



July 23, 2012

## **SUBJECT: Implementation of mechanisms to improve management of settlement flows processed by DvP-RTGS cycle in Express II.**

Dear Customer,

I am pleased to announce some implementations aimed to increase the level of optimization in managing settlement flows in EXPRESS II. These enhancements have been agreed within the PT-TUG Settlement Optimization Group, including representatives of regulatory authorities, intermediaries associations (ASSOSIM, ABI) and some of our participants.

### **RTGS OPTIMIZATION**

This mechanism is aimed to maximize the settlement of transactions processed in RTGS and to minimize the risk of short positions for our participants. Two different ways of processing will be designed: the former for OTC and not guaranteed transactions, and the latter for transactions guaranteed by one of the CCPs operating in X-TRM.

#### **Optimization for OTC and “not guaranteed” transactions**

The purpose is to link a transaction of securities delivery, from the entity 'A' to the entity 'B', with one or more "opposite" transactions (deliveries from 'B' to 'A'), thereby minimizing the risk of exposure.

#### **Optimization for “guaranteed” transactions through CCP**

The purpose is to link a transaction of securities delivery from a 'CCP' to entity 'B' with one or more "opposing" transactions (deliveries from the entity 'B' to the same 'CCP') thus minimizing the risk of exposure. Availability of securities for entity B and the Intended Settlement Date (ISD) of the transactions involved (the delivery of the CCP should not have ISD earlier than its withdrawal) will be taken into account when this technicality is applied

### Settlement of “optimized” transactions

The settlement of involved transactions will be on a gross basis for the securities leg, while the cash leg will be settled according to the principles of the model "5 - simultaneous multilateral settlement" on the TARGET2 platform. The control of CAPS will be on a net basis.

The settlement of optimized transactions may cause, for one of the entities involved ('A', 'B' or the 'CCP'), a temporary negative balance in the securities: in this event, on the accounting information (71N msg.), the account balance will not be reported.

The related User Guides are available on MT-X web platform.

### **SPLITTING (SHAPING) OF TRANSACTIONS REGARDING THE SPOT LEG OF REPO OVERNIGHT**

For the transactions referred to the spot leg of the Repo Overnight guaranteed by CCP, the splitting mechanism of the settlement instruction will be introduced before sending it in RTGS.

The main features of the new procedure will determine:

- the application of the “Shaping” mechanism, only for the instructions guaranteed by CCP and exceeding the expected amount limit (in nominal value or counter-value, depending on the category of affected security - bond or share);
- the creation in X-TRM of more split transactions routed into the gross settlement, each one with its reference number

For this implementation no changes in the current X-TRM data flows are applicable.

We will provide a subsequent information including the details of the test period and the expected date for go live.

#### **FOR FURTHER DETAILS PLEASE CONTACT:**

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