Executive Summary

The T2S set-up allows for flexibility in the T2S markets’ adaptation process, therefore CSDs have to make choices when it comes to the implementation of their processes and practices with T2S. However, the decisions made at a local level on the use of T2S functionality may impact other CSDs and CSD participants. While these decisions might be justified at national level to support the CSD’s service offering and operating model, they might affect cross-border settlement in T2S.

Restriction rules are implemented by CSDs whenever controls in the form of additional validations in T2S are required. It is up to each CSD to define which restriction rules it needs to implement. These restriction rules may use Market-Specific Attributes¹ (MSAs) allowing CSDs to further customise the controls they put in place according to their specific operating model. Restriction rules and MSAs are subject to configuration limits within the T2S application, e.g. each CSD in T2S may use up to 10 MSAs in its restriction rules².

The objective of this report is to document all restriction rules and make a factual analysis of their impact on cross-border settlement, by assessing the potential implications and complexities for Investor CSDs and other market participants. For each CSD, the analysis distinguishes, when relevant, the restriction rules set as Issuer CSD from those defined as Investor CSD. [The T2S Harmonisation Steering Group (HSG) and the T2S Advisory Group (AG) have endorsed this report for publication.]

At this stage, several CSDs have reported that the implementation of MSAs and restriction rules due to Investor CSD activity has been fairly limited, or even not required. Furthermore, all CSDs except one are well below the ceiling of 10 MSAs. While this information must be taken cautiously until all CSDs have migrated to T2S, it is a positive message as regards the envisaged complexities of combining restriction

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¹ An additional data field that a CSD can assign to party, securities account and securities reference data to fulfil specific requirements for the validation and processing of settlement instructions (T2S Glossary definition).
² See UDFS 2.0: Limitations of the system, Section “1.7.7. Rule-based configurations” for an exhaustive description.
rules and MSAs as Issuer and Investor CSD. The limited number of rules to be implemented as Investor CSD is possibly the result of the following factors:

- Some restriction rules are already implemented by CSDs in their role as Issuer CSD
- Many restriction rules are related to an optional service to which the Investor CSD does not need to subscribe. In some cases, this service is not available to Investor CSDs, or the service is market-specific
- There are several options for the implementation of a specific control, and the usage of a restriction rule or MSA to achieve this control is ultimately the result of a business decision taken by each CSD
- Only a few restriction rules rely on the usage of MSAs

**Coverage and future updates**

This is a living document that intends to provide a catalogue of the CSD restriction rules in T2S and their impact. It relies on the input received from CSDs on the restriction rules they intend to implement. The CSD Steering Group (CSG) documentation of T2S restriction rules “CSDs’ Reference Data Extension version 1.22”, dated January 2015, forms the basis for XMAP’s analysis. CSDs have committed to deliver a final version of their restriction rules at the latest six months before the start of community testing, i.e. March 2015 for Wave 2, August 2015 for Wave 3, and April 2016 for Wave 4. This final version shall include all the rules that will be implemented as Issuer CSD and the rules that will be implemented as Investor CSD up to the current wave. At that point in time, each of the CSDs commits to keep the restriction rules which will be published unchanged until migration, unless a problem is detected during the testing phase.

Compared to the previous version of this report (version 0.1 with Wave 1 CSDs only), the following CSDs are included in the analysis: Clearstream, ESES, Interbolsa, NBB-SSS, VP Lux and VP Securities. The restriction rules from Wave 1 CSDs provided in the previous version remain unchanged, except for SIX-SIS which has brought additional changes after the deadline.

The restriction rules from Waves 2 and 3 provided in this report (ahead of the deadline) are based on an optional participation. They are included whenever the CSD does not envisage changing them during the migration period and thus the reader can already consider them as a trustworthy source of information.

In some cases (Clearstream, NBB-SSS, VP Lux, and VP Securities), the CSDs have noted that this version covers the full scope of their restriction rules, with the information available today.

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3 Conditional Securities Delivery (CoSD) rules have been included in the analysis of this report, whenever they have been described in the official CSG documentation “CSDs’ Reference Data Extension” version 1.22”. CoSD rules are not categorised as restriction rules as per T2S specifications, but similarly allow the control of settlement transactions based on a specific configuration. The CoSD functionality is tailored for scenarios where the depository is external to T2S, or where the currency is not eligible for settlement in T2S. CSDs are currently organising workshops to define guidelines to the usage of CoSD in cross-CSD scenarios. Once finalised, such rules will be included in the CSG documentation on a systematic basis and analysed by the XMAP.
In other cases (ESES, Interbolsa), CSDs have indicated that, although the restriction rules covered in this version can be considered stable, additional rules are envisaged which will be reflected and analysed in further versions of this report.

The next update, foreseen for July 2015, will include final versions from CSDs of waves 1 and 2, as well as from all waves which have provided stable rules by March 2014.

The XMAP may at that stage identify best market practices for the fulfilment of a given business process with a 2018 horizon. This may take the form of proposing to CSDs a standardised way of defining a restriction rule for a certain business process. It may also take the form of proposing to make it part of the standard T2S functionality via Change Request in future releases (after the migration period) if this is deemed more efficient.

**Controls achieved through restriction rules and cross-border impact**

Restriction rules can be implemented in T2S to achieve different controls:

- Reject or hold settlement instructions at the moment of business validation (MSAs may be used in this case)
- Block settlement related to specific parties, securities and securities accounts
- Restrict securities positions or cash balances within an account

Restriction rules defined by a CSD only apply to its participants and not to participants of Investor CSDs, due to the T2S principle of data segregation by system entity\(^4\). However, in the context of cross-CSD settlement, a settlement transaction may still be affected by restriction rules, if realignment movements are generated at the Issuer CSD. This showcases the importance of assessing the technical impacts of restriction rules on the chain of investors (including Investor CSDs) directly or indirectly linked to the Issuer CSD.

Segregation of securities positions can be achieved in T2S by using separate accounts or by creating sub-positions, i.e. position types, using restriction rules\(^5\). The analysis of CSDs’ restriction rules does not invalidate the coexistence of different models between Issuer and Investor CSDs, but implies additional translation effort in case a control needs to be replicated.

**Categorisation per business process**

Restriction rules are categorised based on a list of business processes defined by the XMAP in order to facilitate a comparison by markets and provide a business context to the analysis. The business processes identified are Corporate Actions, Registration, Taxation, Collateral Management, Regulatory Compliance, External Cash Settlement, Issuance, External CSD Settlement, Foreign Securities, Investment Funds Processing, Limitations due to CSD Legacy Platform, Non-European Regulations, Non-Standardised Securities, Operational Procedures, and Static Data Configuration.

\(^4\) Each CSD and NCB has a defined data scope in T2S.

\(^5\) Position types are classified as Case 3 Restriction Type in T2S.
The table on the next page provides an overview of the restriction rules and MSAs implemented by CSDs in scope of this analysis (i.e. Wave 1 CSDs and others opting for this publication) per business process.
# Table 1 – High-level Impact Overview for CSDs in scope of the report

<table>
<thead>
<tr>
<th>T2S CSDs</th>
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<th>Number of MSAs per CSD</th>
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<td>Clearstream</td>
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<td>Malta</td>
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<td>Monte Titoli</td>
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<td>NBB-SSS</td>
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<tr>
<td>SIX-SIS</td>
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<td>VPLux</td>
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<tr>
<td>VP</td>
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<tr>
<td><strong>Number of MSAs per business process</strong></td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
The conclusions per business process, based on the CSDs in scope of the analysis are summarised below:

**Corporate Actions**

Most CSDs have defined restriction rules for the management of CA. Indeed, CA processing is a mandatory process performed by each Issuer and Investor CSD as part of standard customer asset servicing, and this translates in a large number of restriction rules to be implemented on the T2S platform, for the management of CA-related settlement instructions.

A restriction rule that will be widely implemented is the selective blocking of settlement instructions based on the ISIN. It is activated during the period of time in which the CSD(s) are applying the CA and settling CA-related instructions in T2S. A rule defined by the Issuer CSD will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs, unless they replicate the control. According to the feedback collected, the CA event types requiring the activation of this rule are not always defined and differ between CSDs. Note that this does not necessarily imply a problem but may be the result of the complexity of CA handling which require a granularity beyond categories or event types to determine which processing to apply. It must however be ensured that Issuer and Investor CSD(s) communicate and identify the CA events and the moments of time at which the restriction rule should be activated.

Segregation of securities positions is mandated in the context of elective CA. Depending on the choice of segregation model, CSDs may decide to implement restriction rules or not – so far the usage of restriction rules is not predominant. The choices made by Investor CSDs to segregate positions may differ from the one of the Issuer CSD, which will result in different setup in terms of restriction rules and securities positions reconciliation mechanisms.

**Registration**

Many European markets have implemented procedures for registration of securities, but the controls and processes required to perform registration are quite different among CSDs. In the context of the XMAP analysis, this results in different restriction rules being defined by a few CSDs in their role as Issuer CSD.

The restriction rules defined by one CSD may impact Investor CSDs if they decide to service registered securities. In such case, they will need to implement account segregation and restriction rules to distinguish between settlement of registered and non-registered securities and ensure that the appropriate validations are performed in their own structure.

For the other CSDs having implemented restriction rules for registration, the impact on Investor CSDs is negligible.

