



OTP Bank Group

Market: Croatia

Date: 27nd February 2023

Category: Market Announcements

CDCC updates related to Croatia's joining T2S

Summary:

Please find updated information from CDCC (Central Depository and Clearing Company Inc.) related to Croatia's joining Target-2-Securities (T2S)

CDCC has published a draft of the Amendments to the Procedures and Rules on its website. Amendments to the CDCC' Procedures and Rules were proposed in order to adapt the model of central account management, according to EU standards as a prerequisite for integration into T2S, and minor changes in order to harmonize with legal provisions and market practice. From the mentioned Procedures and Rules amendments, which should enter into force on June 1, 2023, we point out below the following facts:

- Account reconstruction includes the introduction of transaction accounts for CDCC member participants (custodians, brokers, money market participants) - a new type of account in CDCC that is introduced for T2S settlement purposes, which is connected to members' T2S accounts. One of the main goals of the new model is to encourage legal and natural persons who currently hold their assets/investments in the investor account in CDCC to transfer their securities "for management" - to Participants - Brokers and Custodians, while in the existing investor accounts over time, the amount decreases and in the future there will be no more securities (which is in accordance with market practices and the model of keeping accounts in T2S).
- Custody accounts will be replaced by transactional custody accounts (in the name and omnibus), whereby CDCC will systematically replace all custody accounts with appropriate transactional custodial accounts in its information system upon the entry into force of the CDCC' Rules. The custody code account with a password will be deleted and will not be replaced by a Transactional custody code account with a password, since the purpose and justification of the account type in question is fully fulfilled by the Transactional omnibus custody account. The transaction custody account in the name and the transaction omnibus custody account will fully fulfill



the requirements of the market participants that they have fulfilled until now using the custody accounts in the name and under password and the omnibus account. With the entry into force of the amendments, CDCC will transform all registered custody accounts and omnibus custody accounts into Transactional custody accounts in the name and Transactional omnibus custody accounts, while password-protected custody accounts will be transformed into Transactional omnibus custody accounts.

- Amendments to the CDCC Price List due to changes in the calculation of fees for central account management (introduction of charges for maintenance and management of account positions due to a change in model and introduction of a new type of account) will be published by the end of March 2023.

Further, CDCC organized together with the Croatian National Bank (CNB) on February 24, 2023 a workshop on the topic of CDCC joining to T2S. Please find below main conclusions during the workshop:

- CDCC decided to choose Indirectly Connected Party (ICP) approach for its participant members' access to T2S, ensuring the continued use of all functionalities of the SKDD system to its participant members;
- CDCC will access T2S using a "layered" model, meaning that the custody accounts will remain in CDCC and assets safekept therein will be replicated on its T2S omnibus account;
- In the process of migration to T2S, CDCC will open at least one Member Securities Account (SAC) for each participating member, according to the model:
 - o all assets in the custody accounts in CDCC will be transferred to one omnibus account (N:1) of the custodian in T2S
 - o all assets on portfolio accounts in CDCC will be mapped to one omnibus account (N:1) of a broker or company for managing portfolio accounts in T2S,
 - o all assets on accounts in CDCC registered with a broker or money market member will be mapped to one omnibus account (N:1) account of a broker or money market member in T2S.
- CDCC members participants are in T2S for each member type in CDCC identified with their CDCC BIC code (parent BIC) & own BIC code (party BIC);
- The most significant changes related to the entire settlement process will be presented to the market in a separate document, and they relate to: changes in the mandatory matching field (entry of the party BIC code);
- Requirement for SAC account opening is identification with party BIC code and of T2S DCA account (dedicated cash account) opening;



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- CDCC will communicate with T2S via SWIFT ISO 20022 but will remain with communication with its clients via SWIFT ISO 15022 and until further notice the same will maintain OTP banka.
- Settlement will be processed on two levels: T2S settlement and SKDD settlement. Settlement instructions will be sent and matched in the SKDD system and then forwarded to T2S. T2S will validate and settle (if settlement conditions are met) the already matched settlement instructions and send the confirmation of settlement to SKDD, which will settle the instruction in its system and notify its participant members accordingly;
- Further settlement details are expected to be discussed on another workshop organized by CDCC scheduled for the end of March 2023.
- CDCC participant members are expected to participate in T2S test from June till August 2023.;
- joining to European platform TARGET2-Securities (T2S) on **11.09.2023.**;
- joining to Eurosystem Collateral Management System (ECMS) on **08.04.2024.**

Impact: For information purposes.

Required actions: -

Application date: -

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