

General Information (Origin of Request)		
<input checked="" type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Clearstream	Institute: CSD	Date raised: 31/07/2012
Request title: Pre-defined orders for end-of-day FOP account transfers		Request ref. no: T2S 0350 URD
Request type: Common	Urgency: Normal	
1. Legal/business importance parameter: High	2. Market implementation efforts parameter: Low	
3. Operational/Technical risk parameter: Low	4. Financial impact parameter:	
Requestor Category: CSD	Status: Withdrawn by initiator	

Reason for change and expected benefits/business motivation:

While T2S foresees some end-of-day (EOD) clean-up activities on the dedicated cash accounts (e.g. cash sweep to the RTGS accounts), it does not foresee similar processes on the securities accounts. Here the end of the processing window for the free-of-payment (FOP) instructions implies the end of all FOP settlement activities in T2S, and it is not possible to sweep any securities account after the "official" settlement process has ended, e.g. to transfer the positions to another securities account.

However, current CSD services require such EOD clean-up activities, e.g.

- In Clearstream, a sweep is required in the context of TEFRA D processing or for automated mark-up / mark down services in the context of issuance processing.
- In Euroclear, ESES CSDs need to re-balance securities positions from 'earmarked for auto-collat' to 'non earmarked for auto-collat'. This stems from local regulations which forbid custodians to keep such earmarked positions overnight when securities belong to third parties.
- In Iberclear, the need for an account sweep is driven by the Spanish market reform which requires that all holdings on individual accounts belonging to the financial intermediary need to be swiped to the own account of that financial intermediary at EOD.
- In VP SECURITIES, account sweeps are required in the interim solution that will apply from migration 12.09.16 until the final solution will be in place (2018). Namely, in the interim solution all holdings on customer accounts are moved into an omnibus account held by VP before end of day. Additionally, it is expected that even with the final solution a demand for account sweeps will arise, i.e. that for some customer accounts it will be requested from account owners to move all holdings from a certain account into another account end of day.

The related bookings are today done on the CSD side for the current business day after the current business day has been closed for customers. Additionally those bookings must be reported in the EOD reports of the current business day. To support such activities also in a T2S world (in line with T2S principle 6) it is required to provide functionality to enable the continuation of these clean-up services.

The most straightforward approach to support such requirements would be the definition of Pre-defined Orders that are executed by T2S at the very end of the settlement processing, and after all other securities settlement activities for the current business day have been stopped.

It should be noted that no workaround has been found on the side of the CSDs apart from the anticipation of the cut-off for the accounts / securities involved in the trade, e.g. by assigning a case 2 blocking to the account / security 15 min prior to the 18:00 deadline, to avoid any further position changes and to have a sufficient time window to instruct all required transfers into T2S prior to the 18:00 cut off.

Description of requested change:

T2S must provide a functionality to submit to T2S Pre-defined Orders for EOD FOP transfers.

Technically, these Pre-defined Orders are realised in the form of FOP Settlement Instructions where the Instructing Party is a CSD and the Common Reference starts with a specific 4 digit code "SWEP".

If a Settlement Instruction was instructed by a CSD and the Common Reference starts with 4 digit code "SWEP", then it must be automatically released and, if the transaction is then eligible for settlement according to T2S rules, (partially) settled by T2S as part of the EOD processing, after a last settlement attempt was made for the "normal" FOP instructions.

Submitted annexes / related documents:

Proposed wording for the URD Change request:

- The following requirement should be added:

Special Delivery FOPs

Reference ID	T2S.03.xxx
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T2S shall allow CSDs to instruct “Special Delivery FOPs” that will be identifiable in the instruction via a specific code word. These instructions shall have the same processing as any other regular settlement instructions regarding validation, matching and settlement. However, if on the intended settlement date, these are still either on Party Hold and/or CSD Hold after the FOP cut-off, they will be automatically released and be attempted to a last (partial) settlement attempt. Only Intra-CSD “Special Delivery FOPs” shall be subject to this specific processing.

- The requirement T2S.03.165 (Partial settlement during daytime settlement) should be modified as follows:

Partial settlement during daytime settlement

Reference ID	T2S.03.165
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T2S shall activate partial settlement procedure

- at 14:00 CET, with deactivation at 14:15 CET
- at 15:45 (15 minutes before the DVP cut-off time), with deactivation at the closure of the same day T2S DVP settlement.
- immediately after the intraday FOP cut-off processing (planned at 18.00 CET), to perform at least one settlement attempt only for the eligible “special delivery FOPs” [i.e. Pre-defined Orders for EOD FOP transfers], with subsequent deactivation.

- The requirement T2S.03.190 (End-of-day period – cancellation and recycling) should be modified as follows:

End-of-day period – cancellation and recycling

Reference ID	T2S.03.190
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The “EOD” period shall cancel T2S transactions that have passed their last recycling day.