**Taxation**

Withholding tax calculation procedures will be supported by the use of restriction rules by one CSD in its role as Issuer CSD. This may impact Investor CSDs’ account structure and settlement flows depending on

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6 In T2S specification terms, this is referred as “data scope”
the tax status of their underlying participants. When a global exemption from withholding tax is not provided, Investor CSDs will have to segregate their participants’ holding according to their tax status vis-à-vis the Issuer CSD’s authorities, and implement the restriction rules and MSAs defined for this purpose.

**Collateral Management**

Restriction rules will be put in place by several CSDs to support different services they provide in the context of collateral management. The need for Investor CSDs to implement controls in the form of segregation or restriction rules in their own structure depends on the availability of the service to Investor CSDs.

In most cases, the service is not available to Investor CSDs and impact on cross-CSD settlement can be considered minimal.

In one case, Investor CSDs will be able to open pledge accounts on behalf of their participants at the Issuer CSD. This will require segregation of participants’ holdings in their books; however the restriction rules, used in this context to check the eligibility of the collateral, do not need to be replicated.

**Regulatory Compliance**

T2S offers CSDs the appropriate toolkit to implement the controls related to regulatory compliance. Most CSDs have defined restriction rules in this context, to enforce decisions made by competent authorities, i.e. a court order or national regulator, to suspend the activity of a client.

It is expected that each CSD will have defined procedures to handle this situation in T2S. In the context of the present analysis, it results in wide differences in the implementation of restriction rules. Some CSDs will only reject new instructions, while others will block the settlement of existing transactions in T2S, or block specific securities positions. Finally some CSDs will use a combination of restriction rules to achieve the required level of control. This will result in a different treatment of settlement transactions involving e.g. a suspended client, depending on the CSD.

The T2S application could offer potential for harmonisation with regards to the implementation of restriction rules related to regulatory compliance, such as defining standard T2S static data and business validations, which would alleviate the need to create MSAs and specific restrictions. These may be envisaged in a future release of T2S.

**External Cash Settlement**

Several CSDs will offer external cash settlement services to their participants, i.e. settlement in currencies non-eligible in T2S.

To this end, they will use the “Conditional Securities Delivery” (CoSD) functionality available in T2S, which allows blocking the securities leg of the transaction while the cash leg settles outside T2S, and in a second step to release and settle the securities in T2S. One CSD will complement the CoSD process with other restriction rules, to perform additional validations before the Intended Settlement Date.
CSDs in scope of this analysis will not offer external cash settlement services to Investor CSDs in T2S. Impact on Investor CSDs’ settlement flows is therefore considered negligible.

There is potential room for harmonisation of market practices due to different implementation of the service among CSDs; for example, settlement instructions in ineligible currencies are rejected in a CSD, and are eligible to settle as normal FOP in others. Handling of erroneous cross-CSD transactions is also different among CSDs due to different definition of the CoSD rules.

**Issuance**

A few CSDs have defined restriction rules to control the actors taking part in the securities issuance process.

The issuance process itself, i.e. initial credit of the securities, is always carried intra-CSD, and most of the issuance related restriction rules apply exclusively within the Issuer CSD in order to monitor the amount of issued securities and to ensure that the process is initiated according to the specific requirements of the issue.

In the case of three-tiered issuance distribution model, the distribution account can be held at Investor CSDs. No restriction rules and specific controls related to the distribution account has been defined for the CSDs in scope of the analysis, therefore no impact on Investor CSDs has been identified.

**External CSD Settlement**

Conditional Securities Delivery (CoSD) will be put in place for scenarios involving a CSD external to T2S where conditionality is required. CSDs are currently organising workshops with the aim to have a harmonised approach on the definition of such rules in T2S. It is expected to reflect the CSDs’ consensus in the next version of the report.

**Foreign Securities**

One CSD has put in place validations in the form of restriction rules, to ensure the consistency of securities holdings resulting from cross-CSD activity, inter alia foreign securities held at the CSD, and the account types holding these securities. These securities cannot be held on the account dedicated to registered securities, and in the case where Investor CSDs hold foreign securities through the CSD, they should implement the restriction rules and MSAs with relevant values for their activity.

**Investment Funds Processing**

One CSD will put in place restriction rules related to redemption of funds.

The rules put in place by one CSD ensure that funds securities positions are blocked into a specific sub-position prior to redemption. Investor CSDs holding these securities shall also segregate and restrict these positions for settlement in their account structure via the use of a restriction rule. At the time of writing, this service is rarely used by the CSD’s participants. Impact on Investor CSDs is expected to be limited.

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7 A specific procedure is defined to allow the settlement of transactions in non T2S currencies. More details are provided in Section “4.6 External Cash Settlement”
Non-European Regulations

CSDs, as part of their commercial service offering, may provide optional services to their participants in order to facilitate the disclosure requirements imposed by non-European Regulations.

Two CSDs have defined controls in the form of restriction rules to support intermediaries in the identification of end-investors in the context of the TEFRA-D regulation. When this optional service is used by Investor CSDs, they should analyse whether to implement the rules and relevant MSAs defined by the CSDs.

Non-Standardised Securities

European markets tend towards full dematerialisation or immobilisation of securities instruments in the medium term, but a small fraction of physical securities are still traded among participants. Such physical instruments, represented by individual certificates are immobilised in the Issuer CSD and subsequently traded by book-entry.

Based on the CSDs in scope of this analysis, the related restriction rules do not need to be implemented by Investor CSDs.

Operational Procedures

Operational procedures will be put in place by CSDs in order to deal with contingency situations and take corrective actions.

In this context, two CSDs have defined special restriction rules that will allow them to by-pass the other restriction rules they have put in place. Such operational procedures could be considered by all CSDs in T2S having defined additional controls in the form of restriction rules, to manage potential contingency situations and be able to by-pass specific validations. The restriction rules analysed here could serve as a basis for harmonised guidelines across CSDs.

Static Data Configuration

Several CSDs will put in place restriction rules related to static data configuration to support their operational model, or, to provide further flexibility to participants in the choice of their account structure.

When these restriction rules have been defined to support internal processes, such as blocking any settlement prior deletion of an account, restriction rules shall not be replicated and impact on Investor CSDs can be considered negligible.

When these restriction rules have been defined to allow segregation of securities positions within omnibus accounts on request of Investor CSDs, Investor CSDs may need to implement this segregation in their books to ensure consistency of available securities positions.
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1.   Introduction

1.1  Background

The Cross-Border Market Practices Sub-Group (XMAP) was mandated by the Harmonisation Steering Group (HSG) to analyse the impact of existing and diverging market practices on cross-border settlement efficiency in T2S. The HSG is responsible for the validation of the outcome of Sub-Group analysis.

In this context, the CSD Steering Group (CSG) made the initial consolidated version of the intended rules and restrictions of CSDs in T2S transparent in September 2013 (first version of the document TARGET2-Securities CSDs’ Restriction Rules) and agreed that XMAP should analyse the rules and restrictions from the cross-CSD processing point of view. The outcome of XMAP assessment exercise would provide the basis for further discussion and support on the CSDs’ restriction rules in T2S. The XMAP’s assessment focuses on the business scenarios and the business rules behind the restrictions setup in T2S.

1.2  Scope of Work

Note: The XMAP analysis is based on the CSG documentation “CSDs’ Reference Data Extension”, and the version 1.22 is used as a baseline for this iteration of the report. While many CSDs have provided a stable baseline version of their restriction rules in the current version of the CSG documentation, it is to be considered as a living document, taking into account the deadlines defined according to the migration waves: CSDs have committed to deliver a final version of their restriction rules at the latest six months before the start of community testing, i.e. March 2015 for Wave 2, August 2015 for Wave 3, and April 2016 for Wave 4.

The CSG documentation of T2S restriction rules “CSDs’ Reference Data Extension” forms the basis for XMAP’s assessment of restriction rules and MSAs. The baseline version used for this iteration of the analysis is the version 1.22. The objective of the assessment is to analyse the impact of restriction rules on cross-border business and assess the potential complexities and implications for Investor CSDs to implement restriction rules in their markets based on the Issuer CSDs’ adaptation choices. Conditional Securities Delivery (CoSD) rules have been included in the analysis of this report, whenever they have been described in the official CSG documentation. CoSD rules are not categorised as restriction rules as per T2S specifications, but similarly allow the control of settlement transactions based on a specific configuration. The CoSD functionality is tailored for scenarios where the depository is external to T2S, or where the currency is not eligible for settlement in T2S. CSDs are currently organising workshops to define guidelines to the usage of CoSD in cross-CSD scenarios. Once finalised, such rules will be included in the CSG documentation on a systematic basis and analysed by the XMAP. The cross-CSD impact analysis will cover two key dimensions:

- Impact on Investor CSD account configuration

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8 Issuer CSD must be understood in the broader sense as rules defined by a CSD for its participants. The concept of Issuer CSD may or may not be relevant depending on the business process being analysed.
This dimension involves analysis of the needs for segregation of securities holdings (using either distinct securities accounts or position types) in the Issuer CSD defining the rule. The objective of this activity is to ascertain the need for Investor CSDs to replicate the Issuer CSD’s securities holding structure in their own books and analyse the implications of segregation on the Investor CSD participants’ securities account structure. Please note that the analysis is limited to account segregation used in the context of the restriction rules.

