



EUROPEAN CENTRAL BANK

EUROSYSTEM

General Information (Origin of Request) <input checked="" type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: CSDR Task Force	Institute: ECB	Date raised: 03/05/2019
Request title: Optimisations to the T2S Penalty Mechanism's (CR654) user requirements		Request ref. no: T2S 0715 URD
Request type: Common	Classification: Regulatory requirement	Urgency: Fast-track
1. Legal/business importance parameter: High		2. Market implementation efforts parameter: Low
3. Operational/Technical risk parameter: Low		4. Financial impact parameter: Low
Requestor Category: CSDR TF		Status: Implemented

Please note that all requirements from this CR-715 have been reflected as updates in the CR 654 (T2S Penalty mechanism) and only serve here as reference

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.

Due to the size and nature of the CSDR settlement discipline regime requirements which regulators are still providing additional clarity, the large number of actors involved, and the processes which are not under the control of the T2S governance but may still indirectly impact T2S (e.g. buy-in process), a number of optimisations to the CR654 requirements have been identified. These changes are summarised below:

1. **Extend the appeal processing period by one day:** as per current CR654 requirements, CSDs have until the eleventh business day of the month¹ to request modifications to penalties of the previous month (e.g. to request a removal of a cash penalty), while as the monthly cash penalties report is generated on the fourteenth business of the month (between 08:30 and 11:30). However, CSDs have identified that they need extra time to validate the appeals received from their participants and send the corresponding modification requests to T2S. Hence, it is requested to extend the appeal processing period until the twelfth business day of the month while the date and time for the generation of the monthly report remain unchanged. In practice, this will result in requests for modifications to be accepted in T2S until the thirteenth business day at 07:30, while the monthly report will be provided on the fourteenth business day between 08:30 and 11:30.
2. **Do not report "Not computed" cash penalties for financial instruments that are not in scope of cash penalties:** in the CR654, it was originally decided to report the cash penalties that were not computed due to a financial instrument not being in scope of the T2S penalty mechanism. The purpose was two-fold: flagging the fact that some instruments were not in scope of cash penalties so that CSDs could double-check if it was intentional, and make sure that if an instrument becomes in scope with a "Valid From" in the past, T2S could perform the calculation of cash penalties for those business days in the past. However, after further clarification of the process, it appears that this would trigger unnecessary reporting as CSDs are not in

¹ Which as per the deadline for provision of data defined in CR654 detailed assessment "Schedule of activities and volume" actually result in the twelfth business day at 07:30.

control of the scope of financial instruments of cash penalties since they derive the list from ESMA's registers. According to latest assumptions, the scope of instruments eligible at CSDs could also be much broader than the list of instruments in scope of cash penalties, hence the volume of "Not Computed" cash penalties could be substantial. As a result, it is agreed that "Not Computed" penalties shall not be reported in any of the cash penalties report generated by T2S (Daily, Modified, or Monthly). At the same time, the status shall be kept in the T2S database in order for the T2S penalty mechanism engine to be able to perform a calculation of cash penalties on a financial instrument that becomes eligible with a "Valid From" in the past. CSDs shall still be able to query cash penalties with the status "Not computed" as this information may be useful to investigate whether there are inconsistencies in the scope of financial instruments subject to cash penalties.

This CR needs to be implemented along with the CR 654.

Description of requested change:

****Please note that all requirements below have been reflected as updates in the CR 654 (T2S Penalty mechanism) and only serve here as reference****

Chapter 13 – Messages and reports requirements

13.5.2.6 Monthly reporting of aggregated amounts of cash penalties

Monthly reporting of aggregated amounts of cash penalties

Reference ID	T2S.13.460
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On the fourteenth business day of the month, T2S shall transmit to T2S actors the aggregated amounts of the cash penalties computed for the business days of the previous month:

- CSDs shall be able to receive the monthly aggregated amounts of all the parties in its scope
- CSD participants (or an External CSD) shall be able to receive the monthly aggregated amounts of the cash penalties of the previous month that were either imposed or credited to them.

