Summary

Teleconference of the Change Review Group (CRG)

13 May 2016, from 09:30 to 12:00

held at the European Central Bank, Frankfurt am Main

1. Introductory session

The Chairperson, Karen Birkel, welcomed the participants. The Chairperson informed that the aim of the teleconference was to discuss the alternatives suggested by the 4CB for implementation of Change Request T2S-0593-URD (Prevent acceptance (i.e. reaching SF1) of new settlement instructions at the level of a T2S Party), provide SGMS feedback on the Change Requests discussed during SGMS Telco on 18 April 2016 and discuss the User Testing Sub-group topic UT-PBR-072 (Cancellation rejected before the processing of the underlying Settlement Instruction - INC000000179802).

The Chairperson informed about the T2S settlement optimisation workshop, which was conducted on 4 May 2016. The participants were updated about a discussion in the Operations Managers Group (OMG), where the OMG requested that the Scope Defining Document (SDD) clarification notes would first be shared with the OMG and if required, the OMG will send the SDD clarification notes to the Change Review Group (CRG) for functional assessment.

The Chairperson informed that there was a backlog of around 50 CRs which were on hold and the CSG requested a detailed plan to clear the backlog of the Change Requests. This discussion is planned for the next CRG meeting on 24 May 2016. The Chairperson informed that five new Change Requests have been identified by the CSG Task Force on CSD Regulation for potential implementation during -2018. These Change Requests will be presented only for information during the CRG meeting on 24 May 2016.

The Chairperson informed that the T2S Board is now transformed into the Market Infrastructure Board (MIB) with different T2S and T2 compositions.

2. Analysis of Change Requests

Change Request T2S-0593-URD (Prevent acceptance (i.e. reaching SF1) of new settlement instructions at the level of a T2S Party)

The aim of the Change Request is to trigger rejection of new incoming settlement instructions based on a flag set at the level of a T2S Party in case of insolvency.

The 4CB presented four alternatives to prevent acceptance of settlement instructions at the level of a T2S Party in case of insolvency:

- Alternative 1 enables flagging the insolvency at party level via U2A and propagates the flag to all the accounts or subset of accounts of the party. This alternative was discussed during the CRG Telco on 14 April and was not considered as viable as it had impact on the interface design (U2A mode cannot handle a scenario where a single action of the user triggers multiple requests towards the back-end modules).

- Alternative 2 involved flagging the insolvency at party level and adding new controls in the business validation process. The 4CB reported that adding a business validation of parties especially on the cash side was complex because the cash party section is an optional field in the settlement instruction and there is currently no validation foreseen.

- Alternative 3, a script, was also deemed too complex because the T2S Operator would have to perform many manual LLS interventions per each account to be restricted.

- Alternative 4 would be the introduction of a new DMT file which would allow the restriction of accounts. For this alternative the user would need to generate a DMT file which includes the list of accounts to be restricted. Two different file schemas could be used for restricting the securities accounts as well as dedicated cash accounts (implementing the solution on the cash side, in addition to the securities side, would roughly double the implementation cost/time). Once the file is uploaded, normal validations would be followed, and the DMT would implement the same validations that would be performed at interface level when restricting the same accounts with the standard application. The 4CB mentioned that this new DMT could be designed in such a way to allow restricting accounts with restriction type case 2 along with restriction type case 4 i.e. insolvency restriction type.

The CRG members confirmed that the alternative 4 was acceptable from a functional point of view. The CRG agreed to check with the OMG whether the solution was acceptable from the timing and process point of view. If the OMG also concluded that the solution was acceptable, then the CRG agreed to recommend the launch of the detailed assessment on the CR-593 based on the alternative 4. The 4CB will provide further information about how the enlargement of the scope of the DMT to restrict accounts will work in order to support OMG's decision making.

CRG Decision: 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.

Action points:

- The ECB will seek OMG's opinion about the enlargement of the scope of the DMT in order to allow restricting accounts (alternative 4) from the timing and process point of view.

