

Market consultation feedback on T2S user requirements and annexes

Feedback on T2S User Requirements and Annexes

submitted by

HELLENIC EXCHANGES S.A.

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|-----|-----------------------|---------|---------|-------------------------------|--|---|---------------------|-------|
| 1 | Chapter 1 | 7 | 20 | Principle 17 | We consider that the participation of the CSDs in T2S and the respective proposed services that will be offered by T2S as stipulated by the URD should not limit the right of the CSDs to adopt the "settlement model" of their choice in accordance with their domestic laws and regulations. Principle 17 should not be interpreted as limiting this right. In this respect, the meaning of the phrase "in addition to these harmonized rules, CSDs may maintain additional domestic rules, provided that such rules do not conflict with those of T2S" should be further examined. | | N | HELEX |
| 2 | Chapter 3 | 4 | | SOD | Although we understand that timing and deadlines are only indicative at this stage we would like to stress out that the SOD period should be extended so as to provide more time to CSDs (esp. from direct holding systems) to prepare for the 1st night-time Settlement Cycle especially where corporate actions are involved. Corporate actions settlement instructions should be able to be submitted during subsequent night-time cycles. | | N | HELEX |
| 3 | Chapter 3 | 5 | | EOD- Fails Management | | Present the Common Window (Option 2) for fails management provided in the EOD period in the settlement timetable figure. | N | HELEX |
| 4 | Chapter 3 | 13 - 14 | 15 - 22 | Fails Management | Option 2 provides for harmonization of practices among participating CSDs and should be preferred over option 1. Practices form markets where minimum number of fail settlements occur should be followed. | Option 2 - Common Window should be adopted for fails management within the T2S deadlines | N | HELEX |
| 5 | Chapter 3 | 16 - 17 | | Calendar | Nature of Obstacle: Legal, Political and Social. Entities Responsible: Greek State, Regulators (Hellenic Capital Markets Commission, Bank of Greece), Hellenic Banking Association, Association of Greek Institutional Investors, Association of Athens Exchange Members, Union of Listed Companies, Hellenic Exchanges S.A., Athens Exchange S.A. Current Situation: [NOTE: The SSS operated by HELEX SA is an interfaced system undertaking securities settlement with the cash settlement leg effected through CENTRAL BANK MONEY operated by the Bank of Greece Payment System (Target). Therefore, compliance to this standard depends on the Bank of Greece opening days.] In Greece the holidays and vacations are defined by Law and by Custom, within the framework provided by the Constitution. | In Greece the holidays and vacations are defined by Law and by Custom, within the framework provided by the Constitution. (a) In order to comply to the TARGET holidays. Law 3336/2005, article 11 was enacted. According to this provision, the Hellenic Banking System as well as ATHEX and HELEX, complies only as far as the holidays arising from the TARGET calendar that result from the guidelines of the ECB are concerned, even for days considered as business days according to the Greek official national calendar. In effect, TARGET holidays are given a "special holiday status" through that law during which operation of all SSSs (and companies with related activities) does not take place but such days are considered as working days for employees of all SSSs (and companies with related activities). This means that systems remain open while markets (trading systems of ATHEX etc) remain closed. There is no overall benefit for the Greek market from that adherence (negative business case during such days). ADHERENCE TODAY (b) Requiring the opening of the Securities Settlement System on a TARGET day of the Hellenic Republic, needs Law amendment following agreement between all parties involved. (This however, is not expected to be an easy task as it may be argued to be incompatible to the Constitution, the Law and the national customs and could be prejudicial to the workers' long vested rights in the Financial Services Industry. Consequently any attempt of the Legislator for changing this could create important clashes within the Greek Society <u>without demonstrating tangible business benefits</u>) NO ADHERENCE TODAY - Discussion needs to be initiated at a high level. We understand that it is an important issue and we see that the only possible solution could be to establish a MINIMUM Number of Services that need to be provided during such days. All parties should be involved. | N | HELEX |
| 6 | Chapter 5 | 24 | 3 | Tolerance amount for matching | No tolerance amounts for instructions pertaining to stock exchange trades. If the CSDs send the instructions on behalf of their clients, the CSDs, using the same mechanisms they are using now can control the issue before it reaches T2S. The problem however arises for users that are sending their instructions directly to T2S (direct connectivity). | | N | HELEX |

