OUTCOME OF CASG TELCO ON 13 FEBRUARY 2015

Managed from ECB premises in Frankfurt

1.   Approval of 2015 CASG gap analysis

The CASG approved in principle the draft 2015 CASG gap analysis which is to be sent to the HSG for its meeting on 24-25 February.

Action points:

- **T2S CASG members can submit any editorial comments they may have on the draft 2015 CASG gap analysis by cob 16 February**

- **T2S Secretariat to send the draft gap analysis for discussion/approval to the HSG**

2.   Discussion on German and Finish plans for compliance with T2S CA standards

1)   The CASG reviewed the German plan of compliance with T2S CA Standards. In particular, the following elements were discussed:

a) The German market has presented a proposal of a functional model to resolve the tax issues it has to comply with the requirements of the standards with regards to cash payments.

The main elements of this functional model are:

- Making the cash payments related to market claims and transformations on T2S DCAs;

- Making the cash payments related to market claims and transformations on a gross basis (i.e. separately for each transaction);

- Pooling together with the market claims the tax-related payment instructions (PFODs) with the necessary amount based on the tax status of the counterparty. This means that settlement of the market claims instruction will not be possible without the settlement of the related tax

PFOD;

- For German domiciled entities, the payment of tax will not be linked with the settlement of the market claim.

The CASG considered this model and agreed that it is in line with the T2S CA standards. It also agreed to publish it on the T2S CASG webpage for reference to other markets which are facing similar problems.

b) In addition, it was clarified that CAJWG is to provide clarifications to the German market with regards to management of fractions as soon as possible. This will allow the German market to assess how it can comply with the T2S CA standards with regards to fractions.

c) It was discussed that the German market currently does not have a firm plan in place to comply with the following two standards even after its migration to T2S:

- Market claims standard 7 (with regards to taking into account the "Cum" indicator for management of market claims). The German market does not plan to recognise the impact of the "CUM" indicator in detecting the scenarios in which market claims will be raised. On this the CASG agreed that the frequency of this non-compliance will be very rare and the severity of impact is considered rather negligible. In any case, the German market is in discussions with the Ministry of Finance to agree on the implementation of this standard in Germany.

- Market claims 19 (detecting and generating MCs on pending transaction). The German market plans to continue to detect market claims on all matched instructions but they will only send these for settlement after the settlement of the underlying transactions. This process will be reassessed after the implementation of a 'record date' within the German market. As a result of this implementation, ex date will fall before the record date, therefore the amount of market claims raised will significantly reduce. Clearstream will then assess the statistics along with how many trades are cancelled after record date, with a view to putting in place an implementation plan to adhere to the standards in full, whereby market claims are raised independently to the settlement of the underlying transaction. Sending of market claims only once the underlying transaction has settled will lead to some delay of sending market claims to T2S, and lead to inconsistencies in a cross-CSD environment. The CAJWG recently confirmed that once a trade is matched it becomes irrevocable, therefore in rare cases where a trade was later bilaterally cancelled, the onus would not be on Clearstream to reverse a market claim. This is because only the bilateral counterparties know the reasons for the cancellation therefore the onus is on them to rectify any anomaly within the process.

2) In addition, the CASG also reviewed the Euroclear Finland proposed model for market claims processing. It took note that in many respects it is similar to the German model to be able to comply with the tax obligations with regards to payments on CAs – in particular, pooling together for settlement i) the gross payments related to market claims and ii) the respective tax-related PFOD on a transaction-by-transaction basis. The only exception is that Euroclear Finland will

generate PFODs with regards to tax but only using one gross amount for all market claims (and not different rates depending on entities).

The CASG considered that this approach is also in line with the relevant T2S CA standards.

