

T2S STANDARDS FOR CORPORATE ACTIONS ON FLOWS MAY 2018 GAP ANALYSIS SURVEY

INTRODUCTION

The T2S standards on corporate actions on flows (T2S CA Standards) are crucial for the efficient settlement of entitlements on flows in T2S. As communicated by the T2S Board, the implementation is mandatory for T2S participating markets¹.

The T2S Advisory Group (AG) had adopted those standards and via the T2S Harmonisation Steering Group (HSG) entrusted the T2S Corporate Actions Subgroup (CASG) with monitoring their implementation in the T2S relevant markets.

The responses to this gap analysis survey are very important as the CASG uses it to assess the compliance status of individual markets with the T2S CA standards. Based on that, the compliance status of each market will be included in the next T2S Harmonisation Progress Report to be approved by the AMI SeCo for publication in the course of 2018².

For the purpose of ensuring the comprehensiveness and the reliability of the CASG assessment and considering the required effort to do so, the T2S markets, which have already been assessed as fully compliant (having a “BLUE” status) in the previous CASG report, should also submit their responses to this survey. In this way, the continued compliance of all T2S markets with the T2S CA Standards will be monitored.

This explanatory note provides some guidance on how to complete the survey in a consistent way across all T2S markets.

RESPONSIBILITIES FOR PREPARING THE MARKET’S RESPONSE

The CASG would like to stress out that compliance with the T2S CA Standards is the responsibility of all market participants from the respective T2S markets and not simply of the national CSD(s). Therefore, as done in the past, the survey is sent to the chairperson of each

¹

http://www.ecb.europa.eu/paym/t2s/pdf/View_of_the_T2S_Board_on_the_T2S_harmonisation_standards_compliance_framework.pdf?ccdface5ac02badcfedbf05b6e44e7a1

² Previous T2S Harmonisation Progress Reports can be found under www.harmonisation.t2s.eu

T2S National Stakeholder Group (NSG). The NSG chairperson should coordinate the task of completing a national answer to the gap analysis. This may require the involvement of the national Market Implementation Group (MIG) for corporate actions, if such exists, or any other group he/she considers appropriate. The chairperson should also ensure that the reply reflects the views of the NSG's constituents.

LATEST VERSIONS OF THE T2S CA STANDARDS AND FAQ ON T2S CA STANDARDS

The latest versions of the three sets of T2S standards – for market claims, transformations and buyer protection – can be found on the [T2S website](#). Please note that the full set of standards remains unchanged from the one used for the previous survey.

However, the CASG has updated in March 2018 its Frequently Asked Questions document on T2S CA standards³. The T2S NSGs are strongly encouraged to consult in the first instance the updated FAQ document when they need clarifications on the interpretation/compliance with T2S CA standards.

CLARIFICATION ON THE T2S TRANSFORMATION STANDARD 3

Each market is requested to pay especial attention when reporting compliance with Transformation Standard 3, and in particular when reporting on transformations in the event of a mandatory reorganisation with options with default option “lapse”. The current version of the FAQ document (Question and Answer 3.15) gives some additional clarification on this case. As discussed in the HSG meeting on 26 and 27 October 2017⁴, the CASG will review in detail compliance on this matter.

CLARIFICATIONS ON THE T2S BUYER PROTECTION STANDARDS

The T2S standards on buyer protection (BP) are mandatory for all T2S markets. It is up to each national market to choose between automated and manual BP mechanisms. The CASG recommends that irrespective of the chosen BP setup for the market, all market infrastructure providers (i.e. stock-exchanges, CCPs, CSDs, etc.) should be involved in elaborating the BP guidelines for the respective market. Whether the CSD itself needs to comply with the standards depends on whether it plans to offer a centralised automated BP functionality or whether buyer protection will be handled bilaterally between the buyer and seller entirely outside of the CSD operations. The implications are as follows:

³ Link to the updated FAQ on T2S CA Standards (updated March 2018):
<http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/updatedfaqont2scastandards.pdf?f26faab3f458a58c8ddc066df026c111>

⁴ See <http://www.ecb.europa.eu/paym/t2s/governance/ag/html/hsg/outcomeof26-27octobermeeting.pdf>

- **CSD provides automated buyer protection service:** In this case, the CSD and market participants need to comply with the T2S CA buyer protection standards on automated mechanism.
- **Buyer protection is handled bilaterally between counterparties:** In this case, only the market participants need to comply with the T2S CA standards on manual buyer protection. In principle, the CSD would not need to make any system changes in relation to buyer protection standards since the exchange of BP instructions takes place bilaterally between the counterparts, outside the CSD environment. However, the CSD would have to communicate the relevant BP dates, necessary for the market participants to comply with the BP standards.
Nevertheless, in order for the CASG to consistently assess how each T2S market complies fully with the manual BP rules, each market needs to have agreed and publicly available documentation on these procedures. This documentation may consist of market practices handbooks, templates, etc. Therefore, when full or partial compliance with the manual buyer protection standards is reported to the ECB Team, the respective market is invited to provide further evidence including a link to such publicly available information for its respective market. Those markets with no such documentation agreed and published yet, should explain in their responses when they plan to do so.

CSD acting as Investor CSD

If a CSD wishes to act as an Investor CSD for a market in which the issuer CSD has chosen to implement an automated BP functionality, then the investor CSD would need to comply with the Issuer CSD framework, like any other Issuer CSD participant. The Investor CSD would therefore manage BP for the servicing of those ISINs issued in the issuer CSD, complying with the T2S BP standards. However this does not necessarily require that the investor CSD would need to implement a fully automated BP solution. Indeed, if the investor CSD would be servicing only a few ISINs issued in the issuer CSD, implementing automated BP functionality would not be economically viable. Rather the investor CSD would only need to provide service levels for BP complying with the T2S standards, which could also be done in a non-automated manner.

