

General Information (Origin of Request)		
<input type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: CSD	Institute: Euroclear	Date raised: 11/02/2016
Request title: Prevent acceptance (i.e. reaching SF1) of new settlement instructions at the level of a T2S Party		Request ref. no: T2S 0593 SYS
Request type: Common		Urgency: Normal
1. Legal/business importance parameter: High	2. Market implementation efforts parameter: Low	
3. Operational/Technical risk parameter: High	4. Financial impact parameter: Medium	
Requestor Category: CSD	Status: Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

The CSG Task-force on insolvency proceedings has been focusing on two deliverables:

- (i) the elaboration of a Collective Agreement that sets out inter alia the legal rights and obligations of the T2S CSDs and T2S NCBs arising in connection with the harmonised definition of the moment of entry and irrevocability of transfer orders which are subject to matching
- (ii) the definition of high-level procedures and principles to handle the insolvency of a participant in T2S, be it a CSD participant or a central bank's participant and the subsequent reporting requirements

While discussing the procedures, it has been identified that, while the T2S application offers the adequate tools to ensure compliance with the legal requirements stemming from the Settlement Finality Directive, an insolvency situation cannot be managed adequately from an operational standpoint with the current T2S functionalities.

In this context, CR-558 has been raised to prevent the acceptance of new settlement instructions aiming at debiting the account of the insolvent party based on a flag¹ set at the level of the securities account or Dedicated Cash Account (DCA).

However, the CR-558 does not cater for this procedure at the level of the T2S party. CSDs have reported that some CSD Participants may hold hundreds or even thousands of securities accounts and that setting the flag individually at the level of each securities account would be operationally cumbersome in the case such participant becomes insolvent. Central Banks also consider that the same flexibility should be available in case of the insolvency of a payment bank to achieve equal level of operational efficiency. It is therefore required to enhance the CR-558 functionality in order to be able to identify a CSD participant or payment bank (based on the T2S party BIC) as insolvent, which shall result in the rejection of new incoming settlement instructions aiming at debiting any of the securities accounts or dedicated cash account belonging to that T2S party.

¹ Current implementation choice for CR558 foresees the availability of a new restriction type to be applied on the impacted static data object(s)

Description of requested change:

In order to ensure an acceptable level of operational risk in case of insolvency of a CSD participant or payment bank, the following requirement must be fulfilled:

Trigger rejection of new incoming settlement instructions based on the restriction of all the securities accounts (or dedicated cash accounts) of an insolvent party operated via Data Migration tool: It must be possible, by processing one single structured file, to trigger the rejection of the new incoming settlement instructions submitted by an insolvent Party or on its behalf and intended to debit any of the securities account or dedicated cash account of that insolvent T2S Party. Two structured files will be introduced to restrict either the securities accounts or the dedicated cash accounts of the insolvent Party. Either all accounts or just subset of accounts belonging to the insolvent party can be listed in the structured DMT file. However, it would not be possible to list both securities and cash accounts in the same file.

It must be possible to bypass this rejection for transactions mandated by the insolvency liquidator². Such transactions will have the CSD as instructing party.

The new structured files can also be used for immediate removal of a restriction previously set-up.

The detailed description of the steps to be undertaken by the CSDs and the T2S Operator in order to restrict all securities accounts of an insolvent party via the DMT is the following:

1. The CSD retrieves (either from T2S or from their internal application) the list of Securities Accounts to be restricted. In T2S this can be achieved both in A2A mode and in U2A mode.
2. The CSD uses the list of accounts retrieved in step 1 to build a file to be uploaded via the DMT.
3. The CSD uses the DMT web application to upload the file to be loaded.
4. The T2S Operator releases the file uploaded by the CSD in step 3. The T2S processes the file and this is expected to result in the restriction of all the securities accounts listed in the file and in the generation of a corresponding "enriched" file which contains the outcome of the processing for each and every securities account listed in the file.
5. The CSD checks the enriched file. If no errors are reported in the file, then the process is completed. If at least one error is reported in the file, the CSD has to check the reason for each error and decide how to react (e.g. sending a new file including only the corrections of the detected errors, or act manually by restricting the remaining securities accounts in U2A mode).

The steps can be adapted to manage the same process also on the NCB side, i.e. to allow NCBs restricting dedicated cash accounts.

Submitted annexes / related documents:

See attachment entitled "Insolvency of CSD/CB participants in T2S" from CSG Task Force (version of 29 October 2015)

Proposed wording for the SYS Change request:**Data Migration File Format Specification:**

It is necessary to extend the current scope of the Data Migration Tool to allow the update of objects which already exist in T2S. The DMT File Format Specification shall be updated accordingly, in order to include two new structured files for restricting either the securities accounts or the dedicated cash accounts.

² In some jurisdictions, settlement instructions can be processed according to the system rules even when entered after the opening of insolvency proceedings upon demand of the insolvency liquidator.

