



RealTime

BNY Mellon's Newsletter on TARGET2-Securities and Market Infrastructures

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Tom Casteleyn
Head of Custody, Cash, FX
and Product Management

Dear Reader,

Welcome to the sixth edition of BNY Mellon 'RealTime', our newsletter designed to keep you up to date with changes to the European market infrastructure and provide information relating to our T2S strategy and how BNY Mellon is positioning itself in the post T2S European infrastructure landscape.

I'm extremely pleased to announce that BNY Mellon is now live with the CSDs on T2S in two markets; the Netherlands and Italy, so in this edition we will provide further details for these two markets as well as take a look at Wave 3 of T2S and what this means for BNY Mellon's clients.

In addition to this, BNY Mellon announced earlier this year that our Global Collateral Management team will be migrating custody of their tri-party collateral assets to BNY Mellon's in house model as a direct result of our strategy to become direct to the CSDs on T2S, so you will find included an article providing further details about their migration plans along with a timetable of upcoming market migrations.

As part of becoming a local custodian in the Italian market, BNY Mellon has become increasingly active in relation to some of the various market governance and user groups that exist to look at market practices in the post-trade space, so we have an article from Roberto De Paolis, our Italian T2S market manager, discussing some of these groups and the issues they are looking to address going forward.

Lastly, in his regular THE REAL IMPACT column, James Cunningham looks at the future for T2S and what we can expect to see in the European market infrastructure space once Wave 5 of T2S is completed in 2017.

As ever, should you wish to receive further information concerning the BNY Mellon T2S programme, or subscribe to future BNY Mellon T2S publications, please do not hesitate to email us on T2S@bnymellon.com.

Tom Casteleyn
Head of Custody, Cash and FX Product Management



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Wave 3 Update: BNY Mellon direct to T2S in the Netherlands

Wave 3 saw the successful migration of the ESES CSDs; Euroclear France, Euroclear Belgium and Euroclear Netherlands, to the T2S platform along with VP Securities in Denmark and VP Lux in Luxembourg.

From a BNY Mellon perspective, we are pleased to announce that we are now fully live on T2S in the Netherlands as over the course of the weekend leading up to Monday 12th September, we successfully migrated our direct connection with Euroclear Netherlands from its legacy platform to the T2S platform.

For France and Belgium, BNY Mellon will become direct to both Euroclear France and Euroclear Belgium (as well as the NBB-SSS in Belgium) in 2017 but for now, we will retain our existing model which sees us connect to the T2S platform using existing sub-custodians.

For the remaining two Wave 3 markets:

Denmark - VP Securities have migrated to the T2S platform for transactions settling in euro but not for transactions settling in Danish krone or for free of payment transactions. VP Securities is looking to migrate Danish Krone settlement and free of payment settlement to the T2S platform in 2018, after the initial T2S Waves have all been completed.

The overwhelming majority of BNY Mellon clients will therefore not be affected by the Wave 3 migration as very few clients settle their Danish activity in euro. However, should you wish to potentially settle Danish activity in this way, we would encourage you to get in contact with us and we will be glad to discuss the process further with you.

Luxembourg - VP Lux migrated to T2S as part of Wave 3. BNY Mellon settles very little activity with VP Lux so this migration is, in that sense, not applicable to our clients.

In terms of the future, in 2017 BNY Mellon will migrate to a direct connection to Clearstream Banking Frankfurt in Germany as part of Wave 4 in February.

Further to that, BNY Mellon will become direct to three additional CSDs in two markets during 2017, the CSDs being Euroclear France in France and Euroclear Belgium and the NBB-SSS in Belgium.

For Wave 5, BNY Mellon will migrate to all T2S markets using our current sub-custodians, with the intention being to then migrate to a direct model to Iberclear in Spain in the early part of 2018.

BNY Mellon Italian T2S Migration

One of the key strategic aims of our T2S strategy was to enable BNY Mellon to become a Directly Connected Participant (DCP) to T2S in order to increase the number of CSDs that we connect to directly within Europe and therefore expand our global model of direct connectivity to the major CSDs.

With that strategic aim in mind, we are very pleased to be able to announce that as from Monday 7th November, BNY Mellon has become direct to Monte Titoli as the Italian CSD on T2S. This means that we now have direct connections to CSDs on the T2S platform in both Italy and the Netherlands, with further migrations to follow Germany, France and Belgium in 2017.

