TF)

- ▶ Dedicated Harmonisation Steering Group (HSG) task force

- ▶ Objective?
 - Detailed list of harmonisation needs and activities related to the efficient functioning of collateral management
 - Work on the next steps towards implementation which, for each functional area, may include:
 1. Define and agree the business process and workflow
 2. Identify the critical data elements
 3. Identify/define ISO20022 compliant messaging



Approach

- ▶ Remove the operational barriers to efficient and effective collateral management:
 - Adoption of the latest international standards (ISO 20022)
 - Harmonised workflows, business processes
 - Common set of messaging
 - Interoperable market infrastructures
 - Common set of data
 - In the context of the Eurosystem investigations for a new ECMS



Collateral Management Harmonisation Activities

▶ 10 Functional Collateral Management Harmonisation Activities (CMHAs)

Collateral Management Harmonisation Activities	
1	Triparty Collateral Management
2	Corporate Actions (processes relevant for collateral management)
3	Taxation Processes (relevant for collateral management)
4	Bilateral Collateral Management
5	Margin Calls
6	Billing Processes (relevant for collateral management)
7	Cut-Off Times
8	Collateral Data
9	Sourcing of Collateral
10	Non-Euro Collateral



Example CMHA

- ▶ Triparty collateral management:
 - A single harmonised model:
 - common processes between TPAs and central banks
 - using (yet to-be defined) ISO20022 messaging
 - Common messaging and workflows to be adopted by all TPAs



Example CMHA

▶ Triparty collateral management:

> Business Process, Data Elements and ISO20022 Messaging			
	Increase of Global Amount	Confirmation of Increase	Revaluation
B U R N E S S	<ul style="list-style-type: none"> - A market participant sends a triparty instruction to the triparty agent to request the increase of the global amount. 	<ul style="list-style-type: none"> - The triparty agent validates the message, automatically allocates eligible securities to the extent collateral is available and confirms the increase of the global amount to the relevant parties to the transaction. 	<ul style="list-style-type: none"> - After the daily valuation of collateral, the triparty agent will send a new message to the relevant parties to the transaction to reflect the change in the value of collateral.
E L E M E N T S	<ul style="list-style-type: none"> - Collateral Giver - Collateral Taker - Account No. - Requested Amount - (Non-Exhaustive List) 	<ul style="list-style-type: none"> - Collateral Giver - Collateral Taker - Account No. - Requested Amount - Granted Amount - (Non-Exhaustive List) 	<ul style="list-style-type: none"> - Collateral Giver - Collateral Taker - Account No. - Requested Amount - Granted Amount - ISIN - (Non-Exhaustive List)
I S O 2 0 0 2 2	<ul style="list-style-type: none"> - To be defined 	<ul style="list-style-type: none"> - To be defined 	<ul style="list-style-type: none"> - To be defined

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T2S calendar: T2S on T2 closing days



T2S calendar: T2S on T2 closing days

- ▶ In 2017 11 out of 18 already migrated CSDs in 10 T2S markets were closed on 3 T2S opening days when T2 was closed:
 - Good Friday
 - Easter Monday
 - 1 May
- ▶ Non-compliance with the T2S harmonisation standard 5 and the T2S scope defining documents
- ▶ CSDs closed due to a lack of business case (only FOP transactions in €)



T2S calendar: T2S on T2 closing days

- ▶ AMI-SeCo Harmonisation Steering Group proposes the following options:
 1. Maintaining the T2S standard and not changing the T2S or T2 calendars;
 2. Closing T2S on Good Friday and Easter Monday but keeping it open on 1 May (i.e. settlement date for DKK);
 3. Opening T2 on all 3 days making also euro DvP settlement possible in T2S on such days.



T2S calendar: T2S on T2 closing days

- ▶ **Option 1:** Maintaining the T2S standard and not changing the T2S or T2 calendars
 - Maintaining status quo and non-compliance by several CSDs
 - No complaints from market participants so far

- ▶ **Option 2:** Closing T2S on Good Friday and Easter Monday but keeping it open on 1 May
 - 1 May is not a universal bank holiday in the euro area
 - Short term solution but lacking longer term perspective



T2S calendar: T2S on T2 closing days

- ▶ **Option 3:** Opening T2 on all 3 days
 - CSDs indicated that this would improve their business case for opening
 - Wide repercussions on money markets, equity and bond markets, collateral management, etc.
 - Cost-benefit analysis needed

