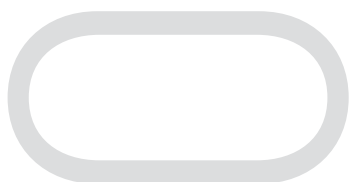


Clearstream TARGET2-Securities

Bulletin



T2S – We are ready

A dedicated “Customer Readiness” team as well as a detailed migration strategy and planning ensure the readiness of our customers for the implementation of the T2S waves.

A major success factor of each T2S migration wave is getting market participants ready for the implementation. T2S successfully went live on 22 June 2015 in Greece, Malta, Romania and Switzerland, accompanied by nine Central Banks. The focus is now on the readiness and migration of the Italian market which is scheduled to take place on 31 August 2015.

CBF established a dedicated “Customer Readiness” team right at the beginning of the T2S implementation project, with the promise to the German market and customers in general that efforts on their side would be limited to a minimum. For the migration of the Italian market, we will upgrade the existing Free of Payment (FoP) link and connect to Monte Titoli’s X-TRM system. In this way, we will be able to reflect the market-specific functionalities and T2S settings once the Italian market confirms its successful migration.

During dedicated workshops, all CBF customers participating in T2S wave 1 received an overview of the functional requirements to be taken into account on their side. The migration strategy and planning was also detailed. The aim of these workshops was to validate CBF’s implementation concept with its customers, and to provide a forum for them to give their feedback.

Based on the results of these workshops, the functional description

as well as a simulation and migration approach were designed for market members.

Early this year, CBF customers were requested to reassess their future account structure and connectivity setup, in order to update them with regards to the T2S Party concept. Any changes implemented during this process made the accounts not just ready for wave 1 but also for any of the following T2S waves. The necessary activation steps were started on 25 April 2015 and successfully completed for all CBF customers acting in the Italian market on 11 June 2015.

Since May 2015, customers have had the chance to test the upgraded CBF cross-border link to Monte Titoli. The customer simulation can be conducted in a dedicated environment and continues to be available until 21 August 2015. The test environment is especially useful for customers executing cross-border transactions with Italian counterparties. Customers might use this test stage to verify their enhanced software and standing instructions. Thanks to the simulation, customers can complete their activities for T2S wave 1, allowing them to announce with confidence: “We are ready for the launch”.

At the same time, CBL and LuxCSD have enhanced their links to the wave 1 markets in which they are active, ensuring that they are fully compliant with the local T2S market requirements.

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Clearstream now a Securities Maintaining Entity

Clearstream and LuxCSD have each become a Securities Maintaining Entity (SME) for the securities for which Clearstream and LuxCSD act as an Issuer-CSD. This process became active on 22 June 2015, when

the first four CSDs migrated to T2S. Clearstream and LuxCSD started to upload their securities, taking into account new T2S requirements. The entire migration procedure for setting up securities and the procedure for

securities maintenance have already successfully passed several test stages. This extensive testing has helped to ensure a smooth transition on the first T2S migration weekend.

T2S' impact on trading and financing activities: The perspective of Barclays



Interview with Sascha Weil
Head of € Funding and Short Term
Investments, Barclays Treasury

How will T2S impact trading and financing activities in Europe?

We expect T2S to deliver major benefits. Financial institutions will be able to open and use one account for settlement purposes and one for related cash settlements, instead of having one account in every market where they currently settle securities. This one dedicated account should consolidate settlement activity across Europe and is expected to reduce the amount of cash and collateral that banks need to dedicate to support the settlement process, leading to an overall reduction of intraday liquidity requirements. Activity in T2S is likely to increase via a single CSD access point, reducing the turnover with multiple local CSDs.

T2S is also expected to expand the collateral available across the European and global marketplaces. The cross-border management of collateral is generally associated with additional costs, such as owing to the additional time lag in moving collateral from one securities account to another, and owing to differences in time schedules among CSDs and potential settlement fails on the back of it. Therefore, collateral and liquidity savings are expected from T2S.

As a result of the above, an overall reduction of cost and an increased efficiency is expected. This is important as trading activities are subject to regulatory challenges and requirements, leading to higher cost.

Which other opportunities do you see for large dealers?

T2S will offer a Central Bank "auto-collateralisation" mechanism. Auto-collateralisation allows the buyer to use the Central Bank eligible debt securities they are buying as collateral to obtain the Central Bank intraday credit needed to pay for the purchased securities. The buyer only needs to have sufficient cash on an intraday basis to cover the "haircut" on the collateral.

