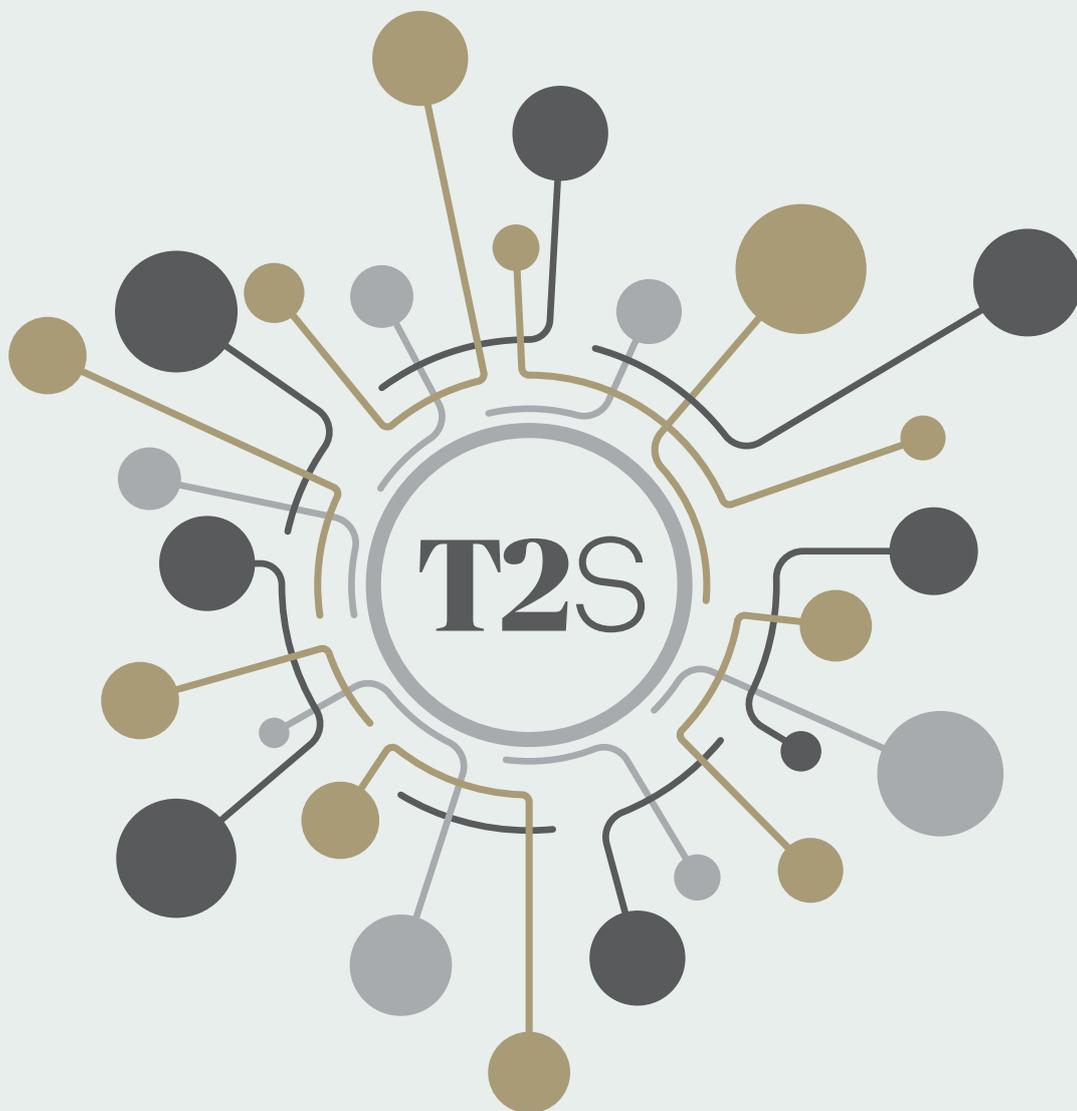


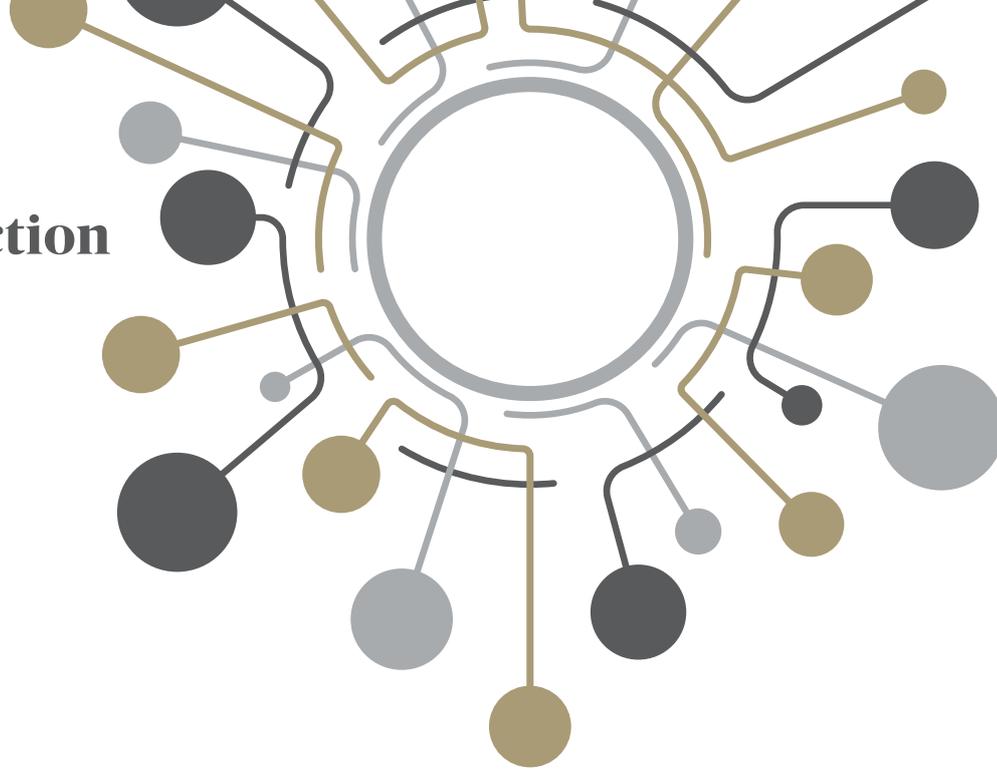
# BNY Mellon's T2S Strategy

[ September 2016 ]



BNY MELLON

# Introduction



In 2015, the first phase of TARGET2-Securities (T2S), the new pan-European settlement platform, went live. The impact of T2S will fundamentally change the European post-trade landscape. BNY Mellon has been and will continue to be at the forefront of these changes, bringing the benefits of the new platform to our clients, whilst minimising the technological and operational impact. To meet this objective, BNY Mellon is getting closer to the European market infrastructure utilising the technological changes being implemented as part of the roll out of the T2S platform.

As part of our T2S strategy, BNY Mellon will connect directly to the main markets in Europe. This will enable us to make improvements to our current settlement and custody services, such as improved settlement, cash and corporate actions deadlines and better integration between settlement and collateral optimisation.

In addition to this brochure, the BNY Mellon T2S communications programme also includes a T2S Client Guide, detailed impact documents for each wave, NetInfo® to formally notify you of specific changes and timelines and a periodic newsletter on T2S and market infrastructures that provides more general T2S information.

Lastly, all information contained in this second edition of the BNY Mellon T2S Strategy brochure supersedes the first version published in May 2015.

Should you have further questions, please contact the BNY Mellon T2S Project Team on [T2S@bnymellon.com](mailto:T2S@bnymellon.com).

**Tom Casteleyn**  
**Head of Custody, Cash and FX Product Management**  
**September 2016**

# 1. What is T2S?

In response to the current expensive and fragmented post-trade servicing landscape in Europe, the European Central Bank (ECB) proposed in 2006 to build a single pan-European settlement platform, named TARGET2-Securities (T2S). T2S is a single technical platform for the settlement of potentially all European securities against central bank money.

The European Central Securities Depositories (CSDs) that agree to be part of T2S will outsource the operation of their securities accounts and settlement process to T2S. Similarly, the National Central Banks (NCBs) within the euro area will outsource the operation of Central Bank Money (CeBM) cash accounts to the T2S platform for the purposes of settlement of securities transactions. Since both the cash and securities accounts are on the T2S platform, Against Payment settlement can take place on T2S.

It is important to note that T2S is not a legal entity. T2S is purely the platform to which both the CSDs and the NCBs outsource the settlement process. Any entity that wants to have a securities account or a cash account on T2S needs to open an account directly with each CSD that it wishes to connect with as well as at least one participating T2S NCB. However, it is possible for an entity to communicate directly with the T2S platform for all markets instead of having a different communication channel with each CSD. Such an entity is called a Directly Connected Participant (DCP).

