T2S PORTFOLIO TRANSFER

ITALIAN MARKET PRACTICE

May 2015

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1.   Introduction

The PT TUG[1] "T2S adaptation"

This document contains the Guidelines proposed by representatives of the Italian banking and financial industry operating in the post-trading segment and is designed to promote and encourage the standardization of information flows for portfolio transfers. It also sets out a market practice intended to apply only to portfolio transfers of securities deposited with Monte Titoli, where both the parties to the transaction have accounts with Monte Titoli (i.e. infra-CSD transfers).

This initiative is based on the conclusions of the Working Group dealing with "T2S adaptation" coordinated by Monte Titoli and the recommendations of the IT NUG Working group coordinated by the Bank of Italy[2].

Depending on the process concerned, the industry follows market practices agreed at different times that are currently limited to a purely domestic scenario. Significant fragmentation, and a plurality of systems and procedures, are used by the participants involved in the process. This situation is considered to be a potential barrier to greater efficiency and competitiveness in the Italian industry in the T2S environment. With the aim of avoiding said barrier, the Working Group decided to document the stratification of current market practices in order to establish a common reference for the benefit of current and new CSD participants.

Domestic providers also use a parallel 'tool' called TDT[3], a standardised service for the transfer of financial instruments (see further below), which is currently mainly applied to facilitate retailers. Depending on the client order, the receiving Bank can input to TDT a request to transfer its holding (eligible securities in Monte Titoli, mutual funds and non-eligible securities in Monte Titoli). Subscription to the tool is only mandatory for domestic Banks, at least in a passive form (acceptance or rejection of the request sent by the receiving Bank). TDT rules and processes will not change with T2S.

The purpose of this market practice is to revisit the current market process in order to guarantee prompt bookings, without adding complexity and risk. In particular, it has the following objectives:

✓   guarantee continuity in terms of the information currently provided in the 710 message, mapping this information in T2S messages

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[1] 'PT TUG' is the acronym standing for 'Italian Post-Trade Technical User Group'. The working group was set up in early 2011 based on the solid experience of former working groups of the Italian banking and financial industry. It is chaired by Monte Titoli and its Secretariat is co-operated by ABI, the Italian Banking Association, and ASSOSIM, the Italian Financial Intermediaries Association.

[2] For further details, https://www.ecb.europa.eu/paym/t2s/governance/nugs/html/index.en.html

[3] Please, refer to the 'Definitions' paragraph, further below.

- ✓ set guidelines for using the transaction types and new fields required by T2S for the proper identification and processing of the Portfolio transfer
- ✓ set guidelines in terms of process flow (including transmission of tax/beneficial owner information) and steps applicable to CSD participants

2.   Definitions [4]

PORTFOLIO TRANSFERS: a transfer of the Beneficial owner's securities from the delivering bank to the receiving bank.

RECEIVING BANK ("nuova banca") /Delivering Bank ("banca originaria"): A financial institution, which may participate in MT, that holds (Delivering bank) / will hold (Receiving bank) the beneficial owner's securities for safekeeping.

CUSTODIAN: A financial institution, participant in MT, that holds the assets and performs settlement services on behalf of receiving/delivering banks.

BENEFICIAL OWNER: Client of the Delivering/Receiving Bank, true owner of the securities held/to be held by the Delivering /Receiving Bank.

ICP: Indirectly connected party (ICP), the CSD participant is connected to T2S through its CSD. The ICP will use the communication infrastructure provided by its CSD and the ISO or proprietary formats of its CSD.

DCP: Directly Connected Party is a CSD participant using a direct network connection to access a part of the T2S services without the need for a CSD to act as a technical interface.

TDT[5]: "*Servizio di trasferimento standardizzato degli strumenti finanziari*", namely a standardised service for the transfer of financial instruments that originated from an interbank self-regulation initiative adopted by ABI, the Italian Banking Association, in order to significantly improve relations between the Italian banking sector and its customers. The TDT service has been active since 22 November 2010. For further details, please refer to footnote 2 below.

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[4] In definitions 2, 3 and 4 the wording is aligned as much as possible with the corresponding wording used in the "Circolare ABI-serie tecnica numero 10 del 30 marzo 2012".

[5] TDT represents a 'tool' used by Receiving/Delivering Banks to facilitate the collection and improve the efficiency of security transfer information. Depending on the beneficial owner's order, the receiving Bank can input to the TDT tool a request to the Delivering Bank to transfer its new client holding (securities deposited in Monte Titoli and foreign CSDs, mutual funds). Usage of the tool is only mandatory for domestic Banks, when acting in the role of delivering bank, in order to accept or reject the request sent by the receiving bank.

3. Process steps

The actual transfer of securities in Monte Titoli will take place based on steps detailed here below. Formats and technical information will be detailed in Sections 4, 5 and 6.