We also expect increased interoperability between trading venues, CCPs and the CSDs participating in T2S. This will enable cross-border settlement of exchange or MTF-traded securities

and therefore allow the centralisation of holdings - once again resulting in an increase in efficiency.

What are your requirements in terms of collateral management services in T2S?

Instead of holding collateral locally with different CSDs, T2S could help banks centralise and pool their collateral. This would to a certain extent reduce regulatory cost (i.e. collateral, leverage, risk weighted assets, intraday liquidity requirements). The reduction of leverage comes through reduced liquidity requirements and stress due to fewer venues to settle - hence reducing the risk of settlement fails.

T2S will also facilitate the integration of CSDs and ICSDs in terms of collateral management. Integrating CSDs and ICSDs means that triparty assets can be used on the T2S platform. In future, investors with ICSD triparty assets may be able to move those assets seamlessly to cover T2S positions. This will result in dramatically lower costs than what is available today when settling in many diverse markets.

Furthermore, TARGET2 payment collateral can be utilised in T2S during the night-time settlement cycle: the vast majority of your securities activity will be settled overnight and you will then have the collateral available in the morning to realign to TARGET2, and thereby absorb intraday liquidity requirements.

T2S and the Global Liquidity Hub: Clearstream's harmonised service offering



A key part of the “OneClearstream” offering for T2S is a harmonised collateral management service for both Clearstream’s ICSD in Luxembourg and its CSD in Germany, with services provided in conjunction with Clearstream’s innovative Global Liquidity Hub. The aim of this harmonisation is to provide Clearstream customers with a significantly expanded degree of choice and freedom in their use of our collateral management services than is available today.

In practice, this means that post-T2S, all of Clearstream’s collateral management services, such as triparty repo, triparty collateral management, triparty securities lending, GC pooling and so on, will be available to all Clearstream customers, both at the ICSD and the CSD. There will be full triparty interoperability in place between collateral givers and receivers at the ICSD and CSD, meaning that collateral will be available to be given by a customer at the ICSD to a customer at the CSD, and vice-versa. The choice of counterparties on offer for collateral management services will therefore be greatly expanded - we currently have a network of more than 550 active counterparties, and we expect this interoperability also to provide easier access to new categories of counterparties, such as corporates asset managers and a wider range of CCPs.

All collateral receivers will be able to choose from sophisticated and flexible eligibility settings, tailoring the collateral they receive to their own specific risk management needs. Customers will be able to combine to their own choosing a wide range of criteria on the type of collateral they wish to receive, including elements such as concentration limits, currency, security type, credit rating and so on. Collateral receivers will also be able to take advantage of a state-of-the-art collateral re-use service, allowing them to use securities received via triparty transactions to collateralise their own triparty transactions within the Clearstream system.

A study by Oliver Wyman, entitled [The T2S Opportunity – Unlocking the Hidden Benefits of T2S](#), highlighted optimised collateral flows and a greater possibility for collateral pooling

as one of the major benefits brought about by T2S. Clearstream will offer customers the chance to capitalise on this inherent advantage of T2S yet further: Clearstream will allow customers to combine assets held at all Clearstream entities into a single and deep collateral pool, available for use both within the T2S area and in the global markets offered by Clearstream’s ICSD. By choosing to pool their T2S-in assets at our German CSD and their T2S-out assets at our ICSD in Luxembourg, customers have the possibility to mobilise their collateral efficiently where it is needed, rather than fixing it in numerous individual silos spread throughout their operational markets “just in case.” This is particularly valuable for equity triparty collateral management, which today is generally locally fixed in domestic markets.

On the cash side, customers will also have the option to choose the money quality in which Clearstream delivers its triparty services. Services will be available in Euro Central Bank Money and in multi-currency Commercial Bank Money via Clearstream, allowing customers to take advantage of both the increased safety of Central Bank Money and the flexibility of Commercial Bank Money.

Taken together, these elements combine to form an end-to-end service offering that takes full advantage of the new T2S environment, offering customers a more nimble settlement solution along with greater flexibility in terms of collateral management. Clearstream customers will be able to cover all types of exposures in real time, across currencies, asset classes and time zones, while at the same time benefiting from asset optimisation and full regulatory compliance.

Clearstream, your hub for Eurobonds in T2S

Clearstream is a natural home for the international securities market which, with overall outstanding levels exceeding EUR 9 trillions, is one of the largest, most liquid fixed income market segments worldwide. Starting out some 40 years ago, we have built unrivalled expertise to service issuers, intermediaries and investors from Europe and beyond, across multiple currencies and instrument types, to make this story a great success. And we are about to write another chapter of this journey.

