



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: CSDR-TF	Institute: CSD	Date raised: 22/06/2020
Request title: Bypass check on Issuance account for PFODs on a multi-issued ISIN		Request No.: T2S 0738 SYS
Request type: Common	Classification: Regulatory compliance	Urgency: Fast track
1. Legal/business importance parameter¹: High	2. Market implementation efforts parameter²: Low	
3. Operational/Technical risk parameter³: Low	4. Financial impact parameter⁴: Low-medium	
Requestor Category: Task force of the CSG		Status: Implemented

Reason for change and expected benefits/business motivation:

The T2S CSDR Task Force was established by the T2S Steering level, in order to identify the necessary changes to the T2S platform resulting from the CSD Regulation (CSDR), with the objective to facilitate T2S CSDs' timely compliance to CSDR.

The core of the work of the T2S CSDR Task Force is reflected in the T2S Penalty Mechanism's user requirements (CR654): it focuses on the daily calculation and reporting of cash penalties for settlement fails, a monthly reporting of the aggregated amounts of cash penalties computed for a given month as well as the operational tools which are necessary for T2S Actors.

As per article 17 of the Regulatory Technical Standards on Settlement Discipline (EU 2018/1229) "Collection and distribution of cash penalties", CSDs are required to collect cash penalties from failing CSD participants and re-distribute the penalties to the non-failing CSD participants affected by the settlement fails, a minima on a monthly basis. While the collection and re-distribution of cash penalties is out of scope of the T2S Penalty Mechanism, T2S CSDs have later on decided to use Payment Free of Delivery (PFoD) settlement instruction in T2S, in order to support this process.

T2S CSDs have expressed the requirement to rely on a setup allowing multiple Issuer CSDs, as defined in Security CSD Link. This setup aims at minimising bilateral (Issuer-Investor CSD) Security CSD Link configuration and operational workload between CSDs.

As per current T2S functionality and documentation, in case of cross-CSD settlement instruction on a multi-issued ISIN, T2S requires the existence of an issuance account defined in the Security CSD Link when building the realignment chain if it detects that 2 CSDs in the realignment chain are defined as Issuer CSD for the ISIN. If this check is not successful, T2S automatically cancels the business instructions. The rationale is that settlement of the transaction will result in a necessary credit of the issuance account of one CSD and debit of the issuance account of another CSD in order to maintain the integrity of securities holdings in a multiple Issuer CSD configuration. In the case of a cross-CSD PFoD settlement instruction, as the settlement quantity is zero, no movement (debit/credit) between issuance accounts is booked and hence the check above is not necessary. Furthermore, the definition of an issuance account for a dummy ISIN turns out to pose technical/legal challenge for some T2S CSD(s).

Hence, it is required to amend the existing T2S static data validation at settlement level in order to provide the required flexibility for T2S CSDs to support the specific business case of (cross-)settlement of cash penalties in T2S relying on the use of a "dummy" ISIN.

¹ Legal/business importance parameter was set to [High] because [the CR is needed by CSDs to settle CSDR penalties in the expected configuration]

² Market implementation effort parameter was set to [Low] because [no adaptation is needed from T2S actors as a result of the CR]

³ Operational/technical risk parameter was set to [Low] because [the change is limited to disabling an existing business rule in a specific scenario]

⁴ Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

Description of requested change:

T2S shall not perform the static data validation checks done at settlement level on the existence of an issuance account for cross-CSD settlement on multi-issued security, where 2 or more CSDs identified in the realignment chain are defined as Issuer CSD in the Security CSD Link, for PFOD instructions..

Hence, if there is a settlement instruction where the settlement quantity filled in the settlement instruction is zero (to restrict the business case to PFoD), then the static data validation checks made by T2S at settlement level on the existence of an issuance account when building the realignment chain in the specific cross-CSD settlement on multi-issued security shall not be performed.

The example below illustrates the expected behaviour:

- CSD1 is Issuer CSD with SME, no Issuance Account in the Issuer CSD link
- CSD2 is Investor CSD to CSD1 without SME, no Issuance Account in the Investor CSD link
- CSD3 has a "multi-Issuer CSD link setup" i.e. an Issuer CSD link, without SME, with or without Issuance Account in the Issuer CSD link
- With CR-738, a PFoD between CSD2 and CSD3 must settle, also between CSD1 and CSD3 and CSD1 and CSD2.

Proposed wording for the Change request:

UDFS v 5.0, Section 1.6.1.10.3 Realignment process

A footnote should be added as follows:

The scenario is equivalent to scenario Cross 1 with additional T2S generated realignment Settlement Instructions to update the issuance accounts in each issuer CSD. The realignment process identifies the issuance account to be impacted based on the set up in the Security CSD link for the given security, the given issuer CSD and the link type "issuer" (see section. Configuration of Securities CSD Links [78]), with the following possible outcomes in each issuer CSD:

No issuance account is set up: the realignment process cannot generate the realignment instructions and cancels the business instructions*,

I One issuance account is set up: the realignment process uses this account to generate the realignment instructions,

I Several issuances accounts are set up: the realignment process identifies the issuance account to be impacted using the "primary issuance account flag".

