

SUMMARY OF THE 25TH MEETING OF THE DCP GROUP

Thursday, 14 June 2018, 15:30 - 17:00

Meeting held at the premises of Monte Titoli in Borsa Italiana, Palazzo Mezzanotte Piazza degli Affari 6, 20123 Milano in “Sala Convegni” floor -1

1. Welcome by the Chairperson

The Chairperson, Marcello Topa, welcomed the participants to the 25th T2S DCP Group (DCPG) meeting and presented the new structure of the DCPG agenda consisting of two main blocks, one being the agenda item 3 debriefing on regular agenda topics and agenda item 4 Additional Topics. The rest of the agenda items remain the same. The agenda of the meeting was approved without adding any additional ad-hoc item.

2. Review and update of recent issues

The Chairperson presented the Summary document of the 24th DCPG meeting and invited the DCPG members to approve it. The Summary document was approved without any objection.

2.1. Directly Connected participants consolidated list

The Chairperson informed the members of the DCPG that the DCP's consolidated list of DCP declarations had not included any new DCPs and the declared DCP list still reflected 166 DCPs.

3. Debriefing on regular agenda topics

The DCPG members took note of the information originating from other T2S groups, NCBS and CSDs activities on items that are also relevant for the DCPs.

3.1. T2S Operational Status, OMG update

The ECB representative, Markus Stiller, debriefed the DCPG members on the work within the Operational Managers Group (OMG) focusing on the operational procedures to be included in the Manual of Operational Procedures (MOP) in version 2.1 as agreed in the OMG meeting in May 2018. He also provided the timeline for the finalisation of MOP v2.1 for the end of July 2018. Furthermore, Mr Stiller informed on the operational related testing to be completed during this year until the next migration window in October 2018, in particular the operational testing activities required by the Danish National Bank, VP Securities and ID2S prior to their migration, and the exit testing of a CSD from T2S which is required for VP Lux (a CSD that does not have any DCPs). Concerning the aftermath of the deployment of release 2.0 to T2S production environment, discussion will follow in the regular OMG meeting in June 2018.

3.2. CRG update

The ECB representative, Olivier Leveque, debriefed the DCPG members on the Change Requests (CRs) relevant to the DCPs that were discussed in the CRG conference calls on the 7 and 30 May, including the new updated ranking of the CRs. Only two new CRs were included in the ranking (CR-671 and CR-675), of which CR-671 (Reporting of Beneficial Ownership indicator in allegations, status messages and settlement confirmations) could be of particular interest to DCPs.

Among the CRs approved at Steering Level since the last update to the DCPG, two are most relevant to the DCPs:

- CR-613 - T2S should give the possibility to receive outbound T2S messages bundled in files. In addition to the current message bundling during NTS, the CR will allow T2S to bundle further outbound messages during both night-time settlement (NTS) and real-time settlement (RTS). The bundling will be deactivated 30 minutes before the DVP cut-off and reactivated afterwards (after the last occurrence of the EDVP event). The purpose of the CR is to achieve savings on transmission costs for users. This is an optional functionality and has been approved by the CSG for implementation in R3.2.
- CR-653 - Partial release functionality. The CR will allow the owner of a delivery instruction to release only part of an instruction currently on hold, and thus make it possible to partially settle the instruction if resources are available. The partial release functionality is an alternative to the existing method, consisting in bilaterally agreeing to cancel and reinstruct for a lower quantity when the client of a custodian has insufficient securities. The expected benefits of the CR are increased settlement efficiency, reduced operational costs and reduced amounts of penalties when CSDR becomes applicable. This CR has been approved by the CSG for implementation in R3.2.

The Monte Titoli representative, Paolo Carabelli, explained that the functionality should not be confused with “partial settlement”: it is instead similar to the current functionality to release an instruction (i.e. allow its settlement if resources are available), except for the quantity released, which in CR-653 can be less than the quantity currently on hold. Monte Titoli believes that the solution in the CR is expensive and there are workaround solutions that can be used instead of having the CR. Furthermore, he indicated that this is not an optional functionality and all T2S parties will need to amend their legacy systems for the functionality, DCPs included. However, Mr Carabelli stressed that the CR was approved by the rest of the CSDs in the CSG.

On this same subject, the Deutsche Bank representative, Britta Woernle, suggested that the DCPs should monitor the implementation of this CR and provide feedback, possibly via the AMI-SeCo, on its expected impacts on current and future market practices. This suggestion was supported by other DCPs.

3.3. T2S Release Management process

The Chairperson debriefed the DCPG members of the smooth deployment of release 2.0 during the weekend of 9 June and that other technical issues arose during the subsequent operating days.

The Chairperson further indicated that some DCPs had noted some discrepancies in the CSD notifications on the actual deployment of release 2.0, and specifically with respect to the timelines for sending instructions (messages) during the downtime of the T2S deployment. Additionally, he mentioned that T2S has one single process (T2S queues the instructions during downtime) and this process should be referenced to the DCPs, while any different local requirements should be clearly highlighted as local specifics in the notification sent by the relevant CSD.

The ESES representative, Dimitri Pattyn, explained that the complete deployment playbook might not be relevant to DCPs, but some specific parts could be relevant to the DCPs and should be shared with them. The CSG Chair-Office will further discuss this topic to improve the communication for the future deployments and will inform DCPs at the next DCPG meeting.

The Monte Titoli representative, Paolo Carabelli, requested that the DCPs provide the CSDs with the actual issue of the discrepancy.