Now that T2S becomes reality, we want to deliver on our promises to make European post-trade infrastructure more efficient and maximise the benefits for our customers. Fulfilling our strategy to link up our ICSD and CSD services, we will be able to offer access to the Eurobonds market to all our customers, regardless of whether they are CSD or ICSD users, by making ICSD-issued securities (i.e not only CSD-issued securities) eligible for settlement on the T2S platform.

This means that post-T2S wave 3, our CSD customers will gradually¹ have the possibility to conduct their Eurobond settlement activity in Euro from their CSD account in Central Bank Money just like for any other T2S-eligible securities. Settlement in other currencies will also be supported in T2S for the securities leg (conditional settlement) with the cash leg (in Commercial Bank Money) settling on the ICSD's Creation platform.

This service extension will offer our CSD customers the opportunity to consolidate Euro settlement activity in a single cash and a single securities account, thereby optimising cash netting effects and minimising collateral consumption. In addition, CSD customers will have access to our full suite of value-added services (for example best-of-breed asset servicing, connectivity, collateral management) as we move towards a fully integrated OneClearstream service offering.

The move to a single network and the addition of Eurobonds in T2S will facilitate the use of these instruments as collateral with local (T2S-in) counterparties (Central Banks, CCPs or others). Clearstream will ensure an efficient bridge between these two worlds by taking care of the conversion from Commercial Bank Money to Central Bank Money, and vice-versa for transactions between ICSD and CSD customers. And there are further benefits: Issuers and their agents will gain considerably from this change, as Clearstream

helps connecting the Central Bank Money and the Commercial Bank Money infrastructures, creating the largest global pool of investors. Issuing international securities via Clearstream will therefore assure issuers a maximised investor reach in a safe, robust and efficient infrastructure with no further adaptation costs which should ultimately translate into optimised funding levels.

In a nutshell, Clearstream is taking steps to incorporate the Eurobond market into a fully global, integrated liquidity pool, which our customers will be able to access via the model of their choice whilst benefiting from our state-of-the-art value-added service offering.

¹ It is intended to make Eurobonds and other ICSD-issued international securities eligible in T2S in several successive phases.



A glimpse at German Safe Custody types in the T2S context

Understanding the German Safe Custody regime is a challenge, even for market experts. Learn how T2S will make things easier

This article focuses on the following types: CSC and NCSC.

- (i) Collective safe custody (CSC, or "Girosammelverwahrung, GS" in German), which presents an absolute right on the securities deposited or a "right in rem" in form of a co-ownership on an omnibus position;
- (ii) Non-collective safe custody (NCSC, "Wertpapierrechnung, WR" in German), which is a book-entry credit on a fiduciary basis or trustee business.

German legislation requires that investors are explicitly informed about the respective "ownership status" of their holdings. Since the distinction between CSC and NCSC is not common in other EU countries, it was not considered in the development of

