

T2S Test Plan

Annex 3 T2S Community - SETTLEMENT – Test Plan

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1.0 INTRODUCTION

The introduction of the new settlement platform Target2 Securities required a wide and major adaptation of the settlement functionalities for the services of Intra CSD Settlement.

The transition to T2S will enable access to a wider and harmonized network of actors within the European Settlement scenario, also thanks to a multi-currency infrastructure. In this context, MT has provided its participants with an efficient post-trading service as well as centralized management of foreign activities with Cross and External CSD settlement.

The adaptations and new implementations have been agreed within the system during the T2S project activities and are described in the technical documentation, published in the web-based platform MT-X, in a dedicated section.

The description of the operational processes and their service levels are reported in the Instructions to Settlement Services specifically adapted to regulate the obligations of the participants and of MT, even under the new contracts of participation of which they are an integral part.

The Settlement Service is made available to both categories of participants DCP and ICP, in line with the modes and the peculiarities that the type of connection envisages. ICPs can enjoy the facilities of the new platform through MT. Regarding DCPs, the mode of use will depend on the type of service (e.g. External CSD Settlement available only in indirect mode).

When necessary, the system elaborated and shared specific Market Practises, also published in the web-based platform MT-X and on MT website.

For details on the organization of the tests, operating schedule and assistance to participants in the testing phase, the management of the defects, the certification to go-live and so on, please refer to the document "T2S COMMUNITY TEST – general part – Test Plan – 5_02_2015 ENG v.1.0"

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2.0 TESTING PURPOSE

This document is intended for the participants to the Settlement Service Intra CSD (DCP and ICP) and has the aim to illustrate and share with them the services of Post-Trading, Pre-Settlement and Settlement.

The testing of the system is designed, consistently with operational models and the technical documentation published for T2S, to enable MT participants to perform the “end-to-end” checking of the correctness of the Settlement processes, with particular reference to the following aspects:

1. New functionalities and adaptations planned for T2S;
2. Accountancy of the financial instruments and management of securities accounts and dedicated cash accounts in T2S;
3. Protocols and systems of communication / interaction between MT and participants, and vice versa;
4. Messages produced/ received by/from MT system, through the different channels supported (RNI / WEB / SWIFT);
5. Functionalities provided by the web-based platform (MT-X);

3.0 STAKEHOLDERS

The stakeholders for the execution of the Community tests are the participants in the Settlement Service which usually operate with MT in the Settlement service.

In addition to the participants, also the following stakeholders are involved in the Community test :

- Bank of Italy,
- the Central Counterparties, (Cassa Compensazione e Garanzia, LCH-Clearnet SA),
- the markets of the Italian Stock Exchange, MTS, TLX, Brokertec, HMT, and e-Mid.

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If infrastructures are involved, such as settlement systems or markets, the details are provided in the operating model of the referenced functionalities and are therefore indicated in the context of specific procedures.

For a general view about the parties involved in the test plan and how the testing environment will be populated for T2S, please refer to the document 'T2S COMMUNITY TEST – general part – Test Plan – 5_02_2015 ENG v0.1”

4.0 TESTING GUIDELINES FOR PARTICIPANTS

With regard, specifically, to the securities to be used for the Settlement Test Plan, it should be noted that, in principle, any financial instrument can be used in T2S for testing. This general rule is fully applicable to many of the functionalities for which the preparation and execution of the tests is activated by the participants.

For specific events of corporate actions (on stock), whose setup in test environment requires predetermined activities and timelines for tight execution, specific reserved ISIN codes will be identified. With the aim of optimizing the system, the participants are required not to operate using these segregated ISINs (ref. document Annex 2 - T2S Community – CUSTODY Test plan).

5.0 SERVICES INVOLVED IN TESTING

You may find below the list of the main services touched by the Community tests with participants (X-TRM).

Acquisition, forwarding and settlement of:

- trades from guaranteed markets (particularly focused on the creation of the net bilateral balance)
- trades from non guaranteed markets
- OTC transactions

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- PCT (PCT and REPO Overnight)
- Classic REPO (PCR)
- Portfolio Transfer

6.0 TESTING PLAN

6.1 Guidelines

Please find hereafter the guidelines for an effective management of the testing phase and of the specific test cases created for participants and the other parties involved.

- The structure of the agreed test cases was decided taking into account the standard operating cycle of each event or functionality but does not exclude, in particular types of cases and for operational needs, the intervention by MT to force the passage of the planned subsequent phases of each process and / or to shorten or dilate the physiological execution time windows;
- Each participant is required to send to MT the settlement instructions and consequently to check the outcome of that action, according to the rules described in the operational model;
- The financial instruments of each participant will be migrated in the production environment on February 23rd, 2015;
- Securities and cash accounts of each intermediary will be migrated from CLIMP in the production environment on February 23rd, 2015

6.2 Participants fulfillments

For the execution of tests, participants and other actors involved must check the correctness of the following aspects:

- Receipt of messages sent by MT, as mentioned in the operative models;
- Transmission channel enabled and relative receiving options (default or customized);
- Timing of delivery of each notice/ reporting;
- Format of messages received, according to the technical documentation shared and published in the documental section of MT-X platform;
- Correct processing of new functionalities, with a particular focus on the use of the functionalities of Matching (migrated to T2S), Hold & Release and Bilateral Cancellation;
- Correctness of the information received, according to the test cases to be executed.

