



safe-tt

safe-tt is a newsletter on developments in the Payments System in Trinidad and Tobago

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If you require any further details on any aspect of the reforms process, or would like to offer any suggestions, then please contact the Payments System Department at the Central Bank of Trinidad and Tobago.

GSS Participant Seminar

Hazel Marcelle, Manager, Domestic Operations explains that this year is an exciting one for her department. The Bank is simultaneously pursuing the automation of the auction process and the implementation of a depository and settlement system for government securities. The Government Securities and Settlement (GSS) system will cater for all maturities of government securities, that is, bills, notes and bonds. The movement to an automated depository will facilitate the maintenance of records of ownership of all government securities in an electronic format.



Hazel Marcelle introducing the Logica team at the GSS Participant Seminar

This has significant advantages for everyone. A beneficiary will no longer have to keep track of pieces of paper as the central depository will function as the registry and custodian for government securities. Financial intermediaries can place orders for new bond issues on behalf of their clients and for their own account from their offices using the Central Bank's secure Extranet. Automation will open up many opportunities for financial services. For example, financial intermediaries could offer online services to their clients for the purchase or sale of government securities.

This month's feature article explains more about the new GSS system that is being introduced before the end of the year. In June the Central Bank ran the first of a series of seminars in preparation for the introduction of the new system. This seminar focussed on the functionality of the system and its impact on participants' work processes. In coming months other seminars and workshops will be held to further familiarise participants with the procedures for these new systems.

We appreciate the interest that readers have shown and hope that you will continue to offer your comments and suggestions. ■

Project Progress

In June-July, much progress was made with preparation of rules and procedures for the RTGS system and initial work began on the pricing strategy. Draft documents on rules and procedures were prepared and distributed to RTGS participants for discussion. At the end of July factory testing of the RTGS system will take place in London

Next month, August, marks a turning point in the project. Until now, much of the work on the RTGS and related systems has been behind the scenes since it focussed largely on planning and system development. Additions and modifications were being made to the standard Logica System. The necessary hardware to support the sys-

tems was installed and a secure Extranet which will be used for interbank communications was developed and tested. In August Logica will install the RTGS system in preparation for acceptance tests and member trials.

Our August newsletter will

explain more details of the Extranet and how it will complement the SWIFT network. The diagram on the back page of this edition shows the implementation path of the project. This will be in future editions to show progress of the project. ■



The Government Securities Settlement System

This article follows on from last month's explanation of **safe-tt**, the RTGS system being implemented in Trinidad and Tobago. The Government Securities Settlement (GSS) system is another component of the national payments system and is being implemented in a similar timeframe as the RTGS. Implementation is planned for December 2004.

The GSS system is comprised of a depository and an auction system for government securities. The primary purpose of the depository is to enable the Central Bank to maintain more efficiently records of holdings of government securities and to provide a comprehensive record of government debt instruments. The auction system will automate the issuance of government securities, providing the capability to handle Treasury securities of all maturities. Additionally, the system will allow online access by the Ministry of Finance to monitor the status of each securities issue. It will link the main participants in the government bond market – the Central Bank, primary dealers and government securities intermediaries.

Government Securities Depository

The Government Securities Depository and Settlement System will be structured around a database containing details of all issues with their purchase histories and holdings at the beneficial owner level. The depository is linked to the RTGS to facilitate irrevocable funds settlement of securities transactions on a delivery versus payment basis. When securities are being either issued for the first time or traded on the secondary market, the system will ensure that both the securities and the purchaser's funds are available so that both parts of the transaction can be completed at the same time. To do this, the securities are first earmarked so they cannot be sold to another party, and the system then asks **safe-tt** to transfer the required funds from the buyer's account. If sufficient funds are not available the transaction is put on hold (queued) until sufficient funds become available. When this is achieved, the money is transferred to the seller's account and the securities are transferred to the buyer's account. These two transactions happen simultaneously, hence the term, Delivery versus Payment or DvP. At the end of the day, if the securities are not available or the buyer still does not have sufficient funds, the transaction is cancelled. This method significantly reduces risk in securities transactions as neither party is disadvantaged.

Auction System

The auction system allows Government Securities Intermediaries to bid for new government stock online and for the allocation of securities to take place automatically when the auction closes. On settlement day, the system automatically effects delivery versus payment by debiting the funds from participants' accounts and recording the ownership.

