

T2S PROGRAMME OFFICE

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v1.2

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Summary

Teleconference of the Change Review Group

5 May 2017, from 11:00 to 12:00

1. Introductory session

The Chairperson, Karen Birkel, debriefed about the CSD Steering Group (CSG) meeting on 25 April 2017 where the CSG requested that the ECB should check whether there are legal requirements that could impede the withdrawal the Change Request T2S-0559-SYS (Prevention of matching (moment of irrevocability) SF2 in case of insolvency of a CSD Participant or a DCA holder).

Indeed the CSG Task Force on insolvency did not raise the CR559 because of any legal requirements. The insolvency CSG Task Force's decision was based on the operational risks which should be reduced with Change Request 559. The ECB informed the CSG accordingly.

2. Analysis of the Change Requests

The aim of the teleconference was to discuss the feedback from the Release Management Sub-group (RMSG) on the CRG recommendation to include the following Change Requests in the baseline scope proposal for the T2S Release 2.0:

- T2S-0515-URD (Allow instructions from CSD participants for n days after maturity date of security)
- T2S-0621-SYS (Multiple pending reason codes (combination of lack of securities and lack of cash))

The 4CB also explained that the RMSG also discussed the Change Request T2S-0358-URD (Unblocking of ISINs as part of Corporate Action Handling) and proposed three potential delivery scenarios that are under assessment by the 4CB until 5 May 2017 (the RMSG will discuss on the matter and provide feedback to the CRG):

- to deliver the Change Request 358 as part of the Release 1.3.2.
- to deliver the Change Request 358 as part of Release 2.0, with delivery to the interoperability environment (EAC) at the beginning of February 2018.
- to cancel the Release 1.3.2 and deploy the R2.0 to EAC at the beginning of December 2017.

The RMSG indicated that the Change Requests 515 and 621 may not be feasible within the T2S Release 2.0 from a planning perspective, given the current envisaged deployment dates in the interoperability (EAC) and production environments on 6 April and 9 June 2018 respectively. The main RMSG concerns were the time for testing, the regression risks given the high implementation efforts, and the time to react in case a release defect is identified. A CRG participant, who also attended the RMSG, indicated that an additional month of testing would be required in order to mitigate the aforementioned risks (i.e. a delivery of Change Requests 515 and 621 to the EAC environment in the beginning of March 2018 would be required to allow proper testing for a Change Request delivery into production on 9 June). A CRG participant expressed that the testing of the Change Requests on CSD side is expected to be straight forward and the execution of the required test cases should not take very long (2 weeks per CR), while comprehensive regression testing on 4CB is indispensable. Accordingly, the delivery proposal would still allow sufficient testing on CSD side.

It was clarified that the RMSG competencies are mainly on the planning aspects of a release and that the RMSG would rely on the expertise of the CRG in order to assess the relevance and urgency of those Change Requests from a functional/business perspective.

The 4CB clarified that for the remaining 11 Change Request candidates for the T2S Release 2.0 currently under detailed assessment until 19 May 2017, the delivery to the EAC environment is expected to be earlier than the Change Requests 515 and 621 (this does not include the new ones, i.e. Change Requests 650, 655 and 660 as the detailed assessment has not yet started). But certainty on the EAC delivery dates of those remaining Change Requests will only be available with the outcome of the detailed assessments.

The 4CB also explained that the implementation of either of the Change Requests (515 or 621) will not be faster if one of them would be de-scoped given their dependencies and synergies. Likewise, the de-scoping of any of the remaining 11 Change Request candidates for the T2S Release 2.0 would not allow to bring forward either of them.

In addition, the 4CB confirmed that it will not be feasible to have a T2S Release with Change Requests between R2.0 and R3.0, due to the size/complexity of these releases and other limitations and dependencies. Earliest implementation date for the Change Requests would therefore be June 2019 (R3.0) in case they were removed from R2.0. In addition, the implementation of Change Request 621 is a prerequisite to implement the CSDR penalty mechanism. The CRG took note that if

any of the Change Requests 515 and 621 were moved to R3.0, it would put additional burden on the 4CB and R3.0 and that given the synergies in implementing both Change Requests together, if their implementation is done separately, this would increase the cost and implementation effort. In addition, there are further synergies to be exploited between these Change Requests and Change Request 655 which is currently under detailed assessment in view of implementation in R2.0, if all 3 CRs would be implemented together in R2.0.

It was mentioned that due to the complexity of the other Change Requests expected to be delivered as part of R3.0 (e.g. CSDR and ISO upgrade), there would even be a risk that Change Request 515 would not be feasible as part of R3.0 and would have to be postponed further.

