



T2S related topics for SMPG discussion

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CSD-Regulation

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**2nd layer matching &
LEI**

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Partial release

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**Settlement Parameters
(already matched case)**

T2S Penalty Mechanism

Background information

- The T2S CSDR Task Force is responsible for identifying the necessary changes to the T2S platform resulting from the CSD Regulation (CSDR), with the objective to facilitate T2S CSDs' timely compliance to CSDR
- One of the core objectives of the CSDR is to promote settlement efficiency through a Settlement Discipline Regime, which, at the settlement layer, implies the payment of cash penalties for late settlement of transactions beyond Intended Settlement Date
- It was decided that the Eurosystem would offer a settlement penalty calculation mechanism
- The new service will be built upon the T2S platform, as T2S centralises all the necessary information for identification and reporting of settlement fails

- The Regulatory Technical Standards on Settlement Discipline are still under discussion / clarification at ESMA and European Commission Level
- The publication in the Official Journal of the EU is estimated to take place in the second half of 2017 at the earliest
- Market deadline for compliance to Settlement Discipline requirements is 24 months after publication
- There is a direct dependency with the T2S implementation timeline as all CRs raised by the TF relate to this deadline
- Other Technical Standards related to CSDR have been published on 17th of March 2017, no direct impact on T2S

T2S Penalty Mechanism

High-level principles & working assumptions

- Cash penalties will be computed and reported daily by T2S through a new semt.xxx message, which will be similar to semt.018 (Securities Transaction Pending Report)
- All matched settlement instructions that are unsettled after the completion of the settlement processing of the relevant instruction cut-off will be considered as failing
- The “Failing” status will also be reported in near-time through status update messages (sese.024) by T2S
- All transactions are in scope of the penalty mechanism, except Corporate Actions on Stock (based on usage of ‘CORP’ code)
- Late instructions will be penalised in the same way as instructions failing settlement
- CSDs will have the possibility to perform corrections and re-generation of penalty reports upon update of some reference data. This will be done automatically by T2S



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T2S market practice

When instructing T2S, CSD participants should complete the optional matching field “client of the CSD participant” according to the following **order of priority**, depending on the information available to the CSD participant:

1st) the BIC11 of the client of the CSD participant, if available

2nd) the LEI of the client of the CSD participant, if available ➔

3rd) ANY content including “blank”

LEI is the preferred identifier if no BIC is available.
The 3 options are exclusive

Clients of CSD participants should respect the same order when filling their own information and their counterparties’ in the settlement instructions transmitted to the CSD participants.

In the event that the CSD participant is itself one of the trading parties, it should use its own BIC11 in the field “client of the CSD participant” to identify itself.

2nd layer matching & LEI

Impact of ISO20022 2016 Release

- ❑ ISO20022 2016 release adds dedicated LEI fields for party identification purposes in the sese.023 message, e.g. CSD participant, Place of Clearing, etc..., to be used as an **optional and complementary** identifier
- ❑ It will be integrated in T2S at the earliest end 2018 (Release to be determined) through a CR that will align T2S with ISO20022 releases since 2012^(*)
- ❑ No immediate impact on the existing Market Practice
- ❑ No change to the optional character of the field with the ISO release

As from T2S Release 2, how to integrate the existing Market Practice with its logic aiming to promote usage of LEI with the new ISO20022 schema ?

2nd layer matching & LEI

Impact of ISO20022 2016 Release

- Indeed, with the ISO 20022 2016, LEI can only be used **in complement of** another identifier, as illustrated below for Party 2
- This means it is **NOT possible** to just fill LEI **instead of** a proprietary identifier

▼ <input checked="" type="radio"/> Party 2		0	1
▼ <input checked="" type="radio"/> Identification		1	1
> <input checked="" type="radio"/> Any BIC	<div style="border: 1px solid purple; padding: 5px;"> Either BIC11, Prop ID, or Name and Address must be filled for Party 2 Id. </div>	1	1
> <input checked="" type="radio"/> Proprietary Identification		1	1
> <input checked="" type="radio"/> Name And Address		1	1
<input checked="" type="radio"/> LEI		0	1