Participants in the auction will be able to view, to cancel and to create new or additional bids prior to the close of the auctions. Once the auction is completed, participants can view the results at their workstations and can download reports in various formats.

Conclusions

The benefits that accrue from the new systems therefore are many. They include reduced risks in transactions as delivery occurs simultaneously with the exchange of value, more comprehensive details of beneficial owner and intermediary, and complete history of the lifetime of securities. As a result the system will conform to international best practice in securities settlement. ■



Seminar Photos





The Participant Browser Workstation

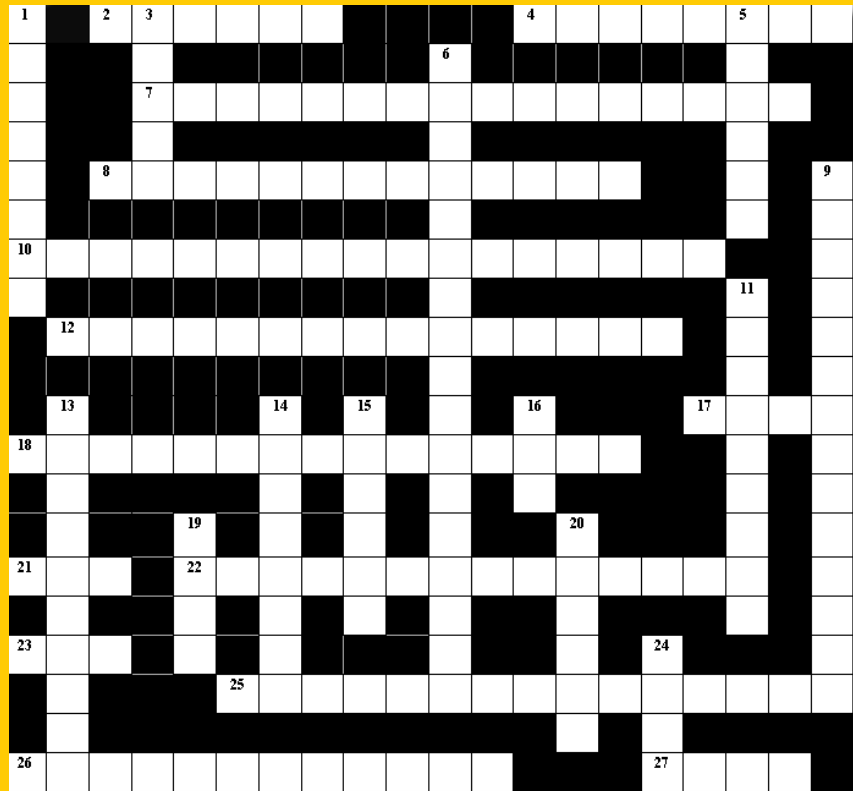
The Participant Browser Workstation provides monitoring and control facilities to participants of both the RTGS and the GSS systems. To access the service, participants need only a standard PC running Internet Explorer version 5.5 and above. To connect to the RTGS or GSS web servers at the Central Bank, the participant will require a small piece of software on their PC, and a SecureID token. Both of these will be supplied by the Central Bank. The SecureID token provides a regular changing identification number that the participant enters into the system to authenticate access.

Once connected to the Extranet, the Participant Browser offers RTGS users a number of enquiry and queue management facilities. For example, users can monitor their settlement accounts and make detailed enquiries of their payment activities. Participants can look at their settlement queues and are able to change settlement priorities to ensure smaller payments are not held up while a larger payment is waiting on sufficient funds to settle.

Government Securities Intermediaries, the Central Bank's counterparties in Government bond auctions, would be able to use the Participant Browser to enquire on their holdings of government securities in the GSS system. It allows participants to enter and view their own securities movements, and to track these through the process of matching and settlement.

The Participant Browser provides access to the auction system for the primary issue of all government securities. Facilities are available for participants to enter bids, cancel bids and view bids already submitted. The participants can also view summary and detailed information on past auctions. ■

CROSSWORD



Content for this crossword is taken from *A glossary of terms used in payments and settlement systems* published by the Bank for International Settlements. The solution will be provided in next month's newsletter.

