

T2S PROGRAMME OFFICE

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v1.0

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## Summary

### Teleconference of the Change Review Group (CRG)

13 September 2016, from 11:00 to 13:00

*held at European Central Bank*

#### 1. Introductory session

The Chairperson, Karen Birkel, welcomed the participants and congratulated the Wave 3 CSDs for successful migration to the T2S platform.

The Chairperson informed that the aim of the telco was to discuss the Incident 183001 for which CRG inputs were requested by the Operations Managers Group (OMG), the high level analysis on bundling of messages during Night Time Settlement (NTS) and Real Time Settlement (RTS), a discussion initiated in the context of CR-613, a newly identified issue in the context of CR-595, the updated versions of CR-614, CR-620, CR-623 and to discuss if the CR-532 could be proposed for consideration for T2S Release 1.3 as requested by some of the CRG members.

The Chairperson informed CRG about the incident INC187302 (semt.002 and semt.018 received in zipped format on EAC) that a fix was deployed in the EAC environment to make the compression of reports mandatory. This was done to align the T2S behaviour with the Scope Defining Documents (SDD); however deployment of the fix was not properly communicated to the market. The Release Management Sub-group (RMSG) would discuss about the way forward i.e. if the fix should be part of T2S Release 1.2 or if it should be part of T2S Release 1.3. If the RMSG asks CRG inputs on the issue then it will be discussed during the next CRG Telco.

The CRG was informed that the Change Requests 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) and Change Requests T2S-0563-URD (Automatic Internal liquidity transfer between RTGS Transit Account and the T2S Dedicated Cash Account in case of RTGS rejection) on which the preliminary assessment was intended from 26 September 2016 to 17 October 2016 were not mature and therefore will be replaced by Change Request T2S-0620-SYS

(Allow CSDs to query for all positions in a given security via T2S GUI) and Change Request T2S-0631-SYS (The field “value date” should be defaulted to the current business date in the Immediate Liquidity Transfers Screen).

## **2. Input requested by the Operations Managers Group**

### **Incident 183001 (Longer-than-expected revalidation process in T2S due to a delayed completion of event SDCR)**

The CRG was informed about the incident that was caused by a pre-migration activity related to the configuration of Specific Restriction Validation rules. Static Data updates which are sent/executed by T2S during the EOD/SOD phase trigger an immediate revalidation of pending instructions. During testing activities, the update of a high number of new specific Restriction Validation rules resulted in a delay of the start of the night-time settlement, due to the fact that the EOD/SOD revalidation process was still ongoing.

The 4CB explained about the SDCR event functionality which is a “watcher” to inform other T2S modules about the end of the revalidation process. T2S will only start with the night-time settlement once this SDCR event is finalised. In case of a high number of revalidations required, this event might remain open for too long, which might in exceptional situations result in a delay in the start of NTS phase. It was explained by the 4CB that the incident experienced is specific to the creation/update of the new Restriction Validation rules. The 4CB confirmed that updates to other static data could not lead to similar effects. Also the issue could only occur during EOD/SOD and is more likely in case of constant updates (compared to a high number of updates performed at the same time). According to the 4CB, updates of Case 1 Restriction Rules during other phases of the day are not critical.

The CRG was asked to discuss if a specific functionality would be required in the T2S software to prevent situations where the start of the night-time processing is delayed due to an ongoing revalidation process.

In general, CRG members found it beneficial that revalidations were completed before settlement in T2S would be continued. In exceptional situations, a delay of the start of the next batch would be preferred, compared to a timely start of the batch using not-revalidated instructions. Accordingly, CRG members generally supported the current implementation of the SDCR event functionality in T2S and accepted the risk of delay of the start of any batch which is connected to it.

In the specific case of the update of Case 1 Restriction Rules, CRG members agreed that the incident of a massive update at the EOD/SOD phase was in this case specific to testing activities. They did not expect mass updates to happen in T2S production. The 4CB confirmed that a low number of updates of Case 1 Restriction Rules performed during EOD/SOD would not cause any delays.

Furthermore, a CRG member recommended the definition of a best practice for the modification of a high number of Case 1 Restriction Rules. The CRG also suggested if the OMG could be asked to check if there could be a way forward to update the Manual of Operational Procedures (MOP) to describe that such modifications shall not be performed during the critical window of EOD/SOD phase, to ensure that the start of NTS is not delayed due to delayed completion of event SDCR.

The 4CB will provide a more detailed recommendation on the optimal timing of such updates, i.e. they will help to define the critical window in which the update could be problematic.

