

T2S

Impacts of NBB – SSS

Adaptation plan: phase 1- December 2014

LCH.Clearnet SA CCP Clearing Services

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Abbreviations

BIF (LCH.Clearnet proprietary file)	Buy in Information File
CMF	Clearing Member Firm
CA	Corporate Actions
DEAG	Delivery Agent
DVP	Delivery versus Payment
DWP	Delivery with Payment
FoP	Free of Payment
ISD	Intended Settlement Date
LCH.C	LCH.Clearnet SA
PFoD	Payment Free of Delivery
POA	Power of Attorney
REAG	Receiver Agent
SIF (LCH.Clearnet proprietary file)	Security Information File
T2S	Target 2 securities

1 Introduction

NBB SSS signed in June 2012 the framework agreement to outsource the settlement of eligible securities in NBB-SSS to T2S.

This migration will be undergone in a 2-phase approach:

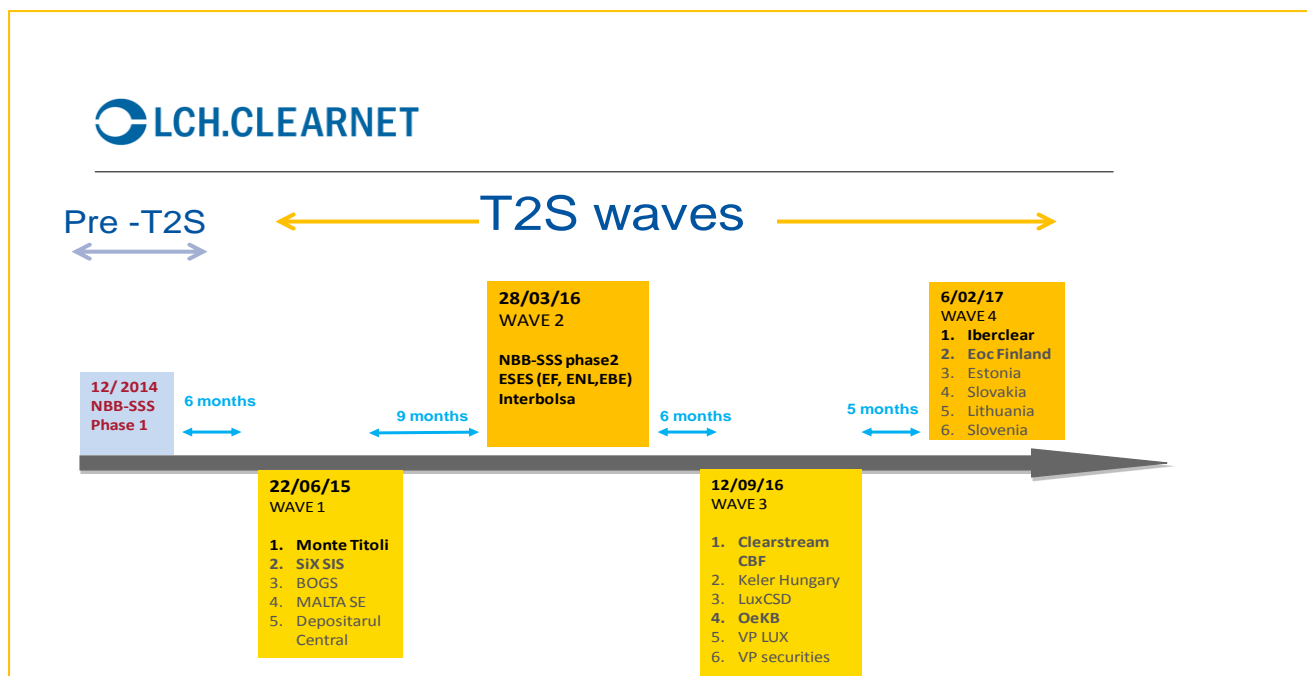
- **Phase 1: “Pre – T2S” - December 2014:** the total reengineering of current NBB-SSS Custody/Settlement platform and replacement by a new one 80% compliant with T2S features. This new platform is called RAMSES.
- **Phase 2: “T2S Waves 2” - March 2016:** the actual migration to T2S in the second migration wave of T2S.