Accordingly, the CRG acknowledged that if any of the Change Requests 515 or 621 (or both) is not implemented as part of R2.0, it would mean a potential 1- or 2-year delay in their implementation.

A CRG member also highlighted that the CRG was already very strict in their initial prioritisation exercise for the scope of R2.0 and only recommended the most urgent CRs for inclusion into the release. This view was re-confirmed by the CRG again, especially regarding CR515 and CR621.

Change Request T2S-0515-URD (Allow instructions from CSD participants for n days after maturity date of security)

The Change Request was raised by the Corporate Action Sub-group (CASG) and its aim is to allow instructions in T2S from CSD participants for n days after the maturity date of an ISIN. During this period the instructions sent by CSD participants should be validated and allowed to match but not settle (with the exception of CCP PFOD instructions which should be allowed to settle).

The ECB recalled the CRG considerations for including the Change Request in the R2.0, which was based on the following functional reasons:

- The Change Request will allow T2S Actors be compliance with the Corporate Actions Joint Working Group (CAJWG) standards, specifically regarding (i) the settlement of PFOD instructions in the 'old' ISIN is a requirement for specific transformation processes by CCPs, and (ii) the possibility to instruct T2S in the old ISIN for 20 days after its maturity (i.e. transformation detection period).
- The Change Request will bring a harmonised approach for all T2S Actors when managing the maturity of securities. Currently the CSDs participating in T2S are i) not doing transformations for 20 days after the maturity date of an ISIN as required by the T2S CA Standards or ii) are using different workarounds to ensure matching of settlement instructions during the transformation period of an ISIN (e.g. CSDs sending the instructions on behalf of their participants or setting the maturity date artificially 20 days after the real date).

- The Change Request will ease the end-of-day process burden as the maturity dates updates will not be queued until the end of the day anymore. Hence, The Change Request will allow the decommissioning of the functionality introduced with CR471 (Deferred processing of maturity/expiry date update in T2S).

The 4CB said that the implementation of another potential candidate for R2.0, the Change Request T2S-0655-SYS (T2S should allow updates of maturity date for matured ISINs) has synergies with the Change Request 515. This information will be available around mid-July when its detailed assessment will be available, provided that the currently open question about the settlement attempt on all pending settlement instructions related to the updated ISIN is clarified soon.

CRG decision: The CRG was of the view that the Change Request 515 is mandatory from a functional perspective and asked the RMSG to check all possible solutions to deliver it as part of the T2S Release 2.0 due to the following reasons:

- The Change Request is important from a harmonisation perspective and it would streamline the processing of transformations across CSDs. It would also allow CSDs to be compliant with the T2S Corporate Action Standards on transformations. Currently different workarounds are applied by the different CSDs, which puts a burden on clients/DCPs which have to apply different processes depending on the CSD they are having business with.
- The Change Request would improve processing during the T2S end-of-day (EOD) phase and would therefore contribute to the stabilisation of the platform.
- Highest level of synergies and cost saving potential can only be realised if CRs 515, 621 and 655 are implemented together as part of R2.0.

Change Request T2S-0621-SYS Multiple pending reason codes (combination of lack of securities and lack of cash)

The aim of the Change Request is to reduce the number of sese.024 (Securities Settlement Transaction Status Advice) messages in case of lack of money and lack of securities occurring at the same time.

The ECB recalled the CRG considerations for including the Change Request in the R2.0, which was based on the following functional reasons:

- To avoid giving incomplete cash-related information.
- Reduction of messages.
- Potentially beneficial for overall system performance.
- The Change Request is a pre-requisite for the penalty mechanism Change Request.

CRG decision: The CRG was of the view that the Change Request 621 is mandatory from a functional perspective and asked the RMSG to check all possible solutions to deliver it as part of the T2S Release 2.0 due to the following reasons:

- The Change Request is important to achieve correct T2S status reporting to T2S Actors in case of lack of securities. Currently there are frequent cases where T2S wrongly reports a lack of cash, which leads to operational issues on client side, e.g. wrong cash forecasting.
- The Change Request would lead to a reduction of messages and would have a positive effect on the system performance, both in T2S and on T2S Actor's side.
- The Change Request is required to comply with CSD Regulation and it is therefore mandatory to be implemented by the R3.0 at the latest.
- Highest level of synergies and cost saving potential can only be realised if CRs 515, 621 and 655 are implemented together as part of R2.0.

3. Any other business

The next CRG teleconference will take place on 18 May 2017 with the aim of discussing the detailed assessment of the Change Request T2S-0646-SYS (Pre-formatted operational reports at specific times) and to present the Change Request on the new penalty mechanism Change Request.

The next physical CRG meeting will be on 7 June 2017.