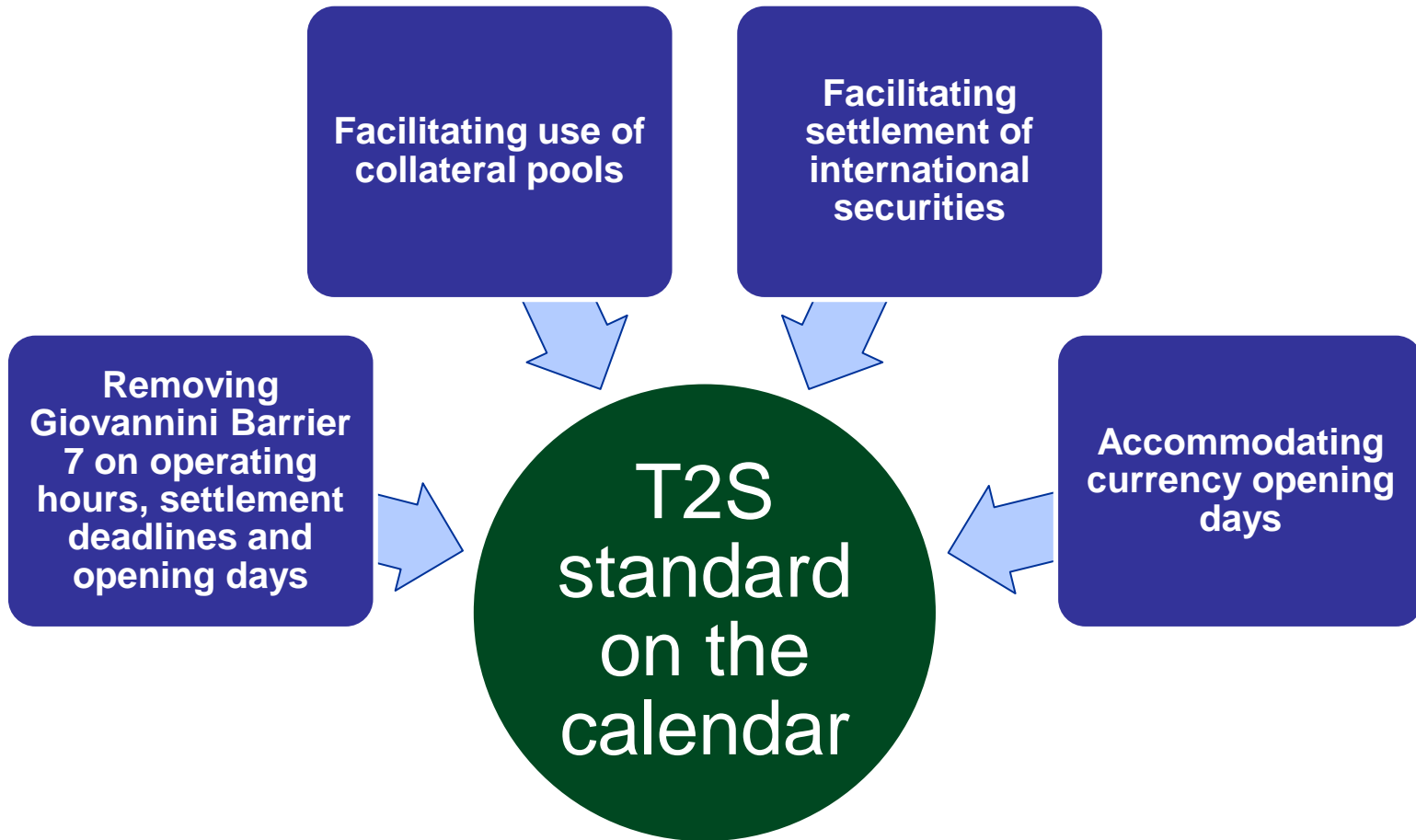


T2S markets on T2 closing days

*AMI-SeCo/AMI-Pay Joint meeting, agenda item 3
06 December 2017, Frankfurt*

AMI-SeCo Harmonisation Steering Group





- The T2S harmonisation mid-year update following the T2S Migration Wave 4 highlighted that eleven out of the eighteen already migrated CSDs were closed on three T2S opening days when T2 is closed, namely Good Friday, Easter Monday and 1 May. In the meantime, 2 CSDs have announced that as of 2018 they will fully align with the T2S calendar.
- The operational model of CSDs closing on these days is against:
 - the T2S standard that establishes that T2S markets have to comply fully with the T2S calendar in order to achieve the original objectives.
 - the stipulations on the T2S scope defining documents (T2S Principle No 16) provided that no settlement services (not even realignment) are offered by CSDs during T2S opening days.



