



EUROPEAN CENTRAL BANK

EUROSYSTEM

General Information (Origin of Request) <input checked="" type="checkbox"/> User Requirements (URD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: CSDR Task Force	Institute: ECB	Date raised: 06/12/2019
Request title: T2S Penalty Mechanism: Removal of the exemption for ISO transaction code "REDM" and typos, and semt.044 update		Request ref. no: T2S 0727 URD
Request type: Common	Classification: Regulatory compliance	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: Allocated to a release

Reason for change and expected benefits/business motivation:

(1) 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.

CSDR mandates some types of transactions to be exempted from the application of cash penalties, inter alia Corporate Actions on stock. In the T2S penalty mechanism, the exemption for Corporate Actions is identified via the usage of ISO transaction codes "CORP" as well as "REDM". If the transaction code is included in the failing settlement instruction, the transaction will be exempted from the calculation of cash penalties.

After further analysis, it appears that the ISO transaction code "REDM" is not used in the context of Corporate Actions on stock but for investment funds redemptions. As these transactions do not benefit from an exemption as per CSDR requirements, the code "REDM" has to be removed from the T2S penalty mechanism user requirements (CR654) and any corresponding scope defining documentation.

(2) Additionally, ECSDA Framework states that a "global net" will be provided by the CSDs in their monthly report to their participants. Hence, the CSDs requested in the CSDR TF that the message semt.044 is updated as follows:

- *Penalty/AggregatedAmount/GlobalNetAmount*; and *Penalty/PenaltyPerCounterparty/AggregatedAmount/GlobalNetAmount* are defined with a DataType "AmountAndDirection" (now its DataType is "ActiveCurrencyAndAmount").

I.e. the two *Global Net Amounts* will have the following elements:

- o Amount
- o CreditDebit

This update will cause a new version of the semt.044. It is worth mentioning that the *Global Net Amount* will remain pruned in the T2S version of the message

(3) Finally, in the T2S URD, the "Valid To" attribute of a security subject to penalties should be updatable to be consistent with the expected business processes.

Description of requested change:

(Requested change 1)**Chapter 22 Computation and Maintenance of Cash Penalties**

22.2 Scope of Cash Penalties

22.2.2 Instructions subject to Cash Penalties**Transaction Types subject to Cash Penalties**

Reference ID	T2S.22.050
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T2S shall compute cash penalties for settlement instructions sent by T2S Actors and populated with any ISO transaction type code, except for settlement instructions populated with "CORP" and "REDM" ISO transaction code.

Note: All transaction types shall be subject to cash penalties (both Settlement Fail Penalties and Late Matching Fail Penalties), except Corporate Actions on Stock.

(Requested change 2)

The semt.044 base message should be updated as described in the previous section, and any additional field should be pruned from the T2S-customised version of the message.

(Requested change 3)

table should be corrected in the T2S URD section 16.9 (Cash Penalties Static Data Management):

Summary of the various static data updates that the responsible T2S Actor can perform

Responsible T2S Actor	Class of Information	Attribute	Updatable
CSD (acting as SME)	Securities Subject to Penalties	ISIN	No
		Financial Instrument Type	Yes
		Liquidity	Yes
		Valid From	No
		Valid To	No Yes
CSD (acting as SME)	Daily Price	ISIN	No
		Price Date	No
		Currency Code	Yes
		Price	Yes
T2S Operator	SME Growth Markets	MIC Identifier	Yes
T2S Operator	Securities Penalty Rate	Asset Type	No
		Daily Flat Penalty Rate	Yes
		Valid From	No
T2S Operator	Cash Discount Penalty Rate	Currency Code	No
		Daily Flat Penalty Rate	Yes

Responsible T2S Actor	Class of Information	Attribute	Updatable
		Valid From	No
ECB	Euro Exchange Reference Data ¹	Currency Code	No
		Daily Exchange Rate	Yes
		Exchange Rate Date	No

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

Proposed wording for the Change request:
URD:

update of section 16.9 as described above

UDFS:

The following UDFS sections should be updated:

1.6.1.14.4. Penalty Eligibility
Eligibility for a Settlement Fail Penalty (SEFP)

To determine whether a Settlement Instruction is eligible for a Settlement Fail Penalty (SEFP) or not, T2S retrieves all the Matched Settlement Instructions which failed to settle at the end of the relevant previous business day's cut-off. I.e.:

Matched Settlement Instructions that: i) having an Intended Settlement Date equal or earlier than the previous business day, ii) remain Unsettled or Partially Settled after the completion of their applicable cut-off.

T2S analyses separately each instruction retrieved, and:

- | Settlement Instructions automatically generated by T2S for realignment purposes are discarded, as they are out of scope of the T2S Penalty Mechanism;
- | Settlement Instructions with ISO Transaction Code "CORP" or "~~REDM~~" (related to Corporate Actions on Stock) are exempted, as they are not subject to penalties.

(...)

Eligibility for a Late Matching Fail Penalty (LMFP)

To determine whether a Settlement Instruction is eligible for a Late Matching Fail Penalty (LMFP) or not, T2S retrieves the Settlement Instructions with Intended Settlement Date equal or earlier than the previous business day and that were matched on the previous business day. I.e.:

- | Matched Settlement Instructions having i) an Intended Settlement Date equal or earlier than the previous business day and ii) a Matching Timestamp between the previous business day Start and End Timestamps.

T2S analyses separately each instruction retrieved, and:

- | Settlement Instructions automatically generated by T2S for realignment purposes are discarded, as they are out of scope of the T2S Penalty Mechanism;
- | Settlement Instructions with ISO Transaction Code "CORP" ~~or "REDM"~~ (related to Corporate Actions on Stock) are exempted, as they are not subject to penalties.

GFS:

The following GFS sections should be updated:

Section 3.4.7.3

SEFP Penalty Eligibility

Reference Id	LCMM.PEM.ELI.3.1
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The SEFP Penalty Eligibility sub-function...

Corporate actions on stock are not subject to Penalties, hence:

- | If the *Settlement Instruction* has ISO Transaction Code "CORP" ~~or "REDM"~~, its *Penalty Eligibility* instance is recorded with Eligible for a Penalty "False" and Reason for Exemption "ISOT" (i.e. ISO Transaction Code) **{T2S.22.050}**, and the process ends for this *Settlement Instruction*.

(...)

LMFP Penalty Eligibility

Reference Id	LCMM.PEM.ELI.4.1
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The LMFP Penalty Eligibility sub-function...

For each *Penalty Eligibility* instance created, the sub-function determines its Eligible for Penalty attribute as follows:

- | If the underlying *Settlement Instruction* has ISO transaction code "CORP" ~~or "REDM"~~, the Eligible for Penalty is set to "False" and the Reason for Exemption to "ISOT" (i.e. ISO Transaction Code) **{T2S.22.050}**.

Message documentation:

Semt.044.

The *Global Net Amount* is pruned in the T2S version of the message.

The change of this field impacts the base message and the T2S documentation where the field appears as pruned.

Outcome/Decisions:

- * CRG on 12 December 2019: the CRG recommended the authorisation of CR-727 to the T2S Steering Level and agreed to follow a fast-track procedure.
- * AMI-SeCo on 19 December 2019: the AMI-SeCo agreed to the recommendation of the CRG.
- * NECSG on 20 December 2019: the NECSG is in favour of authorising CR-727.
- * CSG on 20 December 2019: The CSG is in favour of authorising CR-727.
- * PMG on 20 December 2019: the PMG proposed to allocate CR-727 to T2S R4.2 and launched its detailed assessment
- * MIB on 28 January 2020: the MIB authorised CR-727.
- * OMG on 31 January 2020: The OMG did not identify any new operational impact by including CR-727 in the scope of R4.2.
- * CRG on 31 January 2020: The CRG recommended the implementation of the CR in R4.2. to the PMG.
- * PMG on 31 January 2020: The PMG recommended the implementation of the CR in R4.2.
- * CSG on 5 February 2020: The CSG approved the inclusion of CR-727 in R4.2.
- * NECSG on 10 February 2020: The NECSG approved the inclusion of CR-727 in T2S R4.2.
- * MIB on 13 February 2020: The MIB approved the inclusion of CR-727 in the scope of R4.2 without discussion.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

T2S Specific Components		Common Components	
LCMM			
	Instructions validation		
	Status management		
	Instruction matching		
	Instructions maintenance		
X	Penalty Mechanism		
Settlement			
	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 Nov 2021)		Common Reference Data Management (from PROD R5.2 Nov 2021)	
	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	
X	Statistical information (until June 2022)		Short term statistical information
X	Legal archiving (until June 2022)		Legal archiving (from PROD R5.2)
			Data Warehouse (from PROD R5.2)
Information (until June 2022 containing reference data)		CRDM business interface (from PROD 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 PROD R5.2)
	Scheduling (until Nov 2021)		Business Day Management (from PROD R5.2) Business Day Management business interface (from PROD R6.0)
	Billing (until June 2022)		Billing (from PROD R5.2) Billing business interface (from PROD R6.0)
	Operational Monitoring		Operational and Business Monitoring

Impact on major documentation			
Document	Chapter	Change	
Impacted GFS chapter	3.4.7.3.1 Penalty Eligibility	Remove the ISO Transaction Code REDM from the exemptions	
Impacted UDFS chapter	1.6.1.14.4 Penalty Eligibility	Remove the ISO Transaction Code REDM from the exemptions	
Additional deliveries for Message Specification	Documentation for semt.044	Although pruned, the field <i>Global Net Amount</i> will have the requested data type.	
UHB			
Links with other requests			
Links	Reference T2S-0654-URD	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>(Requested change 1) With the implementation of this CR, the Penalty Mechanism, at the Penalty Eligibility process, will consider Settlement Instructions with ISO Transaction Code REDM as subject to penalties, hence these Settlement Instructions won't be exempted from the Penalty Mechanism, and will follow the standard process to determine if they are eligible for a penalty or not.</p> <p>(Requested change 2) Change in Semt.044: <i>The Global Net Amount</i> will appear as pruned in T2S version but with the new data type.</p> <p>(Requested change 3) Editorial change only</p> <p>Cost drivers: Main cost drivers are related to the implementation phase and consist of i) the impact in the Penalty Eligibility process of the Penalty Mechanism and semt.044 archiving for LTSI and LEA.</p>			
Summary of project risk			
n.a.			
Security analysis			
No adverse effect has been detected in security assessment.			



27 January 2020

Cost assessment on Change Requests

T2S-727-URD – T2S Penalty Mechanism: Removal of the exemption for ISO transaction code “REDM” and typos, and semt.044 update			
One-off	Assessment costs*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Development costs	47,431.10	Euro
Annual	Operational costs		
	- Maintenance costs	4,585.29	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).