Target2 - T2S Consolidation Framework

EuroCCP Information and Q&A

Priority - Normal
Impact - For Your Information
Contact – Change and Business Management
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1. Introduction

This Document is to inform clients on the impact of the T2/T2S Consolidation has on EuroCCP and its' clients, being a living document that is updated on a regular basis. Any updates will be visible through the track changes in the document.

The current RTGS payment system of the EuroSystem of Central Banks / Target2, will be functionally restructured to optimise liquidity management within the TARGET services and technically consolidated with the securities settlement platform T2S. The ECB and industry reached this decision in order to comply with changes in the payment landscape, technical opportunities and challenges in cost structure.

The aim of the T2/T2S Consolidation by the ECB is to provide:
- Improved efficiency
- Optimised liquidity management
- Easier access to services via a harmonised interface
- Enhancement of RTGS services
- Aligned use of messaging standards
- Reduced operational costs

2. Main changes

2.1. Summary

The main impacts that this consolidation has on EuroCCP and its clients are:

- Target2 (current payment system) will be replaced with a new Real Time Gross Settlement system called T2
- T2 and T2S (securities) will be consolidated in terms of technical and functional aspects into a new combined platform.
- A harmonised gateway named ESMIG, (Euro System Single Market Infrastructure Gateway), will make it easier for participants to access and use the ECB services from a single-entry point.
- All Target2 communication will migrate from ISO15022 to the new ISO20022 format with a big bang approach, resulting in all Direct Debit / Credit payment instructions used by EuroCCP and its clients transitioning into the new format on the same date. EuroCCP client’s and / or its’ cash correspondent banks will need to test in order to be ready to process the new format by the November 21, 2022 go live.
2.2. Timelines and Important dates / related projects

- ESMIG connectivity for T2S successfully went live during the weekend of July 2, 2022
- A mandatory big bang migration for all Target2 payments from ISO15022 (MT) to ISO20022 (MX) format is scheduled for November 21, 2022
- Euroclear Finland will migrate to T2S on September 11, 2023
- Sweden’s Riksbank migration of SEK to target Instant payment Settlement will be in Q1 2023
- Danmark’s Nationalbank migration of DKK to TIPS in 2024/2025
- Norwegian’s Norges Bank migration of NOK to TIPS to be decided.

3. Impact of SWIFT message changes

3.1. T2 Payments

As the ISO format will change from MT to MX format, this will impact all payments from EuroCCP including clients and/or their cash correspondence banks and other infrastructures where cash is paid or received with EuroCCP. All payment instructions covering strange nets, corporate actions, funding, billing invoices and Collateral need to be analysed, checked / updated and tested where applicable. In addition, the clients need to be able to receive and process these messages completing a successful test with EuroCCP through their cash correspondent banks.

As part of this consolidation, EuroCCP will mandate a payment model with Direct Debit and Direct Credit payments to Clearing Participants and / or the Clearing Participant’s Cash Correspondent Banks. If cash settlement details require updating, Clients are required to complete the relevant Direct Debit / Direct Credit authorisation forms and to contact the EuroCCP Relationship Management / Change & Business Management teams.

3.2. Testing

EuroCCP mandates testing with all clients, including successful attestation of test results by email from the Clearing Participant. Clients will not be required to complete new forms (Direct Debit authorisation forms) as a result of this change, unless a change of cash bank or clients have different field preference to the set up described in this document. As Direct Debits will be mandated, testing is required with all client cash correspondent banks to ensure successful processing.

Clients can start bilateral end to end testing upon request in EuroCCP’s test environment with immediate effect. Mandatory ‘penny tests’ will be performed in production to ensure current direct debits and credits remain active and valid. Tests in UAT Test environment are planned for September until November 2022.

If you have specific fields that you would like to test, please contact EuroCCP’s Change and Business Management team at: cbm@euroccp.com.
3.3. EuroCCP’s ordering institutions -> Debtor / Instructing Agent BIC

Similar to the current way of processing, EuroCCP continues to instruct via several ordering institutions (field 52A of ISO15022) to direct debit or direct credit for its different types of payments. The new ISO 20022 fields will be Debtor BIC (field 50A) and Instructing Agent BIC (field 44A):

- **EMCFNL2AXXX**: Regular payments for EuroCCP fees, corporate actions, settlements, CSDR fees
- **EMCFNL2ACOL**: Payments related to Margin Requirement
- **EMCFNL2AIOF**: Payments related to Interoperability Fund
- **EMCFNL2ACLFL**: Payments related to Clearing Fund
- **EMCFNL2ASEA**: Payments related to Settlement Exposure Add-on
- **EMCFNL2ASPR**: Payments related to Settlement Prefunding Requirement
- **EMCFNL2AQED**: Payments related to Equity Derivatives Payments
- **EMCFNL2AUEUR**: Target2 identification only (new Payee Party BIC in the T2 environment)

3.4. ISO20022 Format Direct Credit messages

All Direct Credit T2 payments from EuroCCP to clients and/or their cash correspondent banks/infrastructures will be impacted and included in the mandatory testing offered by EuroCCP, moving from SWIFT MT202 to Pacs.009.

