

ISITC – SETTLEMENTS WG - BUSINESS CASE TEMPLATE

In order to streamline the input for the discussion of market practice and syntax usage, ISITC has developed a template to be used for all requests.

Description of Business Issue:

a. Origin: Subject Matter Expert Group

Settlement Co-Chair Lead: Jason Brasile

State Street – Jeff Jones (US) /David Law (UK)

BoNY Mellon – Heidi Ivey (US) / Janet Awolesi (UK)

JPMC – Roger Cowie (US) / Amanda Jones (UK)

BBH – Erica Choinski (US) / Neil Lewington (UK)

Omgeo – Peter Moon

Steve Goldstein – Misys

Northern Trust – John Booth (US)/ Neil Storm (UK)

b. Nature of Request

Objective of the business case is document the differences in market practice recommendation between the US and UK NMPG WG documents for the MT321 Time Deposit instruction message. Once documented, SMPG will work with both NMPG groups to agree to one best practice to create an global SMPG document. In addition, this global recommendation will be used for the modelling of the ISO20022 message creation.

This is a second business case focusing specifically on the UK table and samples on interest compounding and interest on flat, increase and decrease roll overs. There is also an open question as to use of 19A::NINT vs. 19A::CINT on the roll-over. US MP recommends NINT while UK MP recommends CINT. Need to validate NINT is the correct usage.

c. Message Types:

MT321 Roll over Messages

d. Business Context:

A number of gaps have been identified in the finalized US market practice to the standard practice of the UK market practice. This has lead to issues by the custodian to accept multiple formats and flows of messages depending on the Investment Managers location. The agreed US MP was finalized last year by the ISITC Settlements WG and the UK MP was finalized in 2005.

The documents referenced in this analysis include:

1. US – ISITC MT321 Time Deposit MP V2.0
2. UKIE_321_SR2005_v0.2 – Market Practice
3. UKIE_320_321_200504_v7 samples - Examples

Full Rollover Scenario:

1. **UK NMPG to explain what a “no interest settlement” scenario is? When would a rollover occur and not have some type of interest either settling or compounding? (Highlighted in red on below table).**

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Agreed that interest can only either be settled or compounded. There is therefore no such thing as a no interest settlement scenario.

2. **Is a partial interest settled a valid Business scenario?**

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Interest is either settled in full or not at all.

- For the same full rollover scenario, where interest is being settled (paid out instead of rolled). The expectation is the 19A::SETT field is always an explicit instruction of the amount of cash to be moved and no further calculation is necessary to discern the actual amount to be moved. If the principal is fully rolled, we would expect the 19A::SETT to state the interest settling that is not rolled.

Dec. 13th, 2010 Update: UK/IE NMPG (Amanda Jones) response states the 19A::SETT should not contain the interest that is being settled on a full rollover. The 19A::SETT// should contain 0,00 and the 19A::CINT should contain the interest settling at the rollover with the settle party details of the interest within the PRIT//IPCP settlement sequence.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): I agree with Amanda. This is for consistency sake across all deposit types. 19a: SETT would work for all scenarios EXCEPT deposit increase with interest settled, so by sticking with CINT for interest repayments across all instrument types, we get consistent rules.

Closure Notes: Clarification from the UK that the interest settling should not be included within the 19A::SETT but instead listed as the 19A::CINT with the settle party details sequence conflicts with the US recommendation that 19A::SETT contain the full amount of funds that is moving (principal and interest). Need to discuss with ISITC again for agreement. The usage of the 19A::CINT would be recommended for both compounding and settling interest, but the cash party sequence would only be populated when interest is settling to notify the account servicer where to pay the interest as a separate payment.

- Does the RODI need to be populated on flat rolls?

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Yes, as this field advises what the net difference between the principal of the new rollover deposit to the principle of the maturing deposit. This field can be used to provide validation that the rollover deals match.

Closure Notes: This recommendation only applies to the interest compounding scenario. 19A::RODI would not be recommended for interest settling?

	19A::PRIN	19A::SETT	19A::RODI	19A:: CINT	PRIT//IPCP 95a::ACCW
<u>Rollover Same Amount</u>					
No interest settlement	Principal	Zero			
Interest compounded	Principal + Current Interest	Zero	Current Interest	Current Interest	
Interest settled	Principal	Zero ISITC US: Expectation this would be Zero Principal + Current Interest payout		Current Interest	Agent

Increase Rollover Scenario:

- UK NMPG to explain what a “no interest settlement” scenario is? When would a rollover occur and not have some type of interest either settling or compounding?