To provide further detail, in August this year BNY Mellon implemented a pilot migration of a small number of accounts from our Italian sub custodian, Intesa Sanpaolo, to direct accounts with Monte Titoli and since then, has been operating a fully direct Italian operating model by being direct to the CSD on T2S for settlement whilst also becoming a direct provider of portfolio servicing activities such as corporate action and income processing, tax services and proxy voting.

Following the successful conclusion of this pilot operating model period, the green light was given to migrate the majority of BNY Mellon's Italian accounts from Intesa Sanpaolo to our direct accounts with Monte Titoli (on 7th November), making BNY Mellon a direct participant and local custodian in the Italian market.

Target2 Securities (T2S) Migration Plan for Collateral Management

For BNY Mellon's Global Collateral Management clients, T2S migration will begin in December 2016. BNY Mellon will act as a Directly Connected Participant (DCP) at T2S participating Investor CSDs in six European markets, and migration of collateral provider 'dealer box' assets will follow the schedule below.

Market	Date	Notes
Italy	12 December 2016	The Bank of New York Mellon SA/NV will have migrated Asset Servicing client assets on 7 November 2016.
Germany	6 February 2017 (T2S Wave 4)	All client assets were consolidated with The Bank of New York Mellon SA/NV Niederlassung Frankfurt am Main on 24 October 2016.
The Netherlands	2Q 2017*	The Bank of New York Mellon SA/NV participated as a direct participant in T2S Wave 3.
France	4Q 2017*	Common migration date.
Belgium	4Q 2017*	Common migration date. Assets held at both Belgian CSDs (National Bank of Belgium and Euroclear Belgium) will be moved at the same time.
Spain	1H 2018	Migration date yet to be determined.

For the French and Belgian market migrations, Global Collateral Management clients can expect to move at the same time as Asset Servicing clients. Similar to the German market migration, Global Collateral Management client assets will likely be transferred to BNY Mellon's primary sub-custodian in advance to simplify the conversion weekends.

With T2S migration, Global Collateral Management clients will use BIC11 formats and matching fields rules (when delivering securities to and recalling securities from BNY Mellon dealer box accounts). They will also have the advantages of

- improved 'Free of Payment' settlement deadlines. Free of Payment securities instruction deadlines will continue to improve once we are direct on the T2S platform (initially 17.00 CET); and
- better corporate action processing deadlines.

The migration will not change the omnibus account structure for collateral providers (and their receiver counterparties) where assets are received into BNY Mellon's tri-party collateral management program and subsequently allocated on BNY Mellon's books. The same account structure will be used at T2S participating Investor CSDs where BNY Mellon has a DCP relationship.

Until further notice, BNY Mellon will continue to maintain a standing instruction at the T2S account level for Global Collateral Management clients to prevent partial settlements so that the settlement instructions at the account level will automatically populate T2S settlement instructions with the no partial settlement indicator (SWIFT ISO 'NPAR'). These clients may continue to quote the NPAR tag in field 22F or leave the field blank but must not quote PART in this field.

We are keeping Global Collateral Management clients informed about standard settlement instruction changes and conversion weekend details throughout the phases of T2S market migrations.

If you have any questions on the T2S migration plan for collateral management, please contact David Allen at david.allen@bnymellon.com.

Italian Post T2S Market Governance and User Groups

The Italian market has re-organised its governance structure following the implementation of T2S. Previously, Monte Titoli (MT) as the CSD managed the PT-TUG group (Post Trade-Technical User Group) which took care of all matters related to the Italian post trade environment.

Following their migration to T2S, MT proposed the creation of a new organisation, the Post Trade Participant Committee (PTPC) which would see MT participants represented as well as MT, the Stock Exchange, Borsa Italiana, the central counterparty, Cassa di Compensazione e Garanzia, the regulators Consob and Bank of Italy.

The PTPC is the forum where decisions are taken relating to issues or developments of the Italian post trade environment. The decisions involving T2S as well as the payment systems are then brought to the Italian National User Group (NUG), chaired by the Bank of Italy, for final ratification. I have the honour to represent BNYM on both the PTPC and the Italian NUG.

After its creation, the PTPC explored the areas to focus on in the short term, and established the following working groups:

- Capital Increase with High Dilutive Effect – Implementation of the rolling model
- Corporate Action on Flows (CAoF) – also referred to as Market Claims
- Settlement Discipline and Insolvency management
- MT and T2S Change Management

Some working groups have specific tasks to complete and will terminate their activity once their targets have been achieved. Others, such as the MT and T2S Change Management working group, are permanent groups, with BNY Mellon being represented in all of these groups.