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6.3 Identification of the stakeholders involved in each functionality

The involvement of the participants and other interested actors has the aim, for each service / functionality, to identify, in a timely and consistent way, the responsibility for execution and validation for each different role played by every actor. Below, a non exhaustive list of the main areas of responsibility of each participant/role played:

- Bank of Italy: Participant to T2S and Issuer of Auctions (in Italian “Aste”) on Government Bonds;
- Cassa di Compensazione e Garanzia (CC&G) (sending of markets’ flow for Market Idem ESO/ESF and LCH-Clearnet SA): role of interposition between the guaranteed markets and the participants;
- Markets of Borsa Italiana, MTS, TLX, Brokertec, HMT, e-Mid: sending of trades to MT to be forwarded to T2S or other settlement platforms.

7.0 EXECUTION GUIDELINES

As for the test plan for settlement here below are the general guidelines for test execution.

After the set up of the necessary configurations in the new platform, all the functionalities (described in the services offered by MT, adapted to T2S, as per MT T2S UR - ref. User Requirements document v2.3) can be assessed in the testing environment specifically dedicated to the Community and Business Day test.

Through the X-TRM service, which interacts with the Central Counterparty and provides participants with the necessary information to support their daily activities, it is possible to test the settlement instructions settled between two participants belonging to the same CSD (e.g. MT).

Considering that X-TRM accepts transactions input by:

- Guaranteed and non guaranteed markets
- Participants
- CCPs and Bank of Italy

And that, via X-TRM on line, participants can manually input, amend, and cancel their own settlement instructions. Please find below the main transaction types for T2S testing, reminding that the

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transactions admitted in T2S are: DVP, RVP, DWP, RWP, FOP e PFOD:

Market Trades	CVT, PCT, PCR	These types of trade are used in order to create and update Bilateral balances as DVP, DWP, RVP,RWP	Guaranteed Markets
Trades			
Purchase/sale of securities against a price	CVT	DVP/RVP	Not guaranteed Markets X-TRM Participants
Repurchase agreements (Repos)	PCT PCR	2 settlement instruction DVP, RVP	X-TRM Participants and not Guaranteed Markets
Delivery/receipt of securities against cash or free of payment	CTC	FOP, DVP, DWP, RVP, RWP	National Central Bank, X-TRM Participants, Automatic
Payment free of delivery	CTC	PFOD	National Central Bank, X-TRM Participants , Automatic
Portfolio Transfer	CTC	FOP	X-TRM Participants

The table below reports the complete list of matching fields in T2S and the correspondent fields in X-TRM for necessary checks:

X-TRM FIELDS (ITALIAN NAME)	T2S FIELDS	TYPE OF MATCHING FIELDS
Emittente	Delivering / Receiving Party BIC (based on Securities Movement Type)	Mandatory
Controparte		
Codice di Sistema di Custodia Emittente	CSD of Delivering / Receiving Party (based on Securities Movement Type)	
Codice di Sistema di Custodia Controparte ⁽¹⁾		
Data di Regolamento	Intended Settlement Date	
Data Eseguito	Trade Date	
Codice Oggetto Negoziato	ISIN	
Quantità	Settlement Quantity	

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X-TRM FIELDS (ITALIAN NAME)	T2S FIELDS	TYPE OF MATCHING FIELDS
Controvalore	Settlement Amount	
Valuta di Regolamento	Currency	
Segno	Securities Movement Type	
Verso Controvalore	Credit / Debit Indicator	
<i>n.a.</i>	Payment Type (this fields will be fill automatically by the X-TRM enrichment process)	
Settlement Transaction Condition	Settlement Transaction Condition (Opt Out)	Additional
Trade Transaction Condition	Trade Transaction Condition (CUM / Ex Indicator)	
Codice BIC Beneficiario Emittente	Client of Delivering / Receiving Party (based on Securities Movement Type)	Optional
Codice BIC Beneficiario Controparte		
Common Trade Reference	Common Trade Reference	
Conto Regolamento Titoli della Controparte	Securities Account of Delivering / Receiving Party (based on Securities Movement Type)	

The operative model envisages the following cases:

- Input of trades through the trading market platforms, using X-TRM service to forward the relative settlement instructions to the competent settlement systems (T2S – Bridge Euroclear Clearstream)
- Input/amendment/cancellation of OTC transactions, checking the management of the service reporting.

It is to be noticed that only the ISINs admitted by MT can be used for testing the trades submitted by the market platforms or generated OTC.

With reference to the reporting, DCPs are informed that the T2S platform will provide them directly with the messages duly subscribed, while the ICPs will receive reporting through MT. The following table

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summarizes, for the benefit of the testing activities, the messages envisaged for settlement functionality:

ID FLOW/MESSAGE	DESCRIPTION
71N	Settlement Instruction/Restriction confirmation - Real time notification of each single securities account movement
G56 – ACB	Pre-Settlement Report – Continuously updated details on the status of transactions entered in X-TRM but not yet settled (and settled only for gross settlement)
G32	Several layouts for specific Cash Forecasting
MT706/707	Statement of holding (daily/monthly)
MT716/717	Statement of holding on demand on a financial security balance (Request/Outcome)

The following chart lists the messages “on demand” (G32 – G56):

ID FLOW/MESSAGE	DESCRIPTION
G30 / G31	General Information Request Message / Notification (G32 report)
G57 / G58	Continuous Updating Information Request / Notification (G56 report - ACB)

During the Community testing period, some test cases also include the Auctions (in Italian “Aste”) on Government Bonds, for which a calendar is reported in Chapter 8.0, and the relative test of stock options e stock futures (market Idem) exercise, according to the timeline to be indicated by Cassa Compensazione e Garanzia.

MT will make available the abovementioned modes through X-TRM and X-TRM on line functionalities, to be used by the participants to query the status of their transactions.

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8.0 CALENDAR OF AUCTIONS ON GOVERNMENT BONDS

In this section there is the calendar of the Auctions on Government bonds as agreed with Bank of Italy. At the moment of publication of this document, the calendar is still under preparation with the Bank of Italy and will be provided to participants as soon as possible.

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