| General Information (Origin of Request) | | |
|---|---|---|
| ☒ User Requirements (URD) | | |
| ☐ Other User Functional or Technical Documentation (SYS) | | |
| **Request raised by:** Clearstream | **Institute:** CSD | **Date raised:** 10/11/2015 |
| **Request title:** T2S should allow CSDs to remove links in instructions under CoSD | | **Request ref. no:** T2S 0565 SYS |
| **Request type:** Common | **Urgency:** Fast-track | |
| **1. Legal/business importance parameter:** High | **2. Market implementation efforts parameter:** Low | |
| **3. Operational/Technical risk parameter:** Low | **4. Financial impact parameter:** Medium | |
| **Requestor Category:** CSD | **Status:** Authorised at Steering Level | |

**Reason for change and expected benefits/business motivation:**

The Conditional Securities Delivery (COSD) functionality in T2S allows connecting the T2S settlement process to additional activities being performed outside of T2S. Main usage is external CSD settlement and settlement in currencies not supported by T2S.

Via COSD Rules, T2S Actors can trigger that securities or cash is reserved on T2S, as basis to trigger the external activity. Once the external activity is concluded, the T2S Actors will release the COSD Hold on the instruction, so that the settlement in T2S can be concluded.

In this process, it is crucial that there are no other potential factors blocking the successful settlement after such a COSD release. This is of particular importance for External Settlement with an OUT-CSD. Namely, based on the COSD reservation, the instruction in the Out-CSD is released for settlement, and then the positions are debited from the omnibus account in the OUT-CSD. As next step, the positions must also be debited from the CSD Participants account where they have been reserved, to ensure consistency between the omnibus positions and the holdings of the CSD Participants. If this process is blocked, it leads to massive operational problems in the CSDs.

To avoid such problems, T2S already foresees a number of limitations for instructions subject to COSD. For example, it is not allowed to put them on hold, or to modify them. Moreover, cancellations must be instructed only by COSD Administering Parties or by the CSD.

There is a gap, however, with regards to the interaction of COSD and linkage. Namely, an instruction subject to COSD can still be linked with other instructions, and if such a linked instruction cannot settle, e.g. because of hold or lack of securities, then this would also block the settlement of the instruction for which the COSD release was applied.

T2S functionality for non-reciprocal links:

> This issue of linkages preventing the settlement of instructions under COSD was discussed in the Change Review Group meetings on 17/18 September 2015, and subsequently on 28 October 2015 and on 15 December 2015.

> It was clarified that existing T2S functionally already partially covers this situation. Namely, if a settlement instruction under COSD hold has a non-reciprocal link to another instruction/restriction T2S will report the following two existing business rules:

- SPST023: A settlement instruction cannot be sub-mitted to a settlement attempt if another instruction which is 'CoSD on Hold' states a link WITH or BEFORE this instruction.
- SPST024: A settlement restriction cannot be sub-mitted to a settlement attempt if another instruction which is 'CoSD on Hold' states a link WITH or BEFORE this instruction.

Actually two distinct cases of non-reciprocal links need to be addressed by this CR:

1. An instruction under CoSD states a link to another settlement instruction or restriction
   - o This is covered by the existing business rules above
   - o For this case, CSDs must be able to remove the linkages to ensure that instructions under CoSD are not prevented from settling. This is handled with the proposal below for Reciprocal links also to enable the CSDs to remove the linkage on an instruction subject to COSD.

2. A settlement instruction or restriction states a link to an instruction under CoSD Hold
   - o This is also covered by the existing business rules but these business rules do not accurately describe or depict this case
   - o As such, two new business rules should be created to trigger an eligibility failure for settlement

instructions and restrictions with non-reciprocal links to an instruction on CoSD Hold
  o   The new business rules will state that such a link will not prevent the settlement of the instruction on
      CoSD Hold

Requested change for reciprocal links:

For some CSDs, the potential scenario that linkage might block settlement of a COSD released settlement instruction for External CSD settlement should be avoided via an adjustment of T2S logic. Other CSDs use COSD mainly in the context of foreign currency settlement, and their focus in on a resolution of the issue in the foreign currency settlement process. On the other hand, the solution should not apply any general limitation to usage of COSD in other business contexts.

It is therefore suggested to tackle the issue in a generic way. Namely, by enabling the CSDs to remove the linkage on an instruction subject to COSD, i.e. to partially waive the related restriction that instructions under COSD might not be amended. In this way, CSDs can, if required due to their specific embodiment of a business process using COSD, actively remove linkage stated in instructions subject to COSD, and thus avoid that such linkage would block the settlement of a COSD instruction after the COSD release.

