

<b>General Information (Origin of Request)</b>		
<input type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
<b>Request raised by:</b> Banca d'Italia	<b>Institute:</b> Central Bank	<b>Date raised:</b> 09/10/2013
<b>Request title:</b> Primary CMB BIC		<b>Request ref. no:</b> T2S 0429 SYS
<b>Request type:</b> Common		<b>Urgency:</b> Normal
<b>1. Legal/business importance parameter:</b> High	<b>2. Market implementation efforts parameter:</b> Low	
<b>3. Operational/Technical risk parameter:</b> Low	<b>4. Financial impact parameter:</b> Low	
<b>Requestor Category:</b> Central Bank	<b>Status:</b> Authorised at Steering Level	

#### Reason for change and expected benefits/business motivation:

Today, banks have varying BIC structures from country to country and institution to institution. There will be a very high complexity for banks to implement their BIC structures in a centralised way in T2S according to the limitations introduced by T2S (BIC 8 must be the same for the auto-collateralisation).

It would entail that banks change the use of their BIC structure and potentially have to apply for new BICs, to accommodate the limitations introduced by T2S. Using new/other BICs would have other impacts such as matching practices. Not implementing the CR would impose operational burden on market participants.

The topic was discussed in the T2S Advisory Group and AG members indicated that the workarounds which are required are very complex. They also highlighted that in the absence of an acceptable solution, the benefits of T2S in terms of cash and collateral optimisation would not be fully reaped and, depending on how far this is the case, it could translate into an impact on T2S volumes.

Market participants are of the opinion that the validation for setting up the link between securities and cash accounts should not be based on a fixed number of characters of the BIC, especially as SWIFT has communicated that the BIC code will in the future not consist of meaningful characters anymore.

#### Description of requested change:

To introduce the same flexibility allowed to non-primary CMBs, granting counterparties the possibility to use the BIC11 together with the wild card pattern instead of the BC8. In this context, the constraint on the primary CMB as a link between the payment bank DCA and the payment bank BIC should be removed, allowing the link between the payment bank DCA and whatever BICs. The technical constraint could indeed limit the possibility of a PB in its operating set-up.

The Credit Memorandum balance (CMB) allows tracking the limits use:

- Between the Central Bank and the Payment Bank (auto-collateralisation limit), i.e. the so called primary CMB;
- Between the Payment Bank and its client (external guarantee limit, client-collateralisation limit and unsecured credit limit), i.e. the so called non-primary CMB.

The primary CMB is set-up by the NCB; according to the business Rule DCC6048<sup>1</sup> (UHB page 1499) a BIC8 must be used in this scenario, in other words, the primary CMB links a DCA to all the BIC11 having the same BIC8 root.

This implies that:

- all securities accounts linked to this DCA, associated to parties, in whatever CSD they are located, that have their first BIC's 8 characters equal to such a BIC8, cannot be managed through a non-primary CMB.

<sup>1</sup> Business Rule DCC6048: When performing a Credit Memorandum Balance create request, if the Primary CMB is set to true, only one Wildcard Pattern must be specified and it must be equal to the BIC8 of Party Mnemonic of the Party holding the relevant T2S Dedicated Cash Account.

- all securities accounts linked to this DCA, associated to parties, in whatever CSD they are located, that have their first BIC's 8 characters different from such a BIC8, can only be managed through a non-primary CMB.

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**Submitted annexes / related documents:**

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**Proposed wording for the Change request:**GFS

Section 3.3.10.3 Description of entities – 2. Credit Memorandum Balance (SDMG.DCA.ENT.2.1) shall be modified as follows:

This entity includes all reference data for Credit Memorandum Balances defined on T2S Dedicated Cash Accounts {T2S.16.616}. The Credit Memorandum Balance is the mechanism to track the credit provision of a payment bank to one of its clients for a T2S Dedicated Cash Account on which the payment bank can set and monitor the external guarantee limit, the unsecured credit limit and the auto-collateralisation limit. T2S creates a Credit Memorandum Balance for the payment bank when an NCB creates a new T2S Dedicated Cash Account for the payment bank {T2S.16.611} and it specifies the relevant BICs of this payment bank (the authorised system user can define a set of BICs selecting them one by one or using wildcards to specify multiple BICs at the same time. Single BICs and wildcards can be specified either in positive or negative mode, in order to include or exclude them from the set of BICs that will be linked to the Credit Memorandum Balance). T2S requires the NCB the set up of the auto-collateralisation limit for the same T2S Dedicated Cash Account at the same time.

T2S also create a Credit Memorandum Balance for a given T2S Dedicated Cash Account when the payment bank holding the account authorises one of its clients (by specifying the relevant BICs of this client in the same way described above for the payment bank-to use this account for settlement.