When reporting the monthly aggregated amounts for the previous month, T2S will consider the last available value of the amount of each of the cash penalties to be aggregated, taking into account all the modifications performed on the cash penalties until, and including, the daily recalculation and reporting of modified cash penalties performed on the ~~twelfth~~ thirteenth business day of the current month.

Consequently, the monthly aggregated amounts will take into consideration all the corrections (penalties that have been removed, re-included, re-allocated, switched or automatically updated by T2S) made on the penalties to be aggregated since their initial computation and reporting until the end of their appeal processing period (which allows CSDs to make modifications until and including the ~~eleventh~~ twelfth business day of the month as described in T2S.22.370).

Note: Settlement of cash penalties will be performed outside T2S, but the monthly aggregated amounts of cash penalties provided by T2S will be useful to CSDs for the collection and redistribution of cash penalties from/to the relevant parties.

Chapter 22 Computation and Maintenance of Cash Penalties

22.4 Computation

22.4.1 Settlement Fail Penalty (SEFP)

Number of days considered in the computation of SEFP

Reference ID	T2S.22.115
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A given SEFP always applies to a single business day i.e. when the settlement instruction failed to settle in T2S.

In case the security of the settlement instruction is not subject to cash penalties in the applicable business day of the SEFP, T2S shall ~~report~~ record the penalty with "Not computed" status, but not report it.

Note: A given SEFP always applies to a single business day, but a settlement instruction may have several SEFPs if it fails to settle in T2S on several business days. Each SEFP will be computed for each business day the settlement instruction fails in T2S.

22.4.2 Late Matching Fail Penalty (LMFP)

Number of days considered in the computation of LMFP

Reference ID	T2S.22.200
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In the computation of a LMFP, T2S shall consider each business day where the settlement instruction was due to settle according to the T2S calendar, i.e. all the business days where the LMFP is applicable.

The business days where the LMFP is applicable shall be:

- The business days as from the ISD until, and including, the business day where the instruction is matched (when the instruction is matched at a point in time of the business day which is after the end of the settlement processing of the relevant cut-off);
- The business days as from the ISD until, and excluding, the business day where the instruction is matched (when the instruction is matched at a point in time of the business day which is prior to the end of the settlement processing of the relevant cut-off)

The LMFP shall be the sum of the amounts calculated for each applicable business day. The parameters and derivation logic for the computation is described in URs T2S.22.210, T2S.22.220, T2S.22.230, T2S.22.231 and T2S.22.232.

Note: The business day where the settlement instruction is matched shall be excluded when matching took place prior to the end of the settlement processing of the relevant cut-off, because if it does not settle on this business day, the instruction shall be then eligible for a SEFP.

In case the security of the settlement instruction is not subject to cash penalties in all the applicable business days of the LMFP, T2S shall ~~report~~ record the penalty with "Not computed" status, but not report it.

In case the security of the settlement instruction is subject to cash penalties at least in one of the applicable business days of the LMFP, T2S will compute the cash penalty based on applicable business days for which the security is subject to penalties.

22.5 Update of existing cash penalties by CSDs (removal/ re-inclusion/ re-allocation/ switch)

The T2S Penalty Mechanism provides the CSDs with tools to make ex-post updates/corrections on the cash penalties computed. As a general rule, only the CSD of the failing party is allowed to perform updates on a cash penalty and, as long as they are requested in the allowed time frame (also known as appeal processing period). The updates a CSD may perform on a cash penalty are:

- Removal of a cash penalty: in cases foreseen in the CSDR framework where settlement cannot be performed for reasons that are independent from any of the CSD participants or the CSD, the cash penalty shall not be charged. In such cases, the CSD shall be able to remove the cash penalty computed.
- Re-inclusion of a previously removed cash penalty: to cater for mistakes in the removal of penalties, T2S shall allow the CSD to re-include a penalty that has been previously removed.
- Re-allocation of a LMFP from the instructing party to the delivering/receiving party: this functionality caters for the rare cases where an already matched settlement instruction is sent late to T2S and, consequently, a LMFP is computed and assigned to the Instructing Party as both the failing party and non-failing party (T2S.22.180). T2S does not have the information for identifying the last participant to enter the relevant instruction, but the Instructing Party does. Hence, in such case, the CSD shall be able to re-allocate the penalty from the initially assigned failing and non-failing party (i.e. the Instructing party) to the delivering party and the receiving party of the instruction (i.e. as the actual failing party or the non-failing party)
- Switch between the failing and non-failing party of a cash penalty: this functionality caters inter alia for cases where a transaction is settled on multiple platforms, i.e. where settlement on T2S depends on the fulfilment of a condition outside T2S. For example, when cash settlement takes place outside T2S while the settlement of securities takes place in T2S, conditional securities deliveries (CoSD) may be used by T2S Actors to block the securities in T2S until cash settlement takes place on the relevant platform. Depending on the CoSD configuration and the business scenario, T2S could compute and assign the penalty to the incorrect party (i.e. to the delivering instead of to the receiving participant or vice versa), e.g. because the free-of-payment delivery in T2S is failing, while as it is due to the lack of cash of the counterparty on the external cash settlement platform. Hence, in order to allow the CSD to make the required ex-post correction, the CSD shall be able to swap the failing party and the non-failing party of the cash penalty.

22.5.1 Removal of a cash penalty

22.5.5 Common requirements for the updates performed by a CSD on a cash penalty

Allowed timeframe for Removal / Re-inclusion / Re-allocation / Switch of a cash penalty

Reference ID	T2S.22.440
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The CSD shall be able to request the removal, re-inclusion, re-allocation, or switch of an existing cash penalty:

- From its computation and reporting,
- Until (and including) the ~~eleventh~~ twelfth business day of the calendar month following the month where the penalty was initially computed, which shall be considered as the end of the appeal processing period.

The exact timings in the operating day will be defined in the specification phase.

Note: The appeal processing period to request corrections or modifications of penalties shall end before the provision of the monthly aggregated amounts (see UR T2S.13.460) that the CSDs will use in their collection and redistribution of penalties.

22.6 Automatic update of existing cash penalties by T2S

Update of reference data triggering a recalculation of existing cash penalties

Reference ID	T2S.22.470
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T2S shall automatically re-calculate existing cash penalties affected by the below data updates occurred since the last recalculation process:

- Changes in the reference price of a given ISIN,
- Changes in the value of the attributes of the Securities Subject to Cash Penalties i.e. the ISIN, the value of the financial instrument type or the Liquidity,
- Changes in the value of the Daily flat penalty rate (either the securities penalty rate or the cash penalty rate) or in the list of SME Growth Markets necessary for identifying the applicable penalty rate.

T2S shall only recalculate cash penalties:

- From their initial computation and reporting, until (and including) the ~~eleventh~~ twelfth business day of the calendar month following the month where the penalty was computed, which shall be considered as the end of the appeal processing period.

T2S shall not recalculate cash penalties that have been removed by the CSD (i.e. penalties with status "removed", shall not be recalculated by T2S).

Proposed wording for the Change request:

To update:

1. The documentation describing the calendar and schedule of the Penalty Mechanism according to the requested change.
2. The message and flat file specifications to prune the status "Not computed" (NCOM that will not be reported any longer, as well as defining the reporting process to ensure it is not reported.

It's worth mentioning that, as agreed in the CSDR TF, this change does not affect the overall logic of the detection period for penalties and its reporting.

Accordingly, in case a penalty changes its status from "Not computed" (NCOM) to "Active" (ACTV), because the security becomes subject to penalties on the applicable business date (i.e. because Static Data is updated to include the relevant security in the list of securities subject to penalties on this past date), then the Active penalty will be reported by the Penalty Mechanism in the following day List of Modifies Penalties because the penalty was already detected before the previous business date. I.e. This penalty will not be reported in the following day Daily Penalty List because it is not a new penalty that was detected on the previous business day.

For this purpose, the description of CR654 will be updated according to the description within the "L3 ANALYSIS – GENERAL INFORMATION" below.

Additionally, the Annex "DraftMessageOverview_CR654_T2S PenaltyMechanism" will also be updated to reflect the fact that T2S does no longer use "Not computed" (NCOM) status.

