

T2S Final Wave: Pre-announcement on the functional modifications to Iberclear

Clearstream Banking AG, Frankfurt¹ informs the customers about the scheduled functional modifications for the migration of Iberclear, the Spanish CSD, to TARGET2-Securities with the T2S final wave on

18 September 2017

Functional modifications for the settlement

In general, any T2S service which is available for cross-border settlement will be offered by Iberclear after the migration on the pan-European settlement platform.

Based on the latest details agreed with Iberclear, CBF has started to identify its needs for functional modifications based on the T2S services. CBF will provide an updated version of this customer announcement with the final modifications in due time.

The changes indicated below might have to be considered in the processes of our customers for the respective migration of Iberclear with the T2S final wave. Please consider that this customer announcement describes the required modifications. Procedures that have been introduced with CBF's migration to T2S and remain unchanged are not listed (e.g. Partial Settlement, Transaction Linking) as today's functionality will not be affected.

- Change of the account number for Iberclear;
- Adjustment of the settlement timeline for valid instructions;
- Use of T2S Party BICs;
- Disclosure of Account Master Data;
- Processing of instructions against / with payment;
- Consideration of the T2S matching criteria;
- Adjustment of the cancellation process for valid instructions;
- Changes to the processing of corporate actions;
- Adjustment of settlement messages in ISO 15022 format;
- Adjustment of settlement messages in ISO 20022 format;
- T2S Link Guide and Realignment Guide;
- Customer simulation for cross-border settlement with Iberclear;
- T2S Final Wave Migration Weekend.

The implementation guidelines for these functional aspects will be explained below.

¹ This announcement is published by Clearstream Banking AG (CBF), registered office at Mergenthalerallee 61, 65760 Eschborn, Germany, registered with the Commercial Register of the District Court in Frankfurt am Main, Germany, under number HRB 7500.

Please note that the following aspects will remain unaffected by the migration:

- The securities currently eligible in the link to the Spanish market. CBF and Iberclear re-confirmed the existing scope, which means that income securities are covered. The necessary eligible counterpart CSD link setup on T2S will be ensured by Iberclear and CBF;
- Existing tax procedures in the Spanish market;
- Connectivity settings for customers acting in ICP and DCP mode.

Change of account number for Iberclear

With the migration of Iberclear to T2S the mirror account (4491) currently used in CBF will be closed. The “Business Instructions” towards the Spanish market need to be set up by using the Counterparty CSD Account 4710 which can be addressed by using the BIC “IBRCESMMXXX”. The Counterparty CSD Account is used as a placeholder and no bookings will be posted against this account or positions will be held in this account. Towards T2S, this placeholder will be replaced by the respective omnibus or mirror account, depending on the ISIN. In order to reflect the securities holdings, CBF will maintain the necessary omnibus account of Iberclear as Investor CSD (4609) and mirror account of Iberclear as Issuer CSD (4504). CBF as Investor CSD has opened an omnibus account in Iberclear’s new system ARCO (SAC: IBRCDAKVDEFFXX0000000010MEX0000001).

Adjustment of the settlement timeline for valid instructions

CBF and Iberclear – or respectively their DCP customers – will send cross-border instructions directly to T2S for matching and final settlement. Therefore settlement will be conducted on T2S calendar days and will be based on the T2S Operational Day.

On T2S, successfully matched instructions can be settled on the Intended Settlement Day (ISD)

- until 16:00 – Delivery and Receipts against / with Payment;
- until 18:00 – Delivery and Receipts free of Payment.

The T2S restriction rule that currently rejects DvP settlement instructions against Iberclear as well as the intraday restrictions that block settlement in Spanish securities after 14:55 will be deactivated with the migration of Iberclear in the final wave.

Customer instructions provided in ICP mode will be sent to T2S for settlement in real time. CBF would like to recommend to its customers acting in ICP mode to present their settlement instructions until 15:50 resp. 17:50. This will help to ensure a timely processing and transmission of the instruction via Clearstream’s T2S-I and the SWIFT network towards T2S.

Use of T2S Party BICs

With the migration to T2S, a unique T2S Party BIC (BIC11) had to be stored for each CBF account master for the settlement processes in T2S. Prior to the migration of CBF to T2S in February this year this data has been gathered and is used for the settlement instructions with T2S In-CSDs markets.

Especially for cross-border settlement customers and their counterparties are requested to use the T2S Party BIC information as Delivering / Receiving Party BIC.

Furthermore, CBF recommends that customers agree on the usage of the T2S Security Account Number (SAC) of the Spanish market participants with their counterparty, as it is an optional matching criterion. It is currently under investigation how the different account types in Iberclear (P – Own Account / T – Third Party Account) need to be reflected in the party information.

CBF will inform its customers about the exact format specifications in due time. This differentiation will require the usage of up to four Party Levels. Iberclear is going to inform their customers accordingly.