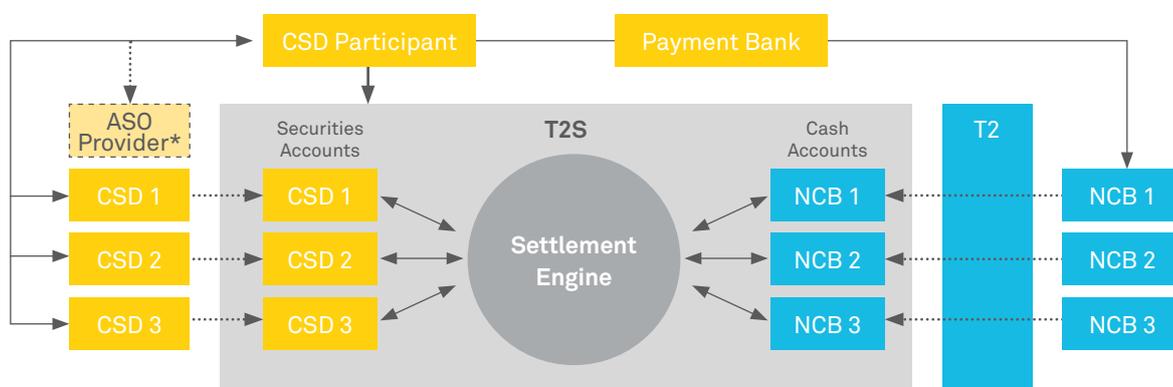
Currently, 23 CSDs across 21 countries have signed up to T2S. The settlement process for these 21 countries will take place on the T2S platform using the same settlement rules and cycles, thus harmonising and increasing the efficiency of European post-trade processing and reducing the cost per settlement.

However, it needs to be highlighted that T2S will only provide settlement services and will not provide portfolio services (income, tax, corporate actions and proxy voting). These portfolio services are still provided by the individual CSDs and although market groups are also working to harmonise these processes, each market will retain some degree of specificity when it comes to in particular income, tax and corporate actions.

T2S is being launched in five waves, starting with Wave 1 which began in June 2015 and completed in August 2015 and finishing with Wave 5 which will take place in September 2017. Each wave will contain a number of CSDs/countries that will move to T2S. The key markets from a trade volume perspective are Italy in Wave 1, France, Belgium and the Netherlands in Wave 3, Germany in Wave 4 and Spain in Wave 5.

The following diagram pictorially presents TARGET2-Securities as a single technical platform, for the settlement of potentially all European securities against Central Bank money.

## T2S – A SINGLE TECHNICAL PLATFORM



\*ASO Provider: Asset Servicing Only. A provider of portfolio services (income tax, corporate actions and proxy voting) independent from holding the balances or processing the transactions. An ASO service is optional and sits between the CSD and the participant.

## 2. BNY Mellon's T2S Strategy

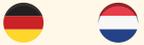
In order to be in the best position to provide our clients with all improvements offered by T2S, BNY Mellon - as a global custodian - has decided to be a DCP (Directly Connected Participant) on T2S in a selection of European Markets.

In addition to our existing direct connections in Germany and the Netherlands, we will use T2S and our DCP connection to open accounts directly at the local CSDs in Italy, France, Belgium and Spain which

will allow us to settle over 90% of all European activity that we process directly on T2S. In addition to the settlement services, BNY Mellon will provide safekeeping and portfolio services such as income, tax, corporate actions processing and proxy voting for all the markets in scope. The diagram below gives an overview of the current and future network for the T2S markets.\*

### BNY MELLON TARGET MODEL

T2S Markets have been divided in three categories, depending on the target model

	DIRECT MARKETS	TIER 1 MARKETS	TIER 2 MARKETS
	 Germany The Netherlands	 France Italy Belgium   Spain	 Estonia Lithuania Slovakia Denmark Austria   Luxembourg Slovenia Romania Finland Malta   Latvia Hungary Greece Portugal Switzerland
Current model	Direct Model (CSD)	Sub-custodian Model	Sub-custodian/ Third Party Agent Model
Target model (2018)	Direct Model (DCP)	Direct Model (DCP)	Sub-custodian/ Third Party Agent Model

The T2S platform will be implemented in different waves, each including a number of markets and CSDs. The benefits to T2S clients of BNY Mellon's direct connections in the key markets will become gradually available from 2016 onwards. Some functionality such as partial settlement and hold and release will be available in all T2S markets as and when that market connects to the T2S platform. Others, such as allegements, will be available when BNY Mellon becomes a DCP in its chosen markets.