Upon provision of the SDD for CR-654, the changes will be reflected in the following documents:

- GFS: 3.4.7 Penalty Mechanism (***)
- UDFS: 1.6.1.14 Penalty Mechanism (***)
 1.4 Settlement day (***)
 3.3.7 Securities Management (semt.044) (***)
 4.10. Specifications for the flat file for reporting of penalties (***)

Submitted annexes / related documents:

Change Requests in relation with the T2S Penalty Mechanism:

-CR 654: T2S penalty mechanism:

https://www.ecb.europa.eu/paym/target/t2s/governance/pdf/crg/t2s_0654_urd.pdf



20190522_DraftMes
 sageOverview_CR65

Outcome/Decisions:

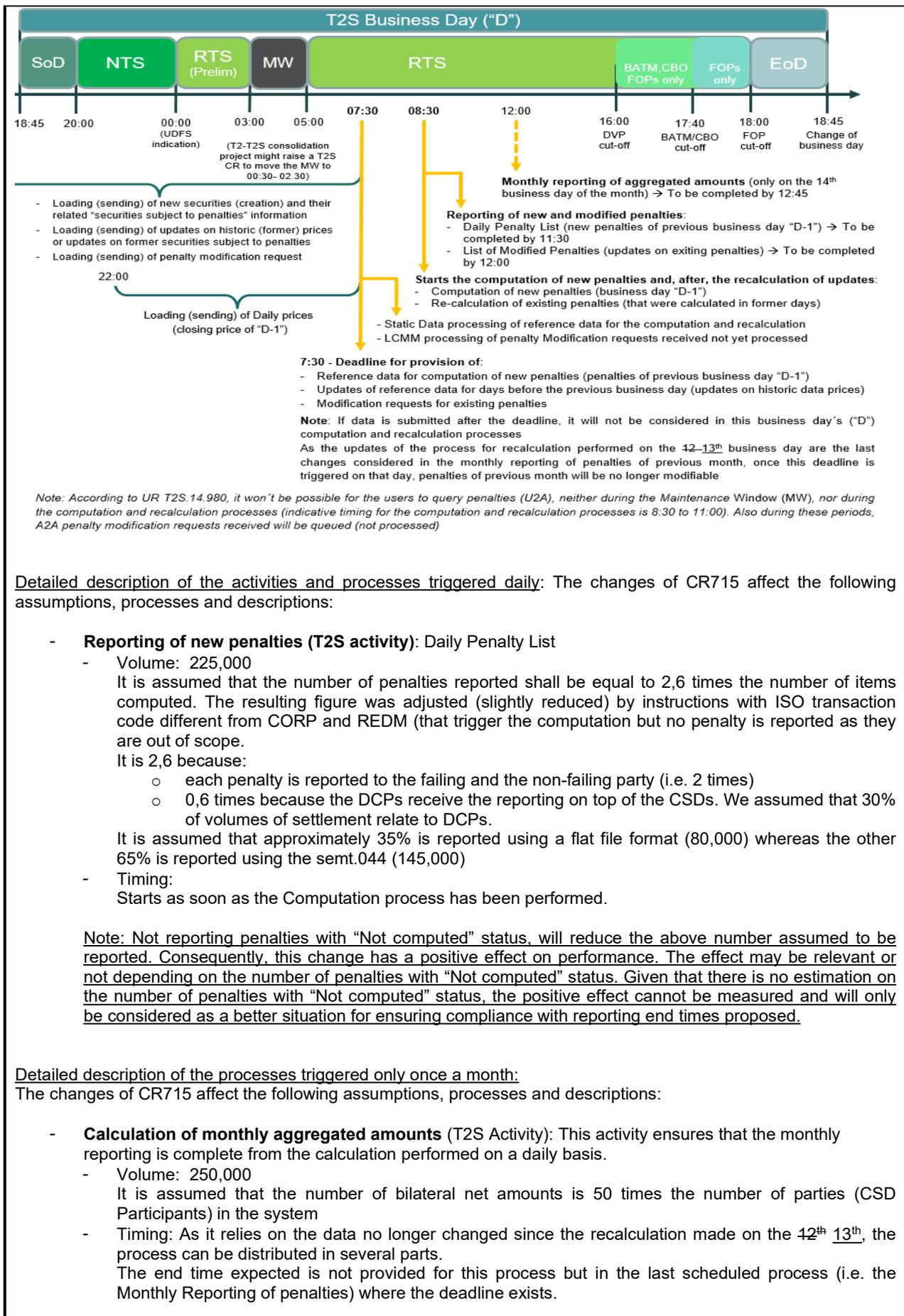
- * CRG on 13 May 2019: The CRG agreed to recommend the Change Request for authorisation by the T2S Steering Level.
- * AMI-SeCo on 20 May 2019: The AMI-SeCo has agreed to the recommendation of the CRG to authorise this Change Request.
- * CSG on 20 May 2019: The CSG has agreed to authorise this Change Request via a written consultation.
- * NECSG on 20 May 2019: The NECSG has agreed to authorise this Change Request via a written consultation.
- *PMG on 24 May 2019: The PMG proposed to allocate the CR-715 to release 4.2.
- * CRG on 7 June 2019: The CRG recommended to the PMG the inclusion of CR-715 in R4.2.
- * PMG on 7 June 2019: The PMG recommended to the Steering Level the approval for inclusion of CR-715 in R4.2.
- * CSG on 14 June 2019: The CSG approved the inclusion of CR-715 in R4.2
- * NECSG on 17 June 2019: The NECSG approved the inclusion of CR-715 in R4.2
- * MIB on 19 June 2019: The MIB approved the inclusion of CR-715 in R4.2