T2S shall also cancel any “special delivery FOPs” (and their corresponding counter-legs) which remain “unmatched” or “matched” or “unsettled” or “partially settled” after its last settlement attempt for the current settlement day, irrespective of the instructions set to “CSD Validation Hold” or “COSD Hold”.

- A new requirement T2S.03.285 (Processing of special delivery FOP transfers after the intraday FOP cut-off) should be included as follows:

Processing of special delivery FOP transfers after the intraday FOP cut-off

Reference ID	T2S.03.285
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After the intraday FOP cut-off processing, T2S shall automatically release any intra-CSD “special delivery FOPs” and its counter-legs which are eligible for the current settlement date and were set to “CSD Hold” and/or “Party Hold”. Subsequently, T2S shall perform at least one settlement attempt of all eligible “special delivery FOPs”, under the following conditions:

- At least one leg of the matched pair of instructions is a “special delivery FOP”¹

¹ In Settlement module, the receiving side is taken into account for picking instruction in case there are two different

- These instructions are not subject to cross-border settlement (i.e. cross-CSD and/or External CSD)

Otherwise, the standard eligibility rules shall apply, i.e. the “special delivery FOPs” shall conform to the same processing rules as “normal” FOP Instructions throughout the settlement day.

Further, T2S shall attempt to settle the eligible “special delivery FOPs” with its corresponding counter-legs immediately after the completion of intraday FOP cut-off processing (planned at 18.00 CET) and prior to the start of “end of day” period.

5. The requirement T2S.05.370 (Hold and release mechanism until settlement occurs) should be modified as follows:

Hold and release mechanism until settlement occurs

Reference ID	T2S.05.370
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A T2S actor may hold instructions until actual settlement occurs, and even beyond the intended settlement date. T2S shall consider all instructions on hold at the end of the intended settlement date as having failed and recycle them according to the T2S recycling rules for unmatched and matched instructions (see T2S.05.430 and T2S.05.460).

An exception is that T2S shall automatically release any “special delivery FOPs” and its counter-legs which are eligible for the current settlement date and were set to “CSD Hold” and/or “Party Hold” after the intraday FOP cut-off processing (refer to chapter 3, requirement T2S.03.285).

6. The requirement T2S.05.450 (Deadline for cancellation) should be modified as follows:

Deadline for cancellation

Reference ID	T2S.05.450
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T2S shall allow the cancellation of instructions until actual settlement occurs. In the event that settlement fails, T2S shall cancel instructions if there is a pending (bilateral) cancellation instruction before reforwarding the instruction for settlement.

Cancellation instructions shall stay in the system and await the cancellation instruction of the counterpart when bilateral cancellation is required. T2S shall cancel a cancellation instruction upon settlement of the underlying settlement instruction and inform its sender that the cancellation was not successful. T2S shall cancel a pending cancellation instruction upon systemic cancellation of its related “special delivery FOPs” and/or its counter-legs which could not be (fully) settled in the EOD processing of the current business day (requirement T2S.03.285).

7. The cancellation user requirements in Chapter 13 (Page 13) of URD should be modified as follows:

Cancellation User Requirements

Important: If the cancellation process fails in T2S, then the cancellation instruction goes through recycling until it is processed or rejected if the original instruction has already settled or was cancelled by system.

Proposed wording for the SYS Change request:

In the UDFS, a section has to be added that describes the functionality to define Pre-defined Orders for automated EOD account transfers. Preferably, a particular section “End of Day Securities Management” is added at the end of section <1.6.1 Settlement>

New UDFS section <1.6.1.14 End of Day Securities Management>

1.6.1.14.1 Concept

End of day (EOD) Securities Management is the process of releasing Pre-defined EOD FOP Transfer Orders.

ISO transaction codes.

submitting them to a (partial) settlement attempt, and cancelling all pending Pre-defined EOD FOP Transfer Orders which have not fully settled after the (partial) settlement attempt.

This process is executed as part of the real-time closure period for the current business day, after a last attempt was made to settle pending "normal" settlement instructions during the FOP cut-off procedure.

1.6.1.14.2 Overview

As part of the FOP cut-off procedure of the real-time closure period for the current business day, T2S makes sure that all Pre-defined EOD FOP Transfer Orders are executed. This is achieved by identifying them, submitting them to settlement and cancelling all remaining pending orders after a settlement attempt was made.

Definition of EOD FOP Transfer Orders

Pre-defined EOD FOP Transfer Orders are intra-CSD FOP Settlement Instructions which were instructed by a CSD and which have a Common Reference starting with code word "SWEP". With regards to other settlement instruction attributes, the Pre-defined EOD FOP Transfer Orders do not differ from "normal" FOP settlement instructions. In particular, the partial settlement flag can be set.

The "Pre-defined EOD FOP Transfer Order" flag will only be used to identify which FOP Settlement Instructions should be included into the EOD Securities Management Process. Otherwise, it does not impact any other settlement process. Thus Pre-defined FOP Transfer Orders will be subject to the same processing rules as "normal" FOP Instructions. In particular:

- Pre-defined FOP Transfer Orders might be matched to "normal" FOP settlement instructions as the Common Reference identifying them is an optional match flag.
- If a FOP instruction with the "Predefined Order" flag is eligible for settlement prior to the EOD Securities Management period (e.g. because it is fully released), then it settles according to the normal process.