LEI is optional for Party 2 Id
→

2nd layer matching & LEI

Mid-term solution favored by T2S Governance

▼ <input checked="" type="radio"/> Party 2	0	1
▼ <input checked="" type="radio"/> Identification	1	1
▶ <input checked="" type="radio"/> Any BIC	1	1
▶ <input checked="" type="radio"/> Proprietary Identification → LEI here	1	1
▶ <input checked="" type="radio"/> Name And Address	1	1
<input checked="" type="radio"/> LEI → ...and LEI here	0	1

Fill Proprietary Identification as well as dedicated LEI field:

- + Respecting ISO for populating LEI in dedicated field
- + No major change to T2S: matching engine untouched but new validation to ensure both LEI fields have the same value
- Still a misuse of ISO standards for population of Proprietary Identification
- Requires T2S actors to adapt to also fill in dedicated LEI field

▼ ● Party 2	0	1
▼ ▢ Identification	1	1
▶ ● Any BIC	1	1
▶ ● Proprietary Identification	1	1
▶ ● Name And Address	1	1
▶ ● LEI ➔ LEI here	1	1

Raise a CR at ISO level in order integrate the LEI field within the Party 2 identification. Also requires T2S CR:

- + Full compliance with ISO standards without the need to duplicate the information
- + Market Practice prioritisation logic can be followed in a standard way also outside T2S, supporting the usage of LEI for clients of CSD participants
- Requiring strong support from T2S / international bodies to support business case at ISO level (ISO and T2S CRs required)



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**Settlement Parameters
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Partial release for delivery of securities

Background and reason for the requested change

- Currently, CSD participants manage omnibus accounts containing holdings of several clients via the hold/release functionality
- Hold/release ensures that a transaction will be eligible for settlement only after the respective client of a CSD participant has provided sufficient resources. This way usage of assets belonging to other clients can be avoided.
- However, in case a client has provided only parts of the required resources, the transaction cannot yet be released and therefore it cannot benefit from partial settlement
 - Negative impact on overall settlement efficiency
 - Potential attraction of larger penalties under CSDR

Partial release for delivery of securities

Requested change and available workarounds

Requested change in T2S

- Some T2S Actors have requested the introduction of a partial release functionality via Change Request [T2S-0653-URD](https://www.ecb.europa.eu/paym/t2s/progress/pdf/crg/t2s_0653_urd.pdf):
https://www.ecb.europa.eu/paym/t2s/progress/pdf/crg/t2s_0653_urd.pdf
- The CR would be complex and impact actors in T2S
 - New market practice, extensive adaptation on user side required
 - Extension of the status model (sese.024) required
 - Complex changes on the T2S platform required, potentially negative impact on performance
- Some T2S actors are strongly in favour of the change. Nevertheless, despite the benefits of a partial release functionality, some T2S actors are not in favour of the change. They recommend usage of available workarounds instead

Available workarounds

- Splitting: Bilateral cancel/re-instruct, i.e. create two new instructions, one released (quantity equals available provision) and another one (remaining quantity) still on hold
- Shaping: Introduction of shaping on T2S actor side in order to improve settlement of transactions having a large countervalue

Partial release for delivery of securities

Description of the requested functionality

Specific solution as requested by some T2S participants

- For a partial release, the CSD participant sends an amendment message by specifying the quantity to be released
- T2S performs the business validation to accept/ reject the message
- Partially released instructions are presented to settlement only during the partial settlement windows defined in T2S
- If the available provision is equal or higher than the released quantity, T2S partially settles up to the released quantity
- If the available provision is lower than the released quantity, the whole transaction/quantity is put back on hold at the end of the partial window
- Once a transaction has been partially settled, it follows the rules for standard partial settlement according to the SMPG Market Practice