- Impact on Investor CSD settlement flows

This dimension involves analysis of the impact of Issuer CSD restriction rules on Investor CSDs linked via direct or relayed links to the (Issuer) CSD. The objective of this activity is two-fold:

- Identify and describe the technical impacts of the restriction rules defined by (technical) Issuer CSDs on cross-CSD settlement
- Analyse the need to replicate the (Issuer) CSD restriction rules in the Investor CSD from a business process perspective. In addition, the analysis also covers the MSAs used by Issuer CSDs for the definition of restriction rules and the possible need to propagate the Issuer CSD’s MSAs to the Investor CSD due to replication of restriction rules.

CSDs have defined restriction rules for business processes wherein controls in the form of additional validations in T2S are required. Some of these business processes (e.g. registration, taxation, corporate actions…) are common across markets whereas other business processes are specific to some markets and result from market practices, regulatory requirements, or specific service offering. The assessment of the restriction rules will be done by business process as opposed to a specific CSD (or market) focus. This approach will facilitate the comparison of T2S adapted processes across CSDs and help identify best market practices for implementation of restriction rules in T2S.

Each restriction rule defined by CSDs is assigned to one of the business processes below as defined by the XMAP.

List of Business Processes identified by the XMAP for the Analysis of Restriction Rules

- Corporate Actions
- Registration
- Taxation
- Collateral Management
- Regulatory Compliance
- External Cash Settlement
- External CSD Settlement
- Foreign Securities
- Issuance
• Investment Funds Processing
• Limitation due to CSD Legacy Platform
• Non-European Regulations
• Non-standardised Securities
• Operational Procedures
• Static Data Configuration

1.3 Out of Scope

As part of the assessment, the ECB Team also analyses the technical feasibility of the restriction rules from T2S perspective and bring forth these findings to the respective CSD through bilateral exchanges. However, the XMAP assessment exercise does not validate if the CSD restriction rules fully achieve the objective of the intended adaptation of the CSD’s business process. This is primarily due to the limited view of the CSD service offering and market-specific process details available to the XMAP.

2. Methodology and Framework

2.1 Assessment Framework

The analysis framework for CSD restriction rules comprises 5 activity components:

Figure 1 – XMAP Assessment Framework for CSDs’ Restriction Rules Analysis

- ‘Business Process – Introduction’ (Defines the general business process)

This activity focusses on providing a definition and high-level description of the business process that is relevant for the restriction rules analysis. It provides generic explanations on the way the business process is handled prior to T2S and, when relevant, the changes that are required when migrating to T2S. The objective of this activity is to establish a common understanding of the business process across all stakeholders.
• ‘**Current State of Business Process**’ *(Describes the current process with emphasis on the process controls)*

This activity focuses on the controls currently implemented in the CSD systems and operations for the business process. The objective of this activity is to establish the context and provide the background for the need to implement the restriction rules in T2S.

• ‘**Adapted State of Business Process**’ *(Describes the target state process with the controls envisaged using the T2S restrictions framework)*

This activity focuses on the description of the restriction rules that will be implemented for the business process. MSAs used in this context are also described. The activity helps in understanding the tools and procedures to be used by CSDs to implement existing or new market practices and facilitates the comparison of control mechanisms in T2S for same business process across multiple markets.

• ‘**Cross-CSD – Impact Analysis**’ *(Analyses the impact of the process controls on cross-CSD settlement in T2S)*

This activity focuses on analysing the impacts of (Issuer) CSD restriction rules on Investor CSDs’ account configuration and settlement flows. The analysis identifies cases where segregation of securities positions is required in the CSD defining the rule and examines the need for replicating the segregation in Investor CSDs of this CSD. From a settlement perspective, the study assesses the technical impacts of restriction rules defined by (Issuer) CSDs on cross-CSD transactions, as well as the need to replicate the rule from a business process standpoint.

• ‘**Conclusions**’ *(Summarises the key findings of the analysis)*

This activity focuses on comparing the target state business processes across markets to identify similar needs for business process controls but differing implementations opted by CSDs for T2S adaptation (i.e. use of T2S functional toolkit). Additionally, in cases where feasible, best practices in the form of a standard control or procedure(s) are also recommended. The objective of this activity is to facilitate the identification and adoption of best practices for T2S implementation as well as promote standardisation across T2S markets.

Prior to the assessment by business process, a generic analysis based on T2S functionalities is performed to showcase the potential impacts of restriction rules in a cross-CSD context with:

• An introduction of the different restriction types in T2S and important configuration options

• A description of potential impacts of restriction rules on Investor CSD settlement transactions according to the restriction type and cross-CSD settlement scenario

• A generic impact analysis resulting from account segregation using position types in T2S
2.2 Execution Methodology

From the perspective of performing the CSDs’ restriction rules analysis, the framework component ‘Business Process – Introduction’, will be CSD (or market) agnostic and focus on the generic description of the process. The framework components ‘Current State of Business Process’, ‘Adapted State of Business Process’ and ‘Investor CSD – Impact Analysis’ analyse the CSDs specific business processes, restriction rules and their impacts in an iterative manner for each CSD. The ‘Conclusions’ will provide a holistic view of the impacts on each business process with some further details specific to each CSD.

Figure 2 – Execution Approach for CSDs’ Restriction Rules Analysis

3. Generic T2S Concepts

3.1 Restriction Types

CSDs and NCBs can set up restrictions in T2S through the use of restriction types in order:

- To accept, reject, or put on “CSD Validation Hold” settlement instructions and settlement restrictions at business validation level (Case 1 Restriction Type);
- To conduct intraday restrictions on parties, securities and securities accounts, external RTGS accounts and T2S dedicated cash accounts to block settlement on the relevant static data object (Case 2 Restriction Type);
- To restrict securities positions or cash balances (Case 3 Restriction Type).

Case 1 and 2 Restriction Types are rule-based models allowing CSDs and NCBs to define rules with a group of parameters and values fulfilling the condition for the restriction to be applied (e.g. settlement instructions with ISO transaction code value “XYZ” instructed by party “123” should be rejected). Restriction rules can be defined with a positive or negative parameter set:

- A negative parameter set is used to determine the conditions under which the restriction should not apply (e.g. a CSD setting an intraday restriction on an ISIN of negative parameter with ISO
transaction code “CORP” preventing settlement of any instruction on that ISIN except those related to
corporate actions with ISO transaction code “CORP”).

- A positive parameter set is used to define the conditions under which the restriction applies (e.g. a
CSD defining a positive restriction rule to reject the settlement instructions related to central bank
operations identified with the ISO transaction code “CNCB” sent by a CSD participant).

Usage of Market-Specific Attributes

T2S offers the possibility to CSDs and NCBs to define Market-Specific Attributes (MSAs) in the T2S
static data on securities, securities accounts, or parties. An MSA is an additional data field that a CSD can
assign to party, securities account and securities reference data to fulfil specific requirements for the
validation and processing of settlement instructions9. A given MSA can have several allowed values (e.g.
MSA “Taxation” on party with possible values “tax exempted” or “tax not exempted”). MSAs can be
used in T2S with different goals:

- For information purposes;

- To be used in the configuration of restriction rules in order to reject or put on CSD Validation Hold
(Case 1 Restriction Type) settlement instructions so that the scope of the restriction is limited to those
incoming instructions matching the value of the MSA defined in the rule (e.g. to put on CSD
Validation Hold instructions sent by parties with an MSA on “Taxation” with value equal to “tax not
exempted”). MSAs cannot be defined for Case 2 and Case 3 Restriction Types.

3.2 Restriction Rules in a Cross-CSD Context

CSDs have defined restriction rules with a focus on domestic participants, when controls in the form of
additional validations in T2S are required for the provision of specific services, such as registration,
issuance, or corporate actions. However restriction rules defined by a(n) (Issuer) CSD may have an
impact on the whole chain of investors, including Investor CSDs and their participants. The sub-sections
below showcase the consequences of setting up restriction rules in a cross-CSD context to highlight the
potential impacts on Investor CSDs’ settlement flows, on the other side, to show the potential
complexities linked to the MSAs and rules that Investor CSDs might need to replicate (from Issuer CSDs)
and combine with their own.

3.2.1 Impact on Investor CSD Settlement Flows

Due to the T2S principle of data segregation by system entity (CSD, NCB), restriction rules defined by a
CSD only apply within its own structure, i.e. data scope, and any rule setup by the Issuer CSD will not
apply to Investor CSDs’ participants. Nevertheless, in order to provide straight-through processing cross-
CSD settlement, T2S builds the realignment chain to debit or credit the relevant omnibus and mirror
accounts of the CSDs directly or indirectly affected by the transaction. In this context, the T2S generated
Settlement Instructions are subject to the rules setup by the Issuer CSD like any other settlement

9 T2S Glossary definition
instruction under its data scope. As a result, restriction rules may still affect a transaction involving an Investor CSD if realignment movements for this transaction are generated at the Issuer CSD.

The following scenarios demonstrate the impacts of restriction rules on settlement transactions involving Investor CSDs, and more precisely, the effect of each restriction type on the underlying settlement instructions (Business Instructions as well as T2S generated Realignment Settlement Instructions) under the assumption that the rule is not replicated and only defined at the Issuer CSD. No distinction is made if the settlement transaction results from a specific business process (e.g. issuance) or from a trade between participants, as both may be equally impacted by a rule.

