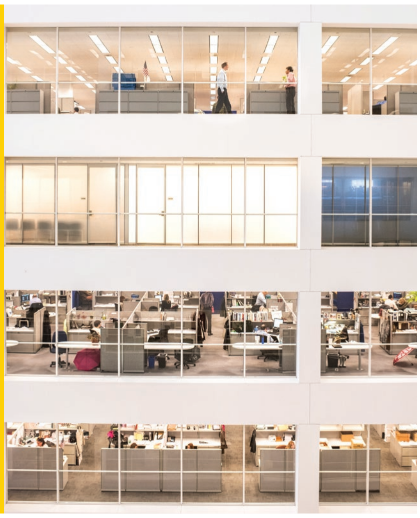

RealTime

BNY Mellon's Newsletter on TARGET2-Securities and Market Infrastructures

OCTOBER 2015

Tom Casteleyn
Managing Director, T2S &
Market Infrastructure

Dear Reader,

Welcome to the fourth edition of the BNY Mellon European market infrastructure newsletter 'RealTime', and the first edition that has been published following the Wave 1 T2S migrations which have all now been successfully completed.

In this edition you will find two articles providing updates following the Wave 1 migrations. The first looks at the four markets that migrated to the T2S platform on 22nd June this year. The second article then concentrates purely on the Italian migration, which took place on August 31st.

2016 will be a big year, both for the T2S project as a whole and for the BNY Mellon T2S strategy, as this will be the year when we will start to migrate assets to our direct DCP model. Within this newsletter, we have included an article discussing BNY Mellon's plans for 2016; how we are preparing for Wave 2 of T2S in March next year, as well as other significant milestones that will be achieved throughout the year.

As you will know from previous newsletters, the BNY Mellon European Payment Bank has been live and running since June this year. In this edition we will look at how this initiative has been progressing over the past few months, as well as how the Payment Bank will co-exist alongside the T2S DCP model that will be implemented in 2016 to strengthen our position at the heart of the European market infrastructure.

In THE REAL IMPACT column, James Cunningham discusses the progress of the Spanish Market Reform and its significance for the T2S harmonisation effort. Lastly, following the successful publication of our T2S Client Handbook earlier this year, BNY Mellon will be producing an updated version of the Handbook which we target to issue by the end of 2015.

As ever, should you wish to receive further information concerning the BNY Mellon T2S programme, or subscribe to future BNY Mellon T2S publications, please do not hesitate to get in contact with us using our T2S email address

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Tom Casteleyn
Managing Director, T2S & Market Infrastructure

BNY MELLON

Wave 1 Update – Greece, Malta, Romania and Switzerland

The first four markets to migrate to the T2S platform were Greece, Malta, Romania and Switzerland with these migrations taking place over the weekend prior to Monday 22nd June 2015.

For Romania and Switzerland this change impacts settlement in EUR only. Romanian settlement activity in Romanian Neu Leu (RON) did not migrate to T2S and in Switzerland, non-euro settlement activity continues to be matched and settled in-house with SIX SIS (SECOM).

From a BNY Mellon perspective, our T2S strategy for these markets is to retain or sub-custodian model, so we are accessing the T2S platform indirectly, via our sub-custodians.

To that extent, the impact to our clients has been minimal as clients have continued to instruct BNY Mellon as their Global Custodian in the usual way. The only significant change to client instructions is the requirement for clients to use 11 digit BICs to identify their counterparties, whereas prior to the migration of the CSDs in these markets to the T2S platform, counterparties could be identified using the 8 digit BIC format.

Wave 1 Update – Italy

Following a slight delay from the initial intended migration date of the 22nd June, the migration of the Italian CSD Monte Titoli to the T2S platform took place on August 31st 2015.

BNY Mellon's strategy for Italy is that we will become direct to the CSD in this market but that in the short term we have migrated to the T2S platform using our existing sub-custodians.

The reason for this is partly strategic in that this approach allows us to monitor the migration in the market and wait for the post migration stabilisation process to work its way through. It also allows us to fully implement our direct model, which includes the direct provision of portfolio servicing activities, such as income processing, corporate actions and tax services, which we will be providing ourselves as part of our direct model.

Prior to the migration of the Italian market to the T2S platform on August 31st, BNY Mellon took a full part in authorisation testing with Monte Titoli and successfully completed all testing activities and received the necessary approvals. Now that both our cash and securities DCP connections are signed off, we are able to migrate client positions to our direct accounts with Monte Titoli on the T2S platform at a time of our choosing.

The next steps are that in the fourth quarter of 2015, BNY Mellon will move some in-house proprietary assets to our direct accounts with Monte Titoli. We will then use these assets to perform some live T2S testing and to examine the behaviours of T2S when it comes to portfolio servicing activities such as income distribution processing and asset maturities.

