T2S CHANGE REQUEST FORM		
General Information (Origin of Request) ☒ User Requirements (URD) or GUI Business Functionality Document (BFD) ☐ Other User Functional or Technical Documentation (SYS)		
Request raised by: CSDR Task Force	**Institute:** ECB	**Date raised:** 11/11/2020
Request title: Dedicated list of Central Counterparties (CCPs) to identify and flag CCPs in the penalty reports generated by T2S		**Request No.:** T2S 0748 URD
Request type: Common	**Classification:** Regulatory compliance	**Urgency:** Fast track
1. Legal/business importance parameter[1]: High		**2. Market implementation efforts parameter[2]:** Low
3. Operational/Technical risk parameter[3]: Low		**4. Financial impact parameter[4]:** Low
Requestor Category: CSDR TF		**Status:** Implemented

Reason for change and expected benefits/business motivation:

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.

As per CSDR requirements, Article 19 of Commission Delegated Regulation (EU) 2018/1229 "Penalty mechanism where the participant is a CCP", CSDs have to provide a facility to help CCPs identify the penalties in which they are the failing or non-failing party, as CCPs shall perform the collection and-redistribution of cash penalties involving their clearing members.
To support this regulatory requirement, the T2S penalty mechanism identifies and flags in the daily, modified, and monthly penalty reports the T2S Parties or the counterparties of the penalty(ies) that are CCPs, as per the user requirement T2S.13.490 "Reporting of cash penalties involving a CCP".

In order to identify CCPs in T2S, the T2S penalty mechanism relies on the list of Party BICs maintained in T2S to allow CCPs to instruct after maturity date in case of Corporate Actions Transformations as described in the UDFS under "TABLE 121 - CCP TRANSFORMATION EXCEPTIONS".

After further investigations, it appears that the list maintained for the purpose of transformations exceptions is not fully satisfying the business needs and requirements of the Article 19 of the Settlement Discipline.
This is because for settling instructions having reached their maturity date but in their transformation period, T2S performs a check of each BIC in the CCP transformation list against the instructing party contained in the settlement instruction, whereas in the case of the identification of CCPs for cash penalties it is the account owner that is relevant to determine the failing and non-failing party in a transaction and, hence, of the penalty.
Consequently, in the business scenario where a third-party (e.g. settlement agent) instructs on the securities account of a CCP in T2S (Power of Attorney concept, configured in T2S with the relevant privileges), there could be a gap with the usage of the current list as it would not flag the CCP as failing or non-failing party in a penalty, but the third-party settlement agent.
To summarise, the CCP transformation list relies on the BIC of Instructing Parties in T2S (which can be settlement agents of CCPs) while the cash penalties CCP list shall rely on BIC of T2S account owners who are CCPs.

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[1] Legal/business importance parameter was set to High because it facilitates compliance with CSDR requirements for T2S CSDs and also for CCPs
[2] Market implementation effort parameter was set to Low because it does not require extra adaptations from T2S CSDs and their participants.
[3] Operational/technical risk parameter was set to Low because it would have no impact on existing SLAs and limited impact on operational processes.
[4] Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

To cover this potential gap, the CSDR TF supports an enhancement to the T2S Penalty Mechanism to rely on a dedicated "Cash Penalties CCP List" (instead of using the CCP transformation list).

Description of requested change:

13.5.2.7 Reporting of cash penalties involving a CCP

Reporting of cash penalties involving a CCP

Reference ID	T2S.13.490

For the Daily Cash Penalty List, the Modified List of Penalties, and the monthly reporting of aggregated amounts, T2S shall identify and flag in the report the T2S Parties or the counterparties of the penalty(ies) that are a Central Counterparty (CCP) based on the Cash Penalties CCP List.

16.9.8 Cash Penalties CCP List

Definition

Reference ID	T2S.16.1100

T2S shall use a list of BIC that defines the CCPs to be identified in the penalty reports. Each item of this list includes the following attributes:

- BIC

Note: The BIC in this list are CCP BIC which are owner of a securities account in a T2S CSD.