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**Description of requested change:**

Business rule MMIA009 should be updated in the following way along with the inclusion of two additional business rules SPST028 and SPST029 should be added to consider settlement instructions and restrictions with links to an instruction on CoSD Hold:

| MMIA009 | The CoSD Flag of a Settlement Instruction referenced by an Amendment Instruction must not be 'Yes', **except when the Instructing Party is a CSD and the Amendment Instruction aims to remove the linkage from a settlement instruction.** | sese.030 | sese.031 | \<Dnd\> | OTHR | Settlement Instruction referenced by an Amendment Instruction is in a CoSD Group. |
|---|---|---|---|---|---|---|
| SPST028 | A settlement Instruction cannot be submitted to a settlement attempt if it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold where this latter has no link to this instruction. Such a link will not prevent the settlement of the instruction on CoSD Hold. | n/a | sese.024 | \<Pdg\> | LINK | Settlement Instruction is unsettled because it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold without any links to this instruction. |
| SPST029 | A settlement restriction cannot be submitted to a settlement attempt if it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold where this latter has no link to this instruction. Such a link will not prevent the settlement of the instruction on CoSD Hold. | n/a | semt.014 | \<Pdg\> | LINK | Settlement Restriction is unsettled because it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold without any links to this instruction. |

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**Submitted annexes / related documents**

Document "Linkage must not prevent settlement of instructions subject to COSD" from CRG meeting of 17-18 September 2015:

http://www.ecb.europa.eu/paym/t2s/progress/pdf/tg/crg/crg52/06.COSD_linking.pdf

4CB presentation on the proposed solution, containing explanation of T2S functionality for non-reciprocal links on instructions subject to COSD:

http://www.ecb.europa.eu/paym/t2s/progress/pdf/tg/crg/crg58/04.cr-565_presentaion.pdf

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**Proposed wording for the SYS Change request:**

The following UDFS v2.1 section should be modified:

1.6.1.4 Instruction Amendment, page 322
To update the conditions for the denial of an amendment instruction.

T2S accepts and processes an Amendment Instruction sent by a T2S Actor when it successfully passes the Business Validation process (see section 1.6.1.1 "Business Validation"), unless any of the following conditions is fulfilled:

- The Settlement Status of the Referenced Settlement Instruction or Settlement Restriction is "Settled" or "Cancelled";

- The Referenced Settlement Instruction is identified as CoSD <u>and the Amendment Instruction does not aim to remove a linkage having the CSD as the Instructing Party</u> (See section 1.6.1.12 "Conditional Settlement");

- The referenced Settlement Instruction or Settlement Restriction is partially settled and the Amendment Instruction refers to a process indicator other than "Priority".

2.8 Send Amendment Instruction of a Settlement Instruction or of a Settlement Restriction on Securities Position, page 856
To update the conditions for the denial of an amendment instruction.

### 2.8.3.2 Referenced Instruction Status Check

T2S checks the status of the Referenced Instruction to identify if the Amendment Instruction can be executed. The result of this check can be:

- **[Referenced Instruction Status Check NOK]** If the Referenced Instruction fulfils any of the following conditions:

  - The Settlement Status of the Referenced Settlement Instruction or Settlement Restriction is "Settled";

  - The Settlement Status of the Referenced Settlement Instruction or Settlement Restriction is "Partially Settled" and the modification does not refer to "Priority";

  - The Cancellation Status of the Referenced Settlement Instruction or Settlement Restriction is "Cancelled";

  - The Referenced Settlement Instruction is identified as CoSD <u>and the Amendment Instruction does not aim to remove a linkage having the CSD as the Instructing Party.</u>

4.1 Index of Business Rules and Error Codes, page 1720

| BR Name | Description | Inbound Message | Reply Message | Code USE | Reason Code | Error Text |
|---------|-------------|-----------------|---------------|----------|-------------|------------|
| | | | | | | |

| MMIA009 | The CoSD Flag of a Settlement Instruction referenced by an Amendment Instruction must not be 'Yes', except when the Instructing Party is a CSD and the Amendment Instruction aims to remove the linkage from a settlement instruction. | sese.030 | sese.031 | <Dnd> | OTHR | Settlement Instruction referenced by an Amendment Instruction is in a CoSD Group. |
|---|---|---|---|---|---|---|
| SPST028 | A settlement Instruction cannot be submitted to a settlement attempt if it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold where this latter has no link to this instruction. Such a link will not prevent the settlement of the instruction on CoSD Hold. | n/a | sese.024 | <Pdg> | LINK | Settlement Instruction is unsettled because it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold without any links to this instruction. |
| SPST029 | A settlement restriction cannot be submitted to a settlement attempt if it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold where this latter has no link to this instruction. Such a link will not prevent the settlement of the instruction on CoSD Hold. | n/a | semt.014 | <Pdg> | LINK | Settlement Restriction is unsettled because it states a link WITH, BEFORE or AFTER an instruction that is under CoSD Hold without any links to this instruction. |

