T2S CHANGE REQUEST FORM

General Information (Origin of Request)

☒ User Requirements (URD) or GUI Business Functionality Document (BFD)
☐ Other User Functional or Technical Documentation (SYS)

Request raised by: Euroclear	**Institute:** CSD	**Date raised:** 06/09/2023
Request title: 'Party hold' as a new category of restriction type case one rules		**Request No.:** T2S 0812 URD

Request type: Common	**Classification:** Scope enhancement	**Urgency:** Normal
1. Legal/business importance parameter[1]: Medium		**2. Market implementation efforts parameter**[2]: Low
3. Operational/Technical risk parameter[3]: Low		**4. Financial impact parameter**[4]: High
Requestor Category: CSD		**Status:** Authorised at T2S Steering Level

Reason for change and expected benefits/business motivation:

T2S parties instruct their bilateral settlement instructions either directly (DCP mode) or indirectly (ICP mode) on their account in T2S. Depending on the need to position the security and cash resource before allowing the transaction to position, T2S Parties can use the Party Hold/Release and Partial Release functionality available in T2S.

For certain flows – typically CCP flows or trading platforms – the T2S Party needs to provide a POA to a 3rd party on his account for the instructing party to instruct either to be matched or already matched instructions.

Thanks to the POA the 3rd Party gets access to the securities account but also to the linked DCA of the T2S Party. This set up bears a risk – especially when the T2S party works under an omnibus account structure – as the 3rd Party could instruct with a status Released T+2, T+1 or even T+0 transactions that the T2S Party needs to control/position – i.e., check that his underlying client has the security and/or cash resource – before allowing the transaction to settle. Usually, this risk is mitigated by requesting the 3rd party to instruct on 'Party Hold' and 'Modifiable' which allows the T2S party to perform his controls before releasing the transaction either fully or partially. The T2S party and the 3rd Party having a POA on the account can also arrange contractual documentation between themselves to enforce the Hold status on the settlement instructions.

However, unless this Party Hold Status is embedded in the System, it may not be considered as sufficient to mitigate the risk (i.e. incident, fraud or a 3rd party not having the Party Hold/Release functionality) a POA on a T2S securities account (including the access to a DCA) entails. Therefore, a solution embedded in the settlement system (T2S platform) that ensures that settlement instructions received from selected 3rd parties are always instructed on Party Hold is considered a more robust mitigation of the identified risk.

Description of requested change:

Add a new case one restriction type in T2S with the same current functionality for the "CSD Validation Hold" but for putting a settlement instruction on 'Party Hold'.

The new restriction type "Party hold" should be checked with the least priority, i.e. after the restriction types 'Rejection' and "CSD Validation Hold" have been checked, i.e., this change should not affect the current order of the restriction checking sequence.

---

[1] Legal/business importance parameter was set to "Medium" because the change would mitigate a risk that a T2S party under an omnibus account structure incorrectly receives a released Instruction which should have been sent on Party hold.
[2] Market implementation effort parameter was set to "Low" because the change is optional for CSDs to use.
[3] Operational/technical risk parameter was set to "Low" because the change is optional for CSDs to use.
[4] Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

The instructions that are to be put on party hold from the new restriction type case one rule "Party Hold" will be identified by the current parameter types available in T2S.

The parameter types available for the configuration of the new Restriction type "Party Hold" should be the following: Party, Party type (of the instructing party), Party type (of the account owner), Security, Securities Movement Type, Payment, Transaction Identification, Market-specific Security attribute, Market-specific Securities account attribute, Market-specific Party Attribute, Matching status, Debited Position/Balance, Credited Position/Balance, Securities Account, Credit Debit Indicator, Country of Issuance and Settlement Currency.

The reference data management of the restriction type "Party Hold" should not differ from the "CSD Validation hold" rules, i.e. only CSDs will be able to set them up. Also, the "Party Hold" functionality should not be changed, the CSD Participants will be able to release instructions that were put on party hold when they fulfilled one of the new party hold RT Case one rules.

