



Adaptation of Monte Titoli service to T2S

Preliminary assessment of changes

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Disclaimer

These slides and the documents attached must be considered only an initial attempt to identify possible changes to Monte Titoli service due to the integration in T2S

The aim is to stimulate discussion with market players in order to agree the necessary implementations proposed by Monte Titoli

Thus, considering that at the moment the launch of T2S is foreseen on 2013, any modifications reported here must be considered absolutely preliminary and potentially subjected to further modification

Purpose

Fulfil the MoU:

- Clause 4.2.2 of the MoU requires each signatory CSD to provide the Eurosystem by 30 Sept. 2009 with a general description of the envisaged adaptation process by which its community will join T2S

Involvement of market players:

- Provide more details to participants for allowing them to evaluate the impacts of changes to Monte Titoli service coming from the integration in T2S
- Collect the market views on the options available for each specific issue and the best solution to be adopted

Integration principles

- Guarantee the lowest impact to participants
 - Taking advantage of cost-effective existing solution
 - Reusing already developed applications, including the functionalities for Stock Exchange and CCPs
 - Keeping current interfaces by adapting current communications infrastructure and messages (i.e. RNI), in particular for indirect T2S participants.
- Offer a single gateway to T2S for the Italian market combining in a single place services for the whole value chain (Pre-settlement, Settlement, Custody)
- Exploit T2S functionality and any solution that could bring about savings on the service cost
- Take the occasion to rationalize and streamline the existing service and facilities available

Organization of the documentation

- The assessment has been carried out taking into account three key business areas
 - Pre-settlement
 - Settlement
 - Custody
- For each of them a specific analysis (*attachment 1*) has been carried out breaking them down into the composing functional steps and then into the main processes
- Possible changes due to T2S have been identified taking into account only impacts to participants
- In addition a table (*attachment 2*) of the interactions among participants, Monte Titoli and T2S has been drawn aiming at showing the new timings, deadlines and high-level processing of Monte Titoli

Main assumptions

- References
 - Functionality either currently available in MT or under way for implementation (i.e. new procedure for managing capital increase)
 - T2S User Requirements Document, version 4.2
- Harmonization
 - It is likely that the harmonization process will bring about some changes but at the moment they cannot be taken into account because not defined yet (i.e. market claims)
- No distinction among participants for the custody service
 - The processing models and service levels relevant to corporate actions processing and securities accounts administration will be kept unchanged for direct and indirect participants

Main areas of changes

- Cash payment in T2S
- Dismissing securities transfer through msg.710 ('giri custody')
- Optimization of real time notifications through msg.71N
- Processing of overnight settlement cycles
- Administrative management of non-fungible securities

Cash payment in T2S

- All C.A. payments will be performed in T2S instead of BI-Comp
- Optimization of payment instructions
- Adoption of T2S (rather than T2) in order to increase liquidity available in the settlement system
- Option to perform payments during the overnight cycles not only for government bonds but also for corporate securities

Dismissing securities transfer through msg.710

- Only one interface (X-TRM) for requesting transfer of securities between participants accounts
- Rationalise existing functionality avoiding duplication
- Enhancement to allow FoP non-matched according to T2S rules
- Msg.710 still available for other type of operations (issuing and buyback)

Optimization of real time notifications through msg.71N

- Avoiding redundant information for DCP
- Settlement instructions status report
 - provided by MT to indirect participant
 - provided directly by T2S to DCP
- Notifications regarding
 - Security account balance modification
 - Execution of CAs instructionskept unchanged

Processing of overnight settlement cycles

- Likely to manage at least two cycles starting at 19.30
- Routing of settlement instructions to T2S at s-1 for guaranteed and non-guaranteed markets
- Sending of forecasting information before the starting of the settlement cycle
- Routing of settlement results after each cycles

Administrative management of non-fungible securities

- Current volume extremely low (1-2 settlement instruction per day)
- Last issue in 1994
- After 2013 only 5 securities still existing and last security to expire in 2015
- No business case to develop an automated procedure and management only through Monte Titoli also for DCP
- Important to understand what could happen in the future for this kind of security

MT planning

- According to the current T2S planning, MT will provide by end Q2 2010:
 - Detailed impact analysis
 - Messages specificationssubject to the availability of the UDFS final version within end 2009.

- MT will distribute a detailed test and migration plan as soon as it receives the guidelines of test by T2S

- MT will freeze any change on custody and settlement platform starting from the development phase of T2S project, currently planned at Q3 2010.