The following GFS v5.1 sections should be modified:

3.4.4 Instruction Maintenance, page 227
To update the conditions for the denial of an amendment instruction.

"Amendment Instructions to be Denied"

| Reference Id | LCMM.IMA.INA.2.1 |
|---|---|

This step denies the execution of an *Amendment Instruction* when one of the following business rules is fulfilled **{T2S.05.390}**:

| BUSINESS RULES | RESULTING AMENDMENT INSTRUCTION'S REASON CODE REFERENCE |
|---|---|
| The referenced *Settlement Instruction* is identified as CoSD <u>and the *Amendment Instruction* does not aim to remove a linkage having the CSD as the Instructing Party.</u> | "Referenced Settlement Instruction identified as CoSD" |

The following UHB v2.1 sections should be modified:

2.2.2.4 Amendment Securities Instruction – New Screen, page 108

| Submit | I MMIA006<br>I MMIA009<br>I MVCM952 |
|---|---|

6.4.2.9 Amendment Securities Instruction – New Screen, page 1914

| Reference for error message | Field or Button | Error Text | Description |
|---|---|---|---|
| MMIA009 | I Submit button | Settlement Instruction referenced by an Amendment Instruction is in a CoSD Group. | The CoSD Flag of a Settlement Instruction referenced by an Amendment Instruction must not be 'Yes', except when the Instructing Party is a CSD and the Amendment Instruction aims to remove the linkage from a settlement instruction. |

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**High level description of Impact:**

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**Outcome/Decisions:**

*CRG teleconference of 12 November 2015: CRG decided to put the Change Request on hold for future Releases.

*CRG meeting of 15 December 2015: The CRG decided to put the Change Request on hold and the CRG agreed to re-discussed the CR in the February 2016 CRG meeting.

* CRG meeting on 8-9 February 2016: The CRG identified the Change Request as a candidate for the Release 1.3. The CRG agreed to re-discuss the Change Request in the next CRG teleconference on 24 February 2016 when deciding on the list of Change Requests for Release 1.3.

* CRG teleconference of 24 February 2016: The CRG decided to put the Change Request on hold and include the Change Request as candidate for Release 1.3.

* CRG meeting of 10 March 2016: The CRG decided to put the Change Request on hold.

* CRG teleconference of 24 March 2016: The CRG recommended the Change Request for detailed assessment.

* Advisory Group on 06 April 2016: In a written procedure from 31 March 2016 to 06 April 2016, the Advisory Group was in favor of launching the detailed assessment on the Change Request.

* CSD Steering Group on 07 April 2016: In a written procedure from 31 March 2016 to 07 April 2016, the CSD Steering Group was in favor of launching the detailed assessment on the Change Request.

* OMG on 8 April 2016: During a written procedure from 31 March 2016 to 8 April 2016, the Operations Managers Group did not identify any operational impact.

* CRG meeting on 6/7 July 2016: The CRG recommended the approval of Change Request and its inclusion in the T2S Release 1.3, in principle subject to feasibility of delivery for Release 1.3.

* OMG on 6 July 2016: During a written procedure from 30 June 2016 to 06 July 2016, the Operations Managers Group did not identify any operational impact.

* OMG in a written procedure from 5 to 12 August 2016: The OMG was in favour of adding the Change Request to the T2S Release 1.3.

* Advisory Group on 18 August 2016: Following a written procedure from 12 to 18 August 2016, the AG was in favour of approving the Change Request.

* CSD Steering Group on 19 August 2016: Following a written procedure from 12 to 19 August 2016, the CSG adopted the resolution to approve the Change Request.

* Advisory Group on 20 September 2016: Following a written procedure from 14 to 20 September 2016, the AG was in favour of inclusion of Change Request in T2S Release 1.3.