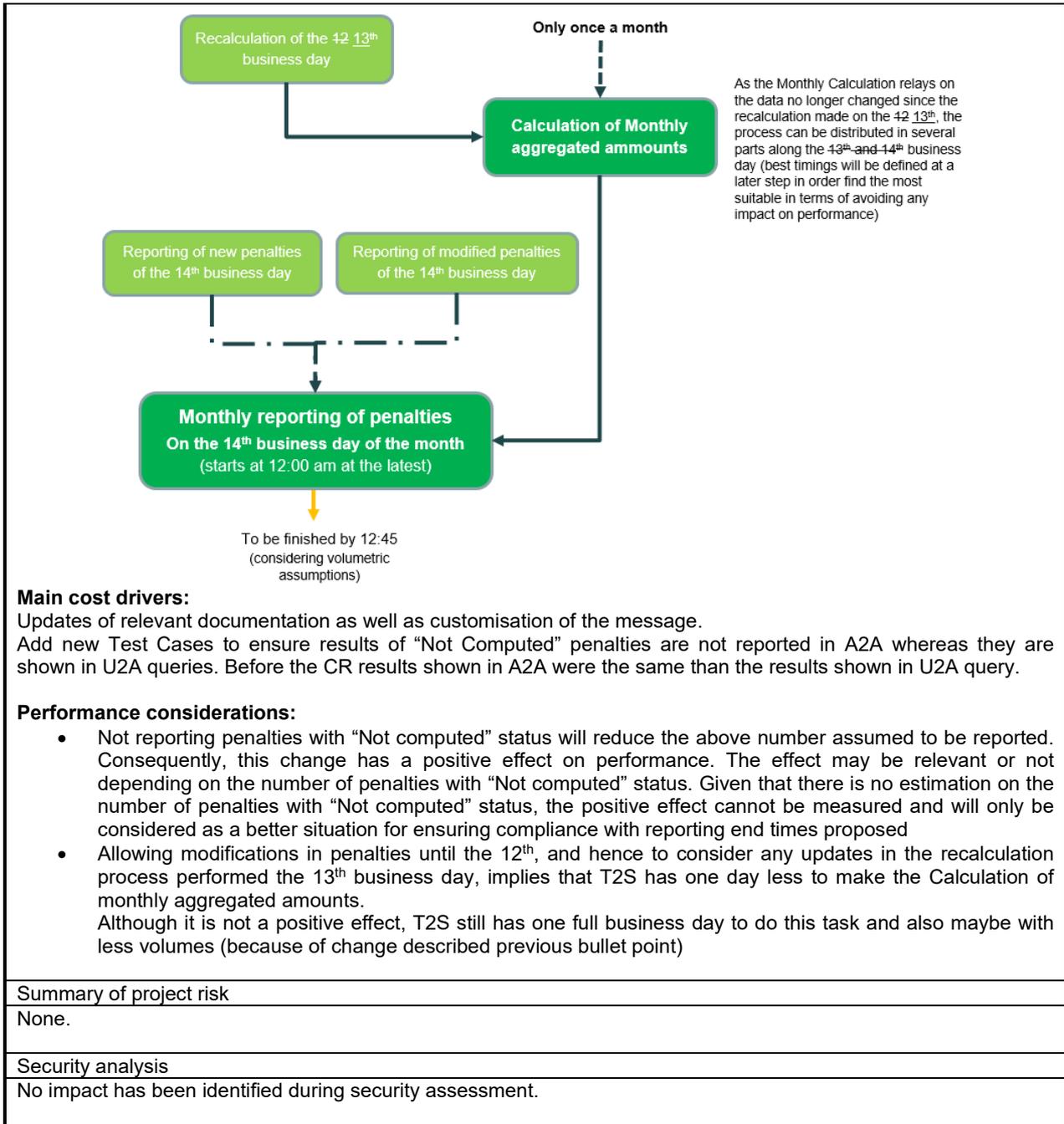
EUROSYSTEM ANALYSIS – GENERAL INFORMATION