In many cases, Investor CSDs will not be informed in the status messages sent by T2S on their business instruction(s) that the transaction has been impacted by a restriction rule, unless they replicate the rule in their system entity. Another possibility for Investor CSDs to obtain the information is to subscribe to the realignment and status messages generated on their omnibus accounts, which will provide information on the restriction rule applied on the realignment instruction(s). Even so, in one specific cross-CSD scenario where a rejection rule is defined by the Issuer CSD, neither the Issuer CSD nor the Investor CSDs are informed in the status messages sent by T2S that a transaction has been cancelled due to a restriction rule\(^\text{10}\).

**Scenario 1: Cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts takes place at the Issuer CSD**

This scenario covers a securities delivery between participants of different Investor CSDs, which have a direct link to the Issuer CSD (the Issuer CSD is defined as their Technical Issuer CSD in T2S), while the restriction rule is only setup at the Issuer CSD.

**Figure 3 - Cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts takes place at the Issuer CSD**

\(^{10}\) The XMAP will discuss whether a CR should be envisaged for a further release of T2S to refine the information provided to Investor CSDs in such scenario.
In this case, SI-A and SI-B are outside the scope of the restriction rule setup by the Issuer CSD.

Since this is a cross-CSD transaction between two Investor CSDs, T2S will generate settlement realignment instructions after successful matching to build the realignment chain and debit/credit the correct omnibus and mirror accounts.

In this scenario, the T2S generated Settlement Realignment instructions created for the settlement movement between omnibus accounts at the Issuer CSD will be affected by the rule, which will prevent settlement of the transaction (since all instructions must settle on an all or none basis).

The restriction rule setup at the Issuer CSD may impact the settlement transaction and underlying settlement instructions differently depending on the rule type, as shown in the table below:

Table 2- Cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts takes place at the Issuer CSD

<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
</table>
| Case 1: Rejection (settlement instruction) | SI-A will have status “Matched” then “Cancelled” due to rejection of the T2SgSI  
SI-B will have status “Matched then “Cancelled” due to rejection of the T2SgSI  
T2SgSI will not be generated. |
| Case 1: CSD Validation Hold (settlement instruction) | SI-A will have status “Matched” and Settlement status “Pending” (Reason code LINK, status sent on Intended Settlement Date)  
SI-B will have status “Matched” and Settlement status “Pending” (Reason code LINK, status sent on Intended Settlement Date)  
T2SgSI will have status “Matched” and Settlement Status “Pending” (Reason code CVAL, status sent upon validation of the SI in T2S) |
| Case 2: Blocking (security, account, party) | SI-A will have status “Matched” and Settlement status “Pending” (Reason code LINK, status sent on Intended Settlement Date)  
SI-B will have status “Matched” and Settlement status “Pending” (Reason code LINK, status sent on Intended Settlement Date)  
T2SgSI will have status “Matched” and Settlement Status “Pending” (Reason code SBLO/BLOC, status sent on Intended Settlement Date) |

11 UDFS version 2.0 reference: page 375 “Validity of T2S generated realignment Settlement Instructions “. 
The above table illustrates the impacts of restriction rules defined by an Issuer CSD on Investor CSDs. The most impacting case described here above is in the event of a “Rejection” restriction rule, where settlement instructions of Investor CSDs’ participants are cancelled automatically by T2S, after initial acceptance and matching. In this specific case, T2S generated Settlement Realignment Instructions are not created as they do not pass the business validation: the consequence is that the Issuer CSD defining the restriction rule is not notified that the rule has caused the cancellation of the transaction. Investor CSDs are not informed that the cancellation of the transaction is due to a restriction rule, unless they replicate it in their system entity.

Depending on the counterparties to the trade as well as their link to the (Issuer) CSD defining the rule, the impacts on the settlement transaction involving Investor CSD(s) will vary, as shown in the following scenarios.

**Scenario 2: Cross-CSD transaction involving the Issuer CSD and an Investor CSD**

This scenario covers a securities delivery between a participant in the Investor CSD and another in the Issuer CSD, while the restriction rule is only setup at the Issuer CSD. It also takes into account the case where the rule comes into effect while Business Instructions are matched, e.g. in case the rule is triggered on the realignment instruction.

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12 If restriction is applied on securities, reason code will be SBLO, if on accounts or parties, the reason code will be BLOC.

13 The initial business transaction takes place between participants of the Investor CSDs.

14 Following message is provided to the Investor CSD: Business Validation Rule SPRC006: “Business Instruction is cancelled because validation of one of the realignment instructions has failed”. The XMAP will discuss whether a CR should be envisaged for a further release of T2S to refine the information provided to Investor CSDs in such scenario.
In this case, SI-A is outside the scope of the restriction rule setup by the Issuer CSD, but SI-B will be affected by the rule.

Since this is a cross-CSD transaction between the Issuer and Investor CSD, T2S will generate settlement instructions after successful matching to build the realignment chain and debit/credit the correct omnibus and mirror accounts.

The restriction rule setup at the Issuer CSD may impact the settlement transaction and underlying settlement instructions differently depending on the rule type, as shown in the table below:

**Table 3 - Impact of restriction rules on cross-CSD involving the Issuer CSD and an Investor CSD**

<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
</table>
| Case 1: Rejection (settlement instruction) | SI-A will have status “Unmatched”  
SI-B will have status “Rejected”  
T2SgSI will not be generated  
If SI-A and SI-B are matched when the restriction rule is triggered (e.g. applies on the realignment instructions)  
SI-A will have status “Matched” then “Cancelled” due to cancellation of the T2SgSI  
SI-B will have status “Matched” then “Cancelled” due to cancellation of the T2SgSI  
T2SgSI will have status “Matched” then “Cancelled” |
<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
</table>
| Case 1: CSD Validation Hold (settlement instruction) | SI-A will have status “Matched” and Settlement status “Pending” (Reason code PRCY, status sent on Intended Settlement Date)  
SI-B will have status “Matched” and Settlement status “Pending” (Reason code CVAL, status sent upon validation of the SI in T2S)  
T2SgSI will have status “Matched” and Settlement Status “Pending” (Reason code LINK, status sent on Intended Settlement Date) |
| Case 2: Blocking (security, account, party) | SI-A will have status “Matched” and Settlement status “Pending” (Reason code SBLO/BLOC, status sent on Intended Settlement Date)  
SI-B will have status “Matched” and Settlement status “Pending” (Reason code SBLO/BLOC, status sent on Intended Settlement Date)  
T2SgSI will have status “Matched” and Settlement Status “Pending” (Reason code SBLO/BLOC, status sent on Intended Settlement Date) |
| Case 3: Position Type complemented by a rejection (case 1) on the position type | if SI-B is credited into earmarked position (RECE movement type)  
or if SI-B debited from blocked/reserved/earmarked position (if scenario was a DELI movement type)  
SI-A will have status “Unmatched”  
SI-B will have status “Rejected”  
T2SgSI will not be generated |

**Scenario 3: Cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts does not take place at the Issuer CSD**

This scenario covers a securities delivery between participants of different Investor CSDs, which do not have a direct link to the Issuer CSD (the Issuer CSD is not defined as their Technical Issuer CSD in T2S), while the restriction rule has only been setup at the Issuer CSD.

**Figure 5 - Cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts does not take place at the Issuer CSD**
SI-A and SI-B are outside the scope of the restriction rule setup by the Issuer CSD.

Since this is a cross-CSD transaction between Investor CSDs, T2S will generate settlement instructions (T2SgSI) after successful matching to build the realignment chain and debit/credit the correct omnibus and mirror accounts.

However, in this specific scenario, this does not involve any settlement movement at the Issuer CSD.

As a result, any restriction rule setup at the Issuer CSD will not have any impact on the settlement transactions between Investor CSDs, as shown in the table below:

**Table 4 - Impact of restriction rules on cross-CSD transaction involving two Investor CSDs where realignment between omnibus accounts does not take place at the Issuer CSD**

<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1: Rejection (settlement instruction)</td>
<td>SI-A, SI-B, and T2SgSIs will not be affected and transaction may settle</td>
</tr>
<tr>
<td>Case 1: CSD Validation Hold (settlement instruction)</td>
<td>SI-A, SI-B, and T2SgSIs will not be affected and transaction may settle</td>
</tr>
<tr>
<td>Case 2: Blocking (security, account, party)</td>
<td>SI-A, SI-B, and T2SgSIs will not be affected and transaction may settle</td>
</tr>
<tr>
<td>Case 3: Position Type complemented by a rejection (Case 1) on the position type</td>
<td>SI-A, SI-B, and T2SgSIs will not be affected and transaction may settle</td>
</tr>
</tbody>
</table>
**Scenario 4: Intra-CSD transaction at Investor CSD**

This scenario covers a securities delivery between participants of the same Investor CSD, while a restriction rule has been setup at the Issuer CSD. The assumption is that both participants in the Investor CSD are mapped to the same omnibus account at the Issuer CSD. When this is not the case, the impacts on a rule defined at the Issuer CSD on an intra-CSD transaction at the Investor CSD will be as described in Scenario 1.

**Figure 6 – Intra-CSD transaction at the Investor CSD**

SI-A and SI-B are outside the scope of the restriction rule setup by the Issuer CSD.