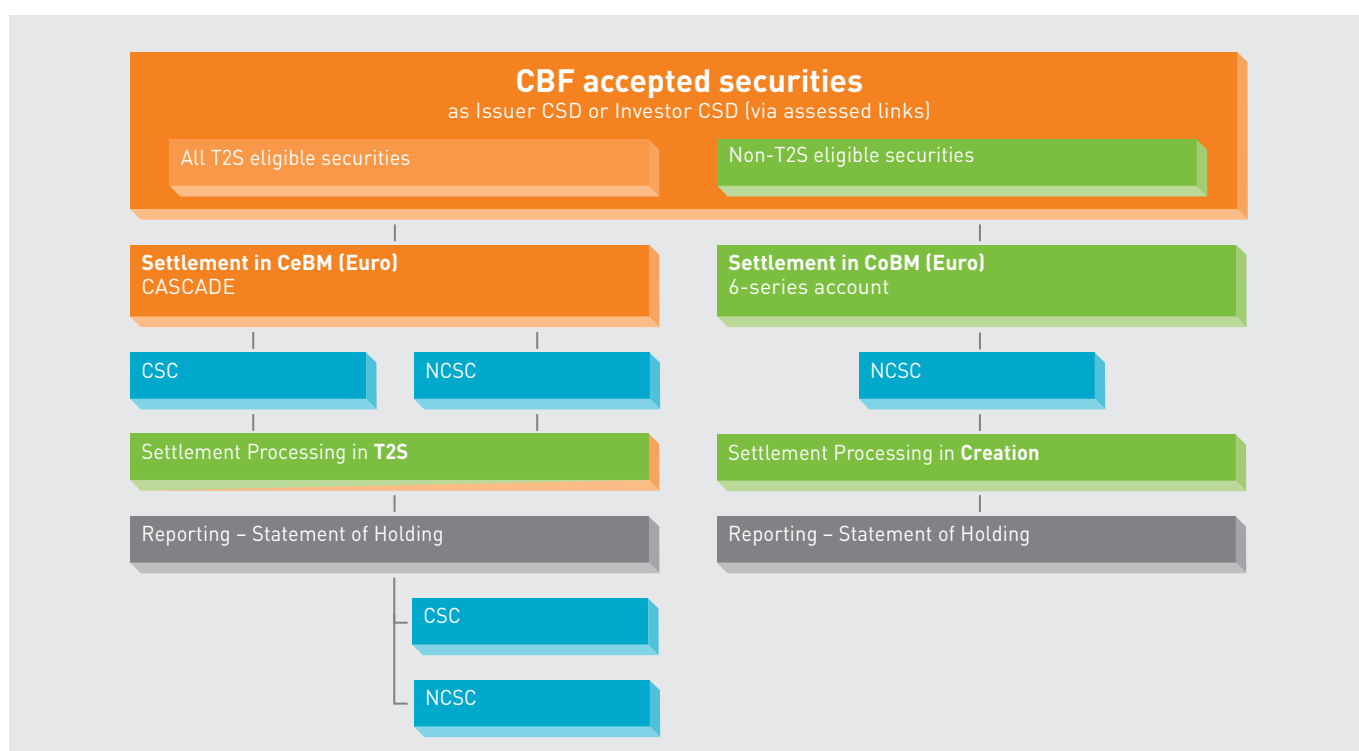
the T2S platform. Therefore, along with the information of whether securities are eligible in T2S for settlement, CBF will provide information to its customers about the respective safe custody type. A change in the German safekeeping legislation – which would avoid recording this distinction – is unlikely to be implemented prior to Clearstream's migration to T2S.

Today, all securities settling in CBF in Central Bank Money (CeBM) are by definition held in CSC, while all NCSC securities can only settle via CBL's platform (6-series accounts) in Commercial Bank Money (CoBM). With the implementation of T2S, settlement in CeBM will occur in real time. Transfer of ownership takes place at the very same moment for all T2S-eligible ISINs and this will in the future also be possible for NCSC securities.

CBF will settle all T2S-eligible securities transactions in CeBM via the customer's CBF account. In other words, the CBF systems will reflect both CSC and NCSC safe custody types settled in CeBM on the T2S platform in a single Statement of Holding report.

In T2S, CBF customers will benefit from a significantly increased number of CSC-eligible securities (which today are only NCSC eligible) and at the same time from the possibility to settle NCSC-eligible securities via the very same account. For NCSC securities settling via CBL's platform, no changes are envisaged.

The following diagram illustrates the German Safe Custody processes in the T2S context:



DCPs signed up

After the second DCP CBF Forum at the beginning of February 2015, the below-listed eighteen institutions provided their firm commitment to become a DCP (via A2A) at CBF, in time for the declaration submission deadline (23 February 2015). The deadline for becoming a DCP via U2A is 23 November 2015.

The dialogue between CBF and DCPs continued at the third DCP Forum on 18 May 2015; thirty participants from thirteen institutions were present at this Forum. The third session focused on the DCP readiness process and forthcoming important deadlines; at the same time, an update on the T2S project status and T2S settlement flows was provided. The high number of attendees confirmed high interest and trust in Clearstream's business model.

On 8 September 2015, a T2S DCP Introduction Workshop will be held for customers acting in DCP mode to focus on future CBF processes. A further CBF DCP Forum meeting

is planned for end of October /early November 2015 to focus on the T2S connectivity test and the preparation for the Community Testing scheduled to start on 22 February 2016.