Maintaining the Cash Penalties CCP List

Reference ID	T2S.16.1110

The Cash Penalties CCP List is maintained by the T2S operator.

Note: The content of this list is managed by the T2S Operational Managers Group (OMG) based on bilateral input between CSDs and CCPs.

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	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

Responsible T2S Actor	Class of Information	Attribute	Updatable
		Daily Flat Penalty Rate	Yes
		Valid From	No
ECB	Euro Exchange Reference Data[5]	Currency Code	No
		Daily Exchange Rate	Yes
		Exchange Rate Date	No
T2S Operator	Cash Penalties CCP List	BIC	Yes

Submitted annexes / related documents:

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High level description of Impact:
New Attribute Domain will be configured in order to handle the identification of BICs for Cash Penalties CCPs (i.e. the list of BICs of CCP that are T2S account owners subject to penalties).

Outcome/Decisions:

*CRG on 18 November 2020: the CRG agreed to recommend CR-748 for authorisation by the T2S Steering Level.

* AMI-SeCo on 27 November 2020: the AMI-SeCo agreed to the recommendation of the CRG to authorise CR-748.

* CSG on 27 November 2020: the CSG agreed to authorise CR-748.
* NECSG on 27 November: the NECSG agreed to authorise CR-748.
* PMG on 04 December 2020: the PMG launched the detailed assessment of CR-748 in a view to R5.2
* MIB on 21 December 2020: the MIB agreed to authorize CR-748.
* CRG on 24 February 2021: the CRG recommended to the PMG the implementation of CR-748 in R5.2.
* PMG on 26 February 2021: The PMG recommended the inclusion of CR-748 in STP for R5.2 for approval by the Steering Level.
* OMG on 3 March 2021: the OMG identified an operational impact from the inclusion of CR-748 in R5.2.
* CSG on 12 March 2021: the CSG approved the inclusion of CR-748 in the scope of R5.2.
* NECSG on 12 March 2021: the NECSG approved the inclusion of CR-748 in the scope of R5.2.
* MIB on 15 March 2021: the MIB approved the inclusion of CR-748 in the scope of R5.2.

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[5] A specific Data Migration Tool (DMT) file will be made available to the ECB as requested in CR718 to support the daily Euro Foreign Exchange Rate data loading process.

Documentation to be updated:

UDFS

Section 1.2.7 Static data for penalties

[…]

The T2S Operator is responsible for maintaining the list of cash and securities penalty rates for each currency and asset type respectively, as well as <u>the list of BICs of CCPs to be identified as such in Penalty Reports and</u> a list of Market Identifier Codes (MIC) corresponding to trading venues identified as belonging to the SME Growth Market segment.

[…]

Section 1.5.1 Business application configuration

[…]

I Reference data for penalties: this includes the cash and security penalty rates for each currency and asset type, as well as <u>the list of CCPs to be identified in Penalty Reports and</u> the list of MIC identifiers for SME Growth Markets. For more information see section Static data for penalties

Section 1.6.1.14.4 Penalty Eligibility

Every business day, T2S analyses the failed Matched Settlement Instructions from the previous business day in order to see if they are eligible for penalties.

Eligibility for a Settlement Fail Penalty (SEFP)

[…]

Once the Applicable Parties are identified, T2S analyses whether they are a CCP or not by checking if their BIC is in the <u>"Cash Penalties CCP List"</u> ~~"List of CCPs"~~ of the Attribute Domain, as T2S shall identify and flag in the Penalty reports the T2S Parties or the Counterparties of the Penalty(ies) that are a Central Counterparty (CCP).

[…]

Eligibility for a Late Matching Fail Penalty (LMFP)

[…]

Once the Applicable Parties are identified, T2S analyses whether they are a CCP or not by checking if their BIC is in the <u>"Cash Penalties CCP List"</u> ~~"List of CCPs"~~ of the Attribute Domain, as T2S shall identify and flag in the Penalty reports the T2S Parties or the Counterparties of the Penalty(ies) that are a Central Counterparty (CCP).