The SMPG is asked

- Whether the partial release concept exists in other markets and if so, how it is done in detail
- Whether it could be supported by other markets or on the contrary would contravene with any established market practice



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Settlement Parameters
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Provision of Settlement Parameters

Background and reason for the requested change

- Currently, only one set of Settlement Parameters can be provided in a Settlement Instruction (sese.023)
- In case of already matched transactions where only one sese.023 message is sent, it is therefore not possible to provide separate processing information for the two sides of the transaction
- Initially some T2S Actors requested the possibility to provide deviating Securities Sub Balance Types for the two settlement legs, in order to move positions from one T2S Earmarked Position Type to another one
(currently, at least one T2S Position Type, DELI or RECE, must be the default type in case of already matched instructions)
- Change Request [T2S-0638-SYS](https://www.ecb.europa.eu/paym/t2s/progress/pdf/crg/t2s_0638_sys.pdf):
https://www.ecb.europa.eu/paym/t2s/progress/pdf/crg/t2s_0638_sys.pdf

Provision of Settlement Parameters

Request to SMPG

- Based on the available Change Request, other actors proposed not only to duplicate the Securities Sub Balance Type section, but to duplicate the whole Settlement Parameters block
- This would facilitate the provision of other processing information per settlement leg

Example: Hold indicator to be put on one side of the transaction only:

Today, if a T2S actor sends an already matched instruction with party hold, both sides of the transaction are set on hold. Depending on the business case, this requires two release messages. This unnecessarily increases message volumes and costs, which could be prevented if hold could be set for one side of the transaction only

The SMPG is asked

- whether such a need might also arise in other markets
- how the structure of sese.023 could be enhanced to best facilitate the provision of more than one set of settlement parameters, also considering potential future business needs

For the following settlement parameters the provision of deviating information per leg could be required in some markets (non-exhaustive):

- Hold indicator
(This could make sense, e.g., if CCP is requested to instruct the client leg on hold if the client operates an omnibus account)
- Settlement Transaction Type
(In Borrowing & Lending, Repo and Buy/Sell back the transaction type is per definition different on the counterparty leg: e.g. REPU vs RVPO, SECB vs SECL, BSBK vs SBBK, COLI vs COLO)
- Settling capacity (if both sides act in different roles)

Provision of Settlement Parameters

Fields potentially affected

...continued

- Modification Cancellation Allowed
(if only one leg should be modifiable. This is, e.g., the case for German Stock Exchange transactions where only the delivering leg can be modified)
- Securities Sub Balance Type and Cash Sub Balance Type
(if deliverer wants to deliver from a non-default sub-position and the receiver wants to receive in a non-default sub-position)

Provision of Settlement Parameters

Proposals from a messaging perspective

1. Duplication of each field within the Settlement Parameters, to be requested field by field if needed from a business perspective
 - a) Have 2 separate fields/sections, e.g. DELI Sec Sub Bal Type and RECE Sec Sub Bal Type (**impact on all actors currently using the field**)
 - b) Have the fields/sections (e.g. Sec Sub Bal Type section) repetitive (0-2 cardinality)*, with an optional new field/flag to indicate which leg is concerned, DELI or RECE (**no or only low impact on actors if new functionality is not to be used**)

2. Duplication of the Settlement Parameters section
 - a) Two separate blocks, DELI Sett Parameters and a RECE Sett Parameters (**impact on all actors currently using the block**)
 - b) Create an additional DELI/RECE Settlement Parameters block, with a new field/flag to indicate which leg is concerned, DELI or RECE (no impact on existing block, new block only to be used in already matched cases. Potentially the new block could have reduce number of fields only).
 - c) Make the Settlement Parameters repetitive (1-2 cardinality)*, with an optional new field/flag to indicate which leg is concerned, DELI or RECE.

* In case of repetition of a field/block, it is not possible for individual markets to prune the fields/block for one leg of the transaction if this is not intended to be used

Thank you for the attention!

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