The CRG did not see the need to make changes to T2S in order to prevent the delay of NTS due to ongoing revalidation process. They agreed that the incident was specific to testing activities and a massive update of Case 1 Restriction Rules during the EOD/SOD phase was not expected in production. Instead of a software change, the CRG recommended the update of the MOP to indicate a critical window in which massive updates of Case 1 Restriction Rules should be avoided.

CRG decision: The CRG agreed that no change was required to handle the issue as the scenario is very unlikely in the production environment. Massive updates of restriction case type 1 rules should be avoided during the SOD/EOD of the settlement day. The CRG agreed to ask the OMG whether the MOP could be updated to describe critical windows in which such rules should not be updated, to ensure that the start of NTS is not delayed due to delayed completion of event SDCR.

Action point:

- ECB will share with the OMG the outcome of the CRG discussion.
- ECB will ask OMG if there could be a way forward to update the MOP to define the best practice for the modification of a high number of Case 1 Restriction Rules during the critical window of EOD/SOD phase.
- The 4CB will confirm the ideal time to send the updates to static data notification so that the SDCR event does not get delayed during the revalidation process. This information will be passed on to the OMG.

### **3. Analysis of the Change Requests**

#### **Change Requests from the market for future T2S Releases**

**Change Requests 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 receiving/delivering parties block or the message's supplementary data in the post-match status advice (sese.024), settlement confirmation (sese.025) and T2S generated realignment instruction (sese.032).

The CRG was informed that for inclusion of references of counterparty's settlement instruction into the status advice and settlement confirmation messages no existing field was recommended by the Message Standardisation subgroup (SGMS), instead the SGMS suggested to raise an ISO CR. This view was shared by SWIFT colleagues who informed that they would strongly recommended not to make use of the supplementary data block, but to request the addition of the fields in the main part of the message.

The ECB asked whether the inclusion of references of counterparty's settlement instruction into the status advice and settlement confirmation messages could lead to data confidentiality issue. The CRG agreed to provide their feedback in a written procedure if they see any issue from the perspective of data confidentiality.

The CRG agreed that the Change Request cannot be considered mature from content point of view due to the unclarity around the messaging aspects and therefore it should not be considered for preliminary assessment which will be conducted from 26 September 2016 to 17 October 2016 (batch 1).

CRG decision: The CRG agreed to remove the Change Request from the batch of Change Requests that will be preliminary assessed from 26 September 2016 to 17 October 2016 (batch 1), as the Change Request was not mature from the content point of view.

Action point: The CRG will provide their feedback in a written procedure by 23 September 2016 if they see any issue from the perspective of data confidentiality or due to the violation of the principle of data segregation between two matching settlement instructions, with the inclusion of the references of counterparty's settlement instruction into the status advice and settlement confirmation messages (sese.024, sese.025 and sese.032).

**Change Request T2S-0532-SYS (Hold/release default at account level should not override the Hold/Release indicator defined at instruction level)**

The aim of the Change Request is to modify the T2S behaviour so that the "hold release default" parameter set at account level should not override any hold/release status informed in the settlement instruction.

The CRG was informed that 2 CRG members have requested to consider the Change Request for T2S Release 1.3, since it is required by one of their market participants. The CRG was also informed about the UTSG concerns about the already full capacity of the Release 1.3 in terms of number of Change Requests and there might not be sufficient time for testing all the Change Requests in the release.

Two alternatives were presented which could be used to ensure that an instruction of one client is not settled by using cash of another client when there is a series of Securities Accounts (SACs) linked to the same Dedicated Cash Account.

- (i) Use of Credit Memorandum Balance (CMB) and Limits for segregation of liquidity on DCAs which is a feature of T2S to segregate liquidity. This alternative directly addresses the requirement of segregation of liquidity on DCAs.
- (ii) Sending all the settlement instructions on Party Hold. This alternative indirectly addresses the requirement of segregation of liquidity on DCAs. The instructions on Party Hold need to be released as and when the funds for specific clients are made available.

Some of the CRG members indicated that alternative (i) should be preferred as this feature of T2S directly addresses the requirement of segregation of liquidity on DCAs, rather than implementing the Change Request urgently that does not directly address the requirement. A CRG member mentioned that a further alternative would be to set-up multiple cash accounts.

The CRG member who requested the inclusion of the Change Request in the T2S Release 1.3 informed that the alternative (i) could not be used by their clients who have omnibus accounts. Such clients would have to use alternative (ii) i.e. send all instructions on party hold. However it may not be possible to ask third parties such as CCPs or external CSDs to send instructions on party hold and in their case CCPs are not allowed to change the hold parameter sent by clients.

The CRG members who requested the inclusion of Change Request in the T2S Release 1.3 mentioned that the need for earlier implementation of Change Request was also stemming from the regulatory requirement, however another CRG member expressed that it was not very clear which regulatory requirement was referred to. The CRG members agreed to confirm if the need for earlier implementation of the Change Request is because of regulatory reasons.