In term of reporting, and to identify those settlement instructions put on Party Hold by the new Restriction type "Party Hold", this new functionality should benefit from the implementation of T2S-0525-SYS '*Provide Restriction Type name and description in reason code due to Market Specific Restriction Types*' meaning that if a settlement instruction fulfills a RT 'Party Hold' case one rule, T2S should report the rule name and description in the sese.024.

A reference to the "Hold/Release default" flag is included below to explain the requested behavior in the following paragraph:

From UDFS for R2023.NOV - 1.6.1.6.5 Hold/Release Default for Settlement Instructions

"When a T2S Actor sends a Settlement Instruction, T2S checks if the Settlement Instruction has the Party Hold status set (i.e. hold indicator has value "Yes" or "No") or not.
In case the Party Hold status is not set, T2S checks in Reference Data the "Hold Release Default" value of the Securities Account included in the Instruction:

- *If the "Hold Release Default" value of the Securities Account is set to "Yes", the instruction is set automatically On Hold through the Party Hold Status (i.e. T2S sets the value of the "Party Hold" status to "Yes") and the T2S Actor is informed through a Status Advice on the acceptance of the instruction and the Party Hold status "Yes".*

- *In case the "Hold Release Default" value of Securities Account is set to "No", the instruction is not set automatically On Hold.*

The "Hold Release Default" check is performed only once, upon the first validation of an instruction received from a T2S Actor (i.e. it is not performed at revalidation process).

Changes in Reference Data of the "Hold Release Default" of a Securities Account do not trigger the revalidation of the instructions that include such Securities Account (i.e. the change of the "Hold Release Default" only affects instructions received after such a change)."

The new "Party Hold" RT case 1 rule check should be independent from the "Hold/Release default" flag check and from the check of the "Party hold" indicator informed in the settlement instruction. This means that, for example:

- an instruction sent with Hold Type = PTYH and Hold Indicator = False, will be set to Party Hold if it fulfills a positive RT 'Party Hold' case one rule.

- Likewise, an instruction sent with Hold Type = Empty and Hold Indicator = Empty will be set to PTYH = 'True' if it fulfills a positive RT 'Party Hold' case one rule, even if the Hold/Release default flag for the Securities Account included in the Settlement Instruction is set to "No".

- Finally, an instruction sent with Hold Type = Empty and Hold Indicator = Empty, will be set to PTYH = True if the Hold/Release default flag for the Securities Account included in the Settlement Instruction is set to "Yes", even if it fulfills a negative RT 'Party Hold' case one rule that would make the instruction exempted from fulfilling a positive rule.

Internally generated instructions will not be considered for the new "Party Hold" RT case 1 rule check.

The CRG have assessed potential alternative solutions and found that the new restriction type Party Hold solution was the preferred solution in order to still benefit from the partial release functionality in T2S.

Below, there are some examples to explain the requested functionality[5]:

Negative and positive examples of a Party hold RT case one rule:

Example 1 – a 'Party Hold' rule, resulting in the SI being put on party hold:

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is not sent on party hold (Hold indicator = 'false' and Reason code = 'PTYH'). There are two RT case 1 rules configured, one positive Party Hold rule and one positive CSD Validation Hold rule. Since the instruction is not fulfilling the 'CSD Validation Hold' rule but it fulfills the 'Party Hold' rule, then the settlement instruction will be set on party hold during the business validation process.

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security				
Settlement Instruction			DELI	Party A	ISIN X		Hold indicator = "False", Reason code = "PTYH"		
Party Hold	Positive	Rule 1	DELI	Party A				✓	SI put on party-hold
CSD Validation Hold	Positive	Rule 2		Party B	ISIN X			✗	

Example 2 – 'Party Hold' and 'CSD Validation Hold' rules, resulting in SI put on 'CSD Validation Hold' and "Party Hold":

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is not sent on party hold (Hold Indicator = "empty). There are two positive RT case 1 configured, one positive Party Hold rule and one positive CSD Validation Hold rule. The Hold/Release default flag on the SAC is set to "No". Since the instruction is fulfilling the CSD Validation Hold rule and the instruction also fulfills the Party Hold rule, the instruction will be put on CSD validation hold and on party hold during the business validation process, even if the H/R flag is set to "No".