As a final step to implementing our direct model in Italy, we will migrate our clients positions from the current sub-custodians to our direct accounts with Monte Titoli on the T2S platform in July 2016. The timing of this move is to enable us to ensure that the direct model to support the Italian market is fully operational, whilst at the same time waiting for Wave 2 of T2S to have passed in March 2016 and allowing time for the main Italian dividend and corporate action season to have passed to ensure a smooth transition.

Wave 2 Update and BNY Mellon Plans for 2016

Wave 2 of T2S is scheduled for March 28th 2016 and will see the migration of the Euroclear domestic CSDs in the ESES markets; Belgium, France and the Netherlands as well as Interbolsa as the Portuguese CSD and for these markets, BNY Mellon will be adopting a three tier approach in terms of how we will respond to the T2S migrations.

First, as we are already direct to Euroclear Nederland as the Dutch CSD, for this market, BNY Mellon will become DCP on T2S for the Dutch market on the scheduled migration date of 28th March 2016.

Changes for BNY Mellon clients will not be overly substantial, but will include the use of 11 digit BICs as part of client and counterparty SSIs as the T2S platform operates in BIC11 and not BIC8 format. Additionally, account numbers at the CSD will now change to new account numbers created using the T2S standard format.

Secondly, for the other two ESES markets migrating on 28th March 2016; Belgium and France, BNY Mellon will pursue the same strategy as with the Italian migration in that we will initially migrate to the T2S platform with our sub-custodians before moving to our direct DCP model at a later point in time, in this case November 2016.

Finally, for Portugal, BNY Mellon will be retaining our sub-custodian model, so will access the T2S platform indirectly, as with the Greek, Maltese, Romanian and Swiss markets in Wave 1.

Prior to Wave 2, BNY Mellon will be issuing further detailed documentation informing clients of the changes occurring and what this means to them, for all of the impacted markets. We will then repeat this process as we progress throughout 2016, in advance of any T2S client or wave migrations.

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European Payment Bank Update

On 1 June 2015, BNY Mellon SA/NV successfully launched its new direct TARGET2 clearing link though its Frankfurt branch. This has brought Investment Services clients one step closer to the market for payments, by eliminating the need for a third-party correspondent bank, resulting in faster turn-around, improved deadlines and simpler Standard Settlement Instructions (SSIs).

The new direct TARGET2 connection is the latest step in the strategic multi-year investment programme that BNY Mellon has been making to transform payment processing for our global client base. The initiative is part of our commitment to provide effective customer-focused payment services for all currencies across all locations.

Since June 2015, over 100,000 payments have been cleared through the new channel with a total value of over €650 billion.

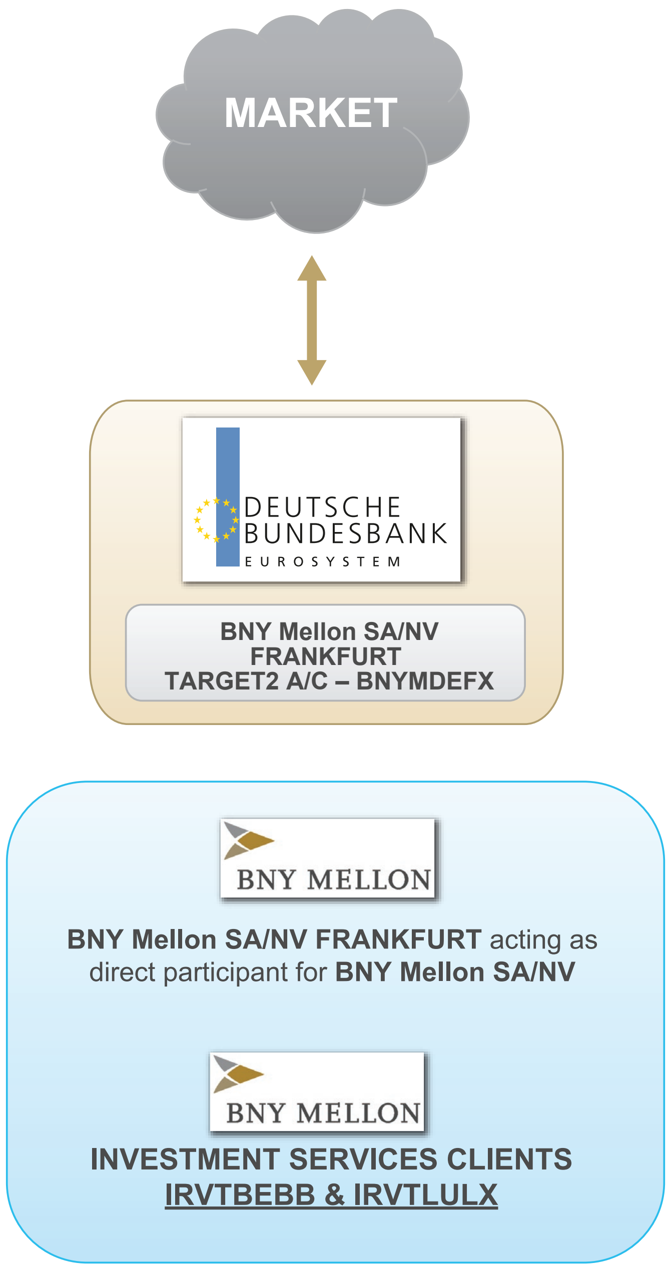
The June launch was also a significant milestone for BNY Mellon on the road to transformed securities settlement services with T2S. This new TARGET2 link will serve as the conduit for BNY Mellon to manage the cash linked to the settlement of securities trades in T2S as a Directly Connected Participant. The BNY Mellon T2S cash management workstream is actively engaged in completing the remaining activities needed to enable BNY Mellon to be its own payment bank in time for the progressive migration of securities settlement activity to its DCP model.