* CSD Steering Group on 21 September 2016: During the CSG meeting on 21 September 2016, the CSG adopted the resolution to include the Change Request in T2S Release 1.3.

| EUROSYSTEN ANALYSIS – GENERAL INFORMATION | | | | |
|---|---|---|---|---|

| | **Static data management** | | **Interface** | |
|---|---|---|---|---|
| **Impact On T2S** | | Party data management | | Communication |
| | | Securities data management | | Outbound processing |
| | | T2S Dedicated Cash account data management | | Inbound processing |
| | | Securities account data management | | |
| | | Rules and parameters data management | | |
| | | | | |
| | **Settlement** | | **Liquidity management** | |
| | x | Standardisation and preparation to settlement | | Outbound Information Management |
| | | Night-time Settlement | | NCB Business Procedures |
| | | Daytime Recycling and optimisation | | Liquidity Operations |
| | | Daytime Validation, provisioning & booking | **LCMM** | |
| | | Auto-collateralisation | | Instructions validation |
| | | | | Status management |
| | **Operational services** | | | Instruction matching |
| | | Data Migration | x | Instructions maintenance |
| | | Scheduling | **Statistics, queries reports and archive** | |
| | | Billing | | Report management |
| | | Operational monitoring | | Query management |
| | | | | Statistical information |
| | | | | Legal archiving |
| | All modules (Infrastructure request) | | | |
| | No modules (infrastructure request) | | | |
| | Business operational activities | | | |
| | Technical operational activities | | | |

| Impact on major documentation | | |
|---|---|---|
| **Document** | **Chapter** | **Change** |
| Impacted GFS chapter | 3.4.4 Instruction Maintenance | Update the conditions for the denial of an amendment instruction. |
| Impacted UDFS chapter | 1.6.1.4 Instruction Amendment<br><br>2.8 Send Amendment Instruction of a Settlement Instruction or of a Settlement Restriction on Securities Position<br><br>4.1 Index of Business Rules and Error Codes | Update the conditions for the denial of an amendment instruction.<br><br><br>Addition of new BRs SPST028 and SPST029<br><br>Update the description of the BR which prevents the amendment of a Settlement Instruction in a CoSD group to allow the removal of the linkage if the instructing party is a CSD (MMIA009) |
| Additional deliveries for Message Specification | n/a | |
| UHB | **LCMM:**<br><br>2.2.2.4 Amendment Securities Instruction – New Screen<br><br>6.4.2.9 Amendment Securities Instruction – New Screen | · Addition of BR MMIA009 to the Submit Button of the Amendment Securities New screen<br><br>· Addition of BR MMIA009 to the list of references for error messages for the Amendment Securities New screen |

| External training materials | Instruction Maintenance Training: T2S_FA_WS 2_Part3_SETT_MTCH_MNTN_DIAPO; T2S_FA_WS 2_Part3_SETT_MTCH_MNTN_Webinar | Include the exception of the unlink for the CoSD | |
|---|---|---|---|
| Other documentations | | | |
| Links with other requests | | | |
| Links | Reference | | Title | |

| OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT |
|---|
| Summary of functional, development, infrastructure and migration impacts |
| The maintenance module currently prevents all changes on CoSD instructions. In order to cope with the CoSD finality and ensure settlement, the module needs to be changed to allow the unlink action of a CoSD Instruction when requested by the CSD (Instructing Party of the amendment has to be a CSD). As soon as the instruction is matched, all maintenance actions intended on that transaction are requested to Settlement domain thru the Amendment Request Interface. In order to cope with the parallelism, some maintenance business rules have been replicated in Settlement, as for example the CoSD analyser (in SETT) could be activating the CoSD flag of an instruction and the same time LCMM could be checking the condition to prevent amendments. Therefore, the amendment request interface needs to be enhanced to include the type of link (LINK or UNLINK) and the Instructing Party of the amendment instruction. This information will allow Settlement to replicate the same exception than in the amendment module. |
| Summary of project risk |
| -- |
| Security analysis |
| No adverse effect was identified during security assessment. |

**30 June 2016**

# Cost assessment on Change Requests

| T2S-565-SYS – T2S should allow CSDs to remove links in instructions under CoSD | | | |
|---|---|---:|---|
| One-off | Assessment cost*<br>- Preliminary<br>- Detailed | 2,000.00<br>10,000.00 | Euro<br>Euro |
| One-off | Project phase costs | 225,609.65 | Euro |
| Annual | Running costs | 23,945.01 | Euro |

*The relevant assessment costs will be charged regardless of whether the CR is implemented (Cf. T2S Framework Agreement, Schedule 7, par. 5.2.3).