The CRG acknowledged the importance of the functionality of the Change Request, however there was no consensus on the urgency of the Change Request. The CRG agreed to check if it was feasible to use any of the solutions specified above to address the business case instead of urgent implementation of the Change Request.

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

Action point:

- Euroclear/NBB will confirm if the need for earlier implementation of Change Request is because of regulatory reasons.
- The CRG will provide their feedback in a written procedure by 21 September 2016 if
  - The definition of Credit Memorandum Balances (CMBs) for segregation of liquidity on DCAs (a feature of T2S to segregate liquidity) or sending settlement instructions on hold (workaround to CR 532) can be used as solution for the identified business case.
  - there is a urgency to consider the Change Request for the T2S Release 1.3

#### **Change Request T2S-0563-URD (Automatic Internal liquidity transfer between RTGS Transit Account and the T2S Dedicated Cash Account in case of RTGS rejection)**

The aim of the Change Request is to automatically generate internal liquidity transfers debiting the RTGS Transit account and crediting the Payment Bank DCA in case of RTGS rejection for an outbound liquidity transfer order.

The 4CB asked if there is a need to include the information related to transfer of cash from RTGS Transit Account to the T2S Dedicated Cash Account in the camt.053 and camt.054. The CR initiator agreed to further clarify the reporting requirements and provide them to the 4CB.

The CRG agreed that the Change Request cannot be considered mature from content point of view and therefore it should not be considered for preliminary assessment which will be conducted from 26 September 2016 to 17 October 2016 (batch 1).

CRG decision: The CRG agreed to remove the Change Request from batch of Change Requests that will be preliminary assessed from 26 September 2016 to 17 October 2016 (batch 1), as the Change Request was not mature from content point of view.

**Change Request T2S-0595-SYS (Allow settlement restrictions and settlement instructions to impact positions other than the earmarked restriction type used at the securities account level)**

The aim of the Change Request is to allow settlement restrictions and settlement instructions to impact positions other than the earmarked restriction type used at the securities account level so that T2S should make no transformation of securities settlement restrictions when either the 'Balance from' or 'Balance to' contains the restriction type used at the securities account level.

The CRG was informed about an issue identified in the context of CR-595 that is already recommended for T2S Release 1.3. The issue can occur in very specific setups where following preconditions apply.

- There is a settlement instruction to move positions between different position types within the same account (e.g. AWAS → EEUR)
- This settlement instruction needs to be subject to a CoSD rule
- The related T2S generated settlement restriction to move the positions to the CoSP blocked position is pending (e.g. AWAS → CoSP)
- There is an earmarking at securities account level created/modified/removed (e.g. EEUR) during the time that the T2S generated settlement restriction is pending.

In such a scenario the revalidation would result in the position type getting changed from AWAS to EEUR in the 'Balance from' of CoSD settlement restriction. Hence the settlement of CoSD settlement restriction will occur from the positions (i.e. EEUR) other than the ones from which CoSD blocking was done (i.e. AWAS).

The 4CB proposed different solutions to handle the issue.

- (i) Cancellation of Settlement Transaction under CoSD in case the update of earmarking at account level would lead to change in the impacted position on a Settlement Transaction under CoSD Hold
- (ii) At revalidation, always change the position of Settlement Instructions under CoSD even if the settlement instruction is in an exclusion case as regards CR-595
- (iii) Not to address this specific and very unlikely issue

Some of the CRG members acknowledged that they do not see a scenario in their current setup where such a situation might apply and indicated their preference to go with the 4CB proposed Option 3, which is not to address this issue via a specific processing in the software. A CRG member suggested that the OMG should be informed to check if there is a need to update the MOP to define a manual procedure in case of occurrence of the issue.

The 4CB agreed to provide the analysis on the questions raised by one of the CRG members in the case of occurrence of the scenario described by the 4CB (and the issue is not addressed in T2S)

- (i) would the settlement instruction remain pending, even after settlement of the settlement restriction and release of the CoSD hold by the administering party?
- (ii) could CSDs resolve the situation themselves, e.g. by sending another settlement instruction or settlement restriction to move the positions back to the AWAS position type (or any other

position type as stated in the Balance From of the pending settlement instruction)? When and how would such an instruction have to be submitted? Prior/after settlement of the CoSD settlement restriction, prior/after release of the CoSD hold by the administering party, stating any restricting reference or not, etc?

The CRG agreed to provide their feedback if they agree with the proposed option 3, i.e. not to address the issue via a specific functionality in the T2S software. The CRG also agreed to inform the OMG to check if there is a need to set up a procedure in the MOP, in case CRG favours the option 3 i.e. not to address the issue via a specific functionality in the T2S software.