Becoming a direct TARGET2 participant and supporting BNY Mellon's payment bank needs for T2S is all part of BNY Mellon's ongoing commitment to direct market access, complementing BNY Mellon's strategy in the US and the UK.

BNY Mellon's New Euro Payment Structure

BNY Mellon SA/NV using SA/NV Frankfurt as Direct Participant:

BNY Mellon SA/NV Frankfurt holds a TARGET2 settlement account at the Deutsche Bundesbank. IRVTBEBB and IRVTLULX EUR payments and receipts will settle over SA/NV Frankfurt's TARGET2 Settlement account



THE REAL IMPACT
Past successes and future work – T2S and Spain

In a justifiably celebratory speech at the T2S launch event on 2 July in Milan, Yves Mersch, who is the member of the ECB Executive Committee with direct oversight responsibility for T2S, made some extravagant claims.

He acclaimed the achievements of T2S, described its "unique collaborative effort", and argued that "owing to its post-trade harmonisation agenda it has evolved into a market-driven initiative which is supported by the public sector".

That there is overstatement is clear, but there are elements of truth.

These include that the launch of T2S is a great achievement, that the success of T2S is due to the joint work of the public and private sectors, and that the T2S harmonisation agenda is a major component of the T2S project.

Looking at the progress of the T2S harmonisation agenda, as described in the official reports published by the T2S Advisory Group, a mixed picture emerges.

It is undeniable that significant progress has been made. But perhaps the single most important success story of the T2S harmonisation effort shows a more complex truth.

The Spanish securities settlement process, and in particular the Spanish system of "registry references" (RRs), have long been viewed as the most notable example of a specific national market practice that is inconsistent with T2S.

To their credit, the Spanish authorities recognised this very early on, and in December 2007 the Bank of Spain and the Spanish National Securities Market Commission published a report setting out options for change.

Eight years later, we are very close to the implementation of a major reform of Spanish market practices. Under current plans, a major reform of the Spanish market will go live on 3 February 2016.

This reform will include the introduction of a central counterparty, a shift in the determination of the finality of a transaction from point of trade to point of settlement, the use of a single technical settlement platform for equities and for bonds, and the elimination of the system of "RRs". This reform will be closely followed by the move of the Spanish market on 25 February 2016 from a T+3 to a T+2 settlement cycle.

These are very important, and very welcome, changes. But there are still concerns.

The current Spanish market reform includes the creation of a "Post-trading Interface" (PTI), which is an auxiliary system for the storage and exchange of information between the stock exchange, the CCP, the CSD, and CSD participants; this information will be used for supervisory purposes.

The concerns are that the PTI system itself, and the associated requirements on the structure of securities accounts at the CSD, will recreate a Spanish market specificity that will act as a barrier to accessing the Spanish market and Spanish market infrastructure.

What is under discussion is not the right of the Spanish authorities to gain information for supervisory purposes. Like all European supervisors, the Spanish authorities have legitimate concerns and objectives with relation to legal certainty, investor protection, and transparency to supervisors.

The discussion is really about how to create a common European approach to achieving these supervisory objectives. This may appear to be difficult, but this will be in line with the stated ambitions of the European Securities and Markets Authority for regulatory consistency, and with the plans of the European Commission to build a Capital Markets Union by 2019.

In the context of T2S harmonisation, and as in so many other areas, success leads to the next challenge.

James Cunningham
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