Settlement update – outsourcing of the stripping facility from the Dutch State Treasury Agency to Euroclear Nederland

Issued by

Euroclear Nederland

Important

Target audience

Primary Dealers appointed by the Dutch State Treasury Agency, their settlement agents, back offices and IT departments

Effective date

- **18 March 2016:** Testing
- **3 May 2016:** Production

Highlights

- On Tuesday, 3 May 2016, the Dutch State Treasury Agency (DSTA) will outsource its stripping facility to Euroclear Nederland.

- The stripping method will change as of the outsourcing to Euroclear Nederland: stripping will generate fungible strips and no longer generate separate interest and principal strips. The new method is similar to the one Euroclear France provides in the French market.

- As of 28 April 2016 at 12:00 PM CET, the DSTA will stop accepting instructions for its current stripping facility. The DSTA will process submitted instructions on 28 and 29 April 2016.

- Euroclear Nederland will accept instructions as from 3 May 2016. Please note that there is a 2-day period on which no stripping instructions will be accepted by either party: 29 April and 2 May 2016.

Impact

As of the transfer of the stripping activities to Euroclear Nederland, Primary Dealers that want to strip and/or reconstitute Dutch government bonds must have:

- an account at Euroclear Nederland with the necessary stripping authorisation

- a EuroclearConnect for Screens subscription, to send stripping and reconstitution instructions to Euroclear Nederland

Primary Dealers can appoint another Primary Dealer to act as agent in Euroclear Nederland.

Actions

Primary Dealers (and your settlement agents): we encourage you to test the new stripping process, as from **today**.

This newsletter describes the new fungible stripping method and the overall operational details of this new service of Euroclear Nederland.

The current stripping method	The new *fungible* stripping method

• The stripping facility is operated by the DSTA.
 	
• Stripping transforms (an amount of) a fixed-rate Dutch government bond into principal strips and as many interest strips as there are outstanding interest payments.
 	
• Principal and interest strips are zero coupon bonds that have a denomination of EUR 1.
 	
• Reconstitution converts current strips back to fixed rate Dutch government bonds.
	• The stripping facility is operated by Euroclear Nederland.
	
	• Stripping transforms (an amount of) a fixed-rate Dutch government bond into as many interest strips as there are outstanding interest payments.
	
	• Fungible strips are zero coupon bonds that have a denomination of EUR 0.01.
	
	• A single strip-ISIN is used for the last interest payment and principal repayment. Strips with the same maturity date are fungible.
	
	• Reconstitution converts fungible strips back to any 'strippable' Dutch government bond. The bonds and strips need to have the same payment schedule.
	
	• The minimum:
	  o per strip instruction is EUR 5,000,000
	  o per reconstitution instruction is EUR 1,000,000
	
	• The fee per stripping instruction is EUR 30.

Instructing

All stripping and reconstitution instructions will need to be input via EuroclearConnect for Screens. Instructing is not possible via STP messages.

To access the Strip/Recomb screen, go to the Euroclear homepage menu bar in EuroclearConnect for Screens and select: **Input** > **Transactions Input** > **Strip**.

Figure1: the Strip/Recomb screen

You need to input your stripping and reconstitution instructions at least one business day before the Intended Settlement Date (ISD). Same day processing is not available.

For more information on this screen, please refer to the *EuroclearConnect for Screens user guide*.

Security movements

An instruction by a Primary Dealer to strip a bond with n remaining payments before maturity will generate:

- one unilateral securities movement debiting the Primary Dealer for the instructed quantity of the bond

- n unilateral securities movements for the principal and the interest (where n is the number of outstanding interest payments, with a single securities movement for the bond's principal and the last interest payment)

Reporting

We report the above-mentioned security movements to the Primary Dealer via the following settlement status messages:

- MT 034 (both debit and credit, in ESES proprietary format)

- MT 544/546 (debit/credit respectively, in ISO 15002 format)

Conversion of current interest strip and principal strip into new fungible strips

As of the transfer of the stripping activities from the DSTA to Euroclear Nederland on 3 May 2016, all stripping and reconstitution of Dutch government bonds will be processed according to the new stripping method, regardless of when the bonds were issued. The DSTA will terminate their own stripping facility on 28 April 2016.

If you are a holder of current strips, you can keep them if you do not intend to convert them into new strips. There will be no obligation to convert the current strips. They will only be converted into new strips upon your request.

The conversion of current strips into new strips will take place at the conversion rate of 100 new strips for each current strip. This rate corresponds to the different denominations of the current and new strips (EUR 1 and EUR 0,01, respectively).

The new strips that result from a conversion can be used in reconstitution operations. No minimum conversion amount applies for converting current strips into new strips.

Instructing a conversion of current strips into new strips

To instruct a conversion, you will need to input a 'security transfer' via EuroclearConnect for Screens.

In EuroclearConnect for Screen, select from the Euroclear homepage menu bar: **Input** > **Transactions Input** > **FOP** > **Security Transfer**.

- 'Transaction type' – enter 'A21'

- 'Debit security code' – enter the ISIN of the current strip

- 'Credit security code' – enter the ISIN of the new strip

Figure 2: the Security Transfer screen

You need to input your stripping and reconstitution instructions at least one business day before the Intended Settlement Date (ISD). Same day processing is not available.

Security movements

Upon receipt of a 'securities transfer' instruction, the ESES platform generates:

- one unilateral securities movement debiting the Primary Dealer for the instructed quantity of the current strips
- one unilateral securities movement crediting the Primary Dealer with the new strips

Security movements for the conversion of current strips into new strips are not submitted for market-claim processing.

Reporting

We report the above-mentioned security movements to the Primary Dealer via the following settlement status messages:

- MT 034 (both debit and credit, in ESES proprietary format)
- MT 544/546 (debit/credit respectively, in ISO 15002 format)

Automatic cancellation of the original 'security transfer' instruction

'Security transfer' instructions are normally used for code-swapping operations. After reception of such instructions in the context of stripping, the ESES platform automatically rejects it and creates the two above-mentioned unilateral security movements.

We report the rejection of the originally instructed security transfer movement to the Primary Dealer via the following settlement status messages:

- MT 030 (in ESES proprietary format)
- MT 548 (in ISO 15002 format)

Impact of T2S on the stripping functionality

The ESES CSDs will migrate to T2S as part of migration Wave 3, in September 2016. The following table shows the impact of T2S on the stripping functionality.

Instructing

Migration to T2S will have **no impact** on the instruction process for stripping, reconstitution or conversion. The new process (via EuroclearConnect for Screens) explained in this Newsletter will remain unchanged.

Reporting

- ESES proprietary messages are **not** supported by the T2S platform and will be discontinued.
- ISO 15022 messages will be compatible with the T2S platform, as will ISO 20022 messages. The reporting messages will be as follows:
  - ISO 15022: MT 544 (debit) and MT 546 (credit)
  - ISO 20022: sese.025 (debit and credit)
- The separate cancellation reporting will be discontinued.

Related securities information

For details on the following securities, please refer to this spreadsheet, which is published together with this newsletter.

- new fungible strips
- 'strippable' Dutch government bonds issued
- current interest and principal strips

The relations between these securities are also detailed in the above-mentioned spreadsheet. It covers securities issued before 1 March 2016.

Any questions?

For operational support as from the transfer of stripping activities to Euroclear Nederland on 3 May 2016, please contact the ESES Settlement Department.

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Main support line		eses.settlement@euroclear.com
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For any other question, please contact your Account Manager directly, or use one of the following Account Management group contact details:

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Our operational documentation will be updated in due course to reflect these changes