



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
<b>General Information (Origin of Request)</b> <input type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
<b>Request raised by:</b> Clearstream	<b>Institute:</b> CSD	<b>Date raised:</b> 02/09/2020
<b>Request title:</b> Enable PFOD for external CSD settlement		<b>Request No.:</b> T2S 0742 SYS
<b>Request type:</b> Common	<b>Classification:</b> Scope Enhancement	<b>Urgency:</b> Fast track requested
<b>1. Legal/business importance parameter:</b> High <sup>1</sup>	<b>2. Market implementation efforts parameter:</b> Low <sup>2</sup>	
<b>3. Operational/Technical risk parameter:</b> Low <sup>3</sup>	<b>4. Financial impact parameter:</b> Medium	
<b>Requestor Category:</b> CSD	<b>Status:</b> Implemented	

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

Payment Free of Delivery (PFOD) instructions are broadly used in T2S for the settlement of market claims relating to income events such as dividends or interest payments. They are supported in intra-CSD as well as in cross-CSD settlement flows.

However, PFODs are not supported in external-CSD settlement flows. In such a scenario, instructions are accepted and matched, but then cancelled with error code SPRC001 "A settlement instruction cannot be submitted to a settlement attempt when its T2S Dedicated Cash account is not valid or is unavailable for settlement." [INC0000000263753]

It is therefore currently not possible to process PFOD market claims in T2S when one of the counterparties subject to the market claim is located in an external CSD. This is in contradiction to the CASG standards which require use of PFOD, and this can become an issue in the custody harmonization activities that are envisaged as part of the ECMS initiative.

This gap should be closed by enabling PFOD settlement in external-CSD scenarios.

**Description of requested change:**

T2S should enable settlement of PFODs for external CSD flows:

- PFODs for external CSD settlement are accepted by T2S, and subsequently matched according to the standard matching logic for external CSD. This logic exists already today.
- For PFODs, no realignments are generated. This logic exists already today.
- The DCA mentioned in the external CSD leg is validated as follows:
  - In case the DCA is mentioned in the external CSD leg, then T2S checks **whether this DCA is associated to the Inter-CSD account corresponding to the External CSD** (if the external CSD is Issuer CSD for the affected ISIN).
  - In case the DCA is not mentioned in the external CSD leg, then T2S checks **whether a default DCA is associated to the Inter-CSD account corresponding to the External CSD** (if the external CSD is Issuer CSD for the affected ISIN) and uses this DCA for cash settlement.
  - *The validation related to SPRC001 is adjusted accordingly, so that the current validation SPRC001 does not apply to PFOD, but only the adjusted one mentioned above.*
- PFODs for external CSD settlement are settled according to the standard settlement logic, regarding eligibility and provision checks.

It should be noted that the change is only dealing with External CSD which are Issuer CSD of the affected security.

<sup>1</sup> Parameters was set to "HIGH" as the change enables CASG compliant handling of market claims in external CSD scenarios, thus supporting harmonization.

<sup>2</sup> Parameter was set to "LOW" as the change has low implementation effort on T2S Actor side.

<sup>3</sup> Parameter was set to "LOW" as the change does not affect any SLA.

**Outcome/Decisions:**

- 
- \* CRG on 17 September 2020: CRG members agreed that the requirements of CR-742 were stable and complete and recommended the CR for authorisation by the T2S Steering Level following a fast track procedure.
  - \* AMI-SeCo on 12 October 2020: The AMI-SeCo agrees with the CRG recommendation of authorisation of CR-742 by the T2S Steering Level.
  - \* CSG on 15 October 2020: the CSG took the resolution to authorise CR-742.
  - \* NECSG on 16 October 2020: the NECSG took the resolution to authorise CR-742.
  - \* MIB on 03 November 2020: the MIB agreed to authorise CR-742.
  - \* PMG on 19 November 2020: the PMG proposed to allocate CR-742 to R6.0, and launched its detailed assessment.
  - \* CRG on 24 February 2021: the CRG recommended to the PMG the implementation of CR-742 in R6.0
  - \* PMG on 26 February 2021: The PMG recommended the inclusion of CR-742 in STP for R6.0 for approval by the Steering Level.
  - \* OMG on 3 March 2021: the OMG identified no operational impact from the inclusion of CR-742 in R6.0.
  - \* CSG on 12 March 2021: the CSG approved the inclusion of CR-742 in the scope of R6.0.
  - \* NECSG on 12 March 2021: the NECSG approved the inclusion of CR-742 in the scope of R6.0.
  - \* MIB on 15 March 2021: the MIB approved the inclusion of CR-742 in the scope of R6.0.