Since the migration of CBF to T2S, CBF customers address Iberclear with an interim T2S Party BIC "IBRCESMMMIG". This BIC must be used until the successful migration of Iberclear to T2S that is becoming a T2S-In CSD. Over the Migration Weekend of the T2S final wave the static data for Iberclear will be changed; once the respective milestone has been achieved, CBF customers must use the T2S Party BIC "IBRCESMMXXX" to address Iberclear in cross-border instructions.

Disclosure of Account Master Data

Iberclear is required by the National Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV) to validate and disclose securities movements / positions, if requested. Following this requirement a "Participant Master Data report" needs to be provided by each CSD that enables settlement in Spanish securities. This is valid for all settlement activities, i.e. transactions that are transmitted for cross-border or domestic settlement.

With the migration of Iberclear to T2S, CBF will disclose CBF account masters that are used for settlement in Spanish securities to Iberclear.

The data will be regularly extracted from the CBF account master database (KUSTA) and will contain besides the T2S relevant details (that is the T2S Party BIC and the name of the account owner derived from the legal address) the following customer-specific information:

- Country of residence / address of the company headquarter as stored in CBF's data for the legal address.

In addition, CBF is still required to report all transactions in Spanish securities to Iberclear.

Processing of instructions against / with payment

With the migration of Iberclear to T2S, instructions against / with payment (DvP, RvP, DwP, RvP, PFoD) can be presented towards counterparties in the Spanish market. Since February this year the processing of such instructions is carried out via the defined Dedicated Cash Accounts (DCAs) of CBF customers. There will be no changes in the cash management procedures for CBF customers. If required, CBF customers can open an additional DCA to separate the cash flow for activities in the Spanish market.

Consideration of the T2S matching criteria

CBF and Iberclear – or respectively their DCP customers – will send the settlement instructions to T2S for further processing. The administration, matching and subsequent settlement of securities instructions will be carried out on this platform. With the migration of Iberclear to T2S the settlement of cross-border transactions with the Spanish market will therefore be based on the T2S matching criteria.

The following mandatory matching fields are defined by T2S and are applicable for CBF customers as CBF has already migrated on T2S:

- Payment Type;
- Securities Movement Type;
- ISIN Code;
- Trade Date;
- Settlement Quantity;
- Intended Settlement Date;
- Delivering / Receiving Party BIC;
- CSD of Delivering / Receiving Party;
- Currency (only for instructions against / with payment);
- Settlement Amount (only for instructions against / with payment);
- Credit / Debit (only for instructions against / with payment);

Furthermore, T2S has defined so-called “additional” and “optional” matching fields.

Additional matching fields cannot match with blank fields. If an additional matching field has been filled in by one party, it will also have to be filled in by the counterparty. It is therefore essential to commonly agree on the usage of these fields with the counterparty. For the settlement of cross-border transactions with Iberclear the additional matching fields can be used with the migration of to T2S:

- Opt-Out Indicator;
- CUM / EX Indicator.

Optional matching fields can match with blank fields. If the field is filled in by both parties, the value must be identical, though. For the settlement of cross-border transactions with Iberclear the following optional matching fields can be used:

- Common Trade Reference²;
- Delivering / Receiving Securities Account Number (SAC);
- Client of Delivering / Receiving CSD Participant (only BIC).

CBF recommends the usage of a Common Trade Reference (:20::COMM) that has been agreed on with the counterparty when submitting an instruction. This reference serves as an optional matching criterion and lowers the risk of so-called mismatching.

Adjustment of the cancellation process for valid instructions

Since the migration of CBF to T2S the cancellation process for valid instructions in the cross-border link with all T2S In-CSDs is based on the T2S regulations. T2S distinguishes between the following types of cancellation:

- Unilateral cancellation: Unmatched instructions can be deleted by the party who placed the instruction any time. Instructions remaining in this status will be cancelled by T2S after 20 business days.
- Bilateral cancellation: Is required when an instruction has matched. Both counterparties have to agree to the cancellation.

² As the matching is case sensitive, CBF recommends using capital letters only.

CBF will report the cancellation with the existing status reporting (via MT548). The reason codes listed below will be used for this purpose:

- :25D::IPRC//CAND :24B::CAND//CANI (Cancelled by ordering party);
- :25D::IPRC//CAND :24B::CAND//CANS (Cancelled by the system);
- :25D::IPRC//CANP :24B::CANP//CONF (Requesting cancellation by counterparty);
- :25D::IPRC//CPRC (Cancellation request from counterparty).

Please note that the Hold / Release functionality can be used when the counterparty has not yet agreed to a cancellation and the instruction is not to be settled until final clarification has been obtained. Instructions for which the cancellation has not been confirmed by the counterparty and which show the status “released” will be transferred to the settlement process on the Intended Settlement Day (ISD) to allow settlement can take place.

Changes to the processing of corporate actions

With the migration of Iberclear to T2S, the processing of corporate actions for Spanish securities will follow the same principles as for any other T2S In-CSD.