FOP daily average total volumes vs. FOP volumes on T2 closing days

Period	% of FOP Daily average
April 2017 (daily average)	100%
Good Friday	6.6%
Easter Monday	3.9%
1 May (Kroner business day in T2S as of 2018)	13.0%

Info source: T2S daily reports.

Option 1 – Maintaining the standard and not adapting the calendars

- In line with the original objectives agreed by the T2S AG.

Option 2 - Maintaining the standard but adapting the RTGS or T2S calendar

- **Alternative A – closing T2S on Good Friday, Easter Monday and 1 May:** the deviating T2 closing days (Good Friday, Easter Monday and 1 May) would become T2S closing days as well, with possible implications on the Danish Kroner opening days calendar (1 May is a Kroner business day).
- **Alternative B – closing T2S on Good Friday and Easter Monday but remaining open on 1 May:** Good Friday and Easter Monday would become T2S closing days, as closing days of all T2S settlement currencies.
- **Alternative C – opening T2 on the three days:** the deviating T2 closing days (Good Friday, Easter Monday and 1 May) would become T2 opening days with the implied wide ramifications on global financial markets beyond T2S.

Option 3 – Changing the standard

- Accommodates the operational model of those CSDs wishing to stay closed on T2 closing days via a clarification of the standard t.b.d. (e.g. requirement to open only on RTGS opening days)
- “À-la-carte approach” not in the spirit of the original objectives agreed by the T2S AG.

*See annex for more info on the envisaged consequences, pros and cons for each of the options

Summary of the discussion in the HSG

- The HSG noted that the potential primary source of demand for FOP transactions on these three days may be the mobilisation of collateral at a global level and asked the HSG Collateral Management Harmonisation Task Force (CMH-TF) to carry-out a survey on the demand.
- The findings of the survey did not provide evidence of a strong current demand.
- **Option 2-a** (closing T2S on the 3 days) is not preferable, as 1 May is a currency day for Danish Kroner (a T2S settlement currency as of end 2018)
- **Option 3** (“À-la-carte approach”) is proposed to be discarded, as it is not in the spirit of pan-European harmonisation and would imply having different calendars among T2S markets.
- **Hence, the HSG proposes to consider only options 1, 2-b and 2-c with the following considerations....**

HSG preferable options to address the issue

HSG preferable options	T2S standard on the calendar key objectives checklist			Summary of HSG considerations
	Contributes to removal of Giovannini barrier 7	Facilitates cross-border settlement during currency closing days	Accommodates currency opening days	
(1) Maintaining the standard	Yes	Yes	Yes	Will likely preserve non-compliance at a number of CSDs
(2-b) Maintaining the standard but closing T2S on Good Friday and Easter Monday	Yes	No, as T2S would be closed	Less flexible in case of new currencies (as there would be less T2S opening days)	Could be considered practical solution over the short term but bears the risk of not being robust over the longer term (“going backwards”)
(2-c) Maintaining the standard but opening T2 on Good Friday, Easter Monday and 1 May	Yes	Yes, as all T2S opening days would become T2S settlement currency days	Yes	Eurosystem and market costs / benefits and wider ramifications would have to be carefully assessed

- Each of the options has specific benefits and drawbacks and merits its own assessment.
- ***AMI-SeCo/AMI-Pay members are invited to take note of the analysis and discuss the pros and cons of the options with a view to identify the AMI-SeCo / AMI-Pay preferable option to tackle the issue.***

T2S harmonisation standard

T2S STANDARD: T2S markets should be fully compliant with the T2S schedule for the settlement day and calendar, available on the T2S website.

In order to ensure consistency when monitoring implementation across T2S markets, it should be clarified that the status “full compliance” with the T2S schedule and calendar is achieved if the following conditions are met by the T2S market/CSD in question.

The T2S market/CSD operational model should ensure that:

- 1. the CSDs’ securities accounts in T2S are available for bookings (credits, debits, realignment, etc.) until the FOP cut-off and NCBs’ dedicated cash accounts in T2S are available for bookings until the last cash sweep of the relevant currency;*
- 2. settlement efficiency in T2S is not affected – for example, the T2S market/CSD will participate in the start-of-day processes and in the timely processing of corporate actions in a systematic manner;*
- 3. all other T2S daytime (operating hours) and cut-off times are respected (delivery-versus-payment (DvP) cut-off, etc.);*
- 4. CSDs provide directly connected parties (DCPs) with authorisation for connecting to T2S (where required and subject to the relevant T2S technical requirements).*



Consequences	<ul style="list-style-type: none"> • Adaptations and clarifications in the T2S harmonisation standard and in the T2S scope defining documents are not required. • Currently, nine non-compliant markets remaining with a red status with a potential increase after migration to T2S of the Final Wave CSDs.
Pros	<ul style="list-style-type: none"> • Domestic and Cross-border settlement in Danish Kroner is not restricted on 1 May. • Supports the principle of global liquidity and collateral pools for CSD participants acting in European and global markets. • Ensures that Eurobonds and other international securities can easily be settled in T2S (from a calendar perspective).
Cons	<ul style="list-style-type: none"> • Risk of a high number of T2S markets non-complying with the standard in the absence of a strong business or harmonisation justification; i.e. the T2 harmonisation standard could be challenged. • Operational cost, if non-compliant markets extend the number of opening days of the CSD on RTGS closing days, in case they want to be fully compliant with the standard.