- The 4CB will provide further information about how the enlargement of the scope of the DMT to restrict accounts will work.

3. SGMS feedback on Change Requests for future T2S releases that may require ISO20022 updates that were sent by the CRG

During the CRG Telco on 14 April 2016 the CRG agreed to share some Change Requests with the Sub-group on Message Standardisation (SGMS) for their expert advice on messaging aspects. The SGMS feedback for following Change Requests was shared with the CRG members.

Change Request T2S-0503-SYS (T2S Actor Reference and T2S Reference of counterparty's settlement instruction should be included in T2S messages sese.024, sese.025 and sese.032 after matching)

The aim of the Change Request is to provide counterparty's T2S actor reference and counterparty's T2S reference (i.e. counterparty's Market Infrastructure Transaction Identification - MITI) in the post-match status advice (sese.024), settlement confirmation (sese.025) and T2S generated realignment instruction (sese.032).

The CRG shared the Change Request with SGMS for their expert advice as to which existing message field of the status advice (sese.024), settlement confirmation (sese.025) and T2S generated realignment instruction (sese.032) can be used to identify the counterparty's T2S Actor reference as well as the counterparty's T2S instruction reference.

The CRG was informed that the current preference of the SGMS is to use existing fields, the TransactionsDetail\Party1 section to report the Actor Reference and the TransactionsDetail\Depository section to report the MITI. However as the written procedure for the Change Request was currently open, the final recommendation of SGMS is expected as outcome of next SGMS meeting on 20 May 2016.

Change Request T2S-0546-SYS (Indication for time-critical settlements ("settlement till" time-stamp))

The aim of the Change Request is to include "settlement till" time-stamp to indicate that an earlier settlement as the end of day settlement is intended or required.

The CRG shared the Change Request with SGMS for their expert advice as to how to include the "settlement till" time-stamp in sese.023 and cash related reports.

The CRG was informed that multiple existing fields in sese.023 were discussed during SGMS, which could be used to report "settlement till" time-stamp; however there was no clear preference of SGMS members for a specific field. Currently the discussion is going towards unpruning the 'time' part of the Intended Settlement Date field, as this field has a DateTime format in ISO but only a Date format for T2S usage. As the written procedure for the Change Request was open, the final recommendation of SGMS is expected as outcome of next SGMS meeting on 20 May 2016

Change Request T2S-0588-SYS (Inclusion of the DCA in the auto-collateralisation messages i.e. T2S generated instructions (sese.032) and/or the corresponding settlement confirmations (sese.025))

The aim of the Change Request is to include the DCA in the auto-collateralisation messages i.e. Securities Settlement Transaction Generation Notification (sese.032) and/or the corresponding Securities Settlement Transaction Confirmation (sese.025).

The CRG shared the Change Request with SGMS for their opinion on how to include the DCA of the sese.032 and/or sese.025.

The CRG was informed that the written procedure on the Change Request was open, based on the current feedback existing fields in the sese.025 and sese.032 message have been suggested for reporting of the DCA of the counterparty. The final feedback from SGMS is expected after the next SGMS meeting on 20 May 2016.

Action points:

- The ECB will initiate a written procedure to ask NCBs if there are any business cases other than auto-collateralisation where reporting of DCA of the counterparty is required.

Change Request T2S-0587-SYS (Alignment of ISO transaction codes across various T2S ISO messages)

The aim of the Change Request is to address the gaps on Settlement Instruction-related messages.

The CRG was informed that the Change Request has been split in two Change Requests. The changes related to Buy-in code will be handled in a separate Change Request T2S-0607-SYS (T2S should maintain and report information related to buy-in transactions consistently across T2S messages).

The CRG was informed that 4CB will draft two ISO Change Requests based on T2S-0587-SYS and T2S-0607-SYS, in order to align the ISO transaction codes across various T2S ISO messages. The drafts will be discussed and finalised in the next SGMS meeting on 20 May 2016.

Change Request T2S-0600-SYS (T2S reporting functionality must be enhanced to allow the retrieval of the settlement instructions and their related SF1 (accepted) /SF2 (matched) timestamps via A2A in an efficient and standard way)

The aim of the Change Request is to enhance the T2S reporting mechanism to provide the accepted timestamp (SF1) and matched timestamp (SF2) of settlement instructions.

The CRG was informed that the 4CB will draft an ISO Change Request. The draft will be discussed and finalised during the next SGMS meeting on 20 May 2016.

4. Input requested by the User Testing Sub-group

UT-PBR-072 (Cancellation rejected before the processing of the underlying Settlement Instruction - INC000000179802)

During user testing activities, a cancellation instruction (sese.020) was rejected by T2S due to an unknown underlying instruction, i.e. the cancellation entered the T2S interface before the settlement instruction even though it was sent to T2S after the settlement instruction. Both instructions were received by T2S during the daily Maintenance Window.

During this Maintenance Window, T2S queues all incoming messages. Once the system is reopened again, the previously queued instructions are sent to LCMM using parallel processing. Due to this parallelisation, an instruction that was received at a later point in time might be processed in T2S before an instruction that was received earlier.

The user expected T2S to process instructions strictly according to the order they had been received, once the Maintenance Window was closed and the system reopened again.

At the beginning of the discussion, UT-PBR-004 'Unexpected order of processing of inbound business instructions' was mentioned, which tackled a related issue (wrong processing order of sese.023 and sese.020 in real-time settlement). The following conclusion was reached by the CRG for PBR-004 in their meeting on 15 December 2014: CRG confirmed that T2S processing during real-time settlement was working as intended and that the risk of experiencing a wrong order of processing could hardly be avoided, especially taking into account external factors such as network service provider, communication channel, etc.

Some CRG members argued that the two scenarios represent different business cases and that the conclusion reached for PBR-004 must not be applied to PBR-072 without further discussion. Others were of the opposite view and argued that the two cases were very similar.

In a next step, possible solutions were discussed on how to ensure the correct order of processing when re-opening the queues after the daily Maintenance Window. A CRG member suggested that after the Maintenance Window, T2S should form a single queue for all instructions and order them in their sequence received according to the timestamp. The 4CB explained that parallel processing was a central feature of T2S and that such a change would be very significant. Therefore it would be

important to learn more about the frequency of such cases in production, prior to a more detailed discussion on potential changes of the system behaviour. The CRG agreed to request the OMG to monitor the frequency of such occurrences in production.

The CRG also noted that the business result could in some cases be the same even if a "single queue" would be built after the Maintenance Window, e.g. an already matched settlement instruction could have settled already before the cancellation instructions was processed in T2S. Further, it was mentioned that a T2S Actor could avoid sending instructions during the daily Maintenance Window.

The CRG accepted that the parallel processing of instructions described in the specification includes the processing of queued instructions after the Maintenance Window. However, it was discussed if a new requirement should be added to have different system behaviour for the processing of queued instructions.

The CRG concluded that a correct order of processing after the Maintenance Window would be preferable in principle compared to the current design. On the other hand it was acknowledged that such change would have a significant impact on the T2S design. Prior to the initiation of further actions, the CRG agreed to first learn more about the relevance of this issue in production, i.e. the frequency of situations where an unintended order of processing after the Maintenance Window caused an issue and the risks this creates for T2S actors when it happens.

Some CRG members expressed that they would prefer to log such change as a possible future enhancement of T2S and others said that if the frequency and impact is low, it may not be viable to make such a significant change to T2S.

CRG decision: The CRG was of the view that the queue of messages during the maintenance window and immediate and parallel processing of the queued messages afterwards is in line with the expected T2S behaviour as documented in the UDFS.

Action points:

- The ECB will add this item to the list of topics for potential future Change Requests to T2S.
- The ECB will send the summary of the UTSG discussion to the OMG and ask them to monitor the frequency of the occurrences in production.

5. Any other business

The next CRG meeting will take place on 24 May 2016.