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Agreed that interest can only either be settled or compounded. There is therefore no such thing as a no interest settlement scenario.

- Is a partial interest settled a valid Business scenario?

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): No, interest is either settled in full or not at all.

3. **The interest netted scenario should be followed what would recommend using the 19A::SETT properly and not use the C1 sequence with IPCP assuming the principal is paid and interest received is the same party?** Would only expect interest to be incorporated in the SETT amount where change in principal and interest are **netted** and it has been agreed that just one amount is to be paid or received to / from the same party. In this scenario, we would NOT expect settlement instruction IPCP to be completed.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Agree with current statement: "Would only expect interest to be incorporated in the SETT amount where change in principal and interest are netted and it has been agreed that just one amount is to be paid or received to / from the same party. In this scenario, we would NOT expect settlement instruction IPCP to be completed. "

Closure Notes: In the case of a interest and principal netting, both amounts are combined into the 19A::SETT amount field and the 19A::CINT field is not necessary. But, the 19A::RODI is recommended to determine what the increase in principie is.

In the case of interest settling the field usage is consistent with what is noted above for flat roll to include the 19A::CINT and IPCP sequence to notify where to pay the interest. The principal amount would be instructed separately through the APCP/APFM cash party sequence as noted in #4 below.

4. Is there ever a possibility the principal is being paid to one party (APFM), and the interest to another (IPCP)?

Dec. 13th, 2010 Update: If interest and change in principal were being settled to different parties or to the same party as 2 amounts, the interest would have to be detailed in CINT and the sequence IPCP completed. SETT would represent change in principal only and would be settled in accordance with instructions in APCP or APFM.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): We have not seen the scenario here to date.

5. **For the increase rollover scenario, where interest is being settled (paid out instead of rolled). The expectation is the 19A::SETT field is always an explicit instruction of the amount of cash to be moved and no further calculation is necessary to discern the acutal amount to be moved. The 19A::SETT would state the principal increase minus interest settling that is not rolled. The IPCP sequence is used to populate who the interest is being received from. The APCM sequence is provided to state where the principal is to be paid.**

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): No, this wouldn't work. As a custodian, we would need to then do additional work to determine what was the amount due to us as a principle increase and the amount we had to pay away in interest. 19A:SETT would therefore be a meaningless field. 19A: RODI should be where the explicit instruction of the settlement of cash should be contained. 19A SETT the principle amount coming in, and 19A:CINT the interest being repaid

<u>Rollover Increase</u>	19A::PRIN	19A::SETT	19A::RODI	19A:: CINT	PRIT//IPCP 95a::ACCW
No interest settlement	New Principal	Increase			
Interest compounded	New Principal + Current Interest	Increase	Increase + Current Interest	Current Interest	
Interest netted	New Principal	Increase – Current Interest	Increase		
Interest settled	New Principal	Increase		Current Interest	Agent

Decrease Rollover Scenario:

1. **UK NMPG to explain what a “no interest settlement” scenario is? When would a rollover occur and not have some type of interest either settling or compounding?**

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Agreed that interest can only either be settled or compounded. There is therefore no such thing as a no interest settlement scenario.

2. **Is a partial interest settled a valid Business scenario?**

Dec. 13th, 2010 Update: No comments from UK/IE NMPG to date. Scenario will not be incorporated into SMPG MP

initially. If a valid business scenario, will be incorporated into MP at a later date when more information is available.

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): No, interest is either settled in full or not at all.

3. For the decrease rollover scenario, where interest is being settled (paid out instead of rolled). The expectation is the 19A::SETT field is always an explicit instruction of the amount of cash to be moved and no further calculation is necessary to discern the actual amount to be moved. The 19A::SETT would state the principal decrease + interest settling that is not rolled. Why would the IPCP sequence for interest need to be stated separately from the Principal (APCP) sequence? Would the interest be received by the custodian (IPCP sequence) from a different place from the principal (APCP sequence).

Dec. 22nd, 2010 Update from Neil Storm (Northern Trust UK): Would only expect interest to be incorporated in the SETT amount where change in principal and interest are netted and it has been agreed that just one amount is to be paid or received to / from the same party. In this scenario, we would NOT expect settlement instruction IPCP to be completed. In this scenario 19A RODI should be the same as 19A SETT.

<u>Rollover Decrease</u>	19A::PRIN	19A::SETT	19A::RODI	19A::CINT	PRIT//IPCP 95a::ACCW
No interest settlement	New Principal	N and Decrease			
Interest compounded	New Principal + Current Interest	N and Decrease	N and Decrease + Current Interest		
Interest netted	New Principal	N and Decrease + Current Interest	N and Decrease		
Interest settled	New Principal	N and Decrease		Current Interest	Agent

Appendix 1: SWIFT Guide Definitions

Order	M/O	Qualifier	R/ N	C R	Options	Qualifier Description
1	M	PRIN	N	C 8	A	Principal Currency and Amount
2	O	SETT	N	C 1, C8	A	Currency and Amount to be Settled
3	O	NINT	N	C 1, C8	A	Currency and Next Interest Amount
4	O	CINT	N	C 1, C8	A	Currency and Current Interest Amount
5	O	RODI	N	C 1, C8	A	Currency and Increase/Decrease Amount

CINT Currency and Current Interest Amount

The currency and interest amount to be paid at the current interest payment date.

NINT Currency and Next Interest Amount

The currency and interest amount to be paid at the next interest payment date.

PRIN Principal Currency and Amount

The currency and contract amount, that is, the amount on which the interest is calculated.

RODI Currency and Increase/Decrease Amount

The amount added or subtracted to/from the principal at rollover.

Appendix 2: Existing UKIE MT321 Samples V7 Table:

Event	New Deposit	Rollover		Rollover			M
Amount		Same		Changed			
Interest		Compounded	Settled	Compounded	Settled	Netted with Change	Settled
FIELDS							
PRIN	Principal	Principal + Current Interest	Principal	Principal Change + Current Interest +/-	Principal Change +/-	Principal +/- Change	Principal
SETT	n.a.	Zero	Zero	Change	Change	Change – Current Interest	Principal + Interest
NINT	[N] Next Interest	[N] Next Interest	[N] Next Interest	[N] Next Interest	[N] Next Interest	[N] Next Interest	n.a.
CINT	n.a.	[N] Current Interest	[N] Current Interest	[N] Current Interest	[N] Current Interest	-	[N] Current Interest
RODI	n.a.	Current Interest		Change + Current Interest		Change	n.a.
IPCP/CDEA			Present		Present		Present

Appendix 3: Existing UKIE MT321 MP SR2005 V.2 Table:

	<i>19A::PRIN</i>	<i>19A::SETT</i>	<i>19A::RODI</i>	<i>19A::</i>
<u>Rollover Same Amount</u>				
No interest settlement	Principal	Zero		
Interest compounded	Principal + Current Interest	Zero	Current Interest	Current In
Interest settled	Principal	Zero		Current In
<u>Rollover Increase</u>				
No interest settlement	New Principal	Increase		
Interest compounded	New Principal + Current Interest	Increase	Increase + Current Interest	Current In
Interest netted	New Principal	Increase – Current Interest	Increase	
Interest settled	New Principal	Increase		Current In
<u>Rollover Decrease</u>				
No interest settlement	New Principal	N and Decrease		
Interest compounded	New Principal + Current Interest	N and Decrease	N and Decrease + Current Interest	Current In
Interest netted	New Principal	N and Decrease + Current Interest	N and Decrease	
Interest settled	New Principal	N and Decrease		Current In
<u>Maturity Settlement</u>				
Interest netted	Principal	Principal + Current Interest		
Interest settled	Principal	Principal		Current In

Appendix 4: Planned SMPG MT321 Rollover Scenarios Table:

	<i>19A::PRIN</i>	<i>19A::SETT</i>	<i>19A::RODI</i>	<i>19A::</i>
<u>Rollover Same Amount</u>				
Interest compounded	Principal + Current Interest	Zero	Current Interest	Current In
Interest settled	Principal	Zero		Current In
<u>Rollover Increase</u>				
Interest compounded	New Principal + Current Interest	Increase in principal only	Increase + Current Interest	Current In
Interest netted	New Principal	Increase – Current Interest	Increase	
Interest settled	New Principal	Increase in principal only		Current In
<u>Rollover Decrease</u>				
Interest compounded	New Principal + Current Interest	N and Decrease in principal only	N and Decrease + Current Interest	Current In
Interest netted	New Principal	N and Decrease + Current Interest	N and Decrease	
Interest settled	New Principal	N and Decrease in principal only		Current In