Additionally, from a cash perspective, BNY Mellon will become a euro payment bank on T2S allowing us to settle all European T2S transactions in those

markets in which we will become a DCP via our Central Bank Money Account (CeBM) on T2S. This will shorten the cash settlement process and reduce counterparty risk by removing cash correspondent banks from the process.

Following the final T2S wave in 2017, BNY Mellon will be a global custodian directly connected to the main markets on T2S. Our tri-party collateral management platform will be fully integrated with T2S; this will allow us to provide our clients with all the tools needed to hold and move assets safely and efficiently, optimise collateral and make the most efficient use of liquidity.

\*Please note that for the purposes of this document, the term markets refers to those countries where at least one CSD will migrate on to the T2S platform. For some of the markets captured below, e.g. Greece, there will be CSDs which will not migrate on to T2S. For these CSDs, the settlement process will remain as it is today.

## 2.1 BNY Mellon's Implementation Approach

The table below outlines the key T2S functionalities and when they will become available to BNY Mellon's clients. The table includes functionalities available across all T2S markets, whether directly via BNY Mellon's DCP connections or through the continuation of the current sub-custodian model.

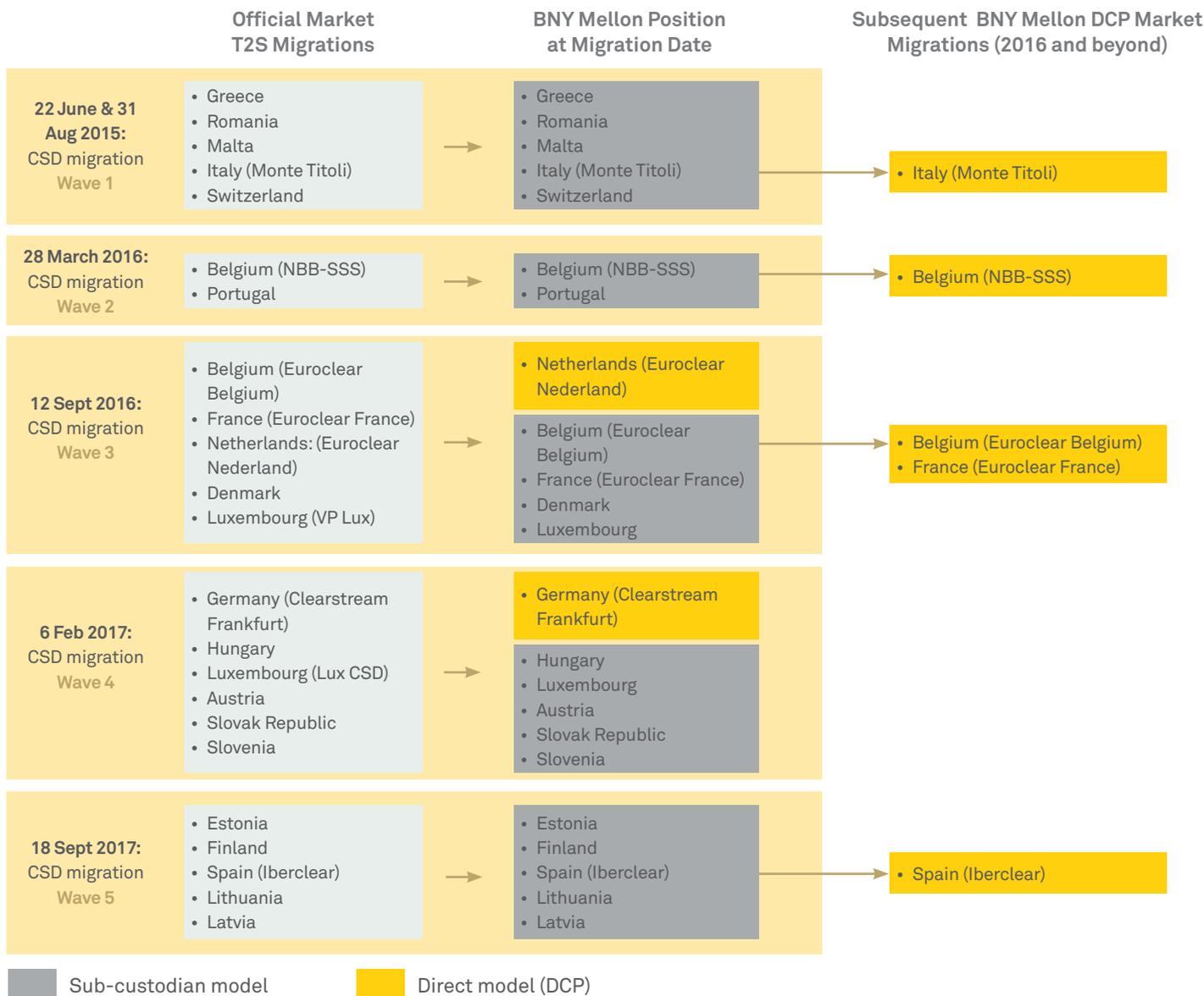
### BNY MELLON T2S MARKET FUNCTIONALITY MATRIX

