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## TARGET2-Securities (T2S) - Summary of the Portuguese NUG meeting

**Place:** Banco de Portugal (Room 0.2.3)

**Date:** 28th January 2011 – 10:30 am

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**Institution:****Participants:**

Banco de Portugal:

Departamento de Sistemas de Pagamentos (DPG)

António Garcia

Departamento de Sistemas de Pagamentos (DPG)

Egrejas Francisco

Departamento de Sistemas de Pagamentos (DPG)

Nazaré Correia

Departamento de Sistemas de Pagamentos (DPG)

Fernando Chau

Departamento de Sistemas de Pagamentos (DPG)

Inês Lopes

Departamento de Sistemas de Pagamentos (DPG)

João Sarilho

Departamento de Mercados e Gestão de Reservas (DMR) – SITEME

Pedro Corsino Matos

Comissão dos Mercados de Valores Mobiliários (CMVM)

Manuel Ribeiro da Costa

INTERBOLSA

Abel Sequeira Ferreira

Rui de Matos

Banco Comercial Português

Luís Ferreira

Banco Espírito Santo

António Coutinho

Banco Português de Investimento

Carlos Ferreira Machado

BNP Paribas

Alexandre Canadas

Deutsche Bank AG

Pedro Campos

LCH.Clearnet SA

Ana Paula Carreira

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**Absent:**

Banco Santander Totta/Santander Negócios

Citibank International PLC, Sucursal em Portugal

Caixa Geral de Depósitos

APB - Associação Portuguesa de Bancos

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## **1. Overview of T2S project development:** presentation by Banco de Portugal

- **Recent Developments;**
- **Council of Governors' decision on T2S Pricing;**
- **2<sup>nd</sup> Market consultation of TF Smooth cross-CSD Settlement.**

“*T2S matching field*” – recent developments: There are, basically, two options debated in AG:

- (1) Using BIC 11 or;
- (2) Securities account number in CSD.

As not every CSD participant has a BIC code, the second option has been preferred by the Netherlands and the German markets. SWIFT has defended the use of BIC code, with the advantages of an ISO code, namely transparency and visibility. Some participants mentioned the cost factor in obtaining BIC code; thus, the second option has no further costs and change in procedures.

The matching issue is not relevant to the Portuguese market. The use of BIC 11 is less costly than the use of the securities account number in CSD, as it implies only adaptation towards the field size. Institutional investors without BIC code, it is possible the use of legal identifier code, such as IBEI provided by SWIFT for the identification of non-financial institutions. On the other hand, the use of securities account requires harmonisation of coding and format and to publicise this information to all institutions.

Interbolsa will be at the Workshop of TF Smooth cross-CSD Settlement to review this issue and propose recommendations to the March AG meeting.

Concerning T2S pricing, participants mentioned the disincentive effects of using day time settlement. This means retrocession of current practices in the Portuguese market of real time settlement. Furthermore, they consider that night time batch cycle is not well suitable to institutional investors who, as being more sophisticated, use day time settlements. Thus,



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transactions costs are expected to increase and participants mentioned that domestic settlements will be more expensive with T2S compared to current costs.

One participant worried that Interbolsa pricing with T2S is still not known. Interbolsa representative replied that it is still in the preparation and that there are many components which are not known yet. Interbolsa hopes that the Workshop on pricing of information services, planned for 11<sup>th</sup> February, will help; still there are T2S services costs that need to be ascertained, like connectivity costs, to for a basis of Interbolsa pricing. All in all, T2S pricing remains an important issue to the Portuguese community.

Interbolsa representatives informed the NUG-PT that the VAT issue has being reopened. According to available information, PB considers now that the VAT is a local/national issue, concerning national tax authorities and regulators. Participants were very worried about such developments, as financial activities can migrate quickly towards jurisdiction with low VAT rates or without VAT. Furthermore, this change means that an underlying hypothesis of T2S pricing, no VAT charges, is no longer valid and there is no assured alternative.

Concerning the 2<sup>nd</sup> Market consultation of TF Smooth cross-CSD Settlement, some participants mentioned that they will reply quickly. In any event, there was a consensus that Interbolsa reply to the 1<sup>st</sup> consultation can be used as a basis for the Portuguese T2S NUG reply, as it reflects current market practices.

## **2. Framework Agreement:** presentation by Interbolsa

Interbolsa mentioned recent progress in the negotiations of the FA. As to T2S Governance, there were some progresses in GC veto power, with 2 or 3 remaining points to be clarified. There were also agreement in methodology and organisation of the negotiations, with better coordination among the groups involved. There are still major unresolved or open issues



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(89 or 20 according to sources). The main open issues are: Exit management; Termination clauses; Liability clauses; Change and Release management; Information management; Programme planning; Connectivity; migration.

PMSG and CCG meeting are planned up to April. It is expected that in May the PB can forward the FA to GC as well as to ESMA and European Commission. Once approved by GC, the FA proposal will be send to CSDs, to be signed in September/October this year.

Concerning migration waves, the current proposal is: 1<sup>st</sup> wave (September 2014), BOGS (CSD of Bank of Greece, Monte Titoli and Romania CSD – SITEME has not yet decide in which wave it will migrate to T2S; 2<sup>nd</sup> wave will be in February 2015 and 3<sup>rd</sup> wave will be in May 2015 (Clearstream and Euroclear, among others). A contingency wave begins in September 2015. The migration plan still requires more work and clarification.

### **3. CSD Contact Group (CCG) and TCI activities:** presentation - Interbolsa

CCG activities were mentioned in point 2 dedicated to FA negotiations.

### **4. Project Manager Sub-Group (PMSG) activities:** presentation - Banco de Portugal e Interbolsa

PMSG activities intensified recently in order to close the open issues.

### **5. Other business**

SITEME representative informed participants on the CCBM2 Information Session, to be held in Brussels, on 24<sup>th</sup> February. Invitation will be send shortly to Interbolsa and to major counterparties.



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This session aims at providing detailed information on the current state of the project and technical issues, in order to facilitate adaptation activities and preparation to migration.

Furthermore, Banco de Portugal will promote, probably in March, in Lisbon, an information session focused in specific national market issues, namely harmonisation of collateral management at European level and interaction of counterparties and CSD with the CCBM2 platform.

It is not expected that the implementation of CCBM2 will bring significant impact in the adaptation process of Interbolsa (beyond the communication channel with Eurosystem and the process of mobilizing/demobilizing securities guarantees); however, on counterparties' side changes are expected to be more significant and hence Banco de Portugal will promote an increasing process of interaction and of institutions' active participation in the phases of the project.

Currently, the decision concerning the migration wave of the Portuguese market to CCBM2 has not being taken.

The Chair of the Portuguese NUG asked participants' comments or suggestions of the following phrase that he will send to the February T2S OnLine publication:

*"The T2S Programme will consolidate securities post-trade infrastructure and promote financial integration in Europe.*

*As a public undertaking of the Eurosystem, a successful T2S should provide a level playing field to all markets, ensuring long-term net benefits to all stakeholders."*