Furthermore, since this is an intra-CSD transaction at the Investor CSD, T2S does not generate any realignment instructions and all securities movements take place between the Investor CSD’s participants’ accounts.

As a result, any restriction rule setup at the Issuer CSD will not have any impact on the settlement transaction at the Investor CSD as shown below:

**Table 5 - Impact of restriction rules on intra-CSD transaction at the Investor CSD**

<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1: Rejection (settlement instruction)</td>
<td>SI-A and SI-B will not be affected and transaction may settle</td>
</tr>
<tr>
<td>Case 1: CSD Validation Hold (settlement instruction)</td>
<td>SI-A and SI-B will not be affected and transaction may settle</td>
</tr>
<tr>
<td>Case 2: Blocking (security, account, party)</td>
<td>SI-A and SI-B will not be affected and transaction may settle</td>
</tr>
</tbody>
</table>
### 3.2.2 Potential Complexities linked to Rules Propagation

Propagation of rules refers to the scenario in which an Investor CSD implements restriction rules based on the restriction rules defined by the Issuer CSD.

The analysis of the potential impacts of restriction rules on cross-CSD settlement flows illustrates that Investor CSDs may need to propagate some rules in order to have a consistent behaviour with regards to the lifecycle of their settlement instructions and their service offering.

However, CSDs also have to consider the complexities inherent to the increased number of rules and their implementation. The propagation of rules and MSAs is not always a trivial copy and paste of the restriction rules defined by the Issuer CSDs, but could be in some cases a much more complex exercise. Indeed, each Investor CSD may have defined its own restriction rules for a specific business process, and on top, have to implement rules from one or several Issuer CSDs for the same business process. This might potentially require substantial effort on “translation” and combination of rules and parameters values, resulting in increased complexity for Investor CSDs.

In addition, if MSAs are used in the rules (e.g. as restriction rule parameters), the propagation of the rules from the Issuer to the Investor CSDs may also lead to the propagation of MSAs, and when the Investor CSD has also defined an MSA for the same object, rules parameter values could need to be combined in order to control the expected outcome of rules. This could lead to an increase in the number and complexity of MSAs, as well as in the configuration of the rules using these MSAs. [According to the feedback provided by some CSDs at the time of writing, such problem has not been encountered so far].

While the implementation of restriction rules as Issuer or Investor CSD should be driven by the need to implement a control related to a specific business process (so that the behaviour of T2S is in sync with the intended business objective), the impacts of setting restriction rules and MSAs on cross-CSD settlement flows and configuration of static data must be carefully assessed, and there is a need for CSDs to understand the rules of other CSDs, in order to control the effects of a rule on their participants.

### 3.3 Segregation Models

#### Segregation Models prior to T2S

CSDs are using segregation of securities positions in different contexts due to the specificities of the business process, market practices, or regulatory requirements and have defined rules and procedures based on these segregated positions, inter alia:

<table>
<thead>
<tr>
<th>Restriction rule defined at Issuer CSD</th>
<th>Impact on settlement instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 3: Position Type complemented by a rejection (Case 1) on the position type</td>
<td>SI-A and SI-B will not be affected and transaction may settle</td>
</tr>
</tbody>
</table>
Various segregation models are implemented by CSDs, according to national specificities, service offering, and market practices favoured by CSD participants. A non-exhaustive list of segregation models used by CSDs is described below.

**Account segregation model**

Segregation can be implemented using distinct securities accounts at the CSD. The CSD opens and maintains multiple accounts for each of its participants. Accounts are qualified by using account level attributes to identify the purpose of the account. The diagram below illustrates a segregation model using separate accounts:

**Figure 7 - Example of account segregation model**

One of the most prevalent variations of the account segregation model is the main account/sub-account structure. In this model, each securities account held by a CSD participant is composed of a main account and one or more sub-accounts. The securities positions held in the main account are used by default for settlement of transactions, whereas the holdings in sub-accounts represent positions set aside for a specific purpose. The CSD configures sub-accounts either on a mandatory basis, e.g. when imposed by regulatory requirements, or upon request of its participants, for the provision of specific services. The sub-accounts are always identified along with the main account. The diagram below illustrates a segregation model using main/sub accounts:
Position type segregation model

Segregation can also be achieved by splitting securities positions of an account into two or more sub-positions, also commonly referred as position types. The terminology of these position types varies across markets, inter alia ‘Account nature’ (ESES), or ‘situation’ (Interbolsa). The diagram below illustrates a segregation model using position types:

In a segregation model by position types, the CSD maintains a securities account for each participant. Distinct position types are configured within the same securities account to segregate securities positions.

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for a specific purpose. Each position type is identified by a distinct code identifying the purpose for which the positions have been segregated.

Some CSDs use a combination of the segregation models described above. One main account is complemented with one or many sub-accounts and holdings within the sub-accounts are further segregated by using qualified position types. Several accounts can also be opened for a participant, each account being further segregated into position types.

**Segregation Models in T2S**

T2S supports segregation of holdings using separate accounts or using specific position types or a combination of both. CSDs have the option of choosing the account structure that best suits their existing business and operating model.

The diagram below illustrates the combined account structure achievable in T2S:

**Figure 10 - Example of Combined Account structure in T2S**

For the creation of position types within an account, T2S provides the following processing options for CSDs, referred as Case 3 Restriction Type.

**Blocking**

The process of blocking creates a blocked pool of securities position preventing the transfer of the blocked quantity of a security in one securities account to any other securities account by associating it to a specific identification to be used for specific purposes. The settlement of a settlement instruction using blocked securities results in the actual transfer of the blocked holdings to another securities account and in the subsequent removal of the blocking. Settlement restrictions\(^{16}\) that are used to setup blocking restriction types cannot settle partially.

\(^{16}\) Intra-Position Movement and Intra-Balance Movement are Settlement Restrictions
Earmarking

Earmarking is the process of specifying that a certain quantity of a security in one securities account is only eligible for specific type of transactions or processes. Settlement restrictions used to setup earmarking position types can settle partially. Earmarking at the securities account level is also possible.

Reservation

Reservation prevents the transfer of a securities position in a specific security in one securities account to any other securities account except for the purpose for which the position was reserved. Settlement restrictions used to setup reservation restriction type can settle partially.

Please note that some position types are created directly by the T2S Operator, inter alia “COSD” blocking used in the context of Conditional Securities Delivery (CoSD) and “EEUR” used for earmarking in the auto-collateralisation process.17

Impacts of using position types in T2S in a cross-CSD context

Segregation by position types can be seen as one of the implementation options to achieve segregation of securities positions, and depends on the operating model and market practices of the CSD. In the context of the present analysis, if position types defined by an Issuer CSD for a specific business service are applicable to its Investor CSD, segregation could be achieved by using position types within a securities account (Case 3 Restriction Type) or by using separate accounts depending on the implementation option of the Investor CSD in T2S, with different impacts in terms or rule setup, Market-Specific Attributes and reconciliation of securities positions. The increase in the number of segregated positions resulting from the implementation of a business process as Issuer or Investor CSD will lead to additional complexity in the account configuration.

For cross-CSD settlement, T2S generated realignment instructions do not reference any of the position types created by the CSD, except in the case of earmarking at the level of a securities account. Indeed, if the position types (Case 3 Restriction Type) rules defined by the Issuer CSD are applicable to the omnibus accounts of the Investor CSD, this could result in the segregation of Investor CSD positions within the omnibus account. In a cross-CSD scenario, a Business Instruction from a CSD participant of the Investor CSD could trigger the generation of realignment instructions by T2S at the Issuer CSD, debiting or crediting the omnibus account of the Investor CSD. But the realignment instructions generated by T2S on the omnibus accounts always reference the available position type (‘AWAS’) for delivery and receipt of the securities. Therefore, positions segregated by position types in an omnibus account will not be used by T2S for settlement of realignment instructions. This also implies that such segregated positions cannot be used directly for cross-CSD settlement, and must first be transferred to the available (AWAS) position. CSDs must take note of this and analyse if the segregation of the positions intends to restrict their usage in cross-CSD settlement.

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17 Please refer to Table 10 – Restriction Matrix in the UDFS 2.0 for an exhaustive list of Case 3 Restriction Type created by the T2S Operator
As long as there are sufficient positions available in the ‘AWAS’ position type at the omnibus account, the realignment instruction and the corresponding delivering Business Instruction would settle successfully. The diagram below illustrates how position types are used in a cross-CSD transaction:

**Figure 11 - Position types used in realignment instructions generated by T2S**

In the diagram above, Investor CSD A and Investor CSD B have opened omnibus accounts at the Issuer CSD I. The Issuer CSD has segregated the positions of the omnibus account using a blocking position type BL01. The Investor CSDs have also used a similar blocking position type BL01 in their respective participant accounts to segregate the positions.

Participant of Investor CSD A instructs to deliver securities to a participant of Investor CSD B debiting the securities from blocked position type in his securities account. Since realignment instructions generated by T2S uses only AWAS positions in the omnibus account, the movement in the omnibus accounts of the Investor CSDs CSD A and CSD B uses AWAS position (movement R2 in figure 5). Also, in T2S it is not possible to indicate a blocked or reserved position type into which the received securities must be transferred. Therefore, segregated positions in the position type BL01 will not be used by T2S for settlement of realignment instructions.