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security	"No"			
Settlement Instruction			DELI	Party A	ISIN X		Hold status = "Empty"		
Party Hold	Positive	Rule 1	DELI	Party A				✓	SI put on party-hold
CSD Validation Hold	Positive	Rule 2		Party A	ISIN X			✓	SI put on CSD Val. hold

[5] The examples provided in this change request does not cover all the possible restriction type parameter values e.g., the examples only cover the securities movement type for type DELI (deliver), while it will also be possible to set this parameter value to RECE (receive) and ZERO (settlement quantity is null).

Example 3 – Positive 'CSD Validation hold' and negative 'Party Hold' rules both fulfilled, instruction to be put on CSD Validation and Party hold (with instruction instructed already on Party Hold):

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is sent on party hold (i.e. Hold Indicator = "true" and Reason code = 'PTYH''). There are two RT case 1 configured, one negative Party Hold rule and one positive CSD Validation Hold rule. The Hold/Release default flag on the SAC is set to "No". Since the instruction is fulfilling the CSD Validation Hold rule, the instruction will be put on CSD validation hold during the business validation process. Since the instruction is sent on party hold, the instruction will be put also on 'Party Hold' regardless the fulfilment of a negative RT1.

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security	"No"			
Settlement Instruction			DELI	Party A	ISIN X		Hold indicator = "True", Reason code = "PTYH"		
Party Hold	Negative	Rule 1	DELI	Party A				✓	SI is already on party-hold
CSD Validation Hold	Positive	Rule 2		Party A	ISIN X			✓	SI put on CSD Val. hold

Example 4 Default H/R flag set to yes and negative 'Party Hold' rule fulfilled:

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is not sent on party hold (i.e. Hold Indicator = "empty"). There is a negative Party Hold RT case 1 configured and the H/R default flag on the SAC is set to "Yes". Since the hold indicator of the instruction is empty, the H/R default flag is verified. AS it is set to yes, the instruction will be put on 'Party Hold', regardless it fulfills a negative RT 1 'Party Hold' rule.

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security	"Yes"			
Settlement Instruction			DELI	Party A	ISIN X		Hold status = "Empty"		
Party Hold	Negative	Rule 1	DELI	Party A				✓	SI except from any positive party-hold rule

Example 5 - Positive 'CSD Validation Hold' rule fulfilled and negative 'Party hold' rule fulfilled resulting in the SI to be put on CSD validation hold:

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is not sent on party

hold (i.e. Hold Indicator = "empty" OR with Hold indicator = 'false' and Reason code = 'PTYH'). There are two RT case 1 rules configured, one negative 'Party Hold' rule and one positive 'CSD Validation Hold' rule. The Hold/Release default flag on the SAC is set to "No". Since the instruction is fulfilling the positive CSD Validation Hold rule and the instruction also fulfills the negative Party Hold rule, the instruction will be put on CSD validation hold during the business validation process and the instruction will not be put on party-hold, even if any other positive 'Party Hold' rule is fulfilled because once a negative rule of 'Party Hold' is fulfilled, the positive ones of the same type of hold are not checked.

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security	"No"			
Settlement Instruction			DELI	Party A	ISIN X		Hold status = "Empty" OR Hold indicator = "False", Reason code = "PTYH"		
Party Hold	Negative	Rule 1	DELI	Party A				✓	SI except from on party-hold rule
CSD Validation Hold	Positive	Rule 2		Party A	ISIN X			✓	SI put on CSD Val. Hold

Example 6 - Positive 'Party hold' rule fulfilled and Hold/Release default flag set to 'Yes' resulting in the SI to be put on Party Hold:

In the next table, a delivering settlement instruction is sent by Party A and ISIN X, the instruction is not sent on party hold (i.e. Hold Indicator = "empty" and Reason code = 'empty'). There is a positive 'Party Hold' RT case 1 rule configured. The Hold/Release default flag on the SAC is set to "Yes". Since the instruction is fulfilling the positive Party Hold rule and also the H/R flag is set to 'Yes' with the Hold indicator not fulfilled, the instruction will be put on Party hold by the fulfilment of the H/R flag or the fulfillment of the RT case 1 rule.