Furthermore footnote 44 on the same section shall be removed.

UDFS

Section 1.2.6.7 "Links between securities accounts and T2S dedicated cash accounts" shall be modified as follows:

In all cases, a securities account is always linked to a T2S dedicated cash account via a Credit Memorandum Balance (CMB). A CMB is a tool T2S uses to track the provision of credit from CB to payment banks (for central bank collateralisation) and from payment banks to their clients; it is a combination of T2S dedicated cash account and BIC of the party authorised to use the account.

A CB may authorise its payment banks for central bank collateralisation and a payment bank may authorise one or more of its clients to use the payment bank's T2S dedicated cash account for the settlement of their instructions. Each authorisation results in the creation of a new CMB for the given T2S dedicated cash account and in the assignment to the new CMB of a BIC (or set of BICs) of the payment bank or client legal entity, which may correspond to multiple parties in T2S, authorised to use the T2S dedicated cash account. The assigned BIC (or set of BICs) must not overlap with any other BIC (or set of BICs) defined for the same T2S dedicated cash account in order to guarantee the uniqueness of the link between the T2S dedicated cash account and the securities account of the payment bank or payment bank's client.

In the same section, table 17, page 96 (Central bank configuration) shall be modified as follows:

This action results in the creation of a Credit Memorandum Balance, which is linked to one or more BICs defined by the Central Bank.

The BIC of the new CSD Participant matches with the BICs linked to the Credit Memorandum Balance created as a result of step 2.

In the same section, table 18, page 99 (Configuration for central bank collateralisation) shall be modified as follows:

This action results in the creation of a Credit Memorandum Balance, which is linked to one or more BICs of the Payment Bank and to the specified T2S Dedicated Cash Account and Securities Accounts.

The BIC of the new CSD Participant matches the BICs linked to the Credit Memorandum Balance created as a result of step 3.

#### UHB

Section 2.5.4.3 "CMB New/Edit Screen" shall be modified by removing all references to business rules DCC6048, DCC6049 and DCU6047.

Section 4.4.56 "CMB New/Edit Screen" shall be modified by removing all references to business rules DCC6048, DCC6049 and DCU6047 and by updating business rules DCC6050 and DCU6058 and adding the new business rule DCC6060 as follows:

DCC6050: When performing a Credit Memorandum Balance create request the specified list of Wildcard Pattern/Inclusion Mode must not overlap with T2S CMB BIC lists already defined or provided in input for the relevant T2S Dedicated Cash Account.

DCU6058: When performing a Credit Memorandum Balance update request the specified list of Wildcard Pattern/Inclusion Mode must not overlap with T2S CMB BIC lists already defined or provided in input for the relevant T2S Dedicated Cash Account.

DCC6060: When performing a Credit Memorandum Balance create request, at least one Wildcard Pattern with Inclusion Mode set to True must exist for the relevant CMB.

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#### **High level description of Impact:**

It should provide the same level of flexibility on the set-up of the primary CMB as on the secondary CMB, via a wildcard implementation. This must also ensure that the securities account linked via the primary and the secondary CMBs are mutually exclusive (i.e. do not overlap).

The benefit of this change will be to allow the flexible set-up of the CMBs for auto-collateralisation and client collateralisation for banks, in accordance with their Central Banks. It will allow banks to implement the BIC structures that they currently have in place also in T2S. However, the set-up of the BICs for the links between securities accounts and cash accounts will not be decoupled; i.e. the same securities account-cash account links would be used for validation during settlement and provision of collateral in T2S.

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#### **Outcome/Decisions:**

\* CRG meeting of 24 October 2013: The CRG decided to put the Change Request on hold as further discussions are required in the context of a dedicated workshop on auto-collateralisation on 29 November 2013.

\* CRG meeting of 16 December 2013: The CRG decided to amend the Change Request to only cover the option 1 as presented by the Change Request and launch the detailed assessment of this amended Change Request. The CRG also decided to create a new Change Request with the option 2 presented by the Change Request and park it for a future release of T2S potentially.

\* CRG meeting of 10 February 2014: The CRG recommended the approval of the Change Request.

\* Advisory Group's advice on 12 March 2014: Following a written procedure from 6 to 12 March 2014, the AG was in favour of the Change Request.

\* CSG resolution on 12 March 2014: Following a written procedure from 6 to 12 March 2014, the CSG adopted the resolution to approve the Change Request.

\* T2S Board meeting of 2-3 April 2014: The T2S Board decided to make the following amendment on the proposed wording of the Change Request:

"(...) This action results in the creation of a Credit Memorandum Balance, which is linked to one or more BICs of defined by the Central Bank. (...)"