Action Points

- **The CASG Secretariat to incorporate the feedback provided by the CASG on the German plan for cash payments related to CAs in the updated impact analysis of non-compliance of the AG**

- **The T2S Secretariat to publish on the webpage of the CASG the plans of the German and the Finish markets**

3.   Open issues of the CASG

Under this item, the CASG discussed on the topic of change requests submitted by it to the CRG, or on which its opinion was asked. Karen Birkel, the chairperson of the CRG, provided the background information with regards to the status of the change requests and there was brief discussion on them:

- **T2S-0471-SYS (Deferred processing of maturity/expiry date update in T2S)**
  The CRG recommended to approve the Change Request. Wave 1 CSDs will check whether they need the CR for the go-live and then the implementation of the Change Request should be discussed afterwards. In any case, the wave 1 CSDs are aware that they have to use the workaround in case it is not implemented for wave 1.
  The CASG members were generally fine with this, provided that the CSDs make use of the workaround.

- **T2S-0495-SYS (Add the parameter type value TRAN to the message subscription parameter type Transaction Code)**
  The CRG put the Change Request on hold. One DCP member claimed that CR 495 is a showstopper as workarounds were either too expensive or not STP. The CRG agreed to check with the DCP-G in next two weeks, whether the CR is a showstopper for go-live. It was acknowledged that the message subscription parameters are currently not optimal and a change would be needed, though it could perhaps be seen as medium term CR. The CRG will hold a written procedure with CRG and DCP-G on this topic.
  The CASG members, which are DCPs, are insisting that this is indeed a showstopper for them, even though it is not the optimal solution to the problem they are facing. The other types of entities were also requested to provide their feedback on this.

- **T2S-0496-SYS (Add "Corporate Action Event Identifier" in sese.024)**
  The CRG put the Change Request on hold. The CRG agreed to check with the DCP-G in next two weeks, whether the CR 496 is potentially an alternative to CR 495. Urgency of CR 496 was unclear.
  The CASG agreed to further discuss the other elements of this change request (related to the references to be used to the underlying transactions in the case of market claims and

transformations), based on the work of the dedicated small drafting group, and submit the revised CR as soon as possible to the CRG.

- **T2S 0497 SYS - No check on minimum settlement unit when settling Corporate Action instructions**

  The aim of the change request is to skip the check related to the minimum settlement unit in case of Corporate Actions-related instructions, so that the settlement quantity of Corporate Actions-related instructions can be equal, greater or lower than the minimum settlement unit of the security specified in the instruction. The Change Request is raised by the VP Securities to facilitate the specific case of the securities issued under the "limited prospectus"-waiver in Art. 3, section 2 in the EU Prospectus Directive, which allows for exemption of full prospectus requirements for public offers with a minimum trading amount of 100.000 EUR. The CRG understood from a CRG member, VP Securities , who raised the Change Request, that the Change Request is a must for them to offer these securities to their investor CSDs via a T2S link as an investor CSD will not be able to handle all C.A. for these securities and also, the Change Request will be required by the investor CSDs who hold these securities with the VP Securities. The CRG also discussed the work around which requires that before handling C.A. the ISIN must be blocked, static data (minimum settlement unit) must be changed intraday, C.A. transactions can then be send to T2S for processing while the ISIN must remain blocked. After the issuer CSD has received settlement confirmation for C.A. settlement instructions the static date for the ISIN must be changed back to the original value intraday and the ISIN can be unblocked. The CRG acknowledged that the workaround may not work for the investor CSDs as well as need additional procedures during the migration weekend.

  Some CASG members argued that in case markets comply with the CA standards on fractions, this issue will not arise. More information was requested on this topic from the CASG members, in particular with regards to the existence of the business case in other markets.

Action Points

- **the CASG members are invited to provide their opinion on the above change requests to the CASG Secretariat no later than 20 February**

- **the CASG is to formulate and provide its opinion on the CRs submitted by it, or on which its opinion is asked, possibly by organising a dedicated telco, to the next CRG meeting on 12 March**

4. ANY OTHER BUSINESS

4.1 Any other item proposed by CASG members

Nothing else was brought up by the CASG members.

Action Points   •   **No**

4.2 Next steps

Next physical meeting is tentatively scheduled for 15 April 2015 10:30-16:30 in Frankfurt
Action Points   • **CASG members to provide feedback if the date does not work for them**   • **CASG secretariat to confirm the physical meeting latest immediately after the T2S AG meeting in March**