**Proposed wording for the Change request:****UDFS:****Section 1.6.1.1.3 Validation process, page 313**

*New footnotes added to describe the behaviour in for external CSD settlement.*

T2S Dedicated Cash Account Validation: T2S verifies for the credited or debited T2S dedicated cash account specified in an Unmatched Settlement Instruction that:

...

– If the T2S Dedicated Cash Account is not specified in a Settlement Instruction against payment, a default T2S Dedicated Cash Account for the Currency has been defined in the Static Data by the T2S Actor; in such case, the default T2S Dedicated Cash Account is derived in Static data with the Securities Account stated in the Settlement Instruction<sup>xx</sup>.

...

– The T2S Dedicated Cash Account specified in a Settlement Instruction against payment is related to the Securities Account specified in the instruction<sup>yy</sup>.

Footnote xx:

In case the relevant Depository is an External CSD, the checks on the default T2S Dedicated Cash Account are performed at settlement level (see Settlement of the cash side for external-CSD settlements in Realignment process [section 1.6.1.10.3]).

Footnote yy:

In case the relevant Depository is an External CSD, this check on the T2S Dedicated Cash Account is performed at settlement level (see Settlement of the cash side for external-CSD settlements in Realignment process [section 1.6.1.10.3]).

**Section 1.6.1.10.3 Realignment process, page 474:****Settlement of the cash side for external-CSD settlements**

In case of external-CSD settlements, the cash side is settled using:

- When it is mentioned, the T2S dedicated cash account referred in the incoming business Settlement Instructions. In such case the process checks if this cash account is associated in the static data
  - o to the impacted securities account identified above, or,
  - o in case of PFODS, to the Inter-CSD account associated to the External CSD, if the External CSD is configured as issuer CSD for the affected security.
 Otherwise the business Settlement Instruction is ~~rejected~~ cancelled;
- When the T2S dedicated cash account is not mentioned in the incoming business Settlement Instruction: the default cash account set in the static data
  - o for the impacted securities account identified above, or,
  - o in case of PFODs, to the Inter-CSD account associated to the External CSD, if the External CSD

is configured as issuer CSD for the affected security.  
If no DCA is linked to the inter-CSD account, the business Settlement Instruction is cancelled.

The cash is settled with the settlement of the incoming business instructions.

**Detailed assessment:**

EUROSYSTEM ANALYSIS – GENERAL INFORMATION			
T2S Specific Components		Common Components	
<b>LCMM</b>			
	Instructions validation		
x	Status management		
	Instruction matching		
	Instructions maintenance		
	Penalty Mechanism		
<b>Settlement</b>			
x	Standardisation and preparation to settlement		
x	Night-time Settlement		
	Daytime Recycling and optimisation		
x	Daytime Validation, provisioning & booking		
	Auto-collateralisation		
<b>Liquidity Management</b>			
	Outbound Information Management		
	NCB Business Procedures		
	Liquidity Operations		
<b>T2S Interface</b> (as of June 2022 without Static Data Management, Communication for SDMG, Scheduler, Billing)			
	Communication		
	Outbound Processing		
	Inbound Processing		
<b>Static Data Management</b> (until June 2022)		<b>Common Reference Data Management</b> (from R6.0 June 2022)	
	Party data management		Party data management
	Securities data management		Securities data management
	Cash account data management		Cash account data management
	Securities account data management		Securities account data management
	Rules and parameters data management		Rules and parameters data management
<b>Statistics and archive</b>		<b>Statistics and archive</b>	
	Statistical information (until June 2022)		Short term statistical information
	Legal archiving (until June 2022)		Legal archiving (from R6.0)
			Data Warehouse (from R6.0)
<b>Information</b> (until June 2022 containing reference data)		<b>CRDM business interface</b> (from R6.0 June 2022)	
	Report management		Report management
	Query management		Query management
			Communication
			Outbound Processing
			Inbound Processing
<b>Operational Services</b>			
	Data Migration (T2S DMT)		Data Migration (CRDM DMT, from R6.0)

	Scheduling (until June 2022)		Business Day Management (from R6.0)
			Business Day Management business interface (from R6.0)
	Billing (until June 2022)		Billing (from R6.0)
			Billing business interface (from R6.0)
	Operational Monitoring		Operational and Business Monitoring
	MOP Contingency Templates		

Impact on major documentation		
Document	Chapter	Change
Impacted GFS chapter		
Impacted UDFS chapter	Section 1.6.1.1.3 Validation process	
	Section 1.6.1.10.3 Realignment process	
Additional deliveries for Message Specification (UDFS, MyStandards, MOP contingency templates)		
UHB		
Links with other requests: CR-0741		
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**

When SETT processes a Matching Object and Settlement Instructions flow from LCMM in order to generate a settlement transaction, an exception must be managed regarding the determination or the validation of the debited or credited T2S Dedicated Cash Account in the particular case where the flow is related to a PFOD settlement transaction and involves an External CSD.

As the External Securities Account is unknown in T2S, the linked T2S Dedicated Cash Account must be checked according to the Inter-CSD Securities Account corresponding to the External Securities Account instead.

Consequently, when the T2S Dedicated Cash Account impacted by the External CSD leg of the PFOD is empty in the flow, SETT must retrieve the Inter-CSD Securities Account linked to the External Securities Account and determine the default T2S DCA linked to this Inter-CSD Account.

When the T2S Dedicated Cash Account impacted by the External CSD leg of the PFOD is present in the flow, SETT must check that such a T2S DCA is the one linked to the Inter-CSD Securities Account corresponding to the External Securities Account.

In addition, upon the settlement of a collection during the RTS period as well as the NTS period when SETT requests from LCMM the update of settlement instructions, SETT will communicate to LCMM the reference of the T2S DCA debited or credited by each settlement transaction of the collection.

When LCMM creates a settlement instruction with a Depository being a CSD in T2S and involving a movement of cash, if the T2S Dedicated Cash Account is not informed in the inbound message, LCMM derives the default DCA linked to the securities account referred in the instruction and stores it in the settlement instruction.

In an external CSD scenario, as the securities account informed is neither known nor validated, LCMM is not able to retrieve the default DCA and as a consequence the T2S Dedicated Cash Account is not stored.

In order to have this DCA information available in the settlement instruction data base, any time LCMM receives a communication from SETT that triggers a settlement status update ("PSET" or "SETT") on an instruction, SETT will provide in the status update request communication the T2S Dedicated Cash Account used for its

settlement.

**Main cost driver:**

Main cost driver is the development impact on several programs and modifications of technical components.

4CB recommend implementation of CR-0742 together with CR-0741 due to technical dependencies.

**Impact on other TARGET Services and projects**

No impact on other Eurosystem Services and Projects (TIPS, CSLD, ECMS and TARGET2)

**Summary of project risk**

None.

**Security analysis**

No potentially adverse effect has been identified during security assessment.



12 February 2021

## Cost assessment on Change Requests

T2S-742-SYS – Enable PFOD for external CSD settlement			
One-off	Assessment costs*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Development costs	328,480.21	Euro
Annual	Operational costs		
	- Maintenance costs	30,671.75	Euro
	- Running costs	0.00	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).