

Minutes of the 45th CASG meeting

1. Introduction

The chairman of the T2S Corporate Action Sub-Group (CASG) welcomed new members to the group: Ms Sandra Aboutboul (Euroclear) substituting for Ms Mireille Galeazzi, Ms Rebekah Button (Citi) substituting for Mr Jonathan Branagan, Ms Dace Daukste (Nasdaq) substituting for Ms Triin Parvits, Mr Teddy Muhmenthaler (SIX SIS) substituting for Mr Florentin Soliva and Mr Giovanni Sabelli (Banca d'Italia) substituting for Mr Massimiliano Renzetti. The CASG also welcomed Mr Edwin de Pauw (Euroclear) as guest to this meeting.

CASG members were updated on the two HSG meetings (re the CASG/CAJWG synergy discussions) that took place since the last February 2018 CASG meeting. The agenda was then approved.

2. May 2018 CASG gap analysis report

The CASG discussed the draft May 2018 CASG gap analysis report to be submitted in written procedure to the HSG in June 2018.

Nine months after the completion of markets' migration to T2S, CASG members took stock of the progress made in complying with T2S CA standards but considered it slow, considering the status quo observed in some markets where no compliance implementation plan has been defined to comply with CASG standards.

As no other major CA compliance implementation is scheduled by T2S CSDs in 2018 (CBF has postponed their T2S CA compliance implementation to 2019), the CASG agreed that there was no need to perform another full gap analysis survey before Q1 or Q2 2019.

The current draft May 2018 CASG gap analysis report will be revised to include the CASG's key messages and a few presentational amendments. It will be resent to CASG members for comments before its submission to the HSG, taken also into account the outcome of the CASG discussions on open issues, and any additional feedback received on specific matters including:

- Belgium: Non-compliant transformation into cash by NBB-SSS

This non-compliance case was identified on a transaction related to a Belgian bond in a cross-CSD context by LCH.

When a reorganisation event into cash occurs, each instructing CSD has to generate the cancellation and transformation into cash of the underlying transaction. According to CASG

Transformation Standard 10, the recommended processing shall use 2 PFoDs (i.e. DvP/RvP with a null quantity) to avoid any unmatched transactions in T2S, while NBB-SSS uses a DwP/RwP1 instead of the PFoD1, which works in an intra-CSD situation but leads in T2S to the unmatched transformation instructions related to the original cash amount. Pending correction of this non-compliant processing, the Blue compliance status will become Red.

(Subsequent to the meeting, NBB-SSS provided an implementation plan to correct this non-compliant processing of transformations; NBB-SSS became fully compliant on 27 July 2018.)

This non-compliance case will also be added in the CASG list of pending issues to be followed up.

- Italy: Non-compliance with CASG Transformation Standard 3

CASG Transformation Standard 3 referred to an underlying CAJWG standard requiring that transformations be applicable to all eligible transactions.

According to CASG FAQ Q&A 3.15 related to CASG Transformation Standard 3, all eligible transactions shall therefore be transformed and if the default option/action of a mandatory with options reorganisation event, e.g. rights exercise, is to lapse securities proceeds, the transaction is to be transformed into a transaction of the original settlement amount against 0 securities.

The discussion suggested that in some cases Italy was not fully compliant either because the underlying event was incorrectly set up (as a voluntary event rather than as a mandatory event) or because the transformation effected in the case of a mandatory event was not in line with the CASG Transformation Standard 3. The Italian NSG will be contacted for clarification on this point.

The CASG agreed that without a full and adequate clarification from the Italian NSG the current Blue compliance status of Italy will become Red.

(Subsequent to the meeting, the Italian NSG confirmed the compliant processing of mandatory with options reorganisation event by MonteTitoli.)

- Slovakia: CDCP's Buyer Protection Instruction template not published

CASG members checked the link provided by CDCP and could not find the Buyer Protection information requested in CDCP's Rules of Procedures. The key data to be made public shall also include the BP Instruction template, like in Clearstream's example (sent to CDCP for information).