The Delivering Bank, or its custodian, is the initiator of the transfer, sending the delivery instructions through MX sese 023 to T2S (for DCP) or equivalent in XTRM platform (for ICP) to Monte Titoli by downloading a proper transaction type PORT. As foreseen by TDT rules, following submission of the Beneficial owner's transfer request to the Receiving Bank, an information alignment process between the latter and the Delivering bank is started. The Receiving Bank, or its custodian, will receive the allegement messages through MX sese 028 from T2S (for DCP) or XTRM equivalent, in order to obtain all the transfer details input by the Delivering Bank. The custodian (if applicable) will notify the allegement messages to the Receiving Bank. It is important to note that the information input by the Delivering Bank is only visible to the Receiving Bank via the allegement until matching occurs.

The Receiving Bank or its custodian will send the receipt instruction through MX sese 023 to T2S (for DCP) or equivalent in XTRM platform (for ICP) to Monte Titoli for matching with the delivery instruction. In line with pre-T2S scenario, the Receiving and Delivering Bank will contact each other if they need additional information in order to process the transfer.

Failure to follow these practices, including the related new required T2S fields, may prevent the successful execution of the Portfolio transfer.
The initiator of the transfer is the delivering party and, only by strictly applying this rule, can we benefit from STP processing.

4.   Important point of attention

All details included in transaction type PORT that do not follow the requirements listed in this document (i.e. improper field formats or narrative additional info) can be ignored by the receiving party, even if accepted by the T2S platform. Accordingly, the latter is not deemed to be accountable/responsible for possible (as long as reasonable) delays caused by the incorrect use of the field formats defined in this document.

Transaction type TRAD, although including all details below, will not be treated by the Receiving Bank/Custodian as a portfolio transfer.

The Receiving Bank can initiate the request for a securities transfer through TDT platform, but the Receiving Bank/Custodian must wait for the sese 028 (allegement messages) to be duly completed and computed in order to match and process the transfer.

5. Information required for Portfolio Transfer

This paragraph describes the information required in order to perform Portfolio Transfers in T2S. Due to the functioning of T2S, the usage of new fields will be necessary in order to allow the identification and processing of the Portfolio Transfer instructions. Portfolio Transfer instructions will have to be sent inclusive of the following key elements:

a. Security Transaction type=PORT[6]. Transaction type PORT will also be used when both Delivering/Receiving banks have agreed to use the TDT tool and all necessary details are already notified through the TDT. Failure by the Delivering Bank to quote PORT, will prevent the Receiving Bank, or its Custodian, from processing the transaction as a Portfolio transfer instruction.

b. Common reference ID (13 characters max.) will have to be quoted by the Delivering Bank or its Custodian, in order to avoid the risks of cross matching. Common reference ID shall be a unique reference at CSD participant level.

c. Partial Settlement indicator = NPAR in order to avoid automatic partials by T2S.

d. Settlement transaction condition = NOMC in order to avoid CAOF impacts.

e. Party2 has to be completed in line with the Italian Market practice on 2nd Layer Matching. In order to ensure the smooth management of Portfolio Transfers across T2S migration, a "mapping table" will be published on Monte Titoli's website to specify which combination of Party 1 and Party 2 is attributed, by each Receiving Bank/Custodian, to Monte Titoli's account number (as per the list published)

f. Receiving parties (Party block 3 to 4) - Beneficiary information and fiscal Information: (Additional Information tag of each Party n item starting from block Party 3).

g. Trade date and Intended Settlement Date: the Receiving Bank will match the dates quoted by the Delivering Bank. The Actual settlement date will be the first available after matching occurs.

h. Change of Beneficial Ownership (alternative option below):
   - ✓ NCBO (No Change of Beneficial Owner)
   - ✓ YCBO (Change of Beneficial Ownership)

i. Deal price

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[6] *The Specific sese.023's field is <SctiesTxTp><Cd>.*

j. Regime Type Indicator (One letter to identify, if any, the specific regime (i.e. for IT market: G = Gestito; A = Amministrativo; D= Dichiarativo). The letter X is used when a specific regime does not exist.

k. Securities account of the Final Beneficiaries (5 digit ABI – 5 digit CAB – 23 digit account number of the beneficial owner) (total 35 digits)

l. Name: free format using 104 digit (family name and given name) applying the following rules:

   ✓ Insert "E", in the case of multiple registrations, between the names of the different beneficial owners

   ✓ No name abbreviation, even in the case of multiple given names

   ✓ No title (i.e. Doctor)

   ✓ If 104 digits are insufficient, truncate at the last digit

m. Additional fiscal details to be provided depending on the securities type and fiscal attributes of the beneficial owner

   ✓ Tax rate for capital gains purposes)

   ✓ Tax rate for "imposta sostitutiva"