LCH.Clearnet SA (LCH.C) is CCP of 7 markets migrating to T2S and considers the changes of NBB-SSS as a pre-T2S wave ahead of the 4 waves defined by the Eurosystem.

LCH.C as CCP for Euronext Brussels market on government and corporate bonds settling in NBB-SSS identified both the impacts and opportunities resulting from the enhanced settlement services of NBB-SSS changes of phase1.

Here below the overall T2S program for LCH.C clearing activities (in bold current direct participant in the CSD). LCH.C declared its access to T2S as Direct Connected Participant and will use the ISO20022 messaging standards.

As NBB-SSS offers as of phase 1 the usage of ISO20022 messages, LCH.C decided to be prepared with these changes as part of its long term strategy vis-à-vis its access to T2S.



The objective of this document is to identify the changes of our clearing services due to this NBB-SSS phase 1 (restricted to our Clearing members firms (CMF) active in this specific Brussels clearing segment.)

2 Current Clearing flows from Trading to Settlement

LCH.C captures the trades executed on Euronext and becomes the actual counterpart of both the buyer and the seller of the trade and is in charge of the trade novation mechanism.

On Settlement date minus 1 (i.e. 2 business days after the trade date), LCH.C extracts all trades and prepares the netted obligations per clearing member's Delivery Accounts.

The netting results will generate the settlement instructions.

Via the Power of Attorney (POA) facility, LCH.C generates both legs of the settlement instructions in ISO15022 format ensuring 100% of matching in NBB-SSS. The settlement starts on S and almost 99% of transactions are settled on S.

Despite this very high level of settlement efficiency, combined with the lending service of "Fond des Rentes" for a limited number of ISIN, it could occur that fails remain at the end of the settlement accounting day.

In such case, the fails' instructions are cancelled by NBB-SSS at the end of day S at the request of LCH.C. In its internal open positions, LCH.C replicates the cancellation process and re-input a new settlement obligation with the same characteristic except the ISD which becomes the next settlement day.

3 Phase 1: December 2014 Changes

3.1 Use of T2S account structure for the security account in NBB-SSS

For settlement purposes, the BIC id of LCH.C will be BACPFRPPXXX. It shall be used as “DEAG” or “REAG”.

The current LCH.C security account “7002” for settlement purposes will become “NBBE100870020922”.

The following sub account attached to the main one “7002” will be dedicated for buy-in activity:

“NBBE100870020114”.

For collateral purpose, the BIC id of LCH.C will be BACPFRPPBRU. It shall be used as DEAG or REAG.

The current LCH.C security account “9995” for collateral purposes will become “NBBE100899951078”.

3.2 Facilities offered by the usage of ISO20022

3.2.1 Already matched transactions and strange nets:

LCH.C will send to NBB-SSS, transactions in “already matched” status

A large majority of netting results are DVP. Nevertheless some strange nets may occur like:

- A “cash only” or (more exactly a Payment free of Delivery (PFoD) when the clearing member has bought and sold the same quantity of a security but at different prices.
- A “Delivery with payment” DWP when both securities and cash have the same direction.
- A Free of payment FOP when the net obligation is only a quantity of securities with no associated cash

In phase1 (cf table on next page), LCH.C will benefit from the ISO20022 facilities and use of all net cases **at the exception of “DWP” which will continue to be processed by one “FOP” and one “PFOD” until T2S goes live.**

The securities movement type will be “DELI” so that the delivering party is alternatively LCH.C (when the CMF is net buyer vis à vis LCH.C) or the CMF (when the CMF is net seller vis à vis LCH.C).

The instruction type will be “APMT” for all the instructions (including strange nets) ensuring that all fails are final at the end of the DVP window at 4pm. Once the DVP cut-off time is reached, the final fails are recycled for the next accounting day.

