

<b>General Information (Origin of Request)</b>		
<input type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
<b>Request raised by:</b> Monte Titoli, NBB-SSS	<b>Institute:</b> CSD	<b>Date raised:</b> 17/02/2016
<b>Request title:</b> Allow settlement restrictions and settlement instructions to impact positions other than the earmarked restriction type used at the securities account level		<b>Request ref. no:</b> T2S 0595 SYS
<b>Request type:</b> Common	<b>Urgency:</b> Normal	
<b>1. Legal/business importance parameter:</b> Medium	<b>2. Market implementation efforts parameter:</b> Low	
<b>3. Operational/Technical risk parameter:</b> Low	<b>4. Financial impact parameter:</b> Medium	
<b>Requestor Category:</b> CSD	<b>Status:</b> Authorised at Steering Level	

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

When an account is earmarked at the securities account level all settlement instructions and settlement restrictions instructing on the deliverable or earmarked positions will impact the position defined by the earmarking at securities account level.

In practice in such a case when a settlement instruction or settlement restriction contains the deliverable or an earmarked restriction type, T2S automatically replaces these with the restriction type used at the securities account level.

As such, any existing earmarked and deliverable positions are not accessible and can no longer be used by the customer once an account is earmarked at the securities account level. The customer must empty these positions and cancel or settle any related pending instructions before earmarking an account at the securities account level.

Additionally, in the case of client-collateralisation, pledged securities are always received in the EXXX sub-position, regardless of any earmarking at securities account level that may exist, rendering the securities unavailable to the customer unless an earmarking EXXX is used at the securities account level or no earmarking at the securities account level is used.

In a way to ease the market operations T2S should be amended in order to allow securities settlement restrictions or settlement instructions having the same delivering and receiving securities accounts and the same party:

- To still empty deliverable positions and earmarked positions once a securities account has been earmarked at the securities account level;
- To make securities available in order to settle pending instructions impacting the deliverable or other earmarked positions
- To move securities from an EXXX sub-position to any other ad-hoc usable sub-position.

This can be obtained by not applying the earmarking at the securities account level on:

- Securities settlement restrictions when either the 'Balance from' or 'Balance to' contains the restriction type used at the securities account level;
- Settlement instructions, with equivalent delivering and receiving securities accounts involving the same party, when the impacted balance(s) specifies the restriction type used at the securities account level<sup>1</sup>.

T2S should also modify the approach regarding pending instructions so that any static data updates on the earmarking at account level are taken into account at the next SoD on pending instructions. Therefore when an account is earmarked, pending instructions no longer settle with the position type determined at ISD but with the

<sup>1</sup> When the restriction type earmarked at the securities account level is present within an instruction the absence of a restriction type within the counterparty instruction will always be interpreted as the deliverable position (AWAS).

relevant earmarked position type for the next business day. Conversely when an earmarking at securities account level is removed, pending instructions should no longer settle on the next business day with the earmarked position type but with the originally instructed one.

These modifications are required to address the issues raised by INC-168212.

#### Description of requested change:

T2S should make no transformation of restriction types within:

- Securities settlement restrictions when either the 'Balance from' or 'Balance to' contains the restriction type used at the securities account level;
- Settlement instructions, with equivalent delivering and receiving securities accounts involving the same party, when the impacted balance(s) specifies the restriction type used at the securities account level.

When the restriction type used at the securities account level is present either:

- In the 'Balance to' or 'Balance from' of a settlement restriction;
- Or the impacted balance(s) of a settlement instruction<sup>2</sup>;

T2S should not replace the restriction types specified as it does today due to an earmarking at the securities account level.

These exceptions, to the specific interpretation of restriction types within settlement instructions and settlement restrictions when a securities account is earmarking at the securities account level, result in the following:

- A settlement restriction containing the earmarked at the securities account level restriction type will maintain the 'Balance to' and 'Balance from' as originally instructed;
- An unmatched settlement instruction containing the earmarked at the securities account level restriction type will maintain the impacted balance as originally instructed (as will the matched counterparty instruction);
- An already matched settlement instruction containing the earmarked at the securities account level restriction type will maintain the impacted balance as originally instructed and the absent implied counterparty impacted balance remains the deliverable position (AWAS).