New Chapter 3.1.2.29 Restrictions on Securities Account – New

Flat file column	Excel Column	Column Name	Format	Description	Rules	Occurs per Record	Occurs per Group
2	B	Record Id	NUMERIC (10)	Unique identifier of the record.	Must occur in each line of the record.	1..n	
Group "Securities Account"						1..1	
3	C	Securities Account Number	VARCHAR (35)	Unique securities account number.			1..1
Group "Securities Account Restriction"						1..10	
4	D	Restriction Type	CHAR (4)	Code of the restriction to be applied.			1..1
5	E	Restriction Valid From Date	DATE	Valid from date and time of the restriction.	It is optional in case of immediate removal of restrictions. Must be equal to or greater than the current date and time, except for the immediate setup of restrictions. In this case the value is "1000-01-01 00:01:00".		0..1
6	G	Restriction Valid From Time	TIME				0..1
7	G	Restriction Valid To Date	DATE	Valid to date and time of the restriction.	Must be equal to or greater than the valid from date and time, except for the immediate removal of restrictions. In this case the value is "9999-12-31 23:59:00".		0..1
8	H	Restriction Valid To Time	TIME				0..1

New Chapter 3.1.2.30 Restrictions on T2S Dedicated Cash Accounts – New

Flat file column	Excel Column	Column Name	Format	Description	Rules	Occurs per Record	Occurs per Group
2	B	Record Id	NUMERIC (10)	Unique identifier of the record.	Must occur in each line of the record.	1..n	
Group "T2S Dedicated Cash Account"						1..1	
3	C	T2S Dedicated Cash Account Number	VARCHAR (34)	Unique T2S Dedicated Cash Account number.			1..1
Group "T2S Dedicated Cash Account Restriction"						1..10	
4	D	Restriction Type	CHAR (4)	Code of the restriction to be applied.			1..1
5	E	Restriction Valid From Date	DATE	Valid from date and time of the restriction.	It is optional in case of immediate removal of restrictions. Must be equal to or greater than the current date and time, except for the immediate setup of restrictions. In this case the value is "1000-01-01 00:01:00".		0..1
6	G	Restriction Valid From Time	TIME				0..1
7	G	Restriction Valid To Date	DATE	Valid to date and time of the restriction.	Must be equal to or greater than the valid from date and time, except for the immediate removal of restrictions. In this case the value is "9999-12-31 23:59:00".		0..1
8	H	Restriction Valid To Time	TIME				0..1

High level description of Impact:

Enlargement of the DMT scope, in order to allow the setup and removal of intraday restrictions on securities accounts and T2S dedicated cash accounts.

Outcome/Decisions:

- * CRG teleconference of 24 February 2016: The CRG decided to put the Change Request on hold and include the Change Request as candidate for Release 1.3.
- * CRG teleconference of 14 April 2016: The CRG decided to put the Change Request on hold and requested the 4CB to analyse further options.
- * CRG teleconference on 13 May 2016: The CRG agreed that the enlargement of the scope of the Data Migration Tools (DMT) to restrict accounts was acceptable from a functional perspective and agreed to recommend the launch of the detailed assessment in principle subject to the OMG confirmation that the solution was also acceptable from a timing and process point of view.
- * CRG teleconference on 17 June 2016: The CRG agreed to make some changes on the Change Request.
- * OMG on 20 June 2016: Following the OMG written procedure from 13 to 20 June 2016, the OMG indicated that there was no operational impact of the Change Request.

- * OMG meeting on 27-28 June 2016: The OMG was of the view that the solution proposed by this Change Request was also acceptable from a timing and process point of view.
- * Advisory Group on 07 July 2016: In a written procedure from 01 – 07 July 2016, the Advisory Group was in favour of launching the detailed assessment on the Change Request.
- * CSD Steering Group on 08 July 2016: In a written procedure from 01- 08 July 2016, the CSD Steering Group was in favour of launching the detailed assessment on the Change Request.
- * CRG meeting of 6 September 2016: The CRG recommended the approval of Change Request and its inclusion in the T2S Release 1.3.
- * OMG on 16 September 2016: During a written procedure from to 31 August to 16 September 2016, the Operations Managers Group did not identify any blocking operational impact of the Change Request. The OMG was in favour of adding the Change Request to Release 1.3.
- * Advisory Group on 20 September 2016: Following a written procedure from 14 to 20 September 2016, the AG was in favour of approving the Change Request and its inclusion on T2S Release 1.3.
- * CSD Steering Group on 21 September 2016: During the CSG meeting on 21 September 2016, the CSG adopted the resolution to approve the Change Request and its inclusion on T2S Release 1.3.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

Impact On T2S	Static data management		Interface	
		Party data management		Communication
		Securities data management		Outbound processing
		T2S Dedicated Cash account data management		Inbound processing
		Securities account data management		
		Rules and parameters data management		
	Settlement		Liquidity management	
		Standardisation and preparation to settlement		Outbound Information Management
		Night-time Settlement		NCB Business Procedures
		Daytime Recycling and optimisation		Liquidity Operations
		Daytime Validation, provisioning & booking	LCMM	
		Auto-collateralisation		Instructions validation
				Status management
	Operational services			Instruction matching
	X	Data Migration		Instructions maintenance
		Scheduling	Statistics, queries reports and archive	
		Billing		Report management
		Operational monitoring		Query management
				Statistical information
				Legal archiving
		All modules (Infrastructure request)		
		No modules (infrastructure request)		
	Business operational activities			
	Technical operational activities			

Impact on major documentation				
Document	Chapter	Change		
Impacted GFS chapter				
Impacted UDFS chapter				
Additional deliveries for Message Specification				
UHB				
External training materials				
Other documentations	Data Migration Tool File Format Specification	New structured files definition for applying and removing Securities and T2S Dedicated Cash Account Restrictions		
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
<u>Data Migration Tool</u> Two new files must be added to handle the setup and removal of intraday restrictions to already existing Securities Accounts and T2S Dedicated Cash Accounts.
Summary of project risk
None.
Security analysis
No potentially adverse effect was identified during the security assessment.

DG - MARKET INFRASTRUCTURE & PAYMENTS
 MARKET INFRASTRUCTURE MANAGEMENT

ECB-PUBLIC



30 August 2016

Cost assessment on Change Requests

T2S-593-SYS – Prevent acceptance (i.e. reaching SF1) of new settlement instructions at the level of a T2S Party			
One-off	Assessment cost*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Project phase costs	112,341.91	Euro
Annual	Operational costs	8,423.48	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).