

Default Management in T2S

1 Default Management Process in T2S

The default management process in T2S has been implemented to mitigate the potential risks that might be posed to T2S and/or to participating Central Securities Depositories (CSD) and National Central Banks (NCB) arising from the occurrence of the following scenarios:

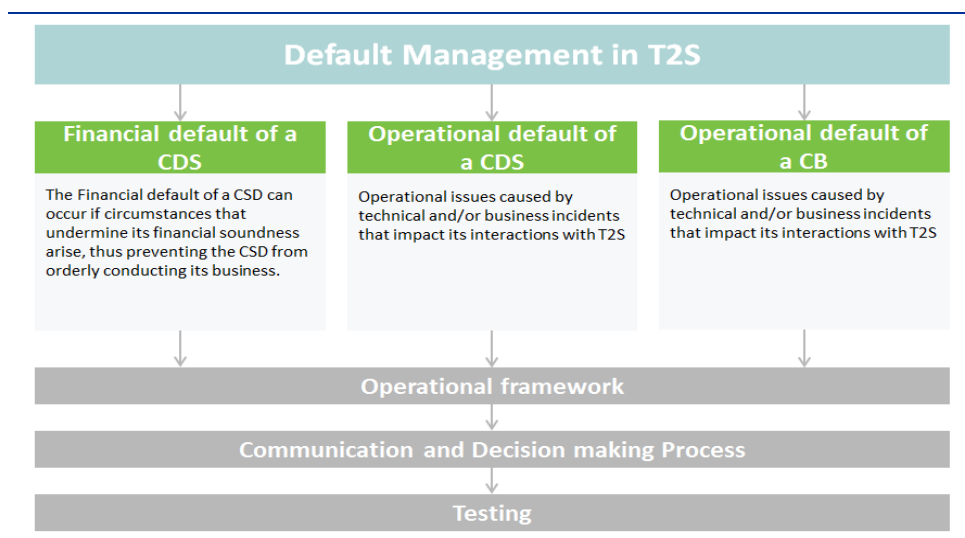
1. The operational or financial default of a participating CSD; and
2. The operational default of a participating NCB.

The aim is to manage the default in a prudent and orderly manner limiting the impact on either T2S operations or on the non-defaulting CSDs and NCBs by facilitating communication among T2S stakeholders.

In line with article 1 of the Framework Agreement (FA) and of the Currency Participation Agreement (CPA), the described process applies only to the Eurosystem as T2S Operator and to CSDs and NCBs participating to T2S. Participating CSDs and NCBs are exclusively responsible for their business and contractual relations with their customers, including Directly Connected Parties (DCPs).

2 Overview of T2S Management Process

The default management process that has been implemented in T2S can be summarized as follows:



2.1 Default

The following two default scenarios can occur and require to be managed in T2S.

2.1.1 Financial Default of a CSD

The Financial default of a CSD can occur if circumstances arise that undermine its financial soundness, thus preventing the CSD from orderly conducting its business. Should the Financial default lead to the winding down of the CSD this will be managed and executed in line with the appropriate plan, defined by the CSD and communicated to the competent authority, in order to limit the systemic risk deriving from this event.

2.1.2 Operational Default of a CSD or NCB

The operational default of a CSD or NCB is caused by technical and/or business incidents that impact normal interaction and communication of a CSD or NCB with T2S. This would prevent the defaulted CSD or NCB from meeting its obligations and could have a spill-over effect also on other CSDs and/or NCBs participating to T2S due to the links and interdependencies among them.

2.2 Consequences of Default in T2S

The consequences of the default of a CSD or a NCB are managed in T2S in line with the provisions defined in the T2S Framework Agreement and the T2S Currency Participation Agreement and accordingly operationalized in the T2S Manual of Operational Procedures (T2S MOP).

2.2.1 Financial Default

The default management process in T2S starts when the communication of financial default of a CSD is passed on to the Eurosystem as T2S Operator. The declaration of the financial default of a CSD does not trigger any operational actions on the side of the Eurosystem as it does not have any impact on the T2S operations per se. T2S settlement service will continue to be provided in line with the agreed service levels. Upon information by the impacted CSD and/or its competent authority, Incident and Crisis Management processes may be initiated in T2S if deemed necessary to inform and assess the implications of the default. The scope of measures to be implemented in T2S by the T2S Operator in relation to the defaulted CSD are decided and communicated by the corresponding competent authority. Such measures shall be applied by the Eurosystem as T2S Operator and in cooperation with the competent authority and in line with the T2S MOP.

2.2.2 Operational Default

The default management process in T2S starts when the communication of operational default of a CSD or NCB is passed on to the Eurosystem in line with the T2S MOP. This triggers Incident and/or Crisis Management processes in T2S in order to i) evaluate if possible and how to support the impacted CSD or NCB in processing its business in T2S, ii) collectively assess the impact on T2S operations. Any decision made by the T2S Settlement or Crisis Managers and the scope of measures implemented by the Eurosystem as T2S Operator shall be applied in line with the T2S MOP.

2.3 Operational Framework

The operational framework of the Default Management process in T2S is maintained within the T2S Governance by the Operations Managers Group (OMG) that regularly reviews it in line with the Regulations. It is approved by the CSDs Steering Group (CSG)/Non-euro CSDs Steering Group (NECSG) and T2S Market Infrastructure Board (MIB).

2.4 Communication and Decision making Process

Settlement and Crisis Managers of all the participating CSDs and NCBs are informed about the default. The aim is to jointly decide on a communication to be released to the market if deemed necessary, as well as on any necessary measures to be implemented to preserve the stability of T2S and continue normal operations.

2.5 Testing

Default management testing is an integral part of T2S Default management process. For the purpose of continuous improvement, the default management process is tested annually, involving all the participating CSDs and NCBs. The results of any relevant test and any significant change to the T2S MOP are reported to the CSG/NECSG and to the MIB. Should a test highlight any weaknesses in the T2S MOP, appropriate actions will be taken to remove such weaknesses.