This substitution of the restriction type with the restriction type used at the securities account level should remain as is for all situations outside of the exceptions described above.

For illustration purposes the tables\* below provide concrete examples of possible business cases:

#### Settlement Restrictions:

RT at SAC Level	Balance From	Balance To	Actual Settlement
EEUR	EXXX	AWAS	EEUR -> EEUR
EEUR	AWAS	EXXX	EEUR -> EEUR
EEUR	EEUR	EXXX	EEUR -> EXXX
EEUR	EEUR	AWAS	EEUR -> AWAS
EEUR	AWAS	EEUR	AWAS -> EEUR

#### Unmatched instructions (2 instructions matched within T2S):

RT at SAC Level	DELI: Impacted Balance	RECE: Impacted Balance	Actual Settlement
EEUR	EXXX	AWAS (Present or Implied)	EEUR -> EEUR
EEUR	AWAS (Present or Implied)	EXXX	EEUR -> EEUR

<sup>2</sup> For settlement instructions where a transformation is not applicable due to the described conditions, the absence of the counterparty impacted balance always translates to the deliverable position (AWAS). This impacted balance will not be overridden by the earmarking at securities account level restriction type as would normally be the case.

EEUR	EEUR	AWAS (Present or Implied)	EEUR -> AWAS
EEUR	AWAS (Present or Implied)	EEUR	AWAS -> EEUR
EEUR	EEUR	EXXX	EEUR -> EXXX
EEUR	EXXX	EEUR	EXXX -> EEUR
EEUR	AWAS (Present or Implied)	AWAS (Present or Implied)	EEUR -> EEUR

**Already matched instructions:**

RT at SAC Level	Movement Type	Impacted Balance	Absent Impacted Balance	Actual Settlement
EEUR	DELI	EXXX	AWAS (Implied)	EEUR -> EEUR
EEUR	RECE	EXXX	AWAS (Implied)	EEUR -> EEUR
<b>EEUR</b>	<b>DELI</b>	<b>EEUR</b>	<b>AWAS (Implied)</b>	<b>EEUR -&gt; AWAS</b>
<b>EEUR</b>	<b>RECE</b>	<b>EEUR</b>	<b>AWAS (Implied)</b>	<b>AWAS -&gt; EEUR</b>
EEUR	DELI	AWAS (Present or Implied)	AWAS (Implied)	EEUR -> EEUR
EEUR	RECE	AWAS (Present or Implied)	AWAS (Implied)	EEUR -> EEUR

\* The restriction types used are for the purpose of these examples and could be of any earmarking type. The cases benefitting from the effect of CR 595 are set to bold.

In addition any change in earmarking at the securities account level within static data should be applied to pending settlement instructions as of the subsequent start of day, as is the case for incoming instructions. Pending instructions should settle on the restriction type applicable (as found in the instruction or the one resulting from an earmarking at account level) as identified at the start of day, as is the case for incoming instructions. Pending partial settlements and released settled instructions will adhere to this same principal settling on the restriction type identified as of the start of day, as is the case for incoming instructions.

**Submitted annexes / related documents:**

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

UDFS v2.1

Update of UDFS Section 1.6.1.13.2 Securities Blocking/Reservation/Earmarking – Overview

**UDFS Earmarking at Securities Account level, pg. 499**

In order to simplify the way to instruct its Securities Account, a T2S Actor can earmark a Securities Account at the Securities Account level. In this case the Securities Account is set with a restriction type applying on a securities position as object restriction type allowing the identification of the Securities Position impacted by the posting application process (see section 1.2.1.8 "Restriction types").

Earmarking a Securities Account results in a specific interpretation of the restriction type Id referred in the Settlement Instruction or Settlement Restriction that settle on this Securities Account:

- If the indicated restriction type Id relates to a restriction processing “Deliverable”, “Earmarking” or “Earmarking for auto-collateralisation”: T2S overrides the indicated value, using instead the restriction type Id for earmarking set at the level of the Securities Account;
  - With the exception, that no overriding takes place in:
    - Settlement Restrictions when one of the restriction type Ids relates to that used at the level of the Securities Account;

- Settlement Instructions, with the same delivering and receiving Securities Accounts and the same party, when the impacted balance(s) relates to that used at the level of the Securities Account<sup>(x) (v)</sup>:
  - If the indicated restriction type Id relates to a restriction processing “Blocking” or “Reservation”, the indicated value is not overridden.

This interpretation apart, the Settlement Restrictions or Settlement Instructions are processed the same way as for any other restriction on securities position

Last, if a Securities Account is earmarked with one given earmarking restriction type, all pre-existing Securities Positions related to other restriction type (deliverable or any other earmarking) cannot be used anymore once the Securities Account is earmarked, unless using Settlement Restrictions or Settlement Instructions under the exceptions raised above.

Nonetheless the holdings of such Securities Positions should be moved to the relevant earmarked Securities Position before the set-up of the earmarking at Securities Account level, should it be performed by any other means than the use of Settlement Restrictions or Settlement Instructions under the exceptions raised above.

The tables below provide concrete examples of possible business cases:

Table xxx –Examples of Settlement Restrictions with Earmarking at Securities Account level

<u>Earmarking at securities account level</u>	<u>Balance From</u>	<u>Balance To</u>	<u>Actual Settlement</u>	<u>Balances not overridden (due to exception)</u>
EEUR	EXXX	AWAS	EEUR -> EEUR	
EEUR	AWAS	EXXX	EEUR -> EEUR	
EEUR	EEUR	EXXX	EEUR -> EXXX	x
EEUR	EEUR	AWAS	EEUR -> AWAS	x
EEUR	AWAS	EEUR	AWAS -> EEUR	x

Table xxx –Examples of unmatched Settlement instructions with Earmarking at Securities Account level

<u>Earmarking at securities account Level</u>	<u>DELI: Impacted Balance</u>	<u>RECE: Impacted Balance</u>	<u>Actual Settlement</u>	<u>Balances not overridden (due to exception)</u>
EEUR	EXXX	AWAS (Present or Implied)	EEUR -> EEUR	
EEUR	AWAS (Present or Implied)	EXXX	EEUR -> EEUR	
EEUR	EEUR	AWAS (Present or Implied)	EEUR -> AWAS	x
EEUR	AWAS (Present or Implied)	EEUR	AWAS -> EEUR	x
EEUR	EEUR	EXXX	EEUR -> EXXX	x
EEUR	EXXX	EEUR	EXXX -> EEUR	x
EEUR	AWAS (Present or Implied)	AWAS (Present or Implied)	EEUR -> EEUR	

Table xxx –Examples of already matched Settlement instructions with Earmarking at Securities Account level

<u>Earmarking at securities account Level</u>	<u>Movement Type</u>	<u>Impacted Balance</u>	<u>Absent Impacted Balance</u>	<u>Actual Settlement</u>	<u>Balances not overridden (due to exception)</u>
EEUR	DELI	EXXX	AWAS (Implied)	EEUR -> EEUR	

<u>EEUR</u>	<u>RECE</u>	<u>EXXX</u>	<u>AWAS (Implied)</u>	<u>EEUR -&gt; EEUR</u>	
<u>EEUR</u>	<u>DELI</u>	<u>EEUR</u>	<u>AWAS (Implied)</u>	<u>EEUR -&gt; AWAS</u>	<u>x</u>
<u>EEUR</u>	<u>RECE</u>	<u>EEUR</u>	<u>AWAS (Implied)</u>	<u>AWAS -&gt; EEUR</u>	<u>x</u>
<u>EEUR</u>	<u>DELI</u>	<u>AWAS (Present or Implied)</u>	<u>AWAS (Implied)</u>	<u>EEUR -&gt; EEUR</u>	
<u>EEUR</u>	<u>RECE</u>	<u>AWAS (Present or Implied)</u>	<u>AWAS (Implied)</u>	<u>EEUR -&gt; EEUR</u>	

(x) For Settlement Instructions where a transformation is not applicable due to the described conditions, the absence of the counterparty impacted balance always translates to the deliverable position (AWAS). This impacted balance will not be overridden by the earmarking at securities account level restriction type as would normally be the case.