Across

- 2 Entity receiving payment
 4 Insolvency Rule (4,4)
 7 Ability to use payment instruments in other systems
 8 Central Bank operations reducing liquidity
 10 Method of authentication (9,8)
 12 Key in security
 17 Unable to settle securities transaction
 18 Degree of movement of balances without interaction with Central Bank
 21 Unique digits in cryptography
 22 Confirming who sends a message
 23 Payment method in country's capital
 25 Agreement to compensate for loss
 26 Listing of securities ownership
 27 Agreement for exchange of payments

Down

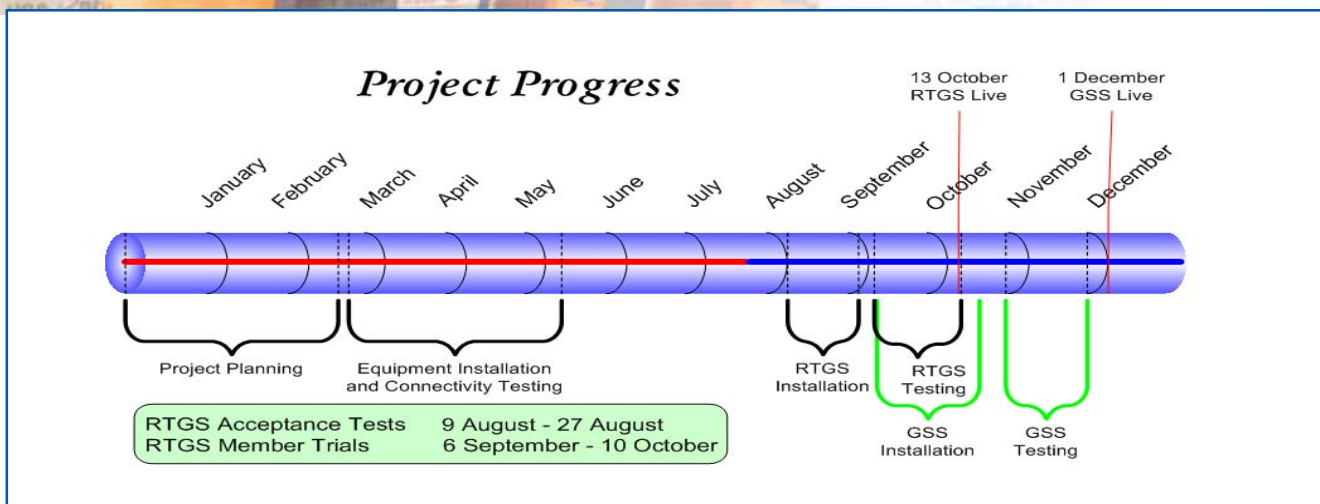
- 1 Multiple blocked payment queues
 3 Quick way of sending transactions
 5 Trading on the floor of the exchange
 6 Removing paper certificates
 9 Placing of securities in a depository
 11 Payment instruction prepared by the payee
 13 Cryptanalysis by the uneducated (5,5)
 14 Mechanism for excluding some or all transfers from settlement
 15 ECB payment system
 16 Binary digit
 19 Used by Intel and Batman
 20 Good faith deposit used by futures clearing system
 24 Quantitative limits on funds transfer activity

Frequently Asked Questions

GSS Features Explained

- Q.** How would the automated provision of intraday liquidity work when the RTGS starts but the GSS has not yet been implemented?
- A.** Securities will be assigned for the provision of intraday liquidity through the current manual system. The Central Bank will provide funds to the settlement account during the day and reverse the transaction and return the securities at the end of the day.
- Q.** What happens with the Special Deposit account during the day?
- A.** At the start of the Operational Day the Central Bank will move balances from the Reserve Accounts and the Special Deposits into the Settlement Accounts. At the end of the day it is the participant's responsibility to determine and move the amount of funds required in the Special Deposit Account.
- Q.** Will there be a period of parallel operations before going live?
- A.** There will be no parallel testing. The period of thorough testing and member trials will be used to verify the robustness of the system. During member trials there also would be intensive user training. This is a proven method for introducing RTGS systems.

Project Progress



In next month's issue

Extranet
Report on Factory Testing

If you would like to see any additional features in this publication, please send us an e-mail.

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