



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input checked="" type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Eurosystem	Institute: ECB	Date raised: 08/09/2022
Request title: Introduce party type Ancillary System in T2S		Request No.: T2S 0793 URD
Request type: Common	Classification: Scope enhancement	Urgency: Normal
1. Legal/business importance parameter¹: High		2. Market implementation efforts parameter²: Low
3. Operational/Technical risk parameter³: Medium		4. Financial impact parameter⁴: Very High
Requestor Category: Central Bank		Status: Proposed for a release

Reason for change and expected benefits/business motivation:

In T2 and TIPS, a central bank, as system entity, can be the parent of two types of parties: payment banks and ancillary systems. By contrast, in T2S, a central bank can be the parent of only one type of entity: payment banks⁵. As a result, some market actors such as central counterparties, which operate as ancillary systems in T2 or TIPS, operate as payment banks in T2S.

Since a given party can only have one party type, such market actors must be modelled as two different parties, with two different party BICs – as ancillary system in T2 or TIPS and as payment bank in T2S (their “real” party type “ancillary system” is currently not foreseen in T2S). This is problematic if the actor operating with two parties is a counterparty to the Eurosystem’s monetary policy operations (MPEC), for several reasons:

- It forces the institution to have two different party BICs, without a business reason.
- It creates a risk⁶ that the need for automated marginal lending (AML) is overestimated, because the AML calculation is performed by T2 based on the cash balances of a single party. Any remaining balances on the T2S DCAs of the T2S (payment bank) party of an MPEC would be ignored in the AML calculation.
- This technical constraint makes it impossible for the MPEC to comply with the rule defined by the Market Infrastructure Board, according to which MPECs must be modelled as a single party across TARGET Services. This rule is due to enter into force in 2024.
- It also implies that the predefined reports and query responses retrieved by central banks at party level may not give a meaningful picture from business perspective. Central banks must instead keep in mind that some institutions are modelled as several parties.
- It also requires manual corrections in T2 invoices, in order to avoid overcharges to a single legal entity for the only reason of the technical constraint obliging the configuration of the entity as two parties.

These issues can be avoided by making the Party type “Ancillary system” available in T2S⁷.

As an outcome of a T2-WG written procedure, two Central Banks have reported that they have a legal entity being a Monetary policy eligible counterparty (MPEC) eligible for Marginal Lending and modelled as two separate parties (Payment Bank and Ancillary System) in CRDM. In both cases the Payment Bank configured party is the eligible

¹ Legal/business importance parameter was set to High because without this CR, an Ancillary system must be configured as a different party in T2S than in other TARGET Services, which contradicts an MIB rule and creates a risk that the need for automated marginal lending is overestimated.

² Market implementation effort parameter was set to Low because only a limited number of actors (ancillary systems which are monetary policy eligible counterparties) are expected to make use of this CR

³ Operational/technical risk parameter was set to Medium because of the complexity of introducing a new party type in an existing set of data and functionalities (e.g. numerous business rules reference the Party type)

⁴ Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

⁵ Business rule DCC1555 prevents the creation of a T2S DCA for a Party which is not a payment bank.

⁶ T2 risk ID CSLD-DR-037Automated Marginal Lending (AML) is not correct in case of liquidity under multiple parties

⁷ The abovementioned issues would however remain, in a multi-party scenario *not* related to the unavailability of the Party type “Ancillary system” in T2S.

party for Marginal Lending.

Description of requested change:

The following changes are requested:

- It should be possible to open a T2S Dedicated Cash Account under a Party set up in CRDM with Party type "Ancillary system". Therefore, the new Party type "Ancillary system" will only be held only under a NCB data scope.
- It should not be possible to change a party type from "Payment Bank" to "Ancillary system", since this would lead to the legal entity still being configured as two separate parties in CRDM, instead the responsible Central Bank need to open a T2S DCA for the Ancillary System⁸.
- It should not be possible to change a party type from "Ancillary system" to "Payment Bank".
- With regards to T2S functionalities, the same functionalities available to a party with party type "Payment bank" must also be available to a party with party type "Ancillary System", including for instance:
 - o Case 1 and case 2 restriction type rules will automatically be extended to cover party type "ancillary system".
 - o Ancillary systems will be enabled for client collateralization.
 - o Privileges relevant for Payment banks will be also relevant for Ancillary Systems.
- Statistical reports should be extended for Ancillary system.
- Party types Payment Bank and Ancillary Systems are different and separated like already happens in T2.

With this new party type in T2S, then it will be possible for the T2S DCA of an Ancillary System to be included in the AML calculation.

A distinction should be made between Ancillary System and Payment Bank party types in the T2S statistical classification. This could be translated into an additional column in the T2S statistical classification to distinguish between cash transactions stemming from Payment Banks and those stemming from Ancillary Systems, along the lines of the column INIT_TYPE available in the table T_S_CASHTRF_CLASS of the T2 statistical classification. The mapping rules that were developed to implement T2S-733-SYS 'Definition of a classification of transactions for CB T2S data' should be revised to assess whether any changes are needed due to the introduction of T2S-0793-URD.

In addition, the corresponding documentation updates must be made.

Since the scope of this CR was changed after the preliminary assessment was provided, below there you will find answers to the questions provided in the PA:

- o We are assuming that party type ANSY in T2S should be treated in the same way as it currently happens for PMBK. For this reason, we need to apply the same validations that are currently in place for PMBK to ANSY. (e.g. the obligation to put the collateralisation Procedure to "Repo" and to specify the address when creating a new party). In general, we ask if there are any inconsistencies with this approach.
 - Answer: Correct. There are no inconsistencies with this approach.
- o Regarding DMT, it is worth noting that there are specifications for T2S, that currently does not include the ANSY party type, and for T2 and TIPS, that already consider the party type ANSY, but need to be updated for new validations (e.g. the validation on the auto-collateralisation rule).
 - Answer: Specification for T2S should be updated to include ANSY party type.
- o It is not explicitly mentioned. However, we assume that all Liquidity Transfer rules for Payment banks should work accordingly, e.g., that Internal Liquidity Transfers are possible between T2S Dedicated Cash Accounts belonging to the same payment bank.
 - Answer: Correct, they should be possible.
- o Could we consider as a working assumption that a T2S DCA belonging to an Ancillary System will be always linked to a Transit RTGS Account?
 - Answer: Correct.
- o Which type(s) of Liquidity Transfer Orders will it be possible to set up on these DCA?

⁸ From an operational point of view, the responsible NCB needs to consider consolidating existing parties in the case where multiple parties exist for one MPEC legal entity, i.e. merging multiple parties for one legal entity into one party where appropriate.

- Answer: Same as PMBK.
- Would these DCA be eligible to the EoD Cash sweep?
 - Answer: Yes, they should.
- It is stated that the Ancillary systems will be enabled for client collateralization. 4CB assumes that the NCB collateralization is not allowed for the Ancillary Systems. Would the primary CMB be configured in a specific way in CRDM?
 - Answer: Ancillary system should be treated equally than Payment Banks in regards of autocollateralization functionality.
- Should the Ancillary System accounts be considered in the EOD General Ledger?
 - Answer: Yes, they should.
- Could Ancillary Systems open DCA in DKK?
 - Answer: Yes, they should be allowed.

Submitted annexes / related documents:

MIB Policy Note on One-party model for MPECs, presented to the T2S CRG on 6 July 2022

Outcome/Decisions:

*CRG on 31 January 2023: the CRG agreed to launch the preliminary assessment of CR-0793.

*CRG on 19 March 2024: the CRG agreed to launch the second preliminary assessment of CR-0793.

*CRG on 18 July 2024: the CRG agreed to recommend CR-0793 for authorisation by the T2S Steering Level.

*AMI-SeCo on 30 July 2024: the AMI-SeCo agreed with the CRG recommendation of CR-0793 for T2S Steering Level Authorisation.

*CSG on 30 July 2024: the CSG agreed to authorise CR-0793.

*NECSG on 30 July 2024: the NECSG agreed to authorise CR-0793.

*MIB on 31 July 2024: the MIB agreed to authorise CR-0793.

*PMG on 28 August 2024: the PMG agreed to launch the detailed assessment of CR-0793 with a view of scoping in Release 2025.NOV. The PMG also agreed that the detailed assessment of CR-0793 should include the auto-collateralisation functionalities that will be available for the new T2S Party type 'Ancillary System'.

Documentation to be updated:

T2S URD:

Section 2.1.6 T2S actors,

Correction to 2.1.6.5 Payment Bank,

New section 2.1.6.6 Ancillary System

Annex glossary: definition of ancillary system to be added, definition of T2S Actor to be complemented

General statement that references to "Payment bank" should be read as "Payment bank or ancillary system"

Section 3.1.1 Update references to ancillary system procedures

Preliminary assessment:

- **Financial Impact:** High
- **Impacted modules:** CRDM, DWH, LCMM, LQMG, SETT
- **Impact on other Eurosystem Services or Projects:** No impact on TIPS or ECMS; the Change request has impact on T2, a corresponding T2 CR is required.
- **Risk analysis:** No risk on the performance has been identified during the preliminary assessment
- **Findings:**
 - The impacted functionalities are:
 - Cash Account create and delete
 - Party Create/Update
 - User Create/Update/Delete
 - Limit Create/Update/Delete
 - CMB Create/Update/Delete
 - Liquidity Transfer Order Link Set Create/Update/Delete
 - Auto-collateralisation Eligibility Link Create/Delete

