



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MIP/MID

Status update on the T2S penalty mechanism

Ami-SeCo meeting

Frankfurt, 20 November 2018

T2S penalty mechanism (CR654) - Link on ECB website [here](#)

- The CSDR Task Force (TF) has focussed its work over the last 2 years on the **design of the T2S penalty mechanism**, to support T2S CSDs in meeting their obligations vis-à-vis CSDR settlement discipline framework
- The T2S penalty mechanism design relies on “working assumptions”, i.e. interpretation of the CSDR texts that need confirmation/guidance from competent authorities
- The core of the work is reflected in the T2S **Change Request (CR) 654 – “T2S penalty mechanism”**, that offers **identification, calculation, reporting of cash penalties to all T2S CSDs**, for the settlement fails taking place in T2S

Add-on for non-T2S settlement flows (CR685) - Link on ECB website [here](#)

- In 2018, the T2S steering level has decided to support investigating the calculation and reporting of cash penalties for **settlement fails processed outside T2S**, with the precondition that the necessary information is provided by T2S CSDs
- The scope of this service is identical to CR654 and reflected in **CR685 – “T2S Penalty Mechanism for non-T2S settlement flows”**. It is aimed to support CSD groups for which some (I)CSDs are not in T2S, or T2S CSDs having migrated with a layered model and having settlement activity outside T2S

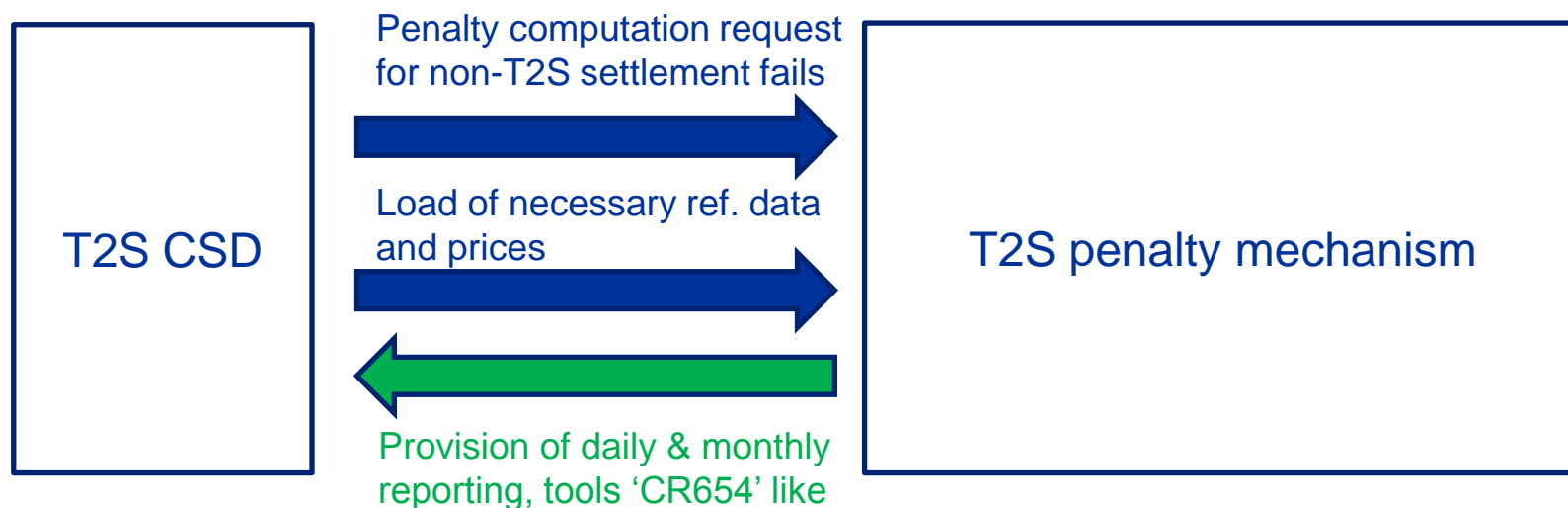
Scope of the T2S penalty mechanism

The scope of the T2S penalty mechanism can be divided in 3 functional areas:

- **Identification/calculation of settlement instructions subject to cash penalties**
 - Identification of failed instructions eligible for a cash penalty
 - Computation of cash penalties according to applicable penalty rates
- **Reporting of cash penalties:**
 - Daily reporting of new and modified penalties
 - Monthly reporting of cash penalties with a breakdown of net amounts per counterparty
 - Definition of a new ISO20022 compliant message and reporting timeline
- **Operational tools:**
 - Automatic re-calculation of cash penalties based on ex post modification of reference data (e.g. a reference price that is modified ex post)
 - Manual corrections performed by CSDs in a number of relevant scenarios through ex post removal, re-allocation, or switch of cash penalties
- **Out of scope:**
 - Settlement (payment) of cash penalties, reporting to competent authorities