The following fields are required for processing the ISO20022 direct credit messages by EuroCCP to T2:

- Debtor BIC
- Debtor Agent BIC
- Instructing Agent BIC
- Instructed Agent BIC
- Creditor Agent BIC
- Creditor BIC

IBAN details will be added where necessary and if a client’s direct credit requires additional information, this will be added to the respective SWIFT message. See below example messages, highlighting the mandatory fields EuroCCP has identified as required within the ISO20022 format messages.

EuroCCP will be setting-up all direct credit T2 payment instructions in the UTEST environment, whereby daily payments will be generated. Clients will be requested to validate whether these daily payments can be reconciled.

**Example of (old) ISO15022 – MT202:**

<table>
<thead>
<tr>
<th>Field Name</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Reference Number</td>
<td>20: EM/XXX/NNNNNNNNNN</td>
</tr>
<tr>
<td>Related Reference</td>
<td>21: &lt;EuroCCP’s standard reference per payment type&gt;</td>
</tr>
<tr>
<td>Date, Ccy, Amount</td>
<td>32A: 06/22/2022 0.00</td>
</tr>
<tr>
<td>Ordering Institution</td>
<td>52A: EMCFNL2AXXX</td>
</tr>
<tr>
<td>Account With Institution</td>
<td>57A: &lt;CORRESPONDENT BANK BIC-CODE&gt;</td>
</tr>
<tr>
<td>Beneficiary Institution</td>
<td>58A: /NL34BANK0XXXXXXXX</td>
</tr>
<tr>
<td>&lt;CLIENT OF CORRESPONDENT BANK BIC-CODE&gt;</td>
<td></td>
</tr>
<tr>
<td>Sender to Receiver Information</td>
<td>72: &lt;optional&gt;</td>
</tr>
</tbody>
</table>
Example of (new) ISO20022 – pacs.009:

Instruction Identification 20 1 : EM/XXX/NNNNNNNNNN
End to End Identification 20 2 : <EuroCCP’s standard reference per payment type>
Settlement Priority 23 5 : NORM
Debtor BIC 50 A: EMCFNL2AXXX
Debtor Agent BIC 52 A: EMCFNL2AXXX (or any of the other EuroCCP BIC-codes)
Instructing Agent BIC 44 A: EMCFNL2AXXX (or any of the other EuroCCP BIC-codes)
Instructed Agent BIC 45 A : <CORRESPONDENT BANK BIC-CODE>
Interm Acc 1 IBAN 61 1 <optional>
Interm Agent 1 BIC 61 A <optional>
Creditor Agent Account IBAN 57 1 <optional>
Creditor Agent BIC 57 A: <CORRESPONDENT BANK BIC-CODE>
Creditor Account IBAN 58 1 NL34BANK0XXXXXXX
Creditor BIC 58 A: <CLIENT OF CORRESPONDENT BANK BIC-CODE>
Instruction for Creditor Agent Code 72 1 : <optional>
Instruction for Creditor Agent Info 72 2 : <optional>

XML format - pacs.009:

```xml
<InstrId> 20 1 : EM/XXX/NNNNNNNNNN
<EndToEndId> 20 2 : <EuroCCP’s standard reference per payment type>
<SttlmPrtty> 23 5 : NORM
<Dbtr><BICFI> 50 A: EMCFNL2AXXX (or any of the other EuroCCP BIC-codes)
<DbtrAgt><BICFI> 52 A: EMCFNL2AXXX (or any of the other EuroCCP BIC-codes)
<InstgAgt><BICFI> 44 A: EMCFNL2AXXX
<InstdAgt><BICFI> 45 A : <CORRESPONDENT BANK BIC-CODE>
<IntrmyAgt1Acct><IBAN> 61 1 <optional>
<IntrmyAgt1><BICFI> 61 A <optional>
<CdtrAgtAcct><IBAN> 57 1 <optional>
<CdtrAgt><BICFI> 57 A: <CORRESPONDENT BANK BIC-CODE>
<CdtrAcct><IBAN> 58 1 NL34BANK0XXXXXXX
<Cdtr><BICFI> 58 A: <CLIENT OF CORRESPONDENT BANK BIC-CODE>
<InstrForCdtrAgt><Cd> 72 1 : <optional>
<InstrForCdtrAgt><InstrInf> 72 2 : <optional>
```

3.5. Direct Debit mandates and messages

a. All Direct Debit payments via MT 202 directly from EuroCCP to clients and/ or their cash correspondent banks will not change.

b. The current Target 2 Direct Debit mandates, as submitted in the registration form by the Target2 Payment Bank to its National Bank, allows EuroCCP to instruct via SWIFT MT204.