- Close Link Create/Delete
 - Security Valuation Create
 - A2A messages reda.024.001.01 (CollateralValueCreationRequestV01), reda.025.001.01 (EligibleSecuritiesCreationRequestV01) and reda.075 (EligibleSecuritiesDeletionRequestV01)
 - DMT file format specification for Party object
- Updates in SDD (UDFS, UHB) necessary
 - add Ancillary System to the list of possible values for party type, where applicable
 - Add information to UHB that AS users can run the same predefined reports as PB users
 - All processes available for Payment banks will be foreseen for ancillary systems. This includes updates of Business Rules and UDFS.
 - Alignments to the Ancillary Systems as regards each functionality applicable to the Payment Banks. Any reference to "Payment Bank" must be enriched with the wording "and/or Ancillary System" if needed, according to the functional case.
 - Process updates to take into consideration the new party type related to ancillary systems. The impact will depend on the implementation in CRDM.
 - According to the CR, all functionalities currently available and used in the Settlement domain for Payment banks should be also extended for Ancillary Systems,

As a non-exhaustive list of possible examples, a T2S DCA owned by an Ancillary System can be:

 - Used for settlement purpose of any type of settlement transaction (DVP, PFOD, DWP, Settlement Restriction on cash, Liquidity Transfer),
 - Linked to a non-primary CMBs for Auto-collateralisation (Client Auto-collateralisation only) purposes,
 - Subject to CoSD rules, cash Rebalancing and Intraday Restrictions,
 - Available from T2S GUI (screens) as well as any other T2S DCA,
 - ...etc.
 - Configuration of a new specific Static Data considering the new Party Type (Ancillary Systems),
 - Test of existing functionalities involving T2S DCA owned by Payment Banks (extended to the Ancillary Systems)
- **Open issues:**
 - We are assuming that party type ANSY in T2S should be treated in the same way as it currently happens for PMBK. For this reason, we need to apply the same validations that are currently in place for PMBK to ANSY. (e.g. the obligation to put the collateralisation Procedure to "Repo" and to specify the address when creating a new party). In general, we ask if there are any inconsistencies with this approach.
 - Regarding DMT, it is worth noting that there specifications for T2S, that currently does not include the ANSY party type, and for T2 and TIPS, that already consider the party type ANSY, but need to be updated for new validations (e.g. the validation on the auto-collateralisation rule).
 - It is not explicitly mentioned. However, we assume that all Liquidity Transfer rules for Payment banks should work accordingly, e.g., that Internal Liquidity Transfers are possible between T2S Dedicated Cash Accounts belonging to the same payment bank.
 - Could we consider as a working assumption that a T2S DCA belonging to an Ancillary System will be always linked to a Transit RTGS Account?
 - Which type(s) of Liquidity Transfer Orders will it be possible to set up on these DCA?
 - Would these DCA be eligible to the EoD Cash sweep?
 - It is stated that the Ancillary systems will be enabled for client collateralization. 4CB assumes that the NCB collateralization is not allowed for the Ancillary Systems. Would the primary CMB be configured in a specific way in CRDM?
 - Should the Ancillary System accounts be considered in the EOD General Ledger?
 - Could Ancillary Systems open DCA in DKK?

Second Preliminary assessment:

- **Financial Impact:** Very High
- **Impacted modules:** CRDM, DMT, DWH, INTF A2A/U2A, LCMM, LQMG, SETT, QUM
- **Impact on other Eurosystem Services or Projects:** No impact on TIPS or ECMS; There are a few CRDM functionalities impacted by this CR that are also relevant for T2 (Cash Account, Party, User, Limit). For this reason, at least non-regression tests on these common functionalities must be arranged on T2

side. **Risk analysis:** No risk on the performance has been identified during the preliminary assessment

- **Findings:**
 - The impacted functionalities are:
 - Cash Account create and delete
 - Party Create/Update
 - User Create/Update/Delete
 - Limit Create/Update/Delete
 - CMB Create/Update/Delete
 - Liquidity Transfer Order Link Set Create/Update/Delete
 - Auto-collateralisation Eligibility Link Create/Delete
 - Close Link Create/Delete
 - Security Valuation Create
 - Updates to all related CRDM screens are necessary
 - A2A messages reda.024.001.01 (CollateralValueCreationRequestV01), reda.025.001.01 (EligibleSecuritiesCreationRequestV01) and reda.075 (EligibleSecuritiesDeletionRequestV01)
 - DMT file format specification for Party object
 - LCMM processes and specifications need to be updated to take into consideration the new party type related to ancillary systems.
 - SETT processes and specifications need to be updated to take into consideration the new party type related to ancillary systems:
 - The mapping rules that were developed to implement T2S-733-SYS 'Definition of a classification of transactions for CB T2S data' should be revised to assess whether any changes are needed due to the introduction of T2S-0793-URD in view of the request to introduce a distinction between Ancillary System and Payment Bank party types in the T2S statistical classification.
 - Adapt INTF-A2A message flows logic to handle "ANSY" parties similarly to Payment Bank parties.
 - Adapt INTF-U2A logic and validations in screens and REST Services to take into account new "ANSY", similar to the behaviour of Payment Bank parties.
 - Adaptations in DWH (predefined reports, filters, AE interface, etc.) and DWH specifications to consider the new party type "ANSY".
 - Extensive non-regression tests for all impacted modules
- **Open issues:**
 - none

Detailed assessment:
