

Market consultation feedback on T2S user requirements and annexes

Feedback on T2S User Requirements and Annexes

submitted by

THE BANK OF NEW YORK MELLON

Nbr	Chapter/ Annex nbr	Page	Line	Topic	Comments	Suggested drafting change	Confidential Y/N
1	1	4	36	Principle 4 : T2S securities accounts	It should be possible for a T2S securities account to be attributed to a single CSD platform operational account (and not simply a single CSD legal account). In the event that CSDs merge and use a common system and a common account system, then it should be possible for multiple legal CSDs accounts that are operationally represented by a single operational account on a single CSD platform to use a single account on T2S. What is important is the operational reality, not the legal construct.		N
2	1	5	27	Proprietary and legal aspects	Proprietary transfer rules should be similar between all countries. This should facilitate claims management.		N
3	2	9	20	Securities Categories	Any related actions connected to such electronic settlement (physical delivery, registration etc) shall remain with the CSDs. For actions related to specific settlement processes that take place outside of T2S, T2S should be able to provide status updates to directly connected parties.		N
4	3	9	17	Night-time settlement cycles	The T2S daily settlement timetable should be driven by settlement needs of T2S CSD participants for T2S securities. It should not be driven by the needs or processing of external CSDs with relation to securities for which the issuer CSD is not on T2S.		N
5	3	13	15	Fails management within T2S deadlines	There should be no discrimination between CSDs and directly connected T2S parties in fails management processes. All deadlines should be applied equally. This means that Option 2 is specifically unacceptable.		N
6	3	14	23	Deadline for bilaterally agreed treasury management instructions	There will need to be an ability to mark such instruction from a standard instruction to avoid having it pushed to the next day cycle.		N
7	3	17	8	T2S calendar - technical capability for extending standard services	T2S interfaces should be both available to CSDs and to the directly-connected T2S parties.		N
8	5	6	6	Instruction maintenance	All T2S parties should be able to perform unilateral cancellations of instructions. There should be no discrimination in favor of CCPs, CSDs or organised exchanges, and against CSD participants. See comment on Chapter 5, Page 19, Line 22).	"Once matched, T2S actors can cancel instructions unilaterally, i.e. any party can cancel its own instruction, leaving a counterparty's instruction in an unmatched status".	N

9	5	9	30	Lifecycle types/validation rules	For core CSD functions it is appropriate that validation rules differ depending upon whether the instructing party is a CSD or CSD participant. For all instructions relating to intermediary services (including instruction routing, securities lending, collateral management) there should be no discrimination in validation rules between CSDs and directly connected CSD participants.		N
10	5	10	24	Harmonised set of validation rules	On any individual instruction T2S should check all validation requirements and report all reasons for rejection.	"T2S shall reject the instruction after checking all validation requirements, and shall report on all reasons for rejection".	N
11	5	11	2	Duplicate Check	T2S should be able to check both pending and settled transactions for duplicates.		N
12	5	12	16	Trade date check	There should be a trade date for all securities movements. Future trade dates should be rejected.		N
13	5	12	22	CSD participant check	A T2S party should not be required to identify the CSD of its counterparty.	"T2S shall not check that the CSD participant has included the CSD of its counterpart to the transaction and that it is valid".	N
14	5	13	7	Process indicator check (Partial Settlement)	This text should be amended to incorporate changes to the partial settlement functionalities (see below for more details).		N
15	5	16	18	Authorisation check for instruction maintenance	T2S must offer CSD participants the ability to maintain control over instructions generated by CCPs and Stock Exchanges.	"T2S will allow CSD participants to hold back, release, amend or cancel instructions held back or generated by CSDs, CCPs or stock exchanges under a power of attorney".	N
16	5	17	19	Hold and release mechanisms	The functionality is very good. It is key that there be no constraint on the ability of a CSD participant to exercise control over instructions on its accounts.		N
17	5	19	22	Unilateral versus bilateral cancellation	Unilateral cancellation of matched instructions is preferable to bilateral cancellation for three reasons : (i) it tends to increase the ability of a CSD participant to control its instructions (and control over instructions is a mandatory requirement); (ii) it is operationally more efficient (in the absence of unilateral cancellation a T2S party has to request a cancellation, freeze an instruction, and monitor the instruction until the counterparty sends its cancellation request); and (iii) bilateral cancellation does not achieve its supposed objective of increased settlement efficiency (given - among other reasons - counterparties can freeze). Bilateral cancellation is the wrong way to achieve settlement efficiency. The right way is to build a system in which all parties have incentives to behave well (namely, to match early, and to settle early).		N
18	5	20	14	Triggering cancellation after the end of the recycling period	CSDs should use the same recycling periods. Different CSD recycling periods generate costs for CSD participants (and market participants generally) to no benefit.		N
19	5	22	6	FOP instructions with matching not required	T2S parties should be allowed to request matching on FOP instructions between own accounts. All free-of-payment instructions between accounts that do not belong to the same T2S party within the same CSD must require matching.		N
20	5	22	11	Status after matching	T2S should evaluate providing matching fail reasons. (i.e; identifying differences with an alleged instruction with similar but not identical details)		N
21	5	24	8	Tolerance amount for matching	The threshold should be harmonised across all European CSDs (both in and out of T2S). Whether the threshold is EUR 100,000 or EUR 250,000 is not so important.		N
22	5	25	6	Additional matching fields	Common reference should be able to match to blank. There should not be any matching on trade price (even matching to blank). Any matching on trade price generates issues as to the tolerance level, rounding processes, and the number of significant decimals). The proposed list is described as "non-exhaustive"; we would have concerns if any other additional matching fields were added; for example, we would not wish to see any "cum/ex" indicator to be added to the list.		N

23	5	26	19	Examples of lifecycle and transaction types	The tables of examples of lifecycle and transaction types need review. Some sample comments : (i) CSD participants will only be able to use Lifecycle type "DVP already matched" or "FOP already matched" if they have the ability to instruct over both accounts; (ii) a CSD participant should also have the ability to use Transaction type "DbV"; (iii) from the perspective of T2S processing, the distinction between CSD-originated and CSD participant-originated securities lending transactions is invalid (CSD participants should also be able to instruct fail-covering securities lending); (iv) the table would benefit from a distinction between CSD-originated CE movements and Issuer Agent-originated (under a PoA) CE movements. (v) CSD participants should be able to use the DVD instruction type (possibly linked to PFOD instruction type) for collateral substitutions. (vi) CSD participants should be able to instruct market claim transaction types.		N
24	6	6	20	Different T2S dedicated cash account for corporate events	We understand that for settlement instructions - and if the cash account is not specified in the settlement instruction - T2S will use a "default" cash account number set up in static data. We believe that the same logic should be used for corporate events (i.e. that T2S static data should hold a "default" cash account number for corporate events). It should be possible to use the same cash account number as default for settlement and as default for corporate events.		N
25	7	12	1	Partial settlement for the last night-time settlement cycle	We are not sure that there is a need for a partial settlement window at the end of the night time settlement window. We believe that in many cases the shortage of resources will be resolved within the daytime processing. We believe that the number of partials should be limited to the minimum necessary.		N
26	7	12	24	Cut-off time for DVP settlements / Timing of partial settlement	We suggest partial settlement around 30 minutes before cut-off time for DVP.		N
27	7	14	12	Different levels of priority	We suggest that T2S actors should be able to use up to 4 levels of priority for OTC transactions (without CCP).		N
28	7	14	29	Reserved priority	There should be consistency across CSDs around the usage of the "reserved" priority.		N
29	8	16	6	Triggering partial settlement	We believe that subject to a minimum threshold partial settlement should be mandatory (i.e. there should be no option to opt out). Partial settlement improves the overall settlement efficiency of the system, and thereby benefits all market participants. An individual market participant opting out of partial settlement imposes costs on the rest of the market.	"T2S must submit transactions to partial settlement if the conditions regarding the minimum amount for triggering partial settlement are met".	N
30	8	16	11	Need for agreement for partial settlement	We believe that there should be no option at the level of the instruction to trigger (or not) partial settlement. Partial settlement should be mandatory (subject to a minimum threshold). In the event that there is an option, then partial settlement should be at the sole discretion of the delivering party.	Delete lines 11 to 13.	N
31	8	17	3	Partial settlement and cross-CSD settlement	This issue is a demonstration of a general point on why harmonisation of settlement processing across CSDs is necessary. The specific proposal is that - for a participant in a CSD that opts for mandatory partial settlement - whether partial settlement occurs depends on the CSD used by the counterparty (and depends on whether this CSD allows for optional partial settlement). The general point is that the proposal is that the transaction lifecycle depends on the CSD used by a counterparty, and this proposal is fundamentally wrong. A T2S party does not know the CSD of its counterparty (as this is not a field contained in its instruction). A T2S party should not be subject to an unpredictable lifecycle dependent on the CSD used by its counterparty.		N

32	8	18	19	Role of CSDs in the definition of partial settlement thresholds	Given that rules on triggering partial settlements should be harmonised across CSDs, so should partial settlement thresholds.		N
33	8	31	13	Restrictions related to the existence of close links	It is not clear who "is required to identify securities for which a close link exists".		N
34	9	5	7	Coupon stripping process	The ISIN of a zero coupon debt instrument ISIN should be different from the ISIN of the original debt instrument. This rule should be consistently applied across markets.	"the ISIN of this zero coupon debt instrument ISIN should be different from the ISIN of the original debt instrument".	N
35	9	6	25	Linked settlement of several transactions is All-or-None	We believe this section refers to the first example of the link as set out on lines 8&9. If it does not, we believe there are contradictions with the text on page 7/8.		N
36	9	7	22	Linked securities redeliveries	We believe that there is an error in the wording. We believe that the intention is for the receipt to settle, even if the redeliveries cannot settle.		N
37	9	10	4	Conditional Securities Deliveries	Conditional Securities Deliveries covers in most cases national specificities. Such specificities should either be generalised across all CSDs or eliminated. The existence of national specificities necessarily causes unharmonised transaction lifecycles for all market participants.		N
38	9	13	1	Borrowing and lending operations in securities	Lending operations should not be limited to CSDs; they should also be open to CSD participants.	"In case of lending operations with securities as collateral, the CSD or CSD participant should send T2S".	N
39	9	14	8	Settlement of corporate events in T2S	We believe that there is an error in the wording.	"There is a possibility to assign a high priority..." -> "There is a possibility to assign a reserved priority..."	N
40	9	15	5	Corporate event settlements - Instructing parties	It is a positive note to see that issuer agents can instruct T2S (if suitably authorised). Two key points are (i) the need for harmonisation of operating procedures across different issuer agents, and (ii) the need for a CSD to be able to restrict the authorisation for an issuer agent to the list of securities for which the entity is agent.		N
41	9	15	17	Settlement of corporate events - cash distributions	The standard harmonised practice across all CSDs and all issuer agents should be that all cash related to corporate events (i.e. including mandatory cash distributions) should be paid to T2S cash accounts.		N
42	9	16	16	Settlement of corporate events via cross-CSD links - an Investor-CSD delivers securities to its Technical Issuer CSD	We believe that the settlement of corporate events via cross-CSD links is risky and complex. It may be valuable for a list of possible discrepancies to be established and for a review to be done on how such discrepancies could be resolved.		N
43	13	3	18	Messages and reports requirements / Corporate Events	The limitation of ISO 20022 message types to just settlement, reconciliation and reference data is too restrictive. The ISO message type with relation to the settlement of corporate actions movements is an ISO corporate action message type. T2S should be able to send out MT566 messages.		N
44	13	4	22	Criteria for message subscription	In the event that T2S does not send out MT566 messages, there should at a minimum be a possibility to have a subscription to a specific address just for MT54x settlement confirmation messages relating to corporate events (as T2S does distinguish between corporate event settlements and other settlements).		N
45	13	40	8	General report requirement	It is of key importance that T2S utilise ISO standards.		N
46	Annex 6	9	1	ESES and ESPS Account Structure on T2S	This section seems to suggest that a single operational account on ESES or ESPS (covering multiple legal accounts at different CSDs) can be linked to single account on T2S. This would appear to be inconsistent with other statements that a single account on T2S can represent only an account at a single CSD. We would suggest that it should be possible for a single operational account on a CSD platform (covering legal accounts at multiple CSDs) to be linked to a single account at T2S.		N

