EUROPEAN CENTRAL BANK

EUROSYSTEM

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: Euronext Securities	Institute: CSD	Date raised: 17/08/2022
Request title: Handling automatic cancellation for T2S External Transactions		Request No.: T2S 0789 URD
Request type: Common	Classification: Scope enhancement	Urgency: Normal
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-Medium
Requestor Category: CSD		Status: Allocated to a release

Reason for change and expected benefits/business motivation:

CR-691 'Recycling period of 60 business days for matched instructions' was implemented within R4.2 in November 2020. With this change, all pending settlement transactions in T2S are cancelled by the system after 60 business days have passed since their Intended Settlement day or the last status change.

Such automatic check performed every day during the End of Day period (EOD) cancels also pending T2S internal realignments connected to settlement instructions with external CSDs without taking into account whether the corresponding instruction in the external CSD is cancelled as well, or whether it continues to remain pending there.

Since some external CSDs are not following the same rule as T2S, the effective settlement instruction is not cancelled in the external CSD and this causes several issues:
- As long as the settlement instruction remains pending in the external CSD, penalties are still calculated and communicated by the external CSD and, since there is no related settlement transaction in T2S, CSD participants are unable to reconcile it and/or the CSDs have to adopt specific procedures to credit/debit penalties related to this case.
- If settled in the external CSD securities settlement system after automatic cancellation in T2S, then:
  - Participants can object regarding settlement of an instruction that had been previously notified as cancelled by T2S due to the recycling period being reached.
  - There is not an internal realignment in T2S connected so it is necessary to manually intervene.

In order to avoid such issues, ensure consistency of T2S with external securities settlement systems and prevent any misalignment that could even have repercussions from the legal point of view, three options have been considered by the CRG:
1. Manually requesting cancellation in the external CSD.
2. Requiring external CSDs to comply with T2S automatic cancellation rule of 60 business days.
3. Changing the T2S automatic cancellation process for avoiding cancellation of settlement transactions under an external CSD scenario.

Considering that option 1. has proved to be quite time consuming and not effective since the cancellation must be requested on a bilateral basis and the counterparty could not be willing to cancel the instructions, while option 2. cannot ensure that all external CSDs will adopt T2S rule, the remaining option 3. seems to be the only viable solution.

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[1] Legal/business importance parameter was set to High because automatic cancellation of the T2S internal realignment of External Transactions can create inconsistency of transaction status and Participants obligations
[2] Market implementation effort parameter was set to Low because significant impacts are not envisaged
[3] Operational/technical risk parameter was set to Low because the changes foreseen does not entail an operational or a technical impact.
[4] Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

Description of requested change:

The automatic cancellation process for settlement transactions after 60 business days since the Intended settlement day or the last status change, needs to be adapted to not cancel transactions that fulfil all following conditions concurrently:

- Transactions under an external CSD scenario, ie. when one of the relevant CSD is categorised as "External CSD".
- For the security, two active security CSD links exist:
  o A Security CSD Link of type "Issuer" with the external CSD as Issuer
  o A Security CSD Link of type "Investor" with the external CSD as Technical Issuer
- The External CSD is configured as not complying with the T2S automatic cancellation rule.

The list of external CSDs complying with the T2S recycling period should be configurable by the CSD.

All possible scenarios and the action to be applied can be summarized in the following chart:

Party		Security		Compliance with the T2S cancellation rule		Result
Delivering CSD	Receiving CSD	Delivering CSD	Receiving CSD	Delivering CSD	Receiving CSD	
External CSD	n/a	Issuer CSD	Investor CSD	No	n/a	Do To not cancel transaction
External CSD	n/a	Issuer CSD	Investor CSD	Yes	n/a	Cancel transaction
External CSD	In-T2S CSD	Investor CSD	n/a	n/a	n/a	Cancel transaction
In-T2S CSD	In-T2S CSD	n/a	n/a	n/a	n/a	Cancel transaction
Same results applies when swaping the values of the Delivering CSD and the Receiving CSD for Party, Security and Compliance with T2S cancellation rule						

The preliminary assessment also showed that some functional questions had to be clarified and the CRG agreed on the following statements:

- *If the relevant external CSD of the transaction is defined as Investor of the security, the transaction cannot be considered for the exemption since the external CSD cannot be identified as the "Leading system".*
- *If both CSDs of the transaction are external CSDs, at least one of them has to be configured as the issuer of the security in order to fulfil the condition of the security CSD link configuration, regardless of whether the other external CSD is configured as investor with technical issuer the counterpart CSD since it might access the issuer via a relayed link.*
- *If both CSDs of the transaction are external CSDs and the condition of the security CSD link configuration is fulfilled, the transaction will not be cancelled after the recycling period is reached only if the "Leading System" is configured in CRDM to not comply with the automatic cancellation rule, regardless of whether the counterparty complies with the rule or not.*

Submitted annexes / related documents:

Outcome/Decisions:

*CRG on 22 October 2022: the CRG agreed to request the preliminary assessment of CR-789.
*CRG on 18 January 2023: the CRG agreed to recommend CR-789 for authorization by the T2S Steering Level.
*AMI-SeCo on 26 January 2023: the AMI-SeCo agreed with the CRG recommendation of CR-789 for T2S Steering Level Authorisation.
*NECSG on 27 January 2023: the NECSG agreed to authorise CR-789.
*CSG on 27 January 2023: the CSG agreed to authorise CR-789.
*MIB on 1 February 2023: the MIB agreed to authorise CR-789.
*PMG on 7 February 2023: the PMG agreed to launch the detailed assessment of CR-789 with a view of scoping in Release 2024.JUN.
*CRG on 5 December 2023: the CRG agreed to recommend to the PMG the inclusion of CR-789 in the scope of R2024.NOV.
*OMG on 8 December 2023: the OMG identified no operational impact from the inclusion of CR-789 in the scope of R2024.NOV.
*PMG on 12 December 2023: the PMG agreed to recommend the inclusion of CR-789 in the scope of R2024.NOV.
*CSG on 21 December 2023: the CSG approved the inclusion of CR-789 in the scope of R2024.NOV.
*NECSG on 21 December 2023: the NECSG approved the inclusion of CR-789 in the scope of R2024.NOV.
*MIB on 21 December 2023: the MIB approved the inclusion of CR-789 in the scope of R2024.NOV.

Preliminary assessment:

- **Financial impact: Medium**

- **Impacted modules: LCMM and CRDM**

- **Impact on other Eurosystem Services or Projects: n/a**

- **Risk analysis:** Potential system performance risk to be validated during DA

- **Findings:**

  - For each settlement transaction whose recycling period has expired, both legs must be checked during the recycling process in order to determine whether they are not eligible for automatic cancellation by the system so that the instructions can be excluded from the automatic cancellation.

  - Potential issue on performance due to the new necessary data accesses during the EoD.

  - Introduction of new reference data in order to identify the list of external CSDs that are not complying with the automatic cancellation rule. The proposals of solutions are listed in the Open issues section.

- **Open issues/ questions to be clarified by the originator:**

  - To confirm the following assumptions regarding the CSD link configuration of the security:

    - the only condition to be fulfilled by the CSD link configuration of the security for not cancelling settlement instructions after reaching the recycling period is that the relevant external CSD is defined as issuer of the security AND the counterpart CSD is configured as investor with the relevant external CSD as Technical Issuer:

      - If the relevant external CSD of the transaction is defined as investor, no matter if the counterpart CSD is configured as investor with the relevant external CSD as Technical Issuer, the business settlement instructions should not be considered for the exemption (i.e. they must be cancelled once reaching the recycling period without checking whether the external CSD is configured as not compliant with the T2S automatic cancellation).

      - If both CSDs of the transaction are external CSDs, at least one of them has to be configured as issuer of the security and the counterpart external CSD has to be configured as investor with the issuer external CSD defined as technical issuer.

- To confirm that if both CSDs of the transaction are external CSDs and the condition of the security CSD link configuration is fulfilled, the settlement instructions will not be cancelled after the recycling period only if both external CSDs are configured as "CSDs not complying with the automatic cancellation rule" in reference data.

- The acknowledgement of the CSDs not complying with the automatic cancellation rule can be realised with one of the following options:

  1. New attribute domain "Automatic Cancellation Exempt List" configured by the T2S Operator. Each CSD should provide the list of External CSD to the T2S Operator that report the data into the Attribute Domain. With this solution, the CSDs are not autonomous with configuration of the list and the list is public accessible to all the T2S participants.