LEVEL OF DETAIL REQUIRED IN THE RESPONSE FOR EACH STANDARD

For each standard, there are four elements to complete.

- First, in the field “CSD/Market status”, the value “Implemented” should be selected from if the standard is already in production (i.e. the national market is already operating according to the standard). “Not Implemented” should be selected in case a standard is not (yet) fulfilled. Please use only these two options (red and green colours) for measuring compliance with individual standards; these are not to be confused with the

4-colour scheme used to measure the overall market compliance status (described at the end).

- Second, in the field “Type of Implementation Gap”, select from the list the category which best describes what is preventing the standard from being fulfilled. If the standard is already fulfilled, put “N/A”, i.e. not applicable.
- Third, in the field “Further Comments”, please describe in detail the precise nature of the gap and what further steps need to be taken in order to achieve full compliance. If a legislative change is required, it is important that responses include precisely what legislation needs to be changed. It is not sufficient to state that a legislative change “might” be required. Please note that explanatory information (i.e. how the standard is implemented in the market) should be provided independently of whether or not CSD is technically capable to operate in accordance with the standard. Responses with no explanatory details would be considered it as “No response”.
- Fourth, in the field “Implementation plan”, please describe the timeline and key milestones for implementation of those standards by the time of migration to T2S (for non-migrated markets). If a legislative change is required, it is important that you state what steps you plan to take to have the legislation amended.

EXPLANATIONS ON STANDARDS WHICH REFER TO T2S SPECIFIC TERMS

The standards which refer to terms specific to T2S (e.g. “T2S business days”, “T2S dedicated cash accounts, “Instruction Owner CSD⁵ model”) should be understood in the context of the T2S environment. Thus, it would be possible to be compliant with a standard which refers, e.g. to T2S dedicated cash accounts, as long as the same procedure is used today (e.g. use of central bank cash accounts) and would require very limited technical/market practice modifications when the respective market migrates to T2S.

Similarly, for the standards which require the use of the Instruction Owner CSD model, it would be possible to be already compliant with these standards if the CSD currently generates claims and transformations centrally on behalf of its clients and the procedure in place would still be valid when the market migrates to T2S.

REQUESTS FOR FURTHER CLARIFICATIONS

Should you have any questions regarding the T2S CA standards, your first recourse should be to the T2S CA standards FAQs, which are published on the T2S CASG webpages. In any case you are also encouraged to contact the CASG liaison person(s) responsible for your market in

⁵ The Instruction Owner CSD is defined as the CSD that provides the securities accounts on which the participant has sent an underlying instruction.

case you have additional questions, which are not covered in the FAQ publication. The list of contact persons can be found on the T2S CASG webpage:

<http://www.ecb.europa.eu/paym/t2s/governance/ag/html/subcorpact/index.en.html>

COMPLIANCE STATUS OF MARKETS

The monitoring methodology of the AG approved for the T2S Harmonisation Progress Report (Annex 1) will be used to measure the overall compliance of individual markets for the May 2018 T2S CA gap analysis. In particular, the overall compliance status of individual markets with T2S CA standards will be categorised under one of the following statuses. Markets having completed their migration to T2S will have only two statuses, either BLUE or RED.

Colour	Description
B	<p>The market has achieved full compliance with the harmonisation standard.</p> <p>a. For technical standards (e.g. T2S ISO 20022 messages), this means that the T2S market is already operating according to the standard.</p> <p>b. For regulatory/legal standards (e.g. T2S settlement finality rules), this means that the relevant regulation/legislation is already in place.</p> <p>Further monitoring of the T2S market is no longer required.</p>
G	<p>1) There are changes still pending (technical, regulatory or legal) before the T2S market can achieve full compliance with the harmonisation standard, but no obstacles have been identified to achieving full compliance by the deadline.</p> <p><i>and</i></p> <p>2) The market has established a clear/detailed plan to implement the harmonisation standard and has publicly announced deadlines for full implementation.</p> <p>Further monitoring of the T2S market is required.</p>
Y	<p>1) There are changes still pending (technical, regulatory or legal) before the T2S market can achieve full compliance with the given harmonisation standard, but obstacles have been identified which may threaten achievement of full compliance by the deadline.</p> <p><i>or</i></p> <p>2) The T2S market has issued a statement that it will implement the standard, but has not committed to concrete and publicly announced dates for implementation.</p> <p>Further monitoring of the T2S market is required.</p>
R	<p>1) The T2S market has not provided any information on its level of compliance with the standard.</p> <p><i>or</i></p> <p>2) The T2S market has decided not to (fully) comply with the standard.</p> <p><i>or</i></p> <p>3) There are changes still pending (technical, regulatory or legal) before the T2S market can achieve full compliance with the harmonisation standard and obstacles have been identified that have stopped the implementation plan of the market and/or will prevent its full implementation by the deadline.</p> <p>Further monitoring of the T2S market is required.</p>

DEADLINE FOR RESPONSES

When the market's response has been completed, it should be sent to the CASG mailbox at T2S-CASG@ecb.int. As in the previous survey, the gap analysis survey should be prepared using the dedicated Word template. Please avoid introducing changes to the Word template (e.g. such as addition of columns) or other type of formatting changes (i.e. conversion to excel or pdf format).

The deadline for replies is **Monday, 30 April 2018**. The CASG will then compile the results and update the T2S HSG on the compliance statuses of the T2S markets with T2S CA Standards at its meeting on 05-06 June 2018.