In the scenario when the omnibus account itself is earmarked for a specific purpose, the available credit/debit position type (AWAS) is overridden by the earmarked position type. This has a number of consequences. First, the AWAS position type will not be available for settlement if the earmarking is at account level, but the realignment instructions will use the earmarked securities position which was previously in the AWAS. Consequently, any other rule (Case 1 or Case 2) restricting the usage of the earmarked position type at the Issuer CSD may impact the realignment instructions. Second, an earmarked position type can be used in a cross-CSD transaction if both the delivering and receiving parties reference the earmarked position type and the omnibus account is earmarked. Note that, if the
omnibus account is not earmarked, the transaction will still be able to settle, using the available position in the omnibus account.

4. **Detailed Business Process Assessment**

4.1 **Corporate Actions**

*Introduction*

A Corporate Action (CA) can be defined as an action initiated upon a security by the Issuer or an Offeror based on events occurring during the lifecycle of that security, either predefined at the creation of the security (like a coupon payment, or final redemption date for bonds), or decided during the lifecycle of the security by the company’s board of directors and approved by its shareholders (like the provision of a dividend for a stock, or a merger).

CA events are classified in the following categories as per the CAJWG standards:

CA on stock, applied on settled positions:

- **Distributions:**
  - Cash Distributions (e.g. cash dividend, interest payment)
  - Securities Distributions (e.g. stock dividend, bonus issue)
  - Distributions with Options

- **Reorganisations:**
  - Mandatory Reorganisations with Options (e.g. conversion)
  - Mandatory Reorganisations (e.g. stock split, redemption)
  - Voluntary Reorganisations (e.g. tender offer)

CA on flows, applied on pending transactions:\(^{19}\):

- **Transaction Management**
  - Market Claims (Distributions)
  - Transformations (Reorganisations)
  - Buyer Protection (Elective CA)

Listed below are the key dates affecting CA processing according to the CAJWG standards:\(^{20}\):

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\(^{18}\) Glossary of the Market Standards for Corporate Actions Processing developed by Corporate Action Joint Working Group (CAJWG)

\(^{19}\) In some scenarios, also on settled transactions (reverse market claims)

\(^{20}\) For the sequence of dates and timeline, please refer to the CAJWG standards which include the respective diagrams for all CA categories
• Announcement by Issuer: Date on which a CA is publicly announced and the Issuer CSD is informed accordingly by the Issuer (or Offeror).

• Record Date: Date on which settled positions are struck in the books of the Issuer (I)CSD at close of business to determine the entitlement to the proceeds of a CA.

• Ex-Date\(^{21}\): Date from which the Underlying Security is traded without the benefit / right attached to it.

• Last Trading Date\(^{22}\): the last date to trade the Underlying Security in the old ISIN in the case of Mandatory Reorganisations.

• Payment date: Date on which the Payment is due.

In the case of elective CA (Distributions with Options, Mandatory Reorganisations with Options and Voluntary Reorganisations), the following dates must be considered:

• Start of Election Period: Start of the period during which elections can be made.

• Guaranteed Participation Date: Last date to buy the Underlying Security with the right attached to participate in an Elective Corporate Action.

• Buyer Protection Deadline: Last day and time by which a Buyer Protection instruction can be given.

• Market Deadline: Last date and time, preferably end of day, to send election instructions to the Issuer (I)CSD.

Prior to T2S, all components of CA processing are managed by the CSDs. In this context, the settlement of CA is performed on the CSDs’ legacy systems and integrated in the schedule of the settlement day in order to ensure precedence over trade-related instructions, after the entitlement has been calculated.

As a general rule, entitlement calculation and generation of CA related settlement instructions are performed at the end of record date while settlement is inactive. In most markets, CA related settlement instructions are processed in a dedicated settlement cycle, and scheduling ensures that CA settlement is completed before triggering the settlement cycle for other transactions. In some specific situations, CA settlement is sometimes performed outside normal processing schedule, inter alia on weekends. Some CSDs submit CA related settlement transactions with a higher priority in the settlement engine.

Settlement of CA is based on a cascading process for the delivery of proceeds, starting from the Issuer CSD downward the chain of intermediaries (including Investor CSDs and Custodians) up to the end Investor:

• For cash proceeds, the distribution is done via a Paying Agent appointed by the Issuer

\(^{21}\) Note that the Ex Date is not applicable to securities in nominal, e.g. bonds

\(^{22}\) This restriction only applies to Stock Exchange trades and not OTC trades
• For securities proceeds, securities are created by the Issuer CSD and distributed to its participants, including Investor CSDs, based on instructions received from the Issuer; in turn, Investor CSDs have the responsibility to distribute the proceeds among their participants.

As a result, the processing of CA on stock only generates intra-CSD settlement transactions, and there is a dependency to be taken into account in terms of timings for the distribution of proceeds, especially for Investor CSDs.

In addition, some CSDs put in place further controls to ensure CA processing is performed adequately and without interference with other settlement processes:

• By segregating positions affected by CA, these are transferred into a specific account or into a sub-position. This process is mainly used for elective CA.

• By blocking or rejecting all settlement instructions on an ISIN during the application of CA, in order to ensure positions are not affected by trade-related transactions. This process is mainly used for Reorganisations.

Note that the market CA standards mandate that no blocking of holdings should be performed for the purpose of Cash Distributions.

The nature of controls put in place varies according to the CA category, but also to local market practices and regulatory requirements.

With migration to T2S, CA notification, entitlement calculation, generation of CA related settlement instructions as well as reporting will continue to be performed by the CSDs in their legacy systems. However, settlement instructions resulting from CA will be sent to T2S for settlement.

CA related settlement instructions will be handled in the T2S schedule during Night-Time Settlement (NTS) as follows:

• Instructions related to CA on stock will be eligible for settlement as from sequence 1 of the first NTS cycle, and in all cycle/sequences of the night time settlement thereafter. In contrast, settlement instructions resulting from trading activity are only eligible for settlement from sequence 4 of the first NTS cycle.

• Instructions related to CA on flows will be eligible for settlement along with instructions resulting from trading activity as of sequence 4 of the first NTS cycle.

In addition to being eligible in earlier sequences of NTS, CA-related settlement instructions may be configured by CSDs to be treated with “Reserved priority”, to achieve higher level of prioritisation in the T2S settlement engine.

23 CAJWG: Market Standards for Cash Distributions, standard 20
24 CA related settlement instructions can also settle during Real Time Settlement but are not prioritised in the settlement engine at first settlement attempt. For further information, please refer to the UDFS v2.0 in section “1.4.3.2 Settlement day high level processes”
The cascading process for the delivery of CA proceeds, while facilitated by the migration to a common platform, will remain and the underlying dependencies must be taken into account for the scheduling of CA processing.

CSDs will implement restriction rules in T2S, based on static data in T2S or MSAs, to replicate the controls they have in place for CA processing, inter alia in the following contexts:

- To restrict the usage of specific accounts to specific parties in the context of CA processing
- To temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on the affected securities accounts (only CA settlement is allowed, recognised by use of ISO transaction code). These rules will be widely used by CSDs in the context of Reorganisations
- To segregate securities position into a specific position type, then restrict (with Restriction Type 1) the usage of these position types for CA processing, which only the CSD can debit/credit

As opposed to many other business processes in the context of this analysis, the application of CA is a mandatory process to be performed by each Investor CSD as part of standard customer asset servicing. The impact analysis must take into account the need for replication at Investor CSDs in intra-CSD scenarios, for inter alia the application of CA on stock.

The description of current controls, restriction rules and impact analysis by market is detailed in the next sections.

### 4.1.1 Clearstream Banking Frankfurt (CBF)

**Current State – Process Controls**

A specific cycle is dedicated for settlement of CA on stock at the start of the settlement day. In addition, for elective CA, securities positions are segregated into the participants’ sub-accounts. No blocking is performed at the level of the ISIN in case of Reorganisations (due to the scheduling which ensures CA processing is completed before trade-related settlement can take place).

**Adapted State – Process Controls**

Clearstream has defined “Security blocking”, a negative blocking (Restriction Type 2) rule, for management of CA. The restriction rule will be used to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed on the ISIN, recognised by the ISO transaction code “CORP” included in the settlement instruction, which refers to CA on stock. The usage of this transaction code is controlled by privilege and will not be available to CSD participants. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume.

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25 And cross-CSD scenarios which do not involve realignment movements at the Issuer CSD
According to Clearstream’s documentation\(^{26}\), the selective blocking of securities might be activated when processing the following CA event types (Reorganisations): Redemptions, Redemptions in securities, Reclassification, Conversion of Shares, Capital Decrease, Merger, Pari-Passu, Reverse Stock Split, Series-/Group Split, Intermediates to Lead Manager.

No restriction rules will be put in place for the processing of elective CA.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The restriction rule “Security blocking” does not rely on account configuration parameters and does not mandate account segregation at the Issuer CSD, therefore no impact is foreseen on Investor CSDs’ account configuration.

**Impact on Investor CSD settlement flows**

The restriction rule “Security blocking” will impact any cross-CSD settlement transaction involving realignment movements at Clearstream. As a result, for such transactions, no settlement will take place on the ISIN defined in the restriction rule while it is active, and an Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement with the “security blocked” reason code (see the Section 3.2.1 for additional details).

However, the rule “Security blocking” will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions to be affected by the CA are not being used for trade-related transactions. At present, the selective blocking of securities is planned to be activated for the processing of the CA event types mentioned within the description of the “Adapted State – Process Controls”.