(*) this check is ignored in case of PFOD

Submitted annexes / related documents:

Outcome/Decisions:

* CRG 24 June 2020: The CRG agreed to follow a fast-track procedure and recommended the CR for authorisation by the T2S Steering Level

* PMG on 3 July 2020: Subject to the authorisation of CR-738 by the T2S Steering Level, the PMG launched the detailed assessment of the CR, and asked that the several proposals for deployment be considered, in particular a deployment between R4.2 and R4.3; and a deployment with R4.3.

* AMI-SeCo on 1 July 2020: The AMI-SeCo agreed with the recommendation of the CRG to authorise the CR.

* NECSG on 1 July 2020: The NECSG agreed to authorise the CR.

* CSG on 1 July 2020: The CSG agreed to authorise the CR.

* MIB on 9 July 2020: The MIB authorised the CR.

* CRG on 5 August 2020: the CRG recommended to the PMG the implementation of CR-738 in release 5.0.

* OMG on 13 August 2020: the OMG found no additional operational impact on the CR for R5.0.

* PMG on 13 August 2020: the PMG agreed to recommend to the T2S Steering Level to approve the inclusion of CR-738 in R5.0.

* CSG on 18 August 2020: The CSG approved the inclusion of the CR in the STP for R5.0.

* NECSG on 18 August 2020: The NECSG approved the inclusion of the CR in the STP for R5.0.

* MIB on 27 August 2020: the MIB approved the inclusion of CR-738 in the STP for R5.0.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

T2S Specific Components		Common Components	
LCMM			
	Instructions validation		
	Status management		
	Instruction matching		
	Instructions maintenance		
	Penalty Mechanism		
Settlement			
X	Standardisation and preparation to settlement		
	Night-time Settlement		
	Daytime Recycling and optimisation		
	Daytime Validation, provisioning & booking		
	Auto-collateralisation		
Liquidity Management			
	Outbound Information Management		
	NCB Business Procedures		
	Liquidity Operations		
T2S Interface (as of June 2022 without Static Data Management, Communication for SDMG, Scheduler, Billing)			
	Communication		
	Outbound Processing		
	Inbound Processing		
Static Data Management (until June 2022)		Common Reference Data Management (from R6.0 June 2022)	
	Party data management		Party data management
	Securities data management		Securities data management
	Cash account data management		Cash account data management
	Securities account data management		Securities account data management
	Rules and parameters data management		Rules and parameters data management
Statistics and archive		Statistics and archive	
	Statistical information (until June 2022)		Short term statistical information
	Legal archiving (until June 2022)		Legal archiving (from R6.0)
			Data Warehouse (from R6.0)
Information (until June 2022 containing reference data)		CRDM business interface (from R6.0 June 2022)	
	Report management		Report management
	Query management		Query management
			Communication
			Outbound Processing
			Inbound Processing
Operational Services			
	Data Migration (T2S DMT)		Data Migration (CRDM DMT, from R6.0)
	Scheduling (until June 2022)		Business Day Management (from R6.0)
			Business Day Management business interface (from R6.0)
	Billing (until June 2022)		Billing (from R6.0)
			Billing business interface (from R6.0)

	Operational Monitoring		Operational and Business Monitoring
	OMEGA Templates		

Impact on major documentation			
Document	Chapter	Change	
Impacted UDFS chapter	1.6.1.10.3 Realignment process	A footnote should be added to exclude the PFODs from the check of issuance account for realignment in the case of a Multi-issued ISIN	
Links with other requests			
Links	Reference	Title	
OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT			
Summary of functional, development, infrastructure and migration impacts			
<p>The impact consists in circumventing the current control on the issuance account in a multi-issuer configuration for the specific case of PFOD transactions in a cross-CSD configuration:</p> <p>The current static data checks remain unchanged, but the control on the issuance account, unnecessary in that specific case, should be removed. The Issuance Account will remain optional (not allowed for Investor links or External CSD Issuers), and if several are specified one of them will have to be defined as Primary.</p> <p>Main Cost drivers:</p> <p>Modification of the control on the issuance account and validation of the expected functionality in the specific case of PFOD transactions in a cross-CSD configuration.</p>			
Impact on other TARGET Services and projects			
No impact			
Summary of project risk			
N.a.			
Security analysis			
No adverse effect has been identified during security assessment.			



28 July 2020

Cost assessment on Change Requests

T2S-738-SYS – Bypass check on Issuance account for PFODs on a multi-issued ISIN			
One-off	Assessment costs*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Development costs	193,474.67	Euro
Annual	Operational costs		
	- Maintenance costs	18,319.27	Euro
	- Running costs	0.00	Euro

*The relevant assessment costs will be charged regardless of whether the CR is implemented (Cf. T2S Framework Agreement, Schedule 7, par. 5.2.3).