

ITALIAN MARKET PRACTICE SECOND LAYER MATCHING *MATCHING OF CLIENT OF CSD PARTICIPANT* IN X-TRM

SCOPE OF THE DOCUMENT

Starting from 24 September 2012, Monte Titoli (CSD) have implemented a new functionality in X-TRM that allows matching of the client of the CSD participant into the Italian matching platform (X-TRM).

The Italian CSD has introduced two new matching fields in the matching platform (X-TRM) that are dedicated to the “client of CSD participant” (receiving parties) and “client of CSD participant” (delivering parties): the so called second layer matching.

The second layer matching has been **classified as optional matching field** in line with Target 2 Securities (T2S) definition.

The usage of BIC11 as a standard identifier of the client of the CSD participant is the preferred international standard and it is in line with T2S templates.

From Sept 9th 2013 with the implementation of the Hold & Release (H&R) functionality the matching of the client of CSD participant's fields can be exploited to further reduce the phone pre-matching practice and potentially suppress this process in the very short term.

Hold & Release function is an additional optional feature that complements the benefit of the second layer matching to fully automate the STP in the settlement chain guaranteeing the early, safe and accurate matching approach.

The aim of the Italian community is to guarantee no regression on the actual level of pre-matching accuracy.

The CSD participants are presently sharing a common market practice that allows to identify the client of CSD participant in the platform through the usage of BIC 11 as standard identifier as follow:

- client of CSD participant defined in the X-TRM screen as “Party Beneficiary Field”;
- client of the other CSD participant (counterparty) defined in the X-TRM screen as “Counterparty Beneficiary Field”

The second layer matching details are optional matching fields and all CSD participants have to declare the “standard” applied/applicable (i.e. ICSD account number rules should be applicable to all trades instructed on behalf of

a specific ICSD) where deviating from the common market practice described in this document.

Matching occurs when:

- both CSD participants download the same BIC 11,
- both CSD participants download blank,
- one CSD participant downloads blank and the other CSD participant downloads BIC 11,
- both CSD participants as deviation from the BIC 11 download international standards such as ICSD account number.

It is understood that CSD participants deciding to download a “blank” field will take the full responsibility in case of mismatching and will implicitly acknowledge the client of CSD participant indicated by counterparty.

To guarantee the level of accuracy in the matching process CSD participants agreed to find a unique standard to identify for their clients, such as BIC 11.

It will be “strategic” for the effectiveness of the implementation a proper use of BIC 11.

Custodians may also ask for a non active BIC (*obviously published*) with the scope to enlarge the BIC11 as identifier to “non SWIFT users”.

It is understood that this approach will imply an effort at custodian level to:

- marketing this market practice share with customers new SSI to be spread to all correspondent and service providers
- whenever possible the branch code of the client of CSD participant should be a valid code and not the generic ‘XXX’
- only published BIC 11 are considered as valid for the scope of this market practice

The objective of this document is to define a standard market practice for the use of the beneficiary fields in X-TRM platform at first and then in T2S to which all MT participants have to conform to. We are convinced that this common rule strictly respected by all players will bring the community close to clients’ expectation and prepare all of us to some extent to T2S migration.

OPERATIONAL PROCEDURE

Applicability environment

CSD participants can introduce the matching of their clients, on a selective basis, with the aim to increase the efficiency of the pre-matching process. Therefore all trades to be settle in the books of Monte Titoli with the-exception of trades settled through linked CSD (cross border links) and or FOP unilateral transfer instructions (MSG 710) are 100% target of the second layer matching process.

This market practice requires to fill in CSD participant client fields as:

- *BIC 11* (meaning 11 digits although *BIC 8* is enough to identify the client of the CSD: i.e. AAAABBCCXXX).
- Account number at ICSD as agreed deviation of the market practice being recognised as international standard .

Those code-words are the only accepted as compliant to this market practice.

Timetable for introduction of second layer matching market practice

It is expected that the use of the beneficiary fields will increase gradually. An extensive use of the second layer matching will give a boost to automation at matching system level. Major benefit will be perceived by CSD participants presently using the Hold and Release facility.

Target time for full migration to second layer matching is expected by 1st April 2014.

Population of the beneficiary fields common practice

Participants will download settlement instructions directly into X-TRM with the second layer party beneficiary fields populated with BIC 11 or ICSD account number identifying the client of CSD participant (see above descriptions).

Liability is taken by CSD participant deviating from common rule approach.

The transactions, sent to matching platform X-TRM with a blank value, will be fully under responsibility of the CSD participant instructing the second layer matching as *blank* and no action will be required by the counterparty.

TRANSITION PERIOD

The transition period is identified by all CSD participants with the time lapse between the endorsement date and the 1st April 2014.

During the transition period the CSD participants will have to take several actions:

- CSD participants will gradually terminate the bilateral agreements currently in place in order to be ready by the 1st April 2014 to fully implement the market practice described in this document;
- For both written and informal agreements a pre-notice of 10 working days via e-mail (see ANNEX 1 for contact details) is needed in order to allow counterparties to smoothly adapt to the BIC 11 approach;
- During this transitional period, phone contacts will be ensured, in line with the current professional approach, in order to guarantee a smooth migration;

- In case a CSD participant downloads, in the party beneficiary field, a code which is not recognized in this document, the CSD participant acting as counterparty may, at its own discretion and in with the aim of matching the trade, download a blank value in the counterparty beneficiary field;
- In such a case, the CSD participant downloading the blank counterparty beneficiary field will not be responsible for the mismatching of the said field;
- Any CSD participant unable to apply the present market practice will have to formally request to the CSD – acting as collecting party on behalf of PT TUG working group – a waiver including:
 - an alternative proposal regarding the fields population which must be already recognized as an “international standard”;
 - the time laps needed for adaptation.

ANNEX 1 – Contact list for second layer matching

CSD Participant	E-mail	Phone (0039)
Banca Sella	Settlement@sella.it	015 3500944
BNP Paribas	Milan.bp2s.matching@bnpparibas.com	02 7247 4317
Citigroup	Settlement.italy@citi.com	02 8906 7022
Deutsche Bank	Dcs.italy@db.com GTO-SecuritiesOPS.DBspa-Italy@db.com	02 6613 5130
Euroclear	Sgssscimkt@sgss.socgen.it	02 9178 3443 02 9178 4496 02 9178 4074 02 9178 4332
ICCREA Banca	Regolamentotitoli@iccrea.bcc.it	06 7207 5410 06 7207 5375
Intesa Sanpaolo Clearstream	Domestic.settlement@intesaspaolo.com	0521 918 452
Intesa Sanpaolo Banca IMI	Italianbackoffice_IMI@intesaspaolo.com	02 8794 7795 02 8794 7775 02 8794 7728
Intesa Sanpaolo Fideuram e Reti	settlementitalia@intesaspaolo.com	02 8793 9534
SGSS	sgssscimkt@sgss.socgen.it	02 9178 3443 02 9178 4496 02 9178 4074 02 9178 4332