47	Annex 6	27	4	Finnish legal restrictions on APK accounts for Finnish investors	The prohibition on usage of nominee accounts for Finnish investors is an example of a national specificity. As with other national specificities, it should either represent best practice and be capable of general usage, or be eliminated (as specificities create costs and reduce options). In a T2S world, such national specificities are important, given that many more entities may wish to open accounts at the Finnish CSD, and may wish to offer services to Finnish investors. Requirements to segregate by final beneficial owner impose costs right through the custody chain.		N
48	Annex 6	32	4	Estonian legal restrictions on nominee accounts	The restriction on the usage of nominee accounts at the Estonian CSD is an example of a national specificity. As with other national specificities, it should either represent best practice and be capable of general usage, or be eliminated (as specificities create costs and reduce options). In a T2S world, such national specificities are important, given that many more entities may wish to open accounts at the Estonian CSD, and may wish to offer services to Estonian investors. Requirements that limit the use of nominee accounts impose costs right through the custody chain.		N
49	Annex 12	5	17	Corporate events - Generic steps	A generic comment is that a record date should in every case be an end of day date (and not a start of day date).		N
50	Annex 12	6	25/27	General settlement requirements / CE cash movements	The standard harmonised practice across all CSDs and all issuer agents should be that all cash related to corporate events (i.e. including mandatory cash distributions) should be paid to T2S cash accounts.		N
51	Annex 12	6	32	General settlement requirements / CA Settlement confirmations	T2S should be able to generate MT566 messages. Non-utilisation of MT566 messages is simply an arbitrary and unjustified limitation on T2S functionalities.		N
52	Annex 12	7	5	Special considerations for cross CSDs' corporate events	Processing of cross-CSD corporate events on T2S will be risky and complex. A key concern would be if problems in processing such events had wider knock-on impacts.		N
53	Annex 12	10	19	Amend/ cancel pending instructions	The area of transformations of pending instructions is complex. It is key that a directly-connected T2S party be able to identify transformed instructions through (for example) the original instruction reference and the corporate action event reference.		N
54	Annex 12	10	24	Manage claims	The area of market claims is an area where harmonisation of processing across CSDs will be critical. The text assumes that all markets will have harmonised event processing for distributions so that record date equals ex date plus (trade cycle minus one day). This is a valid assumption. Such harmonisation has, however, to be achieved. It is also in itself not sufficient; there are many other areas where harmonisation is needed.		N
55	Annex 16	5	1	Market practices / Handling of repo settlement	Repo processing is an example of a national specificity, and as such it should either be generalised or eliminated. If it is neither generalised nor eliminated, then repo processing will generate special risks and special complexity in cross-CSD settlement, as repo processing affects not simply the settlement but also the market claim process during the life of the repo. There are the risks not simply of differing transaction lifecycles and of mismatches resulting from the input of different transaction types, but also of unharmonised and unpredictable market claim processes. In short, repo processing is an example of a national specificity where it is especially important for there to be a harmonised solution.		
56	Annex 17	3	17	National specificities - Summary table	There should be no need to support national specificities in the CSDs own system. Such specificities should either be generalised across all CSDs or eliminated.		N

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Additional comments, e.g. missing sections or suggested additional requirements

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Nbr	Topic	Comments	Suggested drafting	Confid. Y/N
1	Reporting	CE reporting standards (564, 566, 567) should be available on CE instruction types		N
2	Reconciliation	Details should be provided about reconciliation capabilities when 2 different parties are instructing on one single T2S account (directly connected T2S party for instructions and settlement, and CSD/Agent for CE instructions).		N
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