The details are given below:

Netting result	DVP	PFOD	FOP	DWP Not used for phase 1
Instruction type	APMT ¹	APMT	APMT	APMT
Message	Sese 023	Sese 023	Sese 023	Sese 023
Matching status	MACH Already matched	MACH Already matched	MACH Already matched	MACH Already matched
From	LCH.Clearnet	LCH.Clearnet	LCH.Clearnet	LCH.Clearnet
to	NBB SSS	NBB SSS	NBB SSS	NBB SSS
Securities movement type	DELI	DELI	DELI	DELI
Delivering party	LCH.C or the CMF	LCH.C or the CMF	LCH.C or the CMF	LCH.C or the CMF
Quantity	X	0	X	X
Cash amount	Y	Y	0	Y
Cash direction for the delivering party	CRDT ³	CRDT	CRDT	DBIT ²

¹APMT = Against payment

²DBIT: Debit

³CRDT = Credit

The counterparty will receive according to their profile, MT548 or sese.024 after the creation of the instructions in the NBB-SSS. Those messages contain the details of the LCH.C transactions.

3.3 Settlement instruction priority

LCH.C as CCP will settle with the top priority in RAMSES (level 2).

The top priority is set up by default on the CCP account in RAMSES.

3.4 Hold and Release

LCH.C will put all the instructions in a release status.

However, it cannot prevent a participant to put it “on hold” temporarily.

A pending transaction not released at the end of DVP window, will be considered as “fails” and will trigger a calculation of a penalty fee at LCH.C.

3.5 Partial settlement

LCH.C will participate in the partial settlement to maximise the settlement of transactions from the seller to the CCP and the CCP to the buyer.

LCH.C will indicate “PARQ” in the partial parameter meaning that the partial settlement will be triggered based on the minimum settlement unit and multiple settlement unit defined in the static database of RAMSES.

3.6 Withholding taxes

When required, the NBB-SSS will automatically generate the withholding tax transactions according to the X/N status of the involved safekeeping accounts. As a reminder, the CCP account is always X.

3.7 Cancellation

With the PoA given by the CMF to LCH.C, the cancellation request of LCHC on will apply to both legs at once, with no intervention of the counterparty.

3.8 Fails recycling

- **Processing:** All fails at the end of DVP window, will be recycled automatically by NBB-SSS. The current cancel / (re)-instruct processing will disappear. When recycling fails, NBB-SSS will keep the original LCH.C reference and the original ISD.
- **Reporting:** in the proprietary file “SIF”, the book entries types “MCR” in the record type “40” and “MDE” in record type “50” will disappear.

Instead, fails will be reported every end of day in the SIF File under the record type “20”, until actual settlement takes place in NBB-SSS.

- Record 40 = Position create manually by LCH.C
- MCR = Manual creation
- Record 50 = Position cancelled manually by LCH.C
- MDE =Manual deletion

3.9 Corporate Actions on flows (market claims and transformation)

LCH.C and their clearing members will participate by default in the process of corporate actions on flows of NBB-SSS. This feature is made through a parameter at the level of the securities account and handled by NBB-SSS.

3.9.1 Interest payment

NBB-SSS will detect and create a market claim transaction on fails at Record date. A new outturn will be generated and should settle on Payment date. LCH.C will not report these market claims transactions in the SIF file.

3.9.2 Reimbursement at maturity date

NBB-SSS will detect and raise a transformation on fails on Record date. A cancellation of the original transaction followed by and a new cash outturn (PFoD) that should settle on the payment date (PD) of the corporate actions (CA).

The cancellation of the fails due to the CA will be reported in the SIF file under record type "50" and the book entry type "MD1" "manual deletion specific to corporate event. This process will be executed on PD.