1.6.1.14.3 EOD Securities Management Process

As part of the cut-off procedure of the real-time settlement closure period T2S triggers the settlement of Pre-defined EOD FOP Transfer Orders. This is achieved in three steps:

- All Pre-defined EOD FOP Transfer Orders are released
- For all released Pre-defined EOD FOP Transfer Orders, a (partial) settlement attempt is made.
- All Pre-defined EOD FOP Transfer Orders which are still pending after this settlement attempt (potentially the remaining part which could not be settled in the partial settlement process) will be automatically cancelled by T2S.

Releasing all Pre-defined EOD FOP Transfer Orders

In the release process, T2S will automatically release for all Pre-defined EOD FOP Transfer Orders the following two hold indicators

- Party Hold
- CSD Hold

CSD Validation Hold and CoSD Hold Indicators will not be changed. In case a Pre-defined EOD FOP Transfer Order is subject to these hold processes, it will not be eligible for the settlement attempt.

Settlement of Pre-defined EOD FOP Transfer Orders

After the Pre-defined EOD FOP Transfer Orders have been released by T2S, a settlement attempt will be made under the following conditions:

- At least one leg of the matched pair of instructions is a Pre-defined EOD Transfer Order
- The instructions are not subject to cross-border settlement.

Otherwise, the standard eligibility rules apply to Pre-defined FOP Transfer Orders, as for any other settlement instruction. In particular the instructions have to be matched and released.

In the settlement attempt, normal provisioning and booking rules apply. Partial settlement is possible, according to the partial settlement flags in the FOP instructions, and according to the partial settlement rules: In particular, if a transaction is eligible for partial settlement and the position on the account is not sufficient to cover the demand, then it will be settled partially.

Settlement results will be reported according to the normal process for FOP instructions.

Cancellation of pending Pre-defined EOD FOP Transfer Orders

After the settlement attempt was made, T2S will automatically cancel all pending Pre-defined EOD FOP Transfer Orders which have not fully settled, as well as their corresponding counter-legs. This includes also the EOD FOP Transfer Orders that were not matched. This will be reported as a system cancellation.

Furthermore, the section on the real-time settlement closure schedule must be updated to reflect the additional EOD Securities Management Processing

UDFS section <1.4.4.4.5 Real-time settlement closure schedule>

In diagram 44, the description of the block “execute FOP cut-off procedure” needs to be adjusted to reflect the fact that after the last settlement attempt for FOP settlement instructions the EOD Securities Management process will be executed:

At 6:00 p.m.: last settlement attempt for not settled FOP settlement instructions and mark any new incoming FOP settlement instruction, received after this cut-off, as a candidate for next settlement day. Furthermore, the EOD Securities Management Process will be executed.

UDFS section < 1.4.4.4.7 Real-time settlement closure processes>

The last row of table 91 must be updated to add the description of the EOD Securities Management process into the description of the “execute FOP cut-off procedure” row:

T2S PROCESSES	DESCRIPTION OF THE PROCESSES
Execute FOP cut-off procedure	<p>Cut-off to differentiate the eligibility of FOP Settlement Instructions (including CBO without cash leg) for settlement during the current settlement day:</p> <ul style="list-style-type: none"> • T2S does not attempt settlement for the intraday FOP Settlement Instructions received by T2S after this cut-off on the current settlement day, but recycle them for the next settlement day; • T2S ensures to do at least one settlement attempt for all the intraday FOP Settlement Instructions, received by T2S before the cut-off and eligible for the current settlement day. <p><u>After this is done, T2S will perform the EOD Securities Management Process:</u></p> <ul style="list-style-type: none"> • <u>T2S Releases all Pre-defined EOD FOP Transfer Orders</u> • <u>T2S ensures to do at least one settlement attempt for the released Pre-defined EOD FOP Transfer Orders, with immediate partial settlement for instructions which are flagged for partial settlement.</u> • <u>T2S cancels all pending Pre-defined EOD FOP Transfer orders</u> <p>In parallel, T2S performs the following:</p> <ul style="list-style-type: none"> • Settlement of securities Settlement Restrictions for which cut-off is not reached; • Execution of static data maintenance instructions; • Execution of Amendment Instructions, Cancellation Instructions and Hold/Release Instructions; • Generation of reports triggered by business or time events; <p>Responses to queries received via U2A or A2A.</p>

High level description of Impact:

Outcome/Decisions:

- * CRG meeting of 1-2 October 2012: The Change Request is discarded for release 1 and will potentially be considered for a future release of T2S.
- * CRG meeting of 8-9 February 2016: The CRG decided to put the Change Request on hold for Release 2.0.
- * CRG meeting of 24 May 2016: The CR initiator indicated that they withdraw the Change Request.