GFS:

Section 3.4.7.6 Data accessed by the module

DATA	DATA ENTITY	ACCESS MODE	COMMENTS
STATIC DATA			
Static Data	…	…	…
	Attribute Domain- <u>Cash Penalties CCP List</u> ~~List of CCPs~~ and "white list"	Read	Accessed for checking purposes
	…	…	…

<u>**UHB:**</u>

Section 2.4.1.22 Available Report – Daily Penalty List - Details Screen

Field Description

[…]

Currency, Date and Party	
…	…
Party Type	Shows the Party Type of the Party according to T2S Static Data. The possible values are: l NCSD is provided when the CSD itself is the failing or non failing party of the penalty/claim. This is used to differentiate between the CSD and the CSD as participant of itself. It is needed because the AccountServicer/Depository of the party provided in the message is the BIC of the CSD of the party, not the parent BIC of the party. Consequently, without this additional identification, it wouldn't be possible to distinguish between a CSD and the CSD as participant of itself. l CCPA is provided when the failing or non failing party of the penalty/claim is a CCP; i.e.: in T2S this is done by checking if the party has a BIC in the <u>Cash Penalties CCP List</u> ~~T2S list of CCPs~~ (list of BICs). l CSDP is provided when the failing or non failing party of the penalty/claim is neither a CSD nor a CCP and its party type is CSD Participant. l EXTE is provided when the failing or non failing party of the penalty/claim is neither a CSD nor a CCP and its party type is an external CSD in T2S.

Section 2.4.1.23 Available Report – List of Modified Penalties - Details Screen

Field Description

[…]

Currency, Date and Party	
…	…
Party Type	Shows the Party Type of the Party according to T2S Static Data. The possible values are: l NCSD is provided when the CSD itself is the failing or non failing party of the penalty/claim. This is used to differentiate between the CSD and the CSD as participant of itself. It is needed because the

Currency, Date and Party
AccountServicer/Depository of the party provided in the message is the BIC of the CSD of the party, not the parent BIC of the party. Consequently, without this additional identification, it wouldn't be possible to distinguish between a CSD and the CSD as participant of itself.
▎CCPA is provided when the failing or non failing party of the penalty/claim is a CCP; i.e.: in T2S this is done by checking if the party has a BIC in the Cash Penalties CCP List ~~T2S list of CCPs~~ (list of BICs).
▎CSDP is provided when the failing or non failing party of the penalty/claim is neither a CSD nor a CCP and its party type is CSD Participant.
▎EXTE is provided when the failing or non failing party of the penalty/claim is neither a CSD nor a CCP and its party type is an external CSD in T2S.

Section 2.4.1.24 Available Report – Monthly Aggregated Amounts - Details Screen

Field Description

[…]

Currency, Date and Party	
…	…
Party Type	Shows the Party Type of the Party according to T2S Static Data.
	The possible values are:
	▎NCSD is provided when the CSD itself is the failing or non failing party of the penalty/claim. This is used to differentiate between the CSD and the CSD as participant of itself. It is needed because the AccountServicer/Depository of the party provided in the message is the BIC of the CSD of the party, not the parent BIC of the party. Consequently, without this additional identification, it wouldn't be possible to distinguish between a CSD and the CSD as participant of itself.
	▎CCPA is provided when the failing or non failing party of the penalty/claim is a CCP; i.e.: in T2S this is done by checking if the party has a BIC in the Cash Penalties CCP List ~~T2S list of CCPs~~ (list of BICs).
	▎CSDP is provided when the failing or non failing party of the

Currency, Date and Party
penalty/claim is neither a CSD nor a CCP and its party type is CSD Participant. I EXTE is provided when the failing or non failing party of the penalty/claim is neither a CSD nor a CCP and its party type is an external CSD in T2S.