Action point:

- The CRG will provide their feedback in a written procedure by 21 September 2016 if they agree with proposed option 3, i.e. not to address the issue via a specific functionality in the T2S software.
- The CRG will inform OMG to check if there is a need to set up a procedure in the MOP, in case CRG favours the option 3 i.e. not to address the issue via a specific functionality in the T2S software. The issue concerns an exceptional case whereby a business instruction delivering from and to the same SAC is under CoSD process, the related CoSD securities restriction is not yet settled until EOD and a change of earmarking at SAC level occurs on the delivering SAC. This results during revalidation in the replacement of the original Balance From in the CoSD settlement restriction with that of the newly earmarked at SAC level. In this exceptional case, when such a change on the CoSD settlement restriction is identified a manual intervention would be required.
- The 4CB will provide answers to the questions raised by Clearstream
  - if option 3 i.e. not to address the issue via a specific functionality in the T2S software is chosen, then would the settlement instruction remain pending, even after settlement of the settlement restriction and release of the CoSD hold by the administering party?
  - if option 3 i.e. not to address the issue via a specific functionality in the T2S software is chosen, could CSDs resolve the situation themselves, e.g. by sending another settlement instruction or settlement restriction to move the positions back to the AWAS position type (or any other position type as stated in the Balance From of the pending settlement instruction)? When and how would such an instruction have to be submitted? Prior/after settlement of the CoSD settlement restriction, prior/after release of the CoSD hold by the administering party, stating any restricting reference or not, etc?

**Change Request T2S-0613-SYS (T2S should give the possibility to receive outbound T2S messages bundled in files)**

The aim of the Change Request is to allow T2S actors (CSDs, NCBs, DCPs) to subscribe to the receipt of outbound messages into files based on a number of criteria.

The CRG was informed that bundling of messages in a file is technically easier from infrastructure perspective, however from application perspective it is more difficult as it requires implementation of additional logic for bundling of messages in a file, higher consumption of resources and additional access to databases.

The CRG was informed about the proposed solution which focussed on changes in existing NTS bundling by

- disabling the setting of parameters related to file size in outbound file routing rules of existing NTS bundling solution and
- addition of a final message indicating the end of NTS reporting.

Parts of the solution could also potentially be used in RTS.

The 4CB confirmed that currently configuration parameters related to file size in outbound file routing rules are not being used in production. The 4CB further added that changes to the NTS bundling would neither lead to any change in current NTS procedure nor to the criteria for bundling of messages.

The 4CB informed that the bundling of messages during the RTS would apply only to the settlement instructions with Intended Settlement Date (ISD) in the future and it could be implemented as a mandatory feature for all the customers. The 4CB agreed to provide detailed analysis of bundling of messages in the RTS by October 2016.

The CR initiator expressed that the proposed solution talks about improvement to the current NTS reporting, however it does not address the changes requested in CR-613, which focusses on the bundling of messages during the RTS. The CR initiator acknowledged that the solution proposed for NTS bundling could be extended to RTS bundling of messages provided it does not introduce new complexities.

The CRG took note that if the proposed changes to the NTS bundling are acceptable by the CRG and the OMG, then the 4CB would raise a separate Change Request.

The CRG members agreed to discuss with their OMG representatives and provide their feedback if they agree with the proposed changes to the bundling of messages during the NTS and the initial proposal for the bundling of messages in the RTS.

Action point:

- The CRG members will discuss the topic/presentation with their OMG representatives and provide their feedback in a written procedure by 28 September 2016
  - Whether the proposed changes to the NTS bundling are agreeable
  - Questions/Comments on the initial proposal for bundling in RTS as proposed by the 4CB, to be taken into account in the 4CB further analysis
- The 4CB will provide more details on the analysis for the bundling in the RTS by October 2016.



## **Change Request T2S-0620-SYS (Allow CSDs to query for all positions in a given security via T2S GUI)**

The aim of the Change Request is to allow CSDs to query for all positions in a particular ISIN across all securities accounts within the data scope of the CSD.

The CRG was informed about the updates made to the Change Request to remove the statement on the need for a CSD wide query for all positions within a given CSD, as this topic is now being discussed in the OMG. The field parent BIC has been kept unchanged i.e. it remains mandatory.

The CRG agreed that the Change Request could be considered mature from content point of view and recommended to launch the preliminary assessment on the Change Request.

CRG decision: The CRG recommended to launch the preliminary assessment on the Change Request from 26 September 2016 to 17 October 2016 (batch 1).

### **4. Any other business**

The CRG was informed that the next CRG Telco will take place on 22 September 2016.