Annex - Envisaged consequences, pros and cons of option 2 – Maintaining the standard but adapting the calendars (i)

<p>Consequences</p>	<p><i>All Alternatives</i></p>	<ul style="list-style-type: none"> • A blue status (i.e. full compliant) with the T2S standard on the calendar can be proposed for non-compliant T2S markets provided that the criteria is fully met. • No change to the T2S standard is required. • Changes to the T2S scope defining documents and potentially other T2S legal and operational documents (e.g. T2S FA, T2S MOP) are required. • Adaptation of RTGS or T2S calendars is required.
<p>Pros</p>	<p><i>Alt. A & B</i></p>	<ul style="list-style-type: none"> • Reduced operational cost, as the number of T2S opening days is decreased.
	<p><i>Alternative B</i></p>	<ul style="list-style-type: none"> • As T2S remains open on 1 May which is a Kroner business day, it avoids potential revision of the Kroner business days calendar. • Supported by the volumetric assessment, as the highest settlement volumes were observed on 1 May compared to the volumes in Easter. This volumetric impact might further increase once Danish Kroner will be settled on the T2S platform in 2018.
	<p><i>Alternative C</i></p>	<ul style="list-style-type: none"> • Increased service availability of T2 and euro T2S DvP.

Annex - Envisaged consequences, pros and cons of option 2 – Maintaining the standard but adapting the calendars (ii)

Cons	<i>All Alternatives</i>	<ul style="list-style-type: none"> • Implementation complexity, as any change in the calendars (T2S or RTGS) would need to go through the respective governance approval process.
	<i>Alt. A & B</i>	<ul style="list-style-type: none"> • If the number of opening days of T2S is decreased, cross-border settlement would not be possible on those days with implications (i) on global liquidity and collateral pools for CSD participants acting in European and global markets and (ii) on the availability of Eurobonds and other international securities settlement. • The T2S calendar might need to be revised to accommodate opening days of new currencies in the future (as per T2S URD).
	<i>Alternative A</i>	<ul style="list-style-type: none"> • 1 May is a kroner business day and T2S (as per the T2S URD) has to accommodate the opening days of the T2S settlement currencies (thus 1 May would need to become a kroner closing day and therefore the agreement of the relevant stakeholders in the Danish market is a pre-requisite for implementing the alternative).
	<i>Alternative C</i>	<ul style="list-style-type: none"> • Opening T2 on three additional days would have ramifications well beyond the T2S community and securities settlement and would raise the need to involve a wide range of stakeholders active in global financial markets • Higher operational cost in case the number of T2 days is increased.



Annex - Envisaged consequences, pros and cons of option 3 – Changing the standard

Consequences	<ul style="list-style-type: none"> • Adaptation and clarification in the T2S harmonisation standard. • Adaptation and clarification in the T2S scope defining documents. • A blue status (i.e. full compliant) with the T2S standard on the calendar is proposed for non-compliant T2S markets (provided that the criteria is fully met).
Pros	<ul style="list-style-type: none"> • Removal of Giovannini barrier 7 is not compromised providing the required flexibility to T2S markets based on CSDs business needs. • Straight forward and less costly to implement
Cons	<ul style="list-style-type: none"> • It is not a pan-European solution, as some CSDs may choose to open and others not, generating misalignments in the opening days across T2S markets. • Cross-border settlement of FOP transactions might be restricted during Good Friday, Easter Monday and 1 May (e.g. in open CSDs with direct or relayed links with closed CSDs) with implications on collateral and international business settlement. • Cross-border settlement in Danish Kroner might be restricted on 1 May (e.g. in open CSDs with direct or relayed links with closed CSDs). • Challenge to find the right balance in the rewording of the T2S standard and compliance criteria in order to accommodate the required flexibility with no room for interpretation and avoiding collateral effects. • Such “à-la-carte” approach does not appear to be in line with the overall philosophy of the T2S harmonisation agenda to create a single, harmonised and integrated market. • Risk that other CSDs decide to opt for this solution, which could lead to an even greater number of T2S markets closed on the three days

harmonisation