  2. ~~New attribute domain "Automatic Cancellation Exempt List" configured by each CSD Participant. This attribute domain should be configured independently by each CSD and include the list of External CSDs for which the Automatic cancellation rule should not be applied. The attribute domain names and parameters should be configured with common features in order to be identifiable by other modules.~~

  3. ~~New attribute "Automatic cancellation Rule Exempt" for Party object in the form of a checkbox. This attribute should be allowed only for external CSD. When selected, the Automatic Cancellation rule will not be applied for the party.~~

Documentation to be updated:

URD for R2024.NOV

Cancellation of matched instructions

Reference ID	T2S.05.460

T2S shall cancel matched instructions on the latest date between either 60 working days after the intended settlement date or the date of the last status change in accordance with the ESSF/ECSDA recommendation. The last status change shall be any change in the business status of the instruction (including generation of an instruction). T2S shall inform the instructing party when T2S cancels matched instructions.
As an exception, in an external CSD scenario, matched pending business settlement instructions whose maximum recycling period has expired shall not be eligible for automatic cancellation by the system if specific rules defined are fulfilled.

GFS

The following GFS v10.2 sections should be modified:

3.4.4 Instruction Maintenance

3.4.4.3 Description of the functions of the module

4 – Instruction Cancellation by the System

Reference Id	**LCMM.IMA.ICS.1.1**

This function cancels Settlement Instructions, Settlement Restrictions and Cancellation Instructions after a standard period of time as defined in Reference Data, {**T2S.11.910**}.

The function is triggered by the EOD Recycling and Purging Event received from the Scheduling module.
[…]

L Recycling period for matched instructions:

This period defines the minimum time the system keeps matched instructions in the system. The period starts on the Intended Settlement Date or the date of the last status change of the instructions dependingon which date is later. T2S uses the default value of 60 working days.

This period applies to "Unsettled" "Matched" Settlement Instructions and "Unsettled" Settlement Restrictions **{T2S.05.460}.**
[…]

When the recycling period for a "Matched" and "Unsettled" Settlement Instruction or an "Unsettled" Settlement Restriction is exceeded, the function cancels the considered instruction and its underlying Matching Object and Settlement Transaction(s) if any. In case the function cancels a "Matched" and "Unsettled" Settlement Instruction, the function analyses if the cancelled Settlement Instruction has any T2S generated Settlement Instruction for realignment purposes associated, in order to cancel them and its underlying Matching Objects and Settlement Transaction(s) if any. If there are T2S generated Settlement Instructions associated to the initial Settlement Instruction, the function cancels all of them (i.e. sets their Cancellation Status to "Cancelled"). Finally, the function triggers the Maintenance Status Management function.

As an exception, in an external CSD scenario, matched pending business settlement instructions whose recycling period has expired will not be eligible for automatic cancellation by the system if the relevant external CSD is not compliant with the automatic cancellation rule defined in reference data; if it is defined as issuer of the security and if its counterpart CSD is configured as investor with the relevant external CSD as Technical Issuer.
(…)

UDFS

The following UDFS v7.2 sections should be modified:

1.6.1.7.3 Recycling Process

[…]

Pending Matched Instructions and Settlement Restrictions are recycled in T2S for a period of working days[236] configured by the T2S Operator until its settlement or cancellation occurs (See section Instruction Cancellation [□□365]).

As an exception, in an external CSD scenario, instructions fulfilling the following conditions will not be automatically cancelled, but will remain pending in the system and recycled for an indefinite period of time until any of the conditions listed below becomes unfulfilled or they are cancelled by the T2S Actors:

L Any of the relevant CSDs is external to T2S;

L The external CSD is the issuer of the security and its counterparty CSD is configured as investor with the previous mentioned external CSD as Technical Issuer; and

L The External CSD is configured as not compliant with the T2S automatic cancellation of instruction.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION		
T2S Specific Components		**Common Components**
LCMM		
	Instructions validation	
	Status management	
	Instruction matching	
X	Instructions maintenance	
	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)*		**Eurosystem Single Market Infrastructure Gateway** (from R6.0 June 2022)		
	Communication			Communication
	Outbound Processing			Outbound Processing
	Inbound 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
	Rules and parameters data management	X		Rules and parameters data management

Statistics and archive		**Statistics and archive**	
	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	3.4.4.3 Instruction Maintenance - Description of the functions of the module	The Cancellation by the system function description is to be updated in order to add that matched pending business settlement instructions in an external CSD scenario whose recycling period has expired will not be automatically cancelled provided they fulfil the requirements indicated in this CR.
Impacted UDFS chapter	1.6.1.7.3 Recycling Process	The Recycling process description is to be updated in order to add that matched pending business settlement instructions in an external CSD scenario whose recycling period has expired will not be eligible for automatic cancellation by the system if they fulfil the requirements indicated in this CR.