Institutions who submitted their declaration

ABN AMRO Clearing N.V. (The Netherlands)	Intesa Sanpaolo S.p.A. (Italy)
BNP Paribas Securities Services, S.C.A. (Germany)	Istituto Centrale delle Banche Popolari Italiane S.p.A. (Italy)
CACEIS Bank Deutschland GmbH (Germany)	SGCIB (Société Générale) (France)
Citigroup Global Markets Deutschland AG (Germany)	SGSS Frankfurt (Germany)
Clearstream Banking S.A. (Luxembourg)	SGSS S.p.A. (Italy)
Deutsche Bank AG (Germany)	Société Générale (France)
Euroclear Bank SA/NV (Belgium)	Société Générale London branch (UK)
European Central Counterparty N.V. (The Netherlands)	The Bank of New York Mellon SA/NV (Belgium)
HSBC Trinkaus & Burkhardt AG (Germany)	

In short

Three steps to Settlement Finality

The first step is achieved when a settlement instruction has entered the system of any of the Central Securities Depositories (CSDs). The rules and validations of the respective CSD are applied to check if the instruction is ready for processing within T2S. The moment of entry in the system is regarded as SF I. The next important step is matching in T2S; once this status has been reached the instruction shall be irrevocable for the counterparties (SF II) and will be proposed for settlement on Intended Settlement Day. In T2S, the bilateral cancellation concept will apply. The ultimate step is the settlement of the transaction in T2S (SF III) that is defined as unconditional and enforceable. Based on the latter, the CSD will update balances in the Statement of Holdings towards their customers.

Partial Settlement Indicator (PSI)

T2S will offer a partial settlement functionality with the aim to increase the T2S settlement efficiency. Whether partial settlement will be applied depends on the partial settlement indicator (PSI) that can be set within the instruction or in the CBF customer account setup. At sub-account level, customers can set a PSI default value, to either allow partial settlement or prevent it. Where a settlement instruction is provided to CBF without a PSI value, CBF will update the instruction according to the default account setting.

The T2S partial settlement functionality is only applied if both counterparties have flagged their instructions for partial settlement and when full settlement is not possible due to a lack of securities or cash.

T2S MoP

On 30 March 2015, the T2S Manual of Operational Procedures (MoP) has been finally approved by the ECB Governing Council. This document describes the necessary operational procedures relevant to the T2S services. It applies to Directly Connected Parties (i.e. the CSDs, the DCPs and the National Central Banks, NCBs). Its content enables the addressees to conduct their daily operations in normal and abnormal situations with a focus on the smooth functioning of T2S. For Clearstream, the MoP is of particular interest to design the new processes and to ensure that our service levels can continue in a T2S world. Clearstream's objective is to absorb most operational changes for customers acting in ICP mode.

Important upcoming dates

Date	Description	Customer action required
5 - 21 August 2015	CBF customer simulation for wave 1 (Monte Titoli joining T2S)	Yes – all CBF customers active in the Italian market
31 August 2015	Monte Titoli joining wave 1 markets on T2S	Yes – all CBL and CBF customers active in the Italian market
8 September 2015	T2S DCP Introduction Workshop	Yes – all interested DCPs
15 September 2015	BIC11 for wave 3 markets and account setup to be provided	Yes – all CBF and LuxCSD customers acting in wave 3 markets
21 September 2015*	Wave 2 Community Test commences	
24 September 2015	ECB info session hosted by LuxCSD	Yes – all interested customers
25 September 2015	Bridge enhancements roll out	
22 November 2015	CBF – implementation of German record date, setup of some T2S matching criteria	Yes – all CBF customers
23 November 2015	Firm commitment for wave 3 DCPs (U2A mode)	Yes – all DCPs who wish to connect in U2A mode to a wave 3 CSD
23 November 2015	DCP Connectivity Testing for wave 3	Yes – all DCP accounts must be set up
27 - 29 November 2015	ICP & DCP Migration Weekend Rehearsal	Yes – account data of customers must be set up in Clearstream / LuxCSD systems
2 - 23 December 2015	CBF customer simulation for wave 2	Yes – all CBL and CBF customers active in wave 2 markets
22 February 2016	Wave 3 Community Test commences	Yes – all participants of wave 3 CSDs
28 March 2016*	T2S wave 2 migration	
31 May 2016	Account setup freeze for CBF and LuxCSD	Yes – all CBF and LuxCSD customers acting in wave 3 markets
12 September 2016*	T2S wave 3 migration CBF / LuxCSD to join T2S	Yes – all Clearstream and LuxCSD customers
6 February 2017*	T2S wave 4 migration	

* Dates highlighted in dark blue are imposed by the ECB.

IMPORTANT: We kindly ask all CBF and LuxCSD customers to forward to us their BIC 11 information and to finalise their account setup by 15 September 2015. This will allow CBF and LuxCSD to perform necessary checks and to ensure that all accounts will form part of the forthcoming testing activities.

The T2S Party BIC11 form, the T2S Master Data Form and DCP Setup Form are available [here](#).

Contact info

We are looking forward to supporting and guiding you on a smooth and successful transition towards T2S. Please do not hesitate to contact us.

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