   ✓ Y/N indicator to identify if "zainetto fiscale" has to be passed through

   ✓ Fiscal information linked to the "zainetto fiscale" for ETFs:

   ✓ Number of UCITS units

   ✓ Residual Capital gain

6. Format instruction in T2S (Sese 023)

Since the transposition from the Settlement Instruction (sese.023) to the Allegement Message (sese.028), the Status Advice (sese.024) and Confirmation Message (sese.025) is not complete in T2S, it is necessary to use non-formatted fields in a structured format in the Portfolio Transfer Delivery in T2S (sese 023), as detailed below:

Transaction Type

The Specific sese.023's field   <SctiesTxTp><Cd> must be used with the already admitted value PORT.

Change of Beneficial Ownership

Where in sese.023 the specific field (<BnfclOwnrsh>) is filled in, this is not transposed in sese.028, sese.024 and sese.025. Therefore, we agreed to use:

> <TradDtls>
>
> <TradId>

where the above mentioned codeword rules NCBO and YCBO must apply.

Deal Price

The Clear Purchase Price could be put in the <DealPrice>7 block, which has two different subfields: <Val><Rate> and <Val><Amt><Ccy>. For ISINs denominated in UNIT and related to ICITS, the NAV indicator has to be transmitted and, due to the absence of a specific field, the narrative field <NmAndAdr> in the party 4 sequence might be used.

Final Beneficiaries

The field Party 3 in Receiving Settlement Parties is used to identify the Final Beneficiaries; CSD's BIC

> <RcvgSttlmPties>
>
> <Dpstry>
>
> <AnyBIC>

BIC of the CSD Participant (PARTY 1):

> <RcvgSttlmPties>
>
> <Pty1>
>
> <AnyBIC>

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[7] *The field <DealPrice> has two mandatory subfields <DealPrice><Val> and <DealPrice><Tp>. For the Subfield <DealPrice><Tp><YIdd> should be valued with "N".*

BIC of the client of CSD Participant (PARTY 2):

<RcvgSttlmPties>

<Pty2>

<AnyBIC>

Bank where the final beneficiaries hold an account and information concerning the Final Beneficiaries (i.e. account number):

< RcvgSttlmPties>

<Pty3 ->

<id><NmAndAdr> <Nm>

Additional fiscal details

< RcvgSttlmPties>

<Pty -4 ->

SESE.023	:		TRANSPOSED TO		
FIELD DESCRIPTION	MAIN FIELD NAME	FIELD NAME	SESE.028	SESE.025	SESE.024
Iso Transaction code			**X**	**X**	X
Change of beneficial owner indicator	<TradDtls>	<TradDtls> <TradId>	X	X	**Not present**
Average value date	<TradDtls>	<TradDtls> <TradId>	X	X	**Not present**
Regime type indicator	<TradDtls>	<TradDtls> <TradId>	X	X	**Not present**
Beneficiary Data (Family name and given name)	<RcvrgSttlmPties>	<RcvrgSttlmPties> <Pty3> <id><NmAndAdr> <Nm>	X	X	X
Beneficiary Data (Fiscal element)	<RcvgSttlmPties>	<RcvrgSttlmPties> <Pty4> <id><NmAndAdr> <Nm>	X	X	X
Clear purchase price (bonds)	<TradDtls>	<TradDtls> <DealPric> <Val><Rate>	X	X	**Not present**
Clear purchase price (shares)	<TradDtls>	<TradDtls> <DealPric> <Val><Amt><Ccy>	X	X	**Not present**

7.   Detailed format specification

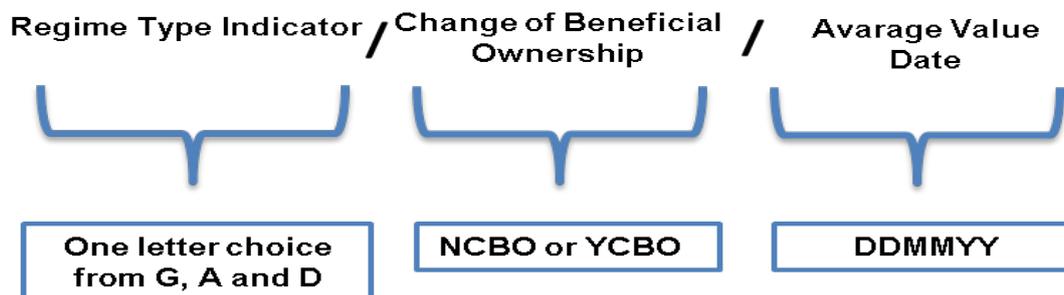**Trade identification**

The field *<TradId>* is a mandatory field of the block *<TradDtls>*:

> *<TradDtls>*
>
> *<TradId>*

<TradId> can have a maximum of 16 characters; the example below shows how the information should be structured:

- ✓   Regime Type Indicator:
- ✓   Change of Beneficial Ownership
- ✓   Average Value Date
- ✓   Information separator

< TradId> Field Example

NAME	EXAMPLE	NOTES
Regime Type Indicator	A	One letter to identify, if any, the specific regime (i.e. for IT market: G = Gestito; A = Amministrativo; D= Dichiarativo). The letter X would be used when a specific regime does not exist.
Change of Beneficial owner	NCBO	NCBO = No change of Beneficial Owner YCBO = Change of Beneficial owner
Average Value Date	010113	DDMMYY

Beneficial owner details

We will use the **<NmAndAdr><Nm>** field, which is a narrative field sized to a maximum of 140 characters. The following example shows how this information should be detailed within the Receiving Settlement Party sequence and the Delivering Settlement Party sequence respectively:

Receiving Settlement Party:

a.   Receiving Settlement Party: Party 3

The field < NmAndAdr><Nm> is formatted as follows:

<RcvgSttlmPties[8]

<Pty3>

<id><NmAndAdr> <Nm>

where *<NmAndAdr>* should be: Account information of the Final Beneficiaries / personal data of the beneficial owner as follow:

ABI/CAB/ACCOUNT NUMBER of the final beneficial owner

5 digits/5 digits/23 digits/ (total 36 digits)

Family name given name E family name given name given name (104 digits)
Usage rules:

    ✓   No abbreviation

    ✓   In case of multiple given names please detail with no contraction

    ✓   No title (i.e. Doctor)

    ✓   If 104 digits are insufficient, truncate at the last digit

b.   Receiving Settlement Party: Party 4

If there is a need to complete the set of information with specific fiscal details, the following rules must be applied: [9]

<RcvgSttlmPties>

<Pty4>

<id><NmAndAdr> <Nm>

    ✓   Price for capital gain purposes

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[9]   For the data element highlighted in bold the working group agreed on a flexible approach allowing deviations until 30 November.

- ✓ Fiscal exchange rate for capital gains purposes)
- ✓ **Fiscal exchange for "imposta sostitutiva"**
- ✓ **Y/N indicator to identify if "zainetto fiscale" has to be passed through**
- ✓ **Fiscal information linked to the "zainetto fiscale" for ETFs:**
  - o **Number of UCITS units**
  - o **Residual Capital gain**

c. <u>Usage rules Party 4:</u>

If Party 4 is populated, all the spaces referred to below must be completed: use zero if no element has to be included.

13 digits : 5 numbers,7decimals / ALIAS (5!c,7d)

13 digits: 5 numbers,7decimals ALIAS (5!c,7d)

13 digits: 5 numbers,7decimals / ALIAS (5!c,7d)

2 digits: y/n

13 digits: 5 numbers,7decimals / ALIAS (5!c,7d)

13 digits: 5 numbers,7decimals / ALIAS (5!c,7d)

a. *< NmAndAdr><Nm> Field Example*

NAME	EXAMPLE	NOTES
Securities account of the Final Beneficiaries	12345/67891/0000000000123459999999/	ABI/ CAB (36 Characters)
name/names	Rossi Marco e Bianchi Letizia Giovanna	This field contains Name, following the rules indicated above

8. Unmatched Portfolio Transfer instructions

Due to the fact that, in T2S, the Portfolio Transfer instructions will be subject to matching, if the Receiving bank, or its Custodian, does not match the instruction (allegement) input by the Delivering Bank, the transaction will follow the T2S life cycle and, therefore, will be cancelled as per standard T2S rules (20 days).

9. Reversal of Portfolio Transfer instructions

Reversal of portfolio transfer instructions already settled: as already occurs in case of mismatching or errors, a reversal request will be initiated and sent by the Receiving Bank to the Delivering Bank.

When parties agree on the reversal, the following rule must be applied: REV + common reference ID of the original settled instruction (max 16 characters).

In case of mismatching or errors, a reversal request can be initiated and sent by the receiving party to the delivering party no later 20 working days after the effective settlement date.

10. Liability

If a transaction with Security Transaction type=PORT contains one or more fields completed with the character "zero=0", the meaning of this format is understood to be either:

- the value for the field is equal to "zero = 0" or
- the value is not present in the message.

It is understood that liability is applicable and limited to properly instructed transactions, for which all data elements required are duly completed in a proper format and transmitted to the T2S platform (MX sese 023)

If a transaction type PORT does not follow the requirements listed in this document, this may prevent proper processing by the Receiving Bank (or its Custodian), even though matched in T2S by the Receiving agent or its Custodian. Accordingly, the Receiving Bank is not deemed to be accountable/responsible for possible (as long as reasonable) delays caused by an allegement not compliant with the requirements listed in this document.