T2S functionalities that will be available either via the BNY Mellon DCP model or on all T2S markets, including the sub-custodian model

T2S FUNCTIONALITY	DESCRIPTION	MODEL (DCP OR ALL)	TIMING
Mandatory matching fields	Mandatory matching fields used by the T2S platform for matching. Messages are rejected if not present in the instruction	ALL	T2S Wave Schedule
Additional matching fields	Ex/cum & opt-out indicator, which are used as a matching field if completed by one of the parties	DCP	BNY Mellon Migration Schedule
Optional matching fields	Optional matching fields which can be used by participants to match versus counterparties but which can also match against a blank counterparty entry	DCP	BNY Mellon Migration Schedule
Bi-lateral cancellation	Cancellation process whereby the cancellation of a matched transaction is only executed if the counterparty accepts it	ALL	T2S Wave Schedule
Transformations	Automatic replacement of a pending trade in the old ISIN by a trade in the new ISIN in case of a transformation event	ALL	T2S Wave Schedule
Market claims	Automatic management of market claims at the level of the CSD on T2S	ALL	T2S Wave Schedule
Allegements	Messaging to the client in the case that a transaction that can be linked to their account has been received and cannot be matched	DCP	BNY Mellon Migration Schedule
Partial settlement	Possibility to indicate the wish to have a transaction settling partially or not	ALL	T2S Wave Schedule



## BNY MELLON'S DCP MIGRATION APPROACH



The BNY Mellon DCP Migration Approach matrix shows the dates for the five T2S waves as scheduled by the ECB and the markets that are assigned to each wave.

As of waves' go-live dates, each of the participating CSDs in the T2S markets attached to that wave will then cease to settle using their own settlement platforms and will migrate to the T2S platform. At this stage, Standard Settlement Instructions (SSIs) will change for the markets in each particular wave and new T2S functionalities will become available as per the T2S Market Functionality Matrix. This will occur on the scheduled wave date and applies to all T2S markets, irrespective of whether BNY Mellon will be becoming a DCP in the market or not.

The BNY Mellon DCP Migration Approach matrix also shows that with the exception of Germany and the Netherlands, where BNY Mellon currently has a direct connection to the CSD and will therefore migrate on the official wave migration dates, BNY Mellon will move away from our sub-custodians and to the direct model on T2S at a point after the official wave conversions have taken place. This will be the case for the four DCP markets where BNY Mellon currently uses the services of a sub-custodian; Italy, Belgium, France and Spain and will begin in November 2016 with the migration away from our sub-custodian in the Italian market to a direct model with the CSD, Monte Titoli.

From a client perspective, upon the completion of the individual BNY Mellon migrations for each of the six markets in which we are a DCP, the additional functionalities captured in the T2S DCP Functionality Matrix will become available.

This migration approach is primarily driven by risk management objectives. BNY Mellon will

first undertake the market conversions with our current sub-custodians. The conversion of our client positions will then happen, leveraging the experience of the conversion of our assets and making sure that we avoid migrating during dividend season, holidays and other major market events.

## 2.2. Client Benefits

As part of the T2S enhanced package, BNY Mellon's clients will benefit from:

- A single cash and securities account on our global custody platform to access all markets in the network, including all the direct markets
- Transformation of ISO 15022 and proprietary client instructions to enable BNY Mellon to communicate with T2S in the required ISO 20022 format
- Reduced sub-custodian exposure and increased asset protection due to the shorter custody and settlement chain
- Reduced settlement risk due to BNY Mellon becoming a euro payment bank and settling in central bank money
- Improved deadlines for cash and securities settlement and corporate action instructions for the direct markets, as well as euro cash deadlines across all markets
- A seamless integration between T2S and BNY Mellon's tri-party collateral management platform allowing for collateral balances to be uploaded in real time to this platform
- New T2S functionalities such as allegements, hold and release and partial settlement, that will optimise settlement efficiency and liquidity usage, reduce fails and lead to reduced credit costs



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