Another variable to take into consideration by CSDs in the context of CA involving a change of ISIN (which is mandated for all Reorganisations\(^{27}\) according to the CAJWG standards) is the maturity/expiry date of an ISIN in T2S. In some cases, the maturity date of the ISIN can be used as an effective way to prevent settlement between participants in the underlying security after Record Date, and de facto reduce the need to define restriction rules\(^{28}\).

Indeed, T2S validates settlement instructions based on the maturity/expiry date of the security in T2S static data. When T2S receives a settlement instruction from a CSD participant, T2S will reject the instruction if the intended settlement date of the settlement instruction is equal to or greater than the

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\(^{26}\) An introduction to T2S for CBF customers October 2013

\(^{27}\) Except in the case of Partial Redemptions

\(^{28}\) This supposes that the maturity/expiry date of a security is defined as Record Date +1 business day, as recommended by the CASG.
maturity/expiry date of the ISIN or if the date on which the CSD participant submits the settlement instruction is equal to or greater than the maturity/expiry date of the security. Furthermore, any update of the maturity/expiry date of the security triggers an automated intraday revalidation of settlement instructions in T2S. Note that this business validation rule does not apply to settlement instructions for which CSDs are Instructing Parties. This allows CSDs to do the necessary bookings on the securities accounts of their participants with regards to processing of a CA event on the underlying ISIN on or after the maturity/expiry date of that ISIN – for example processing of redemption of a bond on the maturity date by Issuer and Investor CSDs.

4.1.2 Depozitarul Central

Current State – Process Controls

Today, CA processing in Depozitarul Central’s legacy systems is only partially following the European CA standards and a clear comparison between the CA processing on the legacy platform and T2S is difficult to perform. There is no prioritisation of CA instructions compared to trade-related instructions in the settlement engine, but CA are processed according to a distinct time-frame (outside the regular settlement schedule) as well as sub-system (i.e. Registry System) for the Romanian securities. CA on foreign securities can be processed during the whole settlement day, on the securities account of Depozitarul Central’s participants. During the application of some Reorganisations (e.g. Redemptions), blocking is performed at the level of the ISIN. As for the elective CA process, it is managed at issuer (agent) level and does not require Depozitarul Central to perform segregation at the level of the participants.

Adapted State – Process Controls

Depozitarul Central has defined the following restriction rules for management of CA:

- “RT04DC”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement instructions submitted by CSD participants (Instructing Party) acting as Directly Connected Parties (DCPs), and using the ISO transaction codes “CORP”, or “CLAI”, which Depozitarul Central uses for submitting CA-related settlement instructions. Note that the usage of ISO transaction codes can also be restricted with appropriate configuration of access rights and therefore alleviate the need for a restriction rule. No MSA is created in the context of this rule.

- “RT05DC”, a negative blocking (Case 2 Restriction Type) rule. The rule will be defined to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed on the ISIN, recognised by the “CORP” ISO transaction code included in the settlement instruction. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume.
Depozitarul Central also plans to define a CoSD\textsuperscript{29} rule, “COSD01DC”, for specific cases of CA on stock that result in both Romanian New Leu (RON) cash proceeds and securities proceeds, and are dependent on each other (e.g. Voluntary Reorganisation on Romanian ISINs). In this case, the securities transaction will be submitted to T2S and settle, conditionally upon the settlement of the cash in the Romanian RTGS system. The parameters configured in the rules are listed below:

- Currencies: RON
- Securities movement type: DELI
- Payment type code: Free
- ISO transaction code: CORP, CLAI\textsuperscript{30}

At present, Depozitarul Central does not plan to setup restriction rules to handle elective CA, as there are only limited events requiring elections, and the process is managed by Issuers or Issuers’ Agents.

\textit{Cross-CSD Impact Analysis}

\textbf{Impact on Investor CSD account configuration}

The rules “RT04DC”, “RT05DC”, and “COSD01DC” do not rely on account configuration parameters, and do not involve account segregation therefore no impact is foreseen on the Investor CSD account configuration.

\textbf{Impact on Investor CSD settlement flows}

The restriction rule “RT04DC” will reject settlement instructions that include the ISO transaction codes “CORP” or “CLAI” and instructed by CSD participants (Instructing Party). The rule will not impact T2S generated Realignment Instructions as these will always include the “REAL” ISO transaction code:

- In case of a cross-CSD transaction between a participant of Depozitarul Central whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction in Depozitarul Central will be rejected while the Business Instruction in the Investor CSD will remain unmatched. No realignment for this transaction will be created.

- In other cross-CSD scenarios generating realignments at Depozitarul Central (i.e. between Investor CSDs’ participants or a participant of Depozitarul Central and a participant of an Investor CSD), the realignment instructions will not be impacted by the rule as explained here above. This fulfils the expected behaviour in the scenario of a cross-CSD market claim where an Investor CSD would instruct one leg of the transaction. Realignments resulting from this transaction should not be rejected.

\textsuperscript{29} CoSD is an automatic setting on hold and blocking of securities (and/or cash) into a specific sub-position (position type in T2S) on the Intended Settlement Date at transaction level once matching has taken place. It is a rule-based model like restriction types.

\textsuperscript{30} Based on bilateral exchanges, the CLAI parameter will be removed until the implementation of the T2S CA Standards, when the CoSD rule should be also available for CA “on flow” settlement instructions. Updates will be included in the next release of the CSG documentation.
While it is expected that each CSD will need similar control for the use of CA related ISO transaction codes, their usage can be restricted with appropriate configuration of access rights. In such case, Investor CSDs do not need to implement a restriction rule.

The rule “RT05DC” will impact any cross-CSD settlement transaction involving realignment movements at Depozitarul Central in a similar way: no settlement will take place on the ISIN defined in the restriction rule while it is active, and an Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement (see the Section 3.2.1 for additional details).

However, the rule defined by Depozitarul Central will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions affected by the CA are not being used for trade-related transactions. Depozitarul Central has not yet fully defined the scope of CA events for which the rule will be applied.

The rule “COSD01DC” will be put in place for specific cases of CA on stock, involving securities proceeds in T2S and cash proceeds in RON, and are therefore only subject to intra-CSD transactions. Investor CSDs do not need to replicate such a control and there will be no impact on cross-CSD flows.

4.1.3 ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)

Current State – Process Controls

A specific processing cycle is dedicated for settlement of CA on stock at the start of the settlement day. Furthermore, securities positions affected by CA are segregated into separate accounts belonging to System Paying Agents (SPA) in the context of Mandatory Reorganisations and elective CA. Proceeds from CA are transferred from SPA accounts to participants’ accounts. ESES has internal validation rules in place to define the compatibility between account types (Account Nature) and securities characteristics (Security Category, Security Legal Form, Security Holding Mode). These validations do not specifically apply in the context of CA processing, but are activated on a permanent basis and apply on every settlement instruction.

Adapted State – Process Controls

Note: ESES has defined additional restriction rules in the context of CA processing which are not reflected below. These will be included in the analysis once their configuration is stable.

Based on validation rules currently in place, ESES has defined restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Security Categories (MSA). The below rules relate to CA due to the category of the security:

- RT05 (ESE-019-COR), a positive rejection rule (Case 1 Restriction Type), will be implemented in order to reject settlement instructions on a ‘Dematerialised drawing security’, which are securities
subject to redemption by drawing, using one of the following Account Natures as delivering or receiving account (in T2S, each Account Nature will be represented by a different securities account):

- 'Bearer securities distributed to employees by their company' (004)
- 'Registered securities (employees shareholding)' (008)
- 'Securities to be distributed from stock distributions or after reorganisation' (020, 021, 022, 023, 024, 025, 026, 027, 028, 029)
- Foreign companies securities presented for exchange offer or odd-lot offer' (050)
- 'Coupons or rights to be paid in cash' (055)
- 'Coupons or rights to be exchanged against securities' (056)
- 'Shares of French nationalised companies that are presented for compensation' (059)
- 'Underlying securities for certificates of deposit (Caisse nominative)' (061)
- 'Subscription / redemption of funds' (062)
- 'Local transfer agent on foreign securities' (064)
- 'Shares delivered following conversion of bonds' (069)
- 'Shares delivered after exercise of a stock option' (071)
- 'Total issued amount of stripped securities' (078)
- 'Coupon paid in non-Euro currency' (079)
- 'Foreign securities held by another CSD (foreign organisation or foreign custodian)' (080)
- 'TCN Issuing account' (092)
- 'Physical securities that are lost on non-dematerialised securities' (093)
- 'Unknown owner securities' (094)
- 'Typical certificates in and out of traffic' (095/096)
- 'Securities that have been blocked due to non-presentation of the certificate' (096)
- 'Specific NOMS for Belgian registered securities' (104)
- 'Blocked Securities' (107)

- RT05 (ESE-022-COR), a positive rejection rule (Case 1 Restriction Type), will be implemented in order to reject settlement instructions on a ‘Entitlement/Right’, which are temporary securities used in the context of Distributions with Options, using one of the following Account Natures as delivering or receiving account:
  - 'Administered registered securities' (001),
  - 'Broker trading accounts' (010),
- 'Direct payment on registered securities' (016/017),
- 'Bonds presented for conversion' (053),
- 'Securities buyback by the issuer or funds redemption for domiciles' (057),
- 'Shares of French nationalised companies that are presented for compensation' (059),
- 'Underlying securities for certificates of deposit' (061),
- 'Total issued amount of stripped securities' (078),
- 'TCN issuing account' (092),
- 'Typical certificates out of traffic' (096)

ESES has defined restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Security Holding Modes (MSA). The below rule relates to CA due to the nature of the account.

- RT06 (ESE-029-COR), a positive rejection rule (Case 1 Restriction Type), will be implemented in order to reject settlement instructions on a ‘dematerialised securities or not admitted in ESES’, using the following Account Nature as delivering or receiving account:
  - 'Pivot account for CA' (109)

ESES has defined restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Legal Forms of securities (MSA). The below rules relate to CA due to the nature of the account.

- RT07 (ESE-032-COR), a positive rejection rule (Case 1 Restriction Type), will be implemented in order to reject settlement instructions on securities with legal form ‘bearer or registered’, using the following Account Natures as delivering or receiving accounts:
  - 'Coupons or rights to be paid in cash' (55)
  - 'Coupons or rights to be exchanged against securities' (56)
  - 'Securities exchange account' (106)

- RT07 (ESE-38-COR), a positive rejection rule (Case 1 Restriction Type), will be implemented in order to reject settlement instructions on securities with legal form ‘bearer’, using the following Account Natures as delivering or receiving accounts:
  - 'Direct payment on registered securities without commission' (016)
  - 'Foreign companies’ securities presented for exchange offer or odd-lot offer' (050)
  - 'Reserved for Euronext for Tender offers' (066)
  - 'Securities exchange account' (106)
For the processing of elective CA, separate accounts with adequate privileges will be setup instead of restriction rules.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The below Account Natures are offered to Investor CSDs for their standard activity:

- 'Ordinary securities' (000) – default
- 'Administered registered securities' (001) – if requested

For the rules RT05 (ESE-019-COR), RT06 (ESE-029-COR), RT07 (ESE-032-COR), RT07 (ESE-038-COR), no impact on Investor CSDs’ account configuration has been identified, as none of the Account Natures triggering the rejection are available to Investor CSDs.

For the rule RT05 (ESE-022-COR), the Account Nature 'Administered registered securities' (001) may be held by Investor CSDs, in order to be able to hold registered securities. ‘Entitlement/Right’ securities cannot be held by Investor CSDs on this Account Nature as this would trigger the rejection. These securities are used in the context of elective CA on stock, a process managed by each CSD distinctly. Investor CSDs, depending on their implementation of the elective CA process, will decide whether to replicate the MSAs (Account Nature – Security Category) relevant values and restriction rule. They must in all cases ensure, even in the case of intra-CSD transaction between 2 of their participants, that no ‘Entitlement/Right’ securities are transferred from an account mapped to the regular omnibus Account Nature 'Ordinary securities ' (000) to an account mapped to the omnibus Account Nature 'Administered registered securities' (001), as this would translate into realignment instructions at ESES triggering the rule.

**Impact on Investor CSD settlement flows**

The rules RT05 (ESE-019-COR), RT06 (ESE-029-COR), RT07 (ESE-032-COR), and RT07 (ESE-038-COR) do not need to be replicated by Investor CSDs, as none of the Account Natures triggering the rejection is available to Investor CSDs:

- For a cross-CSD transaction between an ESES participant whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.
- In other cross-CSD scenarios generating realignments at ESES (i.e. between Investor CSDs’ participants or a participant of ESES and a participant of an Investor CSD), the realignment instructions will not be impacted by the rule and the transaction will be able to settle.

For the rule RT05 (ESE-022-COR), no cross-CSD transaction should take place as we are in the context of ‘Entitlement/Right’ securities (interim ISINs used for elective CA). Nevertheless, the rule would be
triggered as follows if the Account Nature used in the transaction is 'Administered registered securities' (001):

- For a cross-CSD transaction between an ESES participant whose instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.
- In other cross-CSD scenarios generating realignments at ESES (i.e. between Investor CSDs’ participants or a participant of ESES and a participant of an Investor CSD), the rejection rule can be triggered on the realignment instructions, resulting in the Business Instructions being accepted, matched, then cancelled.

4.1.4 Interbolsa

Current State – Process Controls

CA settlement is performed at the end of the settlement day for value next business day after settlement of all other transactions. Blocking is performed at the level of the ISIN, during the application of Reorganisations (which change the underlying security’s characteristics). The only elective CA event being processed is rights subscription. The securities positions are not segregated as elected rights are converted into outturn temporary ISINs every evening during the election period.

Adapted State – Process Controls

Interbolsa plans to define several restriction rules in the context of CA processing:

- “RTBS”, a negative blocking (Case 2 Restriction Type) rule. The rule will be setup to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed, recognised by the use of the following ISO transaction codes included in the settlement instruction: “CORP” (CA on stock), and “CLAI” (Market Claims). The usage of these transaction codes is controlled by privilege and will not be available to CSD participants. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume. According to the feedback collected, the rule will be setup for Reorganisations where the CA processing changes the underlying security.
- “SR01”, a negative rejection (Case 1 Restriction Type) rule. The rule will be used to bypass the validation defined in the rule “SR02” if settlement instructions include the following ISO transaction codes: “CORP” (CA on stock), and “CLAI” (Market Claims). The usage of these transaction codes is controlled by privilege and will not be available to CSD participants.
- “SR02”, a positive rejection (Case 1 Restriction Type) rule. The rule will be setup to reject settlement instructions on outturn temporary ISINs in the context of rights subscription. The process may be
revisited when Interbolsa migrates to the CAJWG model, with conversion only at the end of the subscription period. No MSA is needed for this rule.

- **“SR03”, a positive rejection (Case 1 Restriction Type) rule. The rule is generic and defined to reject settlement instructions on securities positions blocked/reserved for settlement unless instructed directly by Interbolsa (with the CSD as Instructing Party Type). It is used in conjunction with the Case 3 Restriction Types below that are used to create the blocked/earmarked securities positions. No MSA is created for this rule. No specific business context applies to this rule, as it depends on the blocked/earmarked position type.**

- **“BL26”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to block securities position in the context of Voluntary Reorganisations.**

- **“EA43”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined in the context of rights subscription to earmark securities position of temporary ISINs (corresponding to the rights which have been exercised) until payment of proceeds into the outturn ISIN is performed. The process may be revisited when Interbolsa migrates to the CAJWG model.**

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The rules “RTBS”, “SR01”, “SR02”, “SR03” do not rely on account configuration parameters and do not involve account segregation, therefore no impact is foreseen on Investor CSDs’ account configuration.

The restriction “BL26” is setup for Voluntary Reorganisations and blocks securities into a specific position type, which is applicable to Investor CSDs’ omnibus account. Investor CSDs must also apply the segregation on the securities accounts of their participants, to block the elected positions, but can choose to segregate the positions into position types or into separate accounts.

The restriction “EA43” is setup to earmark securities positions in the context of rights subscription. The rule will be applicable to Investor CSDs’ omnibus account. Investor CSDs must also apply the segregation on the securities accounts of their participants, to block the elected positions, but can choose to segregate the positions into position types or into separate accounts. In addition, since Interbolsa’s implementation of the elective CA process is slightly different from the CAJWG model (usage of temporary outturn ISINs for rights that have been exercised), the timing of the earmarking may differ (blocking should be performed as soon as the positions are elected).

**Impact on Investor CSD settlement flows**

The restriction rule “RTBS” will impact any cross-CSD settlement transaction involving realignment movements at Interbolsa: no settlement other than the ones flagged for CA processing on stock will take place on the ISIN defined in the restriction rule while it is active, and the Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement. Note that cross-CSD settlement instructions resulting from CA on flows, even if sent with the “CLAI” ISO transaction code (for
processing of market claims), will be blocked, as realignment instructions always carry the “REAL” ISO transaction code.

However, the rule “RTBS” will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions to be affected by the CA are not being used for trade-related transactions. At present, the selective blocking of securities is planned to be activated for Reorganisations where the CA processing changes the underlying security (it is assumed that those Reorganisations do not involve a change in a new ISIN).

The restriction rule “SR02” will impact Investor CSDs’ settlement flows in the following way, unless the ISO transaction code “CORP” or “CLAI” is included in the settlement instructions (as defined in “SR01”):

- In case of a cross-CSD transaction between a participant of Interbolsa whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction sent by the participant of Interbolsa would be rejected, while the Business Instruction at the Investor CSD level would remain unmatched.

- In other cross-CSD scenarios generating realignments at Interbolsa (i.e. between Investor CSDs’ participants or a participant of Interbolsa and a participant of an Investor CSD), realignment instructions triggering the rule would not be generated and the Business Instructions would be cancelled after acceptance and matching.

Note that the negative rule allowing to bypass the control with ISO transaction code “CLAI” would not achieve this objective in the case of cross-CSD market claims: even if the Business Instruction on Interbolsa’s side is sent with the “CLAI” ISO transaction code, Business Instructions will be cancelled after being accepted and matched, as realignment instructions always carry the “REAL” ISO transaction code and will trigger the rule.

However, as the rules will be used in the context of rights subscriptions, to prevent settlement in the outturn ISIN until the subscription has been paid\(^