3.10 Mandatory Buy in and cash compensation

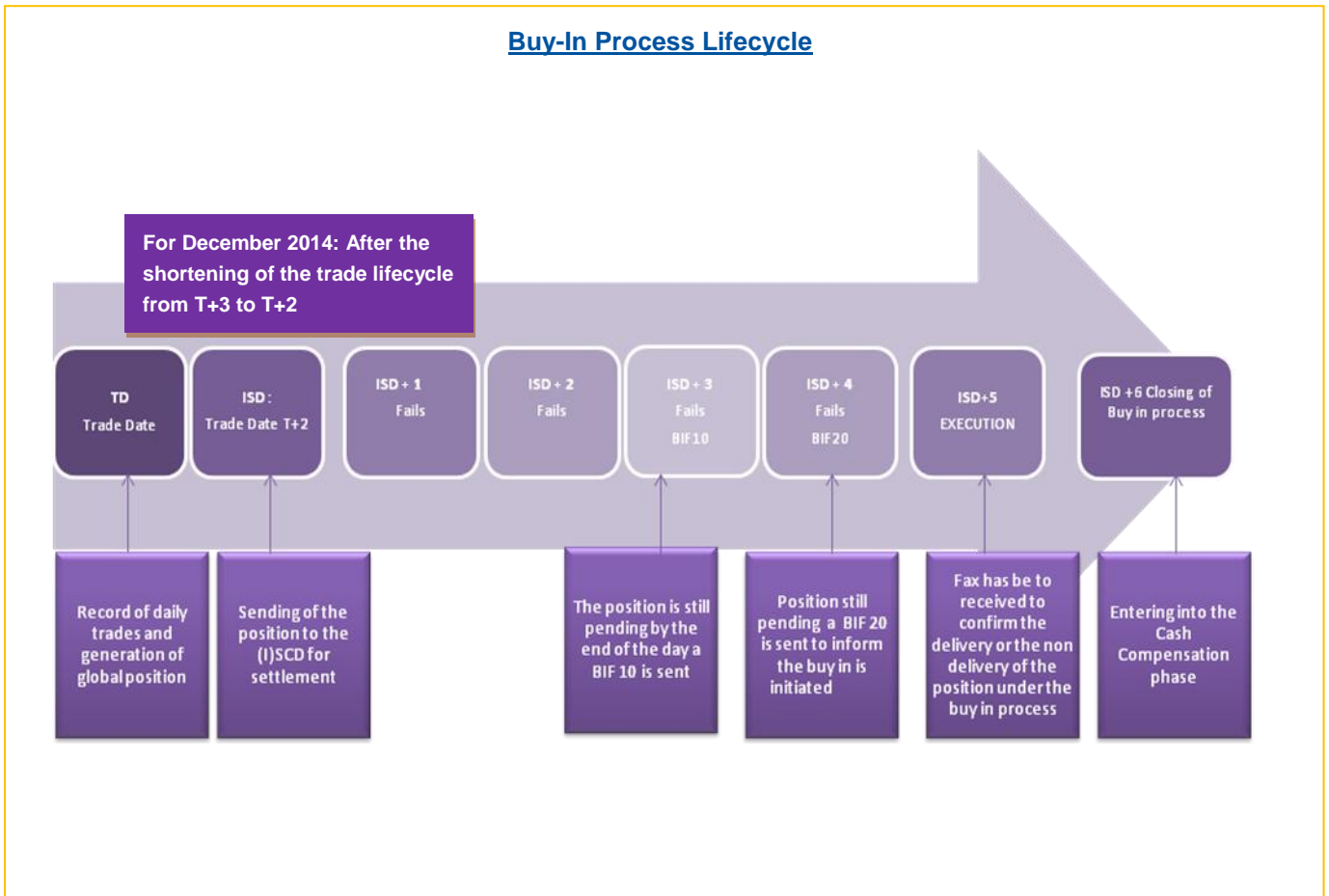
At the exception of the reduced service of lending and borrowing operated jointly by the "Fond des Rentes" and LCH.C for a limited number of ISIN, any fails recycled beyond 4 business days after the ISD will trigger the buy-in procedure. The CCP rules detailed in the Instruction number III.4-2 will be applicable.

Please find below the link to access the instruction: http://www.lchclearnet.com/Images/III%204-2%20VA%2026%2010%202012+maj2013-12-12_tcm6-62547.pdf

We remind the principles of the buy-in:

- Warning of potential buy-in at ISD+3 end of day (reported in BIF file record 10)
- Initiation of the buy-in at ISD+4 end of day (reporting in the BIF file record 20)
- Calculation of a buy-in fee
- Execution of the buy-in: delivery of the requested quantities from the seller or any other security provider until ISD+5 **3pm**. The securities will need to be delivered to the following account **NBBE100870020114** of LCH.C
- Closing of the buy-in on ISD+6

- Reminder of Buy-In process principles:



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