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		Liquidity management
				Outbound Information Management
		Settlement		NCB Business Procedures
		Standardisation and preparation to settlement		Liquidity Operations
		Night-time Settlement		
		Daytime Recycling and optimisation		LCMM
		Daytime Validation, provisioning & booking		Instructions validation
		Auto-collateralisation		Status management
				Instruction matching
	Operational services		Instructions maintenance	

	Data Migration	X	Penalty mechanism
	Scheduling		
	Billing		Statistics, queries reports and archive
	Operational monitoring		Report management
			Query management
			Statistical information
			Legal archiving
	All modules (Infrastructure request)		
	No modules (infrastructure request)		
	Business operational activities		
	Technical operational activities		

Impact on major documentation		
<i>(***) The SDD will be provided together with the SDD for CR-654 (***)</i>		
Document	Chapter	Change
Impacted GFS chapter	3.4.7 Penalty Mechanism (***)	The delivery of the documentation for CR-654 will include the changes i) to end the appeal period on the 12 th instead of the 11 th and ii) to not report the status NCOM.
Impacted UDFS chapter	1.6.1.14 Penalty Mechanism (***)	The delivery of the documentation for CR-654 will include the changes i) to end the appeal period on the 12 th instead of the 11 th and ii) to not report the status NCOM.
	1.4 "Settlement day" (***) No impact as not yet delivered but to consider the new schedule defined and further described in overview section.	Include the changes to end the appeal period on the 12 th instead of the 11 th when delivering the documentation for CR-654
	3.3.7 Securities Management (semt.044) (***)	Remove (prune) the status NCOM that will not be reported
	4.10. Specifications for the flat file for reporting of penalties (***)	Remove (prune) the status NCOM that will not be reported
Additional deliveries for Message Specification	Semt.044 DRAFT customisation	Remove (prune) the status NCOM that will not be reported
	Update of Annex of CR 654 "DraftMessageOverview_CR654_T2S PenaltyMechanism"	Flag the status NCOM as Not used by T2S
UHB		
Other documentations		
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><u>LCMM – Penalty mechanism:</u></p> <p>1-To update the schedule of the Penalty Mechanism to extend the appeal processing period until the twelfth business day of the month and hence, the monthly reporting will consider the updates performed in the recalculation process performed the 13th business day.</p> <p>2-To not report "Not computed" (NCOM) status, and accordingly to modify the message and flat file for reporting of penalties by pruning/ removing this status value.</p> <p><u>Schedule of activities and volumes of the Penalty Mechanism.</u></p> <p>The changes of CR715 affect the following activities and diagrams:</p>		







31 May 2019

Cost assessment on Change Requests

T2S-715-SYS – regulatory compliance			
One-off	Assessment costs*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Development costs	13,186.60	Euro
Annual	Operational costs		
	- Maintenance costs	0.00	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).