Follow-up:

- I. The DCPs should provide the CSDs with the differences in the notification notes.*
- II. Include as an “action point” in the DCPG Open Issue Register “Differences in the CSD communication notes concerning the T2S release deployments”.*

The ESES representative, Dimitri Pattyn, debriefed the DCPG members on the future release that are planned; release 2.1 a small release with approximately 22 defects that will be coming up, and release 2.2 that will be deployed after the DKK/ID2S migration to T2S.

3.4. T2S Migration window (Oct 2018)

The ESES representative, Dimitri Pattyn, debriefed the DCPG that the Danish National Bank, VP Securities and ID2S reported having “green” status for the upcoming T2S Migration window planned to bring a second currency into T2S and the incorporation of another CSD (ID2S) in October 2018.

4. Additional topics

4.1. CSG meeting update

The DCPG members are invited to take note of the information provided in this section, originating from the CSG meeting activities on items that are also relevant for all DCPs.

4.1.1. CSG Settlement Efficiency Workshop

The NBB-SSS representative, Marc Lejoly, informed the DCPG members that in the February CSG meeting a DCP asked if there were areas for improvement on Settlement Efficiency in T2S, which triggered the CSG members to propose the CSG workshop on T2S Settlement Efficiency.

The first workshop was held on the 4 May, for which 4CB provided statistical reports depicting the Settlement Efficiency from the daily reports that are approximately 97% - 98% daily average. However, should the CSDR methodology be used to calculate the Settlement Efficiency the figures would be reduced to approximately 92% - 93%. These reports also indicated that there was a daily average fail rate of EUR 11 billion, which created inefficiencies for a daily average value of EUR 32 billion. On the basis of these statistics, the members of the workshop set pace to find new tools to manage the efficiency of the platform and to review current behaviours and market practices that could also improve the Settlement Efficiency, based on the statistics of “on-hold” and “late” (instructions arriving after their value date) instructions.

The Chairperson indicated the importance of the work addressed in the workshop and of the statistical data provided by 4CB to assist DCPs to improve their own market behaviour. The outcome of the workshop will also be shared with the AMI-SeCo.

4.1.2. CSDR Taskforce update: T2S Penalty mechanism update,

The Chairperson informed the DCPG members that the European Commission has endorsed the Regulatory Technical Standards on Settlement Discipline. Upon publication in the Official Journal, that shall take place within 3 to 6 months, market participants and CSDs will have 24 months to comply with the settlement discipline regime requirements.

The ESES representative, Dimitri Pattyn, indicated that the CSG approved to go forward with the work related to the T2S penalty mechanism, i.e. that the Eurosystem shall provide the service to CSDs. However, there remains strong uncertainties related to the scope of the T2S penalty mechanism, with a list of working assumptions and many questions yet to be answered by ESMA before 4CB can conduct further work (re-assessment and development), hence the timeline to implement the settlement discipline regime requirements on time remains at risk.

4.2. T2S Pricing Review

The Chairperson debriefed the DCPG members that after the two workshops on the T2S pricing review of the 8 and 17 May 2018, the process is in its final stage of written consultation and the results are expected by the end of June 2018 and will be sent to the MIB for guidance.

4.3. ISSG update

The ECB representative, Cristiano Paris, debriefed the DCPG members on Cyber Resilience Oversight Expectations (CROE) for Financial Market Infrastructures. The objective of the CROE is twofold, i) to identify the expectations from Oversight perspective on how to operationalise the CPMI/IOSCO Guidance of the Cyber Resilience of FMIS and ii) Overseers to make the identified expectations transparent to the market. The CROE is defining three different levels of maturity (from Baseline to Advanced) which will require the FMIs to implement the CPMI/IOSCO Guidance according to the expectations defined for a specific maturity. As an example, T2 and T2S are deemed to be at Intermediate level of maturity. A public consultation on the CROE was launched, ending on the 5 June 2018. The MIB (via MICRIS) provided comments to Overseers. It is expected that a stable document will be available between Q3 and Q4 of 2018.

In reference to T2S, Cristiano Paris further informed that the work to analyse the impact of the CROE on T2S should be initiated soon and if there is a need to involve the market participants, the DCPs will be contacted.

5. Information from DCP

The Chairperson, Marcello Topa, made reference to the communication topic discussed during agenda item 3.3 T2S Release Management process prior to the deployment of R2.0

6. Open Issues Register

The Chairperson debriefed the DCPG members on each individual open issue of the Register and suggested to include the action point regarding the “*Differences in the CSD communication notes concerning the T2S release deployments*” that was discussed under agenda item 3.3 T2S Release management process (of relevance to DCPs only). Additionally more general issues to be added are related to the CSDR Penalty mechanism and the Cyber Resilience Oversight.

In summary, the following open issues: are to be added to the Open Issues Register:

A.15 Differences in the CSD communication notes concerning the T2S release deployments

B.17 CSDR Penalty Mechanism

B.18 Cyber Resilience Oversight

The open issues that are ongoing are:

B.1 Settlement finality and Insolvency Procedures

B.2 Settlement Discipline

B.5 Portfolio transfers.

7. Any other business

Members of the DCPG did not raise any other issues.

1. Next steps: future DCPG meetings (suggested dates with CSG)

The Chairperson debriefed the DCPG members on the future meetings linked to the CSG are as follows (to be confirmed, once the CSG meetings are confirmed).

- 10 October 2018 (ECB) might be the 11 October
- 13 December 2018 (ECB)