Impacted GDPR message/ screen fields			No impact identified.	
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

LCMM:

The implementation of this CR will prevent the automatic cancellation by the system of those pending matched business settlement instructions under external CSD scenario whose recycling period has expired (only) as explained below:

i)   If only one CSD of the transaction is external to T2S (i.e. only the Delivering CSD or the Receiving CSD of the business transaction is external to T2S), the following conditions have to be met:

- The external CSD is defined as issuer of the security;
- The external CSD does not comply with the automatic cancellation rule in Reference Data.

ii) If both CSDs of the transaction are external to T2S (i.e. both, the Delivering CSD and the Receiving CSD of the business transaction are external to T2S), the following conditions have to be met:

- At least one of the two is defined as issuer of the security;
- The external CSD defined as issuer is not compliant with the automatic cancellation rule in Reference Data

Otherwise (i.e.: if the relevant external CSD of the transaction is defined as investor, no matter if the counterpart CSD is configured as investor with the relevant external CSD as Technical Issuer), the business settlement instructions will be cancelled once their recycling period is reached, without checking whether the external CSD is configured as not compliant with the T2S automatic cancellation.

For this purpose, the Cancellation by the system process is to be enhanced in order to check, for each pair of pending matched business settlement instructions under external CSD scenario whose recycling period has expired, whether the abovementioned conditions, either for scenario i) or scenario ii) are fulfilled. If so, the settlement instructions will not be automatically cancelled by the system even after their recycling period; otherwise, they will be automatically cancelled.

In case that both the delivering and receiving CSDs are in-T2S but the transaction is created using a relayed chain with an external CSD as issuer, the transaction will always be subject to the automatic cancellation rule because, as stated in i). and ii), none of the Delivering or Receiving CSDs will be defined as Issuer of the security.

CRDM:

The acknowledgement of the CSDs not complying with the automatic cancellation rule will be realised with New attribute domain "Automatic Cancellation Exempt List" configured by the T2S Operator.

The CSDs will need to provide the list of external CSDs not complying with the rule. In particular the BIC11 of each external CSD that should be included in the CRDM Attribute domain. Since the list will be common for all CSDs, a particular external CSD should only appear in the list once.

The practical effect of this will be that when CSD 'A' declares External CSD 'B' as not complying with the rule, this data will be used to check whether transactions belonging to other CSDs should be exempted from automatic cancellation or not.

The list will be available to all the users with access to CRDM GUI screen (i.e., all CSD users + all DCP users allowed by their CSDs to access the CRDM GUI).

Only the configuration of a new attribute domain and the related communications with other modules are envisaged.

The OMG will define an operational procedure under the T2S MOP to make sure that the information of the external CSDs not adhering to the T2S cancellation procedure to be recorded in CRDM is correct and updated. This is considered a pre-requisite for the usage of this new enhancement in production.

Monitoring the Usage of System Resources:

As discussed in the CRG on 06.09.2023 and in the PMG on 07.09.2023 **two years after Go-Live of CR-0789** the 4CB will create a report on the external pending instructions to check the usage of system resources arising from

the accumulation of these instructions and take respective measures. The OMG approved the proposed one off procedure on 29.09.2023 and will receive the report immediately after its creation.

MAIN COST DRIVERS:

-To implement the new logic on the 'Cancellation by the System' process to check, any time the recycling period is reached for matched settlement instructions under an external CSD scenario, whether it is eligible or not for the automatic cancellation.

-Testing the new functionality to verify the correct behaviour of the automatic cancellation for external CSD instructions:

    -To run an ad hoc non-regression testing campaign of the 'Cancellation by the System' process.

    -To adapt the non-regression testing tool to the new functionality in T2S.

Impact on other TARGET Services and projects
No impact on other Eurosystem Services or Projects have been identified during DA.
Summary of project risk
No risks have been identified during DA.
Security analysis
No adverse effect has been identified during DA.

13 October 2023

Cost assessment on Change Requests

T2S-789-SYS – Handling automatic cancellation for T2S External Transactions			
One-off	Assessment costs* - Preliminary - Detailed	2,000.00 10,000.00	Euro Euro
One-off	Development costs	193,867.68	Euro
Annual	Operational costs - Maintenance costs - Running costs	 16,834.16 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).