The PTPC is also establishing other working groups as follows:

- Harmonization Management
- SWIFT
- DVP Issuance

One key topic deserving immediate attention is the implementation of the rolling model for the Capital Increase with High Dilutive Effect, which is defined as those events involving a 'Voluntary Reorganization with Options' and which exhibit the following characteristics:

- A high ratio between the number of newly issued shares and shares already in circulation
- A high number of shares offered and a marked difference between the price of subscription and the price of the shares on the last trading day "cum right"

(This can be summarized by a very low value (< 0.3) of the "rectification value" K , which is defined as the theoretical price ex-right / price cum right. The K value is calculated by the Italian Stock Exchange based on a mandate from Consob to perform the calculation).

Consob had noted in some instances of these events, concerning developments such as; abnormal fluctuations in the prices of shares ex-right, in the price of the rights and short settlement positions held during the offer period and prior to the issuance of the new shares.

After analysing various solutions, the only one that grants the resolution of the anomalies is the application of the rolling model, whereby shares are delivered to the investor exercising the rights on the same day of the right's exercise. Newly issued and assigned shares are therefore immediately available to the investor for onward delivery.

As part of our participation on the PTPC forums, BNY Mellon played a significant role in developing the solution as part of the working group, as we will with the other working groups going forward, and this model will now be rolled out for events categorised as having a high dilutive effect from the 15th December 2016.

Roberto De Paolis

BNY Mellon Italian T2S Market Manager

THE REAL IMPACT T2S – Future developments

It is slightly paradoxical. We are only about half way through the migration of CSDs on to the T2S platform, and yet some of the biggest current T2S questions relate to how the T2S platform should be extended and enhanced.

The sources of these questions are very diverse.

The ECB has in recent months been very active in setting out ideas as to its future infrastructure strategy, in particular with relation to a planned upgrade of its TARGET2 RTGS payment system, and to the development of a new collateral management system for the Eurosystem.

From the perspective of an observer, it is very clear that both these projects have a strong rationale, and based on its public declarations the ECB appears committed to them. If they go ahead, it is inevitable that there will be impacts on T2S.

The ECB has also publicly expressed its intentions to make use, wherever appropriate, of the potential of new technologies, and in particular of distributed ledger technology (DLT). In the context of the T2S project, the T2S Advisory Group agreed in July 2016 to set up a task force to assess the impact of DLT on post-trade processes, and to make proposals for potential actions.

The task force plans to produce a report by September 2017; some of the topics that may be covered in the report include the issuance of securities using DLT, interoperability between a DLT and a traditional environment, and the use of DLT for regulatory reporting.

In addition to looking optimistically to the future, there is also a series of more down-to-earth reasons for upgrading T2S. One major driver is CSD Regulation. All the CSDs on T2S will have to comply with the requirements set out in CSDR. T2S holds core CSD data, and effects core CSD processing, and thus for many aspects of CSDR compliance CSDs will be dependent on T2S. Within the context of the T2S project, there has been a working group looking at all the enhancements that T2S will have to make, in order to allow the CSDs on T2S to be compliant.

One of the biggest potential CSDR-related enhancements is the prospect that the Eurosystem will build a settlement discipline tool that will allow all the CSDs on T2S to identify those transactions on T2S that are subject to CSDR-mandated late settlement penalties, and to calculate the size of the penalties. The rationale for one body (such as the Eurosystem) to build such a tool, rather than for each CSD on T2S to build its own separate tool, is very strong.

Many of the CSDR requirements will take effect in 2018 and in 2019 so that it is urgent for the design work to take place.

Another important driver is that for the last two years or so the priority within the T2S project has been for the launch of the project and for the migration of CSDs. Enhancements to the system, and indeed the annual ISO/SWIFT messaging upgrades, have been kept to a minimum. This means that there is a considerable backlog. Given that the system is now relatively stable, there is an opportunity to start to deal with the backlog.

Even if T2S keeps its mantra of a “lean T2S”, maintains its focus on settlement processing, and ignores the voices that have long argued that T2S needs at a point in time to make the transition to corporate action processing, there is still a major programme of enhancements that will be carried out in the years to come.

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