The T2 Registration Form – version 1.2.6 - will have to be resubmitted by the T2 Payment Bank to its National Bank with a new Party ID for EuroCCP, allowing EuroCCP to send Pacs.010 messages:
EuroCCP’s BIC EMCNL2AXXX remains the same, however EuroCCP’s Party ID for Direct Debit mandates will change from EMCFNL2AXXX to EMCFNL2AEUR (see below screenshot of section G of the Direct Debit mandate)

<table>
<thead>
<tr>
<th>TARGET SERVICES FORM - Version 1.2.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>G) Direct Debit Mandate</td>
</tr>
<tr>
<td>Payee Parent BIC</td>
</tr>
<tr>
<td>Payee Party BIC</td>
</tr>
<tr>
<td>From Cash Account Number</td>
</tr>
</tbody>
</table>

EuroCCP requests all T2 Payment Banks to submit the new Registration Form for both UTEST and Production to their respective National Bank, followed by confirmation to EuroCCP with the date of submission. This allows EuroCCP to test in UTEST the Direct Debit messages via Pacs.010 and the T2 Payment Banks to reconcile the incoming payments.

In case further information is required around the Registration form submission or templates, please contact: cbm@euroccp.com.

Example of (new) ISO20022 – pac0.010:

Instruction Identification 20 1 : EM/XXX/NNNNNNNNNN
End to End Identification 20 2 : <EuroCCP’s standard reference per payment type>
Payment Info Instruction Priority 23 3 : NORM
Interbank Settlement Amount 32 A : 09/07/2022 EUR 3.39
Creditor BIC 50 A EMCFNL2ACOL (or any other EuroCCP BIC)
Instructing Agent BIC 44 A : EMCFNL2ACOL (or any other EuroCCP BIC)
Instructed Agent BIC 45 A : <CORRESPONDENT BANK BIC-CODE>
Debtor BIC 58 A <CLIENT OF CORRESPONDENT BANK BIC-CODE>

XML format - pac0.010:

<InstrId> 20 1 : EM/XXX/NNNNNNNNNN
<EndToEndId> 20 2 : <EuroCCP’s standard reference per payment type>
<PmtTpInf><InstrPrty> 23 3 : NORM
<IntrBkSttlmAmt> 32 A : 09/07/2022 EUR 3.39
<Cdtr><BICFI> 50 A EMCFNL2ACOL (or any other EuroCCP BIC)
<InstgAgt><BICFI> 44 A : EMCFNL2ACOL (or any other EuroCCP BIC)
<InstdAgt><BICFI> 45 A : <CORRESPONDENT BANK BIC-CODE>
<Dbtr><BICFI> 58 A <CLIENT OF CORRESPONDENT BANK BIC-CODE>
4. Questions and Answers

What impact does the new system have?
TARGET2 and T2S will be replaced by one harmonised system, named ESMIG. Direct participants that currently use the T2 GUI’s will be redirected from T2S applications to the new portal. As a consequence DCP’s have to adapt their connectivity means and contact their Network Provider. In addition, Euroclear CSD’s will provide to their DCP’s a new set of Privileges via a Role for their U2A Users. This applies to all separate CSD’s. Participants are encouraged to prepare themselves for any impact this may have on them with their Network providers.

Will there be a difference in opening hours?
The ESMIG system will have the below opening hours with no impact expected to EuroCCP’s cash payment timings:

<table>
<thead>
<tr>
<th></th>
<th>CLM</th>
<th>RTGS</th>
<th>CRDM/DWH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change of business day</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start of Day procedures</td>
<td>18:45-19:00</td>
<td>18:45-19:30</td>
<td>18:45-19:00</td>
</tr>
<tr>
<td>Availability for users</td>
<td>19:00-00:30</td>
<td>19:30-00:30</td>
<td>19:00-00:30</td>
</tr>
<tr>
<td>(no LTOs allowed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 19:00-19:30)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance window</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>00:30-02:30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability for users</td>
<td>02:30-18:00</td>
<td>03:00-18:00</td>
<td>02:30-18:00</td>
</tr>
<tr>
<td>(only for maintenance of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>warehoused payments)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cut-off for Customer</td>
<td>NA</td>
<td>17:00</td>
<td>NA</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cut-off for Interbank</td>
<td>18:00</td>
<td>18:00</td>
<td>NA</td>
</tr>
<tr>
<td>Payments / CB Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of Day procedures</td>
<td>18:00-18:45</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Are there additional costs involved?
No additional costs are known at this time and will be communicated if announced.

Will there be changes in reporting?
EuroCCP does not expect any change in reporting.

Will there be a change to the regulations?
EuroCCP does not expect any changes to its regulations or rulebook. If this changes, EuroCCP will inform their clients timely in accordance with our consultation timelines.