

2S PROGRAMME OFFICE

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v1.1

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Final Summary

Teleconference of the Change Review Group (CRG)

23 June 2017, from 10:00 to 12:00

held at European Central Bank, Frankfurt

1. Introductory session

The Chairperson, Karen Birkel, welcomed the participants.

The CRG was informed about the guidance provided by the CSD Steering Group (CSG) that the work of the CRG should not be affected by the discussion on the categorisation of the Change Requests. The CRG approval process should be independent from the categorisation of Change Requests since the cost of the Change Request needs to be paid for, irrespective of its category i.e. enhancement or corrective/maintenance.

The CRG was briefed about the discussion in the Market Infrastructure Board (MIB) that corrective maintenance should be seen in a broader sense than just bug fixing and therefore the category should be seen as 'corrective/evolutionary maintenance'. The CSG made a proposal to categorise the Change Requests on a periodic basis, whereas the MIB was open to conduct this exercise either on periodic or on real time basis.

The CRG was also informed that during the MIB, the 4CB agreed to provide more details on the cost drivers of Change Requests in the detailed assessment in the future, which would support the CRG understanding when discussing the Change Requests and their impacts.

The CRG was informed that the 4CB provided a further clarification note on the issue of INC204677 - Settlement of instructions despite Case 2 blocking restriction on ISIN. This note will be discussed during the CRG meeting on 4 July 2017. There was also a discussion in the CSG on UT-PBR-079 and related CR-659 (T2S should allow settlement of instructions with an 'AFTER' link to a settled instruction that was subject to conditional securities delivery) which is currently under preliminary assessment and planned to be delivered for the next CRG meeting.

The Chairperson informed that internally to the ECB there has been a reminder that the Change Request T2S-0574-URD (Applying additional haircuts to own-used assets in T2S Central Bank auto-collateralisation) is important from monetary policy operations point of view and should be candidate for the T2S Release 3.0, according to a Governing Council decision made in 2015. The preliminary assessment on the Change Request has shown that the Change Request has a high impact. The Change Request could also mean that other relevant Change Requests related to close links need to be deployed together for this Change Request in order to be useful. The topic would likely be discussed in detail during the CRG meeting on 4 July 2017, when experts from the collateral side will be present to answer potential questions from CRG members.

2. Analysis of the Change Requests

A) Change Requests for the T2S Release 2.0

Change Request T2S-0446-SYS (Blocking of U2A interface for submitting new instructions to T2S during reconciliation process post RAD (Recovery After Disaster))

The aim of the Change Request is to develop a functionality to allow the T2S Operator to prevent the submission and verification of new U2A instructions, restrictions and cancellations for cash and securities, in the T2S GUI during the reconciliation process post RAD.

The CRG was informed that the main cost drivers for the Change Request were the development of 6 scripts and not 2 scripts as depicted in the detailed assessment shared previously. In addition a saving and reload procedure for two important tables (object privileges and system privileges) has to be implemented in order to return to the situation before RAD. The Change Request will also require the planning and execution of a complex test campaign to simulate a RAD situation, which includes the coordination with the T2S Network Service Providers (NSPs). The 4CB agreed to update the detailed assessment of the Change Request to include these details.

As a general comment the 4CB mentioned that every testing campaign would consist of an integrated module testing, a functional testing and a regression testing, which would always result in a certain amount of costs.

A CRG member challenged the costs related to the development of the new scripts and was of the view that such type of development should be cheaper, according to experience in his own institution. The 4CB agreed to provide further details on the complexity of the scripts and the actions to be taken to turn back to the original access right values after the recovery after disaster. Another aspect mentioned by the 4CB adding complexity to the development would be the involvement of two T2S modules which would result in the involvement of two different test teams.

A CRG member mentioned that an operational procedure is already in place today to handle the scenario of RAD and therefore suggested that the OMG should be asked if reduction of the risk as a result of the implementation of the Change Request justifies its cost.

The CRG supported the business need of the Change Request but still expressed some reservations on the cost drivers and the justification of the perceived high price of the Change Request. The CRG

agreed to re-discuss the Change Request in the CRG meeting of 4 July 2017 when the OMG input should already be available.

CRG decision: The CRG put the Change Request on hold.