(y) In the case of Already Matched Settlement Instructions only one impacted balance can be specified. The second impacted balance is always implied as the deliverable position (AWAS). For these Already Matched Settlement Instructions, conforming to the exceptions described above, neither impacted balance will be subject to transformation.

Pending instructions settle on the restriction type applicable (as found in the instruction or the one resulting from an earmarking at account level) at the start of day, as is the case for incoming instructions. Pending partial settlements and released settled instructions will adhere to this same principal settling on the restriction type identified as of the start of day, as is the case for incoming instructions.

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#### High level description of Impact:

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#### Outcome/Decisions:

- \* CRG teleconference of 24 February 2016: The CRG decided to put the Change Request on hold and identified as candidate for Release 1.3.
- \* CRG meeting of 10 March 2016: The CRG recommended the Change Request for detailed assessment.
- \* CRG teleconference of 24 February 2016: The CRG agreed to make some updates on the Change Request version proposed by the 4CB for clarification purposes and agreed to have a written procedure on the updated Change Request.
- \* CRG meeting of 10 March 2016: The CRG recommended the Change Request for detailed assessment.
- \* CRG teleconference on 24 March 2016: The CRG agreed to make some updates on the Change Request and to have the detailed assessment done on the updated version.
- \* Advisory Group on 24 March 2016: In a written procedure from 18 to 24 March 2016, the Advisory Group was in favour of launching the detailed assessment on the Change Request.
- \* CSD Steering Group on 29 March 2016: In a written procedure from 18 to 29 March 2016, the CSD Steering Group was in favour of launching the detailed assessment on the Change Request.
- \* Advisory Group on 06 April 2016: In a written procedure from 31 March 2016 to 06 April 2016, the Advisory Group was in favour of launching the detailed assessment on amended version of 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 favour of launching the detailed assessment on amended version of the Change Request.
- \* CRG on 21 April 2016: The CRG members agreed to extend the scope of the Change Request to cover that a static data update on the earmarking at account level should result in an update on pending instructions at settlement level in a written procedure from 14 to 21 April 2016.
- \* CRG teleconference on 29 July 2016: The CRG recommended the approval of the Change Request and its inclusion in the T2S Release 1.3.
- \* OMG in a written procedure from 5 to 12 August 2016: The Operations Managers Group reconfirmed that the Change Request does not have any operational impact. The OMG was in favour of adding the Change Request to 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.

**EUROSYSTEM ANALYSIS – GENERAL INFORMATION**

<b>Impact On T2S</b>	<b>Static data management</b>		<b>Interface</b>	
		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		
		<b>Settlement</b>		<b>Liquidity management</b>
	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		<b>LCMM</b>
		Auto-collateralisation		Instructions validation
				Status management
		<b>Operational services</b>		Instruction matching
		Data Migration		Instructions maintenance
		Scheduling		<b>Statistics, queries reports and archive</b>
		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			

<b>Impact on major documentation</b>				
<b>Document</b>	<b>Chapter</b>		<b>Change</b>	
Impacted GFS chapter				
Impacted UDFS chapter	1.6.1.13.2 Securities Blocking / Reservation / Earmarking - Overview		Include description of earmarking at securities account level exception and corresponding tables with examples	
Additional deliveries for Message Specification				
UHB				
External training materials				
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

This change aims at allowing instructing on AWAS and other earmarking positions when an account is earmarked at securities account level. Additionally, at each Start of Day, earmarking at the securities account level must be studied anew, to update, if relevant, the pending transactions with the relevant impacted positions.

Summary of project risk

No

Security analysis
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No potentially adverse effect was identified during the security assessment.
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DG - MARKET INFRASTRUCTURE & PAYMENTS  
 MARKET INFRASTRUCTURE MANAGEMENT

ECB-PUBLIC



21 July 2016

## Cost assessment on Change Requests

<b>T2S-595-SYS – Allow settlement restrictions and settlement instructions to impact positions other than the earmarked restriction type used at the securities account level</b>			
One-off	Assessment cost*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Project phase costs	117,903.03	Euro
Annual	Operational costs	12,627.40	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).