Income payments

CBF customers will continue to receive income payments on their RTGS account after settlement of the Direct Debit 2 processing cycle (DD2 - 13:45). The current processes for communicating income information by means of MT56x remain unchanged.

Market Claims

If the underlying instruction in Spanish securities is domestic (i.e. between two CBF customers), Market Claims in cash will be processed as today in the DD processing cycles via the customers' RTGS accounts.

If the underlying instruction in Spanish securities is cross-border, Market Claims in cash will be processed as PFoDs directly in T2S via the customers' DCAs. CBF will automatically generate the corresponding PFoD instructions for its customers, using the same SAC and DCA as in the underlying instruction.

In both cases, CBF will send – upon subscription – the corresponding messages to the customer, that is MT564 Corporate Actions Notification and MT566 Corporate Actions Confirmation with the qualifier “REPE”. For cross-border Market Claims in cash, customers acting in DCP mode might additionally receive sese.024 “Securities Settlement Transaction Status Advice” and sese.025 “Securities Settlement Transaction Confirmation” messages related to the PFoD instructions.

Transformations

If the underlying instruction in Spanish securities is domestic (i.e. between two CBF customers), transformations in cash will be processed as today in the DD cycles via the customers' RTGS accounts.

If the underlying instruction in Spanish securities is cross-border, transformations in cash will be processed as PFoDs directly in T2S via the customers' DCAs. CBF will automatically generate the corresponding PFoD instructions for its customers, using the same SAC and DCA as in the underlying instruction.

In both cases, CBF will send corresponding MT564 REPE status and MT566 confirmation messages to the customers. For cross-border transformations in cash, DCPs might additionally receive sese.024 “Securities Settlement Transaction Status Advice” and sese.025 “Securities Settlement Transaction Confirmation” related to the PFoD instructions.

Quick refunds

CBF customers eligible for quick refunds of withholding tax on dividends from Spanish equities will continue to receive these payments on their RTGS account.

Adjustment of settlement messages in ISO 15022 format

After the migration of Iberclear to T2S, CBF customers acting in ICP mode need to transmit their settlement instructions in the standard ISO 15022 format for cross-border instructions with T2S In-CSDs, as described in the CBF Connectivity Handbook and the T2S Link Guide for Spain.

CBF will provide an updated version of this customer announcement with the exact format specifications regarding the usage of Party Levels in due time.

Adjustment of settlement messages in ISO 20022 format

After the migration of Iberclear to T2S, CBF customers acting in DCP mode need to transmit their settlement instructions in the standard ISO 20022 format for cross-border instructions with T2S In-CSDs, as described in the T2S User Detailed Functional Specification (UDFS), the CBF DCP Connectivity Handbook and the T2S Link Guide for Spain.

CBF will provide an updated version of this customer announcement with the exact format specifications regarding the usage of Party Levels in due time.

T2S Link Guide and Realignment Guide

Beginning of September 2017 CBF will provide the market specifications related to the migration of Iberclear to T2S. The documentation will indicate the future details within the settlement instructions towards Clearstream Banking S.A., Luxembourg (CBL).

Customer simulation for cross-border settlement with Iberclear

Prior to the migration of the T2S final wave, CBF offers the customers the opportunity for a simulation. The simulation is scheduled to take place from 7 August until 1 September 2017. The required test scenarios will be pre-agreed with Iberclear. Once the details for the simulation in the T2S Pre-Production Environment (UTEST) and CBF Customer Simulation Environment (IMS23) are finalized a Customer Simulation Notification will be published. Currently it is planned to provide the details at the beginning of July 2017.

T2S Final Wave Migration Weekend

CBF will outline the migration tasks and timeline with a separate customer announcement. Necessary activities that shall be conducted by CBF customers (e.g. maintenance of standing instructions, the deletion of pending instructions) will be announced at the beginning of September 2017.

Indicative timeline for customer communication

5 MAY 17

Customer Announcement will describe the functional and / or organisational procedures which are required to be implemented by CBF customers

13 JUN 17

Introduction Session for T2S Final Wave will be conducted to highlight and familiarise the market members with the market changes and migration procedures

7 JUL 17

Customer Simulation Notification will announce the scope of the MWDR testing activities for the T2S Final Wave

5 + 6 AUG 17

Migration Weekend Dress Rehearsal
Participation is optional for CBF customers

7 AUG – 1 SEP 17

Customer Simulation window for T2S Final Wave
Participation is optional for CBF customers

1 SEP 17

Guideline for migration providing an overview of the key customer-relevant data and the expected timetable upon successful completion of all activities concerning T2S Final Wave

1 SEP 17

CBF T2S Link and Realignment guides will be updated considering the new link specifics

4 SEP – 15 SEP 17

If necessary CBF will extend the Customer Simulation (Contingency Phase)

16 SEP – 18 SEP 17

For the Migration Weekend for T2S Final Wave a status reporting will be offered

19 SEP – 20 OCT 17

A Stabilisation Period of minimum two / maximum four weeks will be executed