Detailed assessment:

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 June 2022)*		**Common Reference Data Management** *(from R6.0 June 2022)*	
	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
X	Rules and parameters data management	X	Rules and parameters data management
Statistics and archive		**Statistics and archive**	
X	Statistical information (until June 2022)		Short term statistical information
	Legal archiving (until June 2022)		Legal archiving (from R6.0)
			Data Warehouse (from R6.0)
Information *(until June 2022 containing reference data)*		**CRDM business interface** *(from 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 R6.0)
	Scheduling (until June 2022)		Business Day Management (from R6.0)
			Business Day Management business interface (from R6.0)
	Billing (until June 2022)		Billing (from R6.0)
			Billing business interface (from R6.0)

	Operational Monitoring		Operational and Business Monitoring
	MOP Contingency Templates		

Impact on major documentation

Document	Chapter	Change
Impacted GFS chapter	3.4.7.6 Data accessed by the module	Update the name of the Attribute Domain accessed
Impacted UDFS chapter	1.2.7 Static data for penalties 1.5.1 Business application configuration 1.6.1.14.4. Penalty Eligibility	Addition of the list of Cash Penalties CCP among the responsibilities of the T2S Operator Update the name of the Attribute domain referenced.
Additional deliveries for Message Specification (UDFS, MyStandards, MOP contingency templates)		
UHB	2.4.1.22 Available Report – Daily Penalty List - Details Screen 2.4.1.23 Available Report – List of Modified Penalties - Details Screen 2.4.1.24 Available Report – Monthly Aggregated Amounts - Details Screen	Update the name of the list checked to identify whether the failing or the non-failing party of the penalty are a CCP.

Links with other requests				
Links	Reference		Title	

OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT

Summary of functional, development, infrastructure and migration impacts

A new Attribute Domain will be configured in Static Data Management in order to handle the identification of BICs for Cash Penalties CCPs (i.e. the list of BICs of CCP that are T2S account owners subject to penalties).

The Penalty Mechanism checks whether the failing party or the non-failing party of a penalty are a CCP at the eligibility process, and if yes this information is provided in the cash penalty reports (i.e. Daily Cash Penalty List, the Modified List of Penalties, and the Monthly Reporting of Aggregated Amounts).
In order to do so, the Penalty Mechanism checks if the BICs of the applicable parties (i.e. the failing or the non-failing party) are included in the new "Cash Penalties CCP list" (instead of checking in the old CCP transformation list): if any of the BIC are included in this new list, the Party Type of the Party owning this BIC is reported as CCPA in the reports.

The same check must be done in case of re-allocation of a penalty: when performing the re-allocation, the original penalty status is set to "Removed", and a new penalty is created; the BICs of the applicable parties of this new penalty were provided in the re-allocation request, and it is necessary to check if they are included in the new "Cash Penalties CCP list" in order to be able to identify if the new failing or the new non-failing party are a CCP.

With the creation of the new "Cash Penalties CCP list", it is necessary to update the access to the attribute domain done by the eligibility and re-allocation processes, to check if any of the applicable parties are a CCP based on this new list.

Main Cost Drivers

-   Definition and development of the new "Cash Penalties CCP list" in the attribute domain
-   To update accesses to the new attribute domain (i.e. new "Cash Penalties CCP list") at the penalty eligibility process and at the modification process.

Impact on other TARGET Services and projects

ECMS: no impact

TIPS: no impact CSLD: no impact TARGET2: no impact
Summary of project risk
Security analysis
No potentially adverse effect was identified during the security assessment.

12 February 2021

Cost assessment on Change Requests

T2S-748-SYS – Dedicated list of Central Counterparties (CCPs) to identify and flag CCPs in the penalty reports generated by T2S			
One-off	Assessment costs* - Preliminary - Detailed	 2,000.00 10,000.00	 Euro Euro
One-off	Development costs	81,473.48	Euro
Annual	Operational costs - Maintenance costs - Running costs	 6,938.74 0.00	 Euro 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).