CDCP has been requested to inform whether and by when the missing information will be implemented. In the meantime, the CASG decided to maintain CDCP's compliance status as Red.

- NSGs to be consulted on compliance with Transformation Standard 2 following the implementation of CR515 in T2S Release 2.0

Compliance with CASG Transformation Standard 2, according to which the transformation process shall take place by end of record date or market deadline and during the rest of the transformation detection period (i.e. 20 T2S opening days after the record date/market deadline), required the implementation of CR-515 in T2S Release 2.0, which went live on 9 June 2018.

NSGs will be requested to clarify the following points:

1. Will all T2S markets comply with CASG Transformation Standard 2 as from the go-live of T2S Release 2.0?
2. Or do the CSDs in T2S also have to perform internal technical upgrades to be ready?
3. And/or do the T2S markets have to change its market practices as well, in order comply with the 20 days period?

It was agreed that compliance on this point will not be taken into account for the current gap analysis exercise, but it will be taken into account in subsequent exercises.

3. Synergies between CASG and CAJWG regarding compliance monitoring

The CASG chairman shared a table document giving an outcome of the 30 May 2018 HSG meeting on the CASG/CAJWG synergy discussions with regard to compliance monitoring and detailing his and the CAJWG chairman's proposed operational process.

He reported that NSGs' overall feedback was positive and discussions on governance and resources are expected to continue at the next AMI SeCo meeting.

Regarding the aligned CASG and EMIG exercises proposed by the 2 chairmen, and considering that no full CASG gap analysis survey is needed before 2019, the HSG will decide on the suitability of such an aligned exercise in the context of the CASG/CAJWG compliance monitoring synergy discussions.

CASG members supported the 2 chairmen's proposals set out in the table document.

4. Issues list of the CASG

The CASG discussed the open issues related to CA processing as well as the following newly reported cases.

- CR515 implementation related issue identified by Iberclear

When testing CR515 to be implemented in T2S with Release 2.0 on 9 June 2018, Iberclear discovered a bug, as the T2S platform suddenly enabled the settlement of old ISINs on Maturity date. The problem was due to a wrong interpretation of the number of days after Record date, which were to be aligned accordingly with the Maturity date. CASG members considered a related issue was the lack of a Record date in T2S Static Data.

T2S was to provide a bug fix in the week following Release 2.0 go-live for Iberclear to re-test. (Subsequent to the meeting, Iberclear and Monte Titoli confirmed on 14 June 2018 that this specific issue appeared to be correctly solved, while NBB-SSS reported on a possible separate issue (to be reviewed by the CASG)).

The lack of Record Date in T2S Static Data will be added to the CASG list of pending issues. Paola and Ben kindly agreed to prepare a draft Change Request.

Regarding the open issues on the CASG pending list, Item 1 related to CR515 (Allow instructions from CSD participants for n days after maturity date of security) remained open due to the aforementioned bug discovered by Iberclear.

Item 5 related to CR520 (T2S to add new fields to T2S messages sese.020, sese.024 and sese.025 needed for CA processing) was to be included in 2019's T2S Release 3.0.

5. Any other business

- Potential impact of the Shareholder Rights Directive on CASG and CAJWG standards

The significance of the revision of the Shareholder Rights Directive for the CASG standards was identified. It was agreed that the CASG would review the situation following the publication of the Level 2 regulation.

- Question raised by Clearstream on possible impact of CSDR on CASG standards

The German market discussed a strict interpretation of CSDR requiring an underlying corporate action to be effectively processed prior to the instruction of a related market claim. CASG members were not aware of similar discussions in other markets and saw no contradiction on this matter between CSDR and CASG standards.

The date of the next CASG meeting has not yet been fixed. The chair and the rapporteur will review and make a proposal.