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| 7 | Chapter 6 | 6 | 8 | Multiple dedicated T2S Cash accounts | <p>HELEX recommends that it should be a RIGHT for the CSDs to REQUIRE from each user to assign one T2S dedicated cash account (or sub-account) to that CSD so that the CSD can monitor both</p> <p>(a) the level of cash requirements per user (see comments on cash forecasts below), and</p> <p>(b) the extent to which these requirements will be fulfilled.</p> <p>We strongly believe that the use of a single account transfers the problem of "effective liquidity management" from the side and responsibility of the user to the part of T2S and <u>legally the CSDs, as it introduces</u> the "first come-first served" problem during daylight settlement. As it introduces a parameter of randomness in the settlement process (during the daylight processing) it eventually increases the exposure of the market coverage mechanisms (eg guarantee funds that cover settlement risk) and creates <u>uneven</u> playing field between CSDs for funding lines and bridging loans. In that respect, it is simply transferring the problem from users to CSDs rather than solving it.</p> <p>Although the counter argument of introducing CCP may be used, the cost of a CCP for market for post-trading in smaller markets (it may transfer part of the settlement cost as clearing cost).</p> | <p>As a compromise, we would welcome a solution that would <u>explicitly</u> allow,</p> <ul style="list-style-type: none"> - a User to establish a T2S Cash Account level to have dedicated liquidity per CSD - a User to give proxy of attorney to the relevant CSD for that a/c - a User to be able to allocate cash through his Settlement Agent on a real-time basis to that a/c. <p><u>We also strongly support</u> the possibility to have for a T2S dedicated cash a/c, different alternative sources of liquidity from different a/cs with different set limits</p> | N | HELEX |
| 8 | Chapter 6 | 6 | 13 | Different T2S cash accounts for trading and corporate action related settlement | <p>Corporate action settlements in the Hellenic market are initiated by the CSD and will be transmitted to T2S as already matched instructions.</p> <p>The possibility of giving choice to participants to use different T2S account for the posting of the proceedings of a corporate action required additional information to be handled by the CSD while preparing the corporate action, the storage of which in the CSD databases increases the amount of information handled by the CSD outside T2S and makes even more difficult the CSD database decommissioning</p> | | N | HELEX |
| 9 | Chapter 16 | 6 | 6 | 16.1.2.3 Securities A/C data | <p>It should be noted that in the cases of direct holding CSDs the Securities A/C may refer to an investor and not to a participant and this should be reflected in the text for reasons of completeness and accuracy.</p> <p>It should also be noted that in HELEX case, the opening and maintenance of the securities account for investors is a responsibility of the CSD participant which have a contractual relationship with their client. Therefore HELEX will not be able to maintain the end-investor account directly, but will act based on the instructions and on behalf of the participant.</p> | | N | HELEX |
| 10 | Chapter 16 | 32 | 2 | 16.8.3 Securities Account Reference Data | <p>For direct holding CSDs a Securities Account may belong to either a participant or to an end-investor. For reasons of monitoring, it is necessary to clearly distinguish which securities accounts belong to participants and which belong to end-investors. Therefore, Securities Account reference data should contain an additional reference item to identify the type of the account holder</p> | <p>Securities Account reference data should contain an additional reference item to identify the Type of the Account Holder (e.g. investor, participant, issuer, etc)</p> | N | HELEX |
| 11 | Chapter 16 | | | CSD technical account to be used in multilateral settlement with lean T2S | <p>Missing reference and description (reference data) of the CSD's technical account which is reference in Annex 14 and will be used in multilateral settlement with lean T2S. It is essential to specifically describe technical accounts (for both the CSD and its participants) either as a separate entity or, if this is not possible, Securities Account reference data should contain an additional reference item to identify the type of the account.</p> | <p>Securities Account reference data should contain an additional reference item to identify the Type of the Account (e.g. securities account, CSD technical account, participant technical account, etc)</p> | N | HELEX |
| 12 | Annex 6 | 17 -20 | | Mapping example for HELEX | <p>From the mapping suggestion provided there seems to be a misunderstanding of the account structure used in the Hellenic market.</p> | <p>For drafting suggestions please refer to accompanying documentation <i>HELEX's direct holding structure.doc</i></p> | N | HELEX |
| 13 | Annex 14 | 20 | 16 | | <p>Note that for the Hellenic market, the use of of direct holding structures for settlement and registration is obligatory by law, and participants do not have the choice to use indirect accounts (i.e. in nominee level)</p> | | N | HELEX |

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| 14 | Annex 17 | 4, 5 | | Settlement of multilateral instructions | The use of Technical Accounts in T2S, <u>provided that</u> the finality of settlement regarding ownership occurs at the end-client account level kept with the CSD (according to local legislation), does not necessitate the use of multilateral instructions. This will reduce the cost of T2S, as NO such Specific Functionality is required. | | N | HELEX |
| 15 | Annex 17 | | 8 | Opening/Closing and maintaining static data of accounts directly by users | Apart from the proposed solution, with which we agree, it is also possible that the direct holding system may NOT transfer its end-client accounts to T2S (if the business case is negative due to fees and other cost related issues). In that case, the Technical Accounts to be used at User level are managed by the CSDs. | A legal draft is needed for that case, which will clearly indicate that Settlement Order Finality would occur at the Technical Account with T2S and that transfer of ownership and applicable law would be determined by the CSD's regime (if for example we have end-client a/cs to be kept at the CSD). | N | HELEX |