Action points:

- The 4CB will update the detailed assessment to include that there are 6 new scripts to be developed and to reflect that a planning and execution of complex test campaign (e.g. RAD, NSP) is required.
- The 4CB will provide further details about the complexity of the scripts and the actions to be taken to turn back to the original access right values after the recovery after disaster.
- The ECB will check with the OMG whether the reduction of the risk, which the Change Request brings, justifies the cost of the Change Request.

Change Request T2S-0577-SYS (T2S should allow a report configuration with validity of one day)

The aim of the Change Request is to allow setup of report configuration for one day by modifying the Business Rule DRCV050 so that the Valid To date could be equal to or greater than the Valid From date.

The 4CB informed that the cost drivers for the Change Request were a change in the static data management and a change in the Data Migration Tool (DMT) file i.e. there were no additional cost drivers other than what was already specified in the detailed assessment. The Change Request required an update of the Scope Defining Documents (SDD), security related checks as well as testing activities involving 3 different 4CB testing teams. The costs for these activities are already reflected in the implementation cost of the Change Request. However, the 4CB pointed that these costs are attributable to all the Change Requests.

The CRG considered the Change Request helpful but not mandatory as there are workarounds (i.e. request to the T2S Service Desk or configuration of the report in such a way that one day falls on a weekend). The CRG also expressed some reservations on the cost drivers and the justification of the perceived high price of the Change Request. CRG members agreed to re-assess the added value which would be provided by the Change Request and to re-discuss the Change Request in the CRG meeting of 4 July 2017.

CRG decision: The CRG put the Change Request on hold.

Action points: The CRG members will check whether the business need justifies and compensates the cost of the Change Request.

Change Request T2S-0632-SYS (To increase the default number of rows to be displayed from 10 to 100 rows per page)

The aim of the Change Request is to increase the number of rows displayed on all the screens from 10 rows per page to 100 rows per page by default.

The 4CB informed that the cost drivers for the Change Request were the analysis and testing of changes on the 97 list screens. The testing effort would be extensive because the list screens could be accessed via different screens/navigation options.

The 4CB also mentioned that not all screens would make use of the default value and these screens would therefore have to be amended and tested individually. Upon this information, CRG members asked whether not applying the default value on some screens would rather be a defect which should be fixed via a problem ticket and thus not be added to the costs of the Change Request. The 4CB agreed to provide further details on the screen design and the billing aspect of GUI searches for the CRG meeting on 4 July 2017.

The CRG expressed some reservations on the cost drivers and the justification of the perceived high price of the Change Request.

The CRG considered the Change Request helpful from a user perspective, but not mandatory from a business perspective, as the T2S system user can always request the display of the whole query output manually. The CRG agreed to re-discuss the Change Request in the CRG meeting of 4 July 2017.

CRG decision: The CRG put the Change Request on hold.

Action points:

- The CRG members will check whether the business need justifies and compensates the cost of the Change Request.
- The 4CB will update the detailed assessment to reflect that 97 screens have to be tested including the screen navigation.
- The 4CB will check the reasoning and whether the fact that some screens might not take the default value of rows should be considered as an enhancement in the scope of this Change Request or separately via a production problem.
- The 4CB will check whether the request of displaying all the rows in a U2A query is charged and will update the detailed assessment.

Change Request T2S-0640-SYS (Bilaterally Agreed Treasury Management (BATM) operations to be applied on bilateral basis only)

The aim of the Change Request is to amend T2S behaviour to ensure that a transaction is considered eligible for BATM settlement only if the ADEA (Accept After Regular Settlement Deadline) flag is set in both legs of the transaction.

The CRG took note of the guidance provided by the T2S Steering Level that the Change Request has to be paid for by the market irrespective of the categorisation and therefore the discussion on categorisation should not affect the approval process of the Change Request. Based on the guidance

from the T2S Steering Level the CRG recommended the approval of the Change Request and its inclusion in the T2S Release 2.0.

CRG decision: The CRG recommended the approval of the Change Request and its inclusion in the T2S Release 2.0.

Change Request T2S-0645-SYS (Character Set X: Align discrepancies between UDFS, UHB, DMT and SWIFT handbook)

The aim of the Change Request is to align the discrepancy of definition of set X characters between UDFS, UHB, DMT and SWIFT handbook by disallowing ‘{’ and ‘}’ as valid characters.

The 4CB informed that the main cost drivers for the Change Request were the changes required in the DMT processes that check characters belonging to the SWIFT X Character Set, namely 29 different input flows.

The CRG agreed that the detailed assessment should be updated to include that there are changes for all DMT processes that check characters belonging to the SWIFT X Character Set.

