

TARGET2-Securities: Observations relating to Monte Titoli and the repo product

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Introduction

The European Repo Council Operations Group has recently received several questions regarding the Monte Titoli (MT) entry into TARGET2-Securities (T2S). These have been specific to the repo product and also the additional settlement referencing required into T2S from MT.

The following note highlights the practical and procedural interpretations of these which we hope will reduce operational risk during and after the migration to the new system. The note focuses on three key issues related to repos and MT post-T2S:

- (i) Off-leg rep mismatches
- (ii) Term repos
- (iii) Standard settlement instructions

1) Off leg repo mismatches

When an open repo is terminated at the option of the buyer or seller or a fixed-term repo is terminated early, the confirmation/affirmation and settlement instructions for the close-out leg must include its transaction date.

Some parties have used the transaction date of the opening leg of the repo but others (who book repos as separate transactions for reasons of operational simplicity) have used the transaction (trade) date of the close-out leg. For example, consider an open repo in a market that settled T+2 that was transacted on 13 July for a Purchase Date of 15 July. Assume the repo is closed out by the seller on 20 August for a Repurchase Date of 22 August. Some parties would book the transaction (trade) date of the close-out leg as 13 July; others would book 20 August. However, as T2S will make the Trade Date a mandatory matching field the latter practice will not be possible for transactions settled across T2S, as this will cause trades not to match where counterparties use the original transaction date. Parties currently using the latter practice who intend to settle across T2S will need to address this problem.

In order to mitigate this, it would be recommended to ensure regular reporting is enabled with the agent and bilateral discussions ensued with clients to agree conventions and practice on bookings. Instructions could also be provided to agents to match the trade date of incoming transactions which would still break straight-through-processing (STP) but reduce the delay in processing with the additional workflow for approval and repair.

The ERC Operations Group believes that best practice is to use the original trade date, i.e. 13th July in the above example, although, for practical reasons, firms that need to get a trade to settle late in the value date window might need to be flexible in this case.

The increased sensitivity we have in Italy on the 'go-live' into T2S relates to the transition from the use of 'Shaping' to the use of 'Partial Settlement'. Where we have open transactions ('opens') closed on Value Date-1, the mismatches may not be resolved prior to the Night Time Settlement Cycle (and first Partial Window), and therefore there will not be an opportunity to Partial again until 14:00 CET which may cause an intraday disruption in liquidity.

2) Term Repos

If the maturing leg is greater than 31st Aug, would the agent reject the SWIFT confirm based on the Party 1 field? Would the expectations be for the firm to retouch all term/open deals on 31st?

Any trades that are matched will be copied automatically by Monte Titoli to T2S in an already matched status. Any unmatched trades should be re-instructed into T2S by the local agent who will attempt to map to the new Standard Settlement Instructions (SSIs), however this process should be confirmed directly with local agent prior to the migration date.

3) Standard Settlement Instructions

Is there any change required to a firm's standard settlement instructions following MT's go-live into T2S?

Yes. The BIC11 change is that each Monte Titoli CSD level account has been assigned a unique BIC11 which will be mandatory for matching in T2S. For a firm's main account, currently they will provide their local agent's main BIC11 (i.e. PARBITMMXXX the Monte Titoli Code 60086 and the XTRM Code 574).

Post T2S the SSI where firms have a segregated account (60086) at Monte Titoli will need to be linked to the unique BIC11 PARBITMM018 to distinguish it from other agent owned accounts. These accounts should be advised to third parties before the migration and allow sufficient time for this information to be loaded in firms' data warehousing. We would encourage this information to be shared immediately.

There is also the new format T2S SAC which is optional for matching purposes. For clients and counterparties its use will really depend on whether they have a segregated account at Monte Titoli or not. If they have, then we would expect them to provide at minimum the new BIC11 linked to it. If they are part of an omnibus account (for example where custody clients may be under an omnibus account at Monte Titoli) then current BIC11 will still be valid (i.e. PARBITMMXXX in the Custody case).

Here is an example of the newly formatted instructions for JP Morgan as a dealer as an example, operating a segregated account:

Standard Settlement Instructions	
Sub-Custodian	BNP Paribas Securities Services Milan Branch Via Ansperto, 5 20123 Milan (Italy)
CSD of the delivering/receiving party (PSET)	MOTIITMMXXX
Delivering/Receiving agent or Party 1 (DEAG/REAG) – BIC 11	PARBITMM018
Client of the Delivering/Receiving party or Party 2 (BUYR/SELL) – BIC 11	JPMSGB2LXXX
Securities Account in T2S (SAC)	MOTIPARBITMMXXX6008600

*The X-TRM code is 574. Please note that this is a Monte Titoli proprietary code that **will not be used for matching in T2S**. However, it will continue to exist in the Monte Titoli static data and may be used by some institutions.*