CR685 – T2S penalty mechanism for non-T2S settlement flows

- The CR685 is an add-on to CR654, enabling the T2S penalty mechanism to acquire the necessary information on settlement fails materialising outside T2S
- T2S CSDs are responsible for providing the necessary reference data (ISINs, parties) which may not be relevant to T2S. The Securities Maintaining Entity (SME) functionality has been updated accordingly to offer the possibility of a SME role without settlement for an ISIN
- The CR may only fulfil the business case of a few CSDs



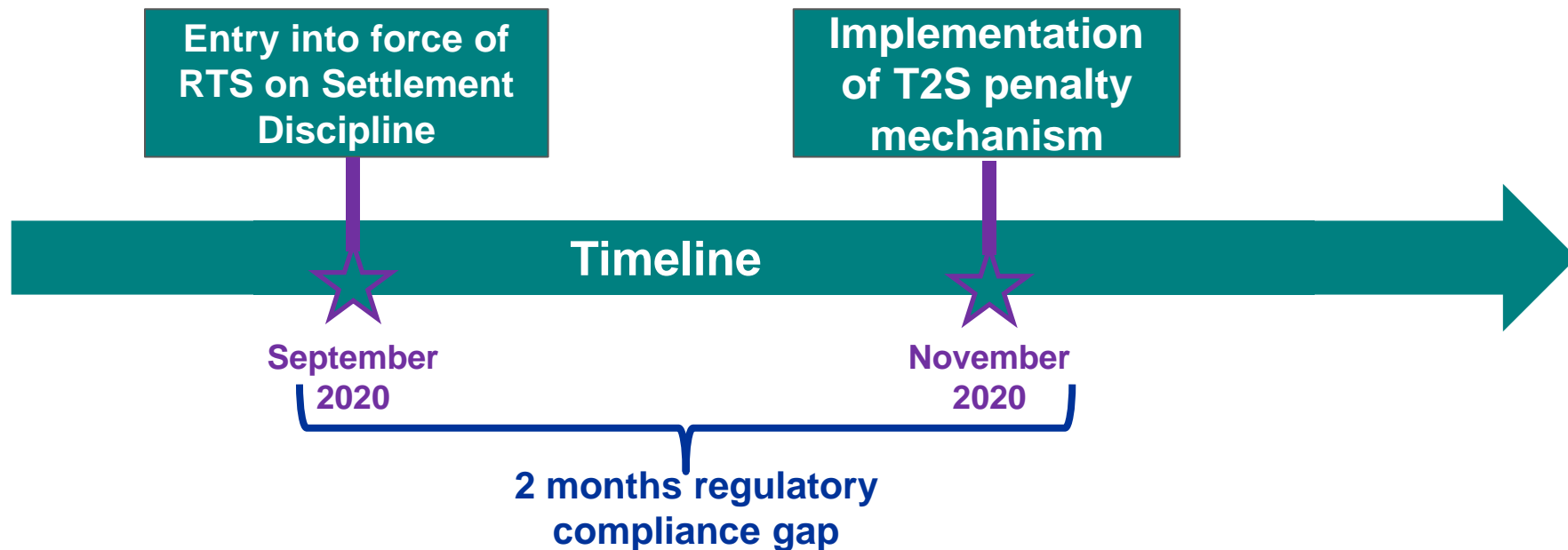
Status on CSDR Regulatory Texts

- All Level 2 measures have now been published in the Official Journal of the European Union (OJ)
- A CSDR Q&A is being regularly updated ([Link](#)) that contains relevant information on inter alia the “joint penalty mechanism” for T2S CSDs
- A public consultation will be launched by the end of the year on the reporting of settlement fails to public authorities. This will also include questions on the scope of instructions/transactions subject to cash penalties (e.g. Corporate Actions, Issuance operations, etc...)

Implementation status on the T2s penalty mechanism CRs

- By the beginning of October 2018, the T2S Steering level deemed that the scope of the T2S penalty mechanism CRs was stable enough to start the process of the detailed assessment of the costs and implementation efforts.
- Both CRs are under detailed assessment until end of December 2018. This will provide a detailed overview of the costs of the CR and the duration of each of the implementation phases.
- Early February 2019, a decision will be taken on whether to go forward with their implementation

Compliance gap



- As the RTS on Settlement Discipline enter into force 24 months after publication, this creates a 2 months compliance gap for CSDs as the T2S penalty mechanism will be implemented in November 2020
- The T2S release planning and dependency with regulatory clarifications have been highlighted and documented to ESMA and European Commission in due time
- The CSDR TF substantiated in a feedback note to ESMA why an earlier implementation of the T2S penalty mechanism is not feasible/desirable. ESMA will discuss this feedback with the relevant competent authorities to agree on a way forward [further feedback may be available by the 20th of November]

Annex

T2S Penalty Mechanism plan in R4.2