Restriction Type	Positive/ Negative	Rules	Rule parameters			Hold/ release default flag	Party hold Before RT	Check outcome	Result
			Securities Movement Type	Instructing party	Security	"Yes"			
Settlement Instruction			DELI	Party A	ISIN X		Hold indicator = "Empty", Reason code = "Empty"		
Party Hold	Positive	Rule 1	DELI	Party A	ISIN X			✓	SI is put on party hold by fulfilling the Party hold RT and from the H/R default flag.

Section added after the delivery of the Preliminary assessment:

During the preliminary assessment the following questions were raised by 4CB. The CRG answered them and requested to include them under the scope of CR-0812. Below, the answers to these questions:

- [Question] MSA is available as predicate only when object restriction type is equal to Settlement Instruction, Intra-position movement and Intra-balance movement. Are these object restriction types allowed for Restriction processing type 'Party Hold'?

    [Answer]: MSA should also be available to be used by the new Restriction Type "Party Hold".

- [Question] In general, which are the allowed object restriction types for the new Restriction processing type?

    [Answer]: The object restriction type available for the new "Party Hold" Restriction processing type should be "Settlement instruction".

- [Question] Likewise for 'CSD Validation Hold', the Valid From of 'Party Hold' must be greater than the date following the current date and the object restriction type must be "Settlement Instruction"?

    [Answer]: The CRG agreed to follow the same approach as the one in place for 'CSD Validation Hold' Restriction type. It means that the Valid From of the new 'Party Hold' would be equal or greater than the Calendar day +2, as defined in the Business Rule 'DRCL007'- '*When performing a Restriction Type create request, if the specified Restriction Processing Type Is 'Rejection' or 'CSD Validation Hold', the specified Valid From must be greater than the date following the current. In all other cases the specified Valid From must be greater than the current date. The Service Operator can skip this check in contingency situations.*'

Submitted annexes / related documents:

Outcome/Decisions:

*CRG on 30 January 2024: the CRG agreed to launch the preliminary assessment of CR-0812.
*CRG on 26 April 2024: the CRG agreed to recommend CR-0812 for authorisation by the T2S Steering Level.
* AMI-SeCo on 7 May 2024: the AMI-SeCo agreed with the CRG recommendation of CR-812 for T2S Steering Level authorisation.
*CSG on 7 May 2024: the CSG agreed to authorise CR-812.
*NECSG on 7 May 2024: the NECSG agreed to authorise CR-812.
*MIB on 8 May 2024: the MIB agreed to authorise CR-812.

Documentation to be updated:

T2S URD impacted chapter 11.10.2 – Restriction Types

…

Restriction processing types

Reference ID	T2S.11.662

T2S shall support a *Restriction Processing Type* to enable the configuration of restrictions.

- Rejection:

Reject a settlement instruction validation (see T2S.05.128);

- CSD Validation Hold:

Set the CSD validation status automatically to "hold" when accepting a settlement instruction (see T2S.05.127);

- Party Hold:

Set the Party Hold status automatically on "hold" when accepting a settlement instruction;

- Reservation:

Create a reservation of a cash balance or securities position for a specific purpose;

- Blocking:

Block of a party, securities account, security or T2S dedicated cash account from settlement (see T2S.05.129);

- Position Type / Earmarking:

Define and manage position types for securities positions.

…

Table 11-16 – List of Attributes for the Entity Restriction Type

Attribute	Description
System Entity Identifier	This attribute shall specify the CSD or the NCB for which the restriction type is valid.
Restriction Type Identifier	This attribute shall define the unique technical identifier of a restriction type in T2S.
Restriction Type	This attribute shall specify a code that identifies the restriction. T2S shall allow CSDs or the NCBs to configure their own types.
Restriction Description	This attribute shall specify a text description of the restriction.
Valid From	This attribute shall specify the date from which the restriction type is valid.
Valid To	This attribute shall specify the date to which the restriction type is valid.
Object Restriction Type	• This attribute shall specify whether the restriction applies to a security, securities account, securities position in a securities account, T2S dedicated cash account or cash amount in a T2S dedicated cash account. T2S shall use this attribute in the application logic to identify and trigger the required validations. Valid object restriction types are: • Securities account • Security • T2S dedicated cash account • Securities position • Cash amount • Party • Settlement instruction • System entity
Restriction Processing Type	This attribute specifies how T2S shall apply the restriction in processing. • Rejection: Rejection in settlement instruction validation (see T2S.05.128) • CSD Validation Hold: Setting the CSD validation status automatically to "hold" when accepting a settlement instruction (see T2S.05.127) • <u>Party Hold: Setting the Party Hold status automatically to "hold" when accepting a settlement instruction.</u> • Reservation: Creating a reservation of a cash balance or securities position for a specific purpose • Blocking: Blocking of a party, securities account, security, T2S dedicated cash account, securities position or cash balance (see T2S.05.129) • Position Type / Earmarking: Define and manage position types for securities positions. Please refer to the glossary for the definition of the terms "Blocking" and "Reservation".

Attribute	Description
Positive / Negative Parameter Set	This Boolean attribute specifies whether the rules and matrices for the restriction type represent a positive or negative set of parameter. A positive parameter set shall specify the rules and combinations of attributes, requiring T2S to apply the restriction. A negative parameter set shall specify the rules and combinations of attributes for which T2S should not apply a restriction.

Preliminary assessment:

Findings:

- **Financial Impact:** High
- **Impacted modules:** LCMM, CRDM
- **Impact on other Eurosystem Services or Projects:** No impact on T2, TIPS or ECMS
- **Risk analysis:** No risks have been identified during PA

In LCMM:
- The implementation of the new case one restriction type "Party hold" will require a redesign of the Specific Restriction validation process.
- In order to process the new case one restriction type "Party hold" analogously to the treatment that is done for CSD Validation Hold, the Instruction Validation module will require several adaptations in many of its functions.
- The Status Management and the Instruction Maintenance modules will also need several adaptations.
- The relevant LCMM internal flows will have to be adjusted.
- It will be analysed if changes are required in the communication of Restriction Type data (creation and updates) from CRDM, depending on the implementation approach finally followed.
- In terms of reporting, no changes will be made to the current message usages of sese.024.
- The implementation of the new case one restriction type "Party hold" will not imply the use of a new specific Hold Indicator (i.e. the existing Party Hold Indicator will be used).

In CRDM:
Introduction of new Restriction Processing Type 'Party Hold'. The allowed parameters type in the Restriction type Rule are

- Securities Movement Type
- Payment
- Transaction Identification
- Securities Account Owner Party Type
- Instructing Party type
- Party BIC
- ISIN
- Matching status
- Debited Position/Balance
- Credited Position/Balance
- Securities Account Number
- Credit Debit Indicator
- Country of Issuance
- Settlement Currency
- Market-specific Security attribute Name (Attribute Type Party or Security)

Introduction of new business rule in create mode for Restriction Type in order to check the allowed Object Restriction type for Restriction Processing Type 'Party Hold'.

Introduction of 'Party Hold' to Business rule DRXC006 for Restriction Type Rule.

Introduction of Business Rule that forbids the selection MSA with Attribute Type 'Party' for Restriction processing type 'Party Hold'.

Introduction of further business rules for Restriction Type Rule depending on the validations on the parameter types/Object restriction type/Restriction Processing type

…

- **Open issues/ questions to be clarified by the originator:**

- MSA is available as predicate only when object restriction type is equal to Settlement Instruction, Intra-position movement and Intra-balance movement. Are these object restriction types allowed for Restriction processing type 'Party Hold'?
- In general, which are the allowed object restriction types for the new Restriction processing type?
- Likewise for 'CSD Validation Hold', the Valid From of 'Party Hold' must be greater than the date following the current date and the object restriction type must be "Settlement Instruction"?