The CRG took note of the guidance provided by the T2S Steering Level that the Change Request has to be paid for by the market irrespective of the categorisation and therefore the discussion on categorisation should not affect the approval process of the Change Request. Based on the guidance from the T2S Steering Level, the CRG recommended the approval of the Change Request and its inclusion in the T2S Release 2.0.

CRG decision: The CRG recommended the approval of the updated Change Request and its inclusion in the T2S Release 2.0.

Action point: The 4CB will update the detailed assessment to include that there are changes for all DMT processes that check characters belonging to the SWIFT X Character Set.

Change Request T2S-0649-SYS (Handling of leading and trailing "blanks" and "/" in A2A and U2A names and Identification attributes)

The aim of the Change Request is to prohibit the use of leading blanks followed by “/” at the beginning or trailing blanks preceded by “/” in inbound messages to ensure valid outbound messages.

The CRG took note of the guidance provided by the T2S Steering Level that the Change Request has to be paid for by the market irrespective of the categorisation and therefore the discussion on categorisation should not affect the approval process of the Change Request. Based on the guidance from the T2S Steering Level the CRG recommended the approval of the Change Request and its inclusion in the T2S Release 2.0.

CRG decision: The CRG recommended the approval of the Change Request and its inclusion in the T2S Release 2.0.

B) Change Requests for the T2S Release 3.0

Change Request T2S-0654-URD (T2S Penalty Mechanism)

The ECB presented the outcome of the consultation with the CRG that ended on 1 June 2017. A few comments were received from one institution and covered during the telco. It was agreed that none of the comments were preventing the start of the detailed assessment to be performed by the 4CB on 26 June 2017, as further clarifications would be provided by the ECB on a bilateral basis if necessary. The CRG took note that a written consultation on the Change Request 654 was still ongoing with the CSD Regulation (CSDR) Task Force until the 23 June 2017, however no major update to the Change Request was to be expected.

Regarding the comments, the ECB explained that in case the aggregation of cash penalties between 2 counterparties would equal zero, a cash penalty of zero would still be reported in the aggregated amount. On the other hand, T2S would not report cash penalties in the aggregated amount in case there were no cash penalties generated between 2 counterparties. It was agreed to add a note in the explanatory section of the relevant requirement.

The ECB also explained that transformations would not need to be exempted from Late Matching Fail Penalties, as long as an ISIN would be excluded from the scope of securities eligible for penalties when it reaches maturity date (and hence is not supposed to settle anymore). Exemption is also not needed due to the fact that the transformed instruction would take the Payment Date as Intended Settlement Date if this one was in the past. One CRG member raised doubts whether this is also applicable for corporate actions 'pari passu' (i.e. merge of 2 ISINs into a single one) and it was agreed that the ECB would double-check upon further description of the business scenario from the CRG member.

The ECB will share with the CRG the presentation related to the calculation of penalties in the context of transformations which was already shared with the CSDR TF.

The CRG acknowledged that the Change Request is relatively stable and that the CSDR TF has drafted the Change Request based on sound working assumptions. However, it was acknowledged that legal certainty could only be obtained once clarifications were provided by ESMA and the Technical Standards are approved, presumably somewhere in autumn 2017. Due to the fact that timely information about the costs of the Change Request is important for CSDs, the CRG decided to recommend the Change Request for detailed assessment, with request to assess feasibility of its inclusion in the T2S Release 3.0. If at a later stage the working assumptions of the CSDR TF would turn out not to be in line with the regulatory text, an update of the CR, or potentially another Change Request would be required to amend the requirements stated in CR-654.

CRG decision: The CRG agreed to update the Change Request following the CRG written procedure until 21 June 2017. The CRG recommended the updated Change Request for detailed assessment and asked the 4CB to check the feasibility to deliver it in the T2S Release 3.0 with the caveats that (i) the Change Request might need to be updated following the comments during the CSDR TF until 23

June; and (ii) the Change Request might need to be revisited following the ESMA feedback and European Commission approval.

Action points:

- The ECB will update the Change Request following the CRG written procedure until 21 June 2017 (i.e. for the case of penalties reported and the bilateral net being zero, then the bilateral net is indeed informed).
- The ECB will provide the CSDR TF presentation related to the calculations of penalties in the context of transformations.

3. Any other business

The CRG was informed that the next physical meeting will take place on 4 July 2017 in Frankfurt.