



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input checked="" type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Clearstream	Institute: CSD	Date raised: 26/03/2024
Request title: T2S Eligible Counterparty CSD Links should no longer be ISIN specific		Request No.: T2S 0829 URD
Request type: Common	Classification: Scope Enhancement	Urgency: Fast-track ¹
1. Legal/business importance parameter: High ²		2. Market implementation efforts parameter: Low ³
3. Operational/Technical risk parameter: Low ⁴		4. Financial impact parameter: (provided by 4CB) ⁵
Requestor Category: CSD		Status: Registered

Reason for change and expected benefits/business motivation:

T2S was built to simplify, streamline, and boost cross-border settlement by implementing a common settlement platform for all markets. However, after more than 7 years of production, cross-border settlement activities still amount only for a low fraction of the overall activity. Significant progress has been made to set up links between markets, but in reality, a given T2S Actor is still far away from the possibility to settle any security issued in one T2S CSD with any counterparty in other T2S CSDs.

A logic which creates some impediments for broader use of T2S for cross border settlement is the current logic for Eligible Counterparty CSDs. Namely, if an Investor CSD has established a link to a technical Issuer CSD via a link agreement, all required omnibus and mirror accounts have been configured, and all Security CSD Links for the ISINs in scope are in place, then this does not imply that the Investor CSD's participants can now settle any ISIN eligible in the Technical Issuer CSD vs. counterparties in the Technical Issuer CSD.

Instead, an additional setup is needed where **for each ISIN eligible in the Technical Issuer CSD:**

- the Investor CSD must configure the Technical Issuer CSD as Eligible Counterparty CSD, and vice versa,
- the Technical Issuer CSD must configure the Investor CSD as Eligible Counterparty CSD.

T2S verifies this setup via validation rules MVIC307 and MVIC308, and if those rules are not met, the instructions are rejected or cancelled:

MVIC307	The CSD of the T2S Party of a Settlement Instruction must allow settlement with the CSD of the counterpart for the ISIN Code (either per security or per issuer CSD or per issue country) on the Intended Settlement Date and additionally on the current Business Day if the Intended Settlement Date is in the past.
MVIC308	The CSD of the counterpart of a Settlement Instruction must allow settlement with the CSD of the T2S Party for the ISIN Code (either per security or per issuer CSD or per issue country) on the Intended Settlement Date and additionally on the current Business Day if the Intended Settlement Date is in the past.

T2S allows to bundle the setup for groups of ISINs via a configuration "per issuer CSD" or "per issue country", but even this bundling would require significant setup activities if a technical Issuer CSD supports not only issuer ISINs but also ISINs from various other markets for settlement.

¹ Fast-track justification: This CR addresses some issues that prevent further extension of cross-border activities in T2S. Its implementation will lead to increased cross border activities in T2S, and to better integration of financial markets across Europe. Therefore, this CR shall follow a fast-track approach.

² Legal/business importance parameter was set to "HIGH" as the change enables additional cross-border settlement flows.

³ Market implementation effort parameter was set to "LOW" as **TBD**.

⁴ Operational/technical risk parameter was set to "LOW" as **TBD**.

⁵ Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

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Similar setup activities are needed in case of relayed links, if an Investor CSD configures another Investor CSD with a link into the target market as Technical Issuer CSD: To enable settlement vs. counterparties in the target market, **for each ISIN eligible in the CSD of the target market**:

- the Investor CSD must configure the CSD of the target market as Eligible Counterparty CSD, and vice versa,
- the CSD of the target market must configure the Investor CSD as Eligible Counterparty CSD.

This whole setup shall be simplified by dropping the ISIN dependency. Namely, it shall be possible to configure another CSD as eligible counterparty CSD, and then this setup applies to any ISIN that is eligible for settlement in both involved CSDs.

- From an eligible counterparty CSD link perspective, ISIN is no longer taken into account in the validation. Once a CSD is configured as Eligible Counterparty CSD, this applies to any ISIN.

It should be noted that an ISIN specific setup is still needed for the Security CSD links.

- First, in the initial validation, T2S verifies that the ISIN in a settlement instruction is eligible for settlement in the related CSD, either as Issuer CSD or as Investor CSD.
- Later, in the matching and realignment process, it identifies for Investor CSDs the next CSD in the realignment chain and repeats the eligibility checks for this CSD. In case this CSD is also Investor CSD, it repeats such checks until an Issuer CSD is identified, or the realignment chain leaves T2S.
- In case of non-eligibility in any of the involved CSDs, the realignment chain cannot be built, and the instructions are cancelled.
- Thus, in a realignment chain, the ISIN must be eligible for settlement in all affected CSDs.

Setup-wise this means that:

- An Investor CSD, once enabled as Eligible Counterparty CSD, could have access to any ISIN being eligible in a given Technical Issuer CSD. No additional setup is needed for the Technical Issuer CSD.
- But the Investor CSD can still steer the ISIN scope of the Investor link via its own Security CSD links, i.e., it has still the control which ISINs to configure on this link.

Description of requested change:

- A) Adjust validation logic for Eligible Counterparty CSD Links

Business rules MVIC307 and MVIC308 shall be updated as follows:

MVIC307	The CSD of the T2S Party of a Settlement Instruction must allow settlement with the CSD of the counterpart for the ISIN Code (either per security or per issuer CSD or per issue country) on the Intended Settlement Date and additionally on the current Business Day if the Intended Settlement Date is in the past.
MVIC308	The CSD of the counterpart of a Settlement Instruction must allow settlement with the CSD of the T2S Party for the ISIN Code (either per security or per issuer CSD or per issue country) on the Intended Settlement Date and additionally on the current Business Day if the Intended Settlement Date is in the past.

- B) Adjust CRDM screens for query, creation and modification of Eligible Counterparty CSD Links

Eligibility type as parameter is no longer needed and can be dropped.

Similar changes to be applied to the corresponding A2A messages reda.026. Either "Eligibility type" to be made optional, or a qualifier to be added that describes unrestricted / full eligibility for any ISIN.

- C) Cutover

On Cutover Date, all existing Eligible Counterparty CSD Links shall be automatically migrated into the new setup:

- All current Eligible Counterparty CSD Links to become automatically invalid (with Valid To = cutover date - 1)
- New Eligible Counterparty CSD Links to be automatically configured for each previously available data record:
 - For each combination of Investor/Investor Parent and Eligible Counterpart / Eligible Counterpart Parent that was active before (any ISIN scope), a new Eligible Counterparty CSD Link without

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- ISIN dependency is created (with Valid From = cutover date).
- Duplicates are filtered out.

In other words, any combination of Investor/Investor Parent and Eligible Counterpart / Eligible Counterpart Parent that was configured before for at least one ISIN shall also be configured after the cutover, but then without ISIN dependency, i.e., for all ISINs.

In order to provide an example for this, below you will find the extract from the UDFS explaining the configuration of eligible counterpart CSDs reference data. After it, a table has been included to show how the Eligible counterpart links will be populated with this change request in order to have the same output of the business validations.

1.2.2.4 Configuration of eligible counterparts CSDs

Each CSD (internal or external to T2S) must specify which CSDs it accepts as counterpart for settlement in T2S for a given period. CSDs can specify their eligible counterpart CSDs (and maintain this information in T2S) either on an individual basis (i.e. per securities), or by issuer CSD (internal or external to T2S) or by issue country specifying, in addition, the date from/until which this relationship is valid. In this case, T2S can process a Settlement Instruction only if both counterpart CSDs have defined the other CSD as eligible counterpart for the relevant security. Each CSD is responsible for defining all the relevant eligible counterpart CSDs for itself and for all its external CSDs, i.e. for all its participants with party type "External CSD". For example:

CSD	COUNTERPART	ELEGIBILITY TYPE	LINK ID
CSD A	CSD B	Securities	XYZ
CSD B	CSD A	Securities	XYZ
CSD A	CSD B	Securities	HJK
CSD B	CSD A	Country	CC
CSD A	CSD B	Securities	MNO
CSD C	CSD D	Issuer CSD	CSD E
CSD D	CSD C	Issuer CSD	CSD E
CSD D	External CSD E	Securities	XYZ
External CSD E	CSD D	Securities	XYZ

With the first link, CSD A defines CSD B as eligible counterpart for settlement of XYZ securities, while with the second link CSD B defines CSD A as eligible counterpart for settlement of the same XYZ securities. As a consequence, T2S can process a Settlement Instruction between these two CSDs.

Under the assumption that HJK securities was issued in country CC, whereas security MNO was issued in a different country, T2S can only process a Settlement Instruction between CSD A and CSD B on HJK, T2S rejects the Settlement Instruction for a settlement between CSD A and CSD B on MNO securities (because only CSD A has defined CSD B as eligible counterpart for this security and not vice versa).

Finally, T2S would reject any Settlement Instruction between CSD A and CSD B on any other securities issued in country CC, as CSD A specifically defined CSD B as eligible counterpart only for security HJK.

The two rows of the table related to CSDs C and D illustrate an example of two CSDs defining each other as eligible counterpart for all the securities issued by CSD E. CSDs can set up this type of configuration when dealing with a country with multiple CSDs and having the need to restrict the counterpart eligibility to a specific CSD of this market.

The last two rows of the table show the case of a CSD in T2S (D) defining an external CSD (E) as eligible counterpart for securities XYZ and vice versa.

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Below the table with the eligible counterparty CSD links needed for the same outcome once this CR is implemented:

- CSD B is eligible counterparty CSD for CSD A, and vice versa. This is the case for all securities which are enabled for settlement in both CSD A and CSD B.
- If CSD A or CSD B enables additional securities for settlement, those are automatically enabled for settlement between CSD A and CSD B, provided they are supported for settlement in both CSDs. No additional configuration effort is needed.

Similar logic applies for the combination of CSD C and CSD D, and also for the combination of CSD D and External CSD E. Other combinations are not supported, e.g. if CSD A wants to settle vs. CSD D, this is not supported yet. It would require an additional configuration as Eligible Counterparty CSD on both sides.

CSD	COUNTERPART
CSD A	CSD B
CSD B	CSD A
CSD C	CSD D
CSD D	CSD C
CSD D	External CSD E
External CSDE	CSD D

Submitted annexes / related documents:

Outcome/Decisions:

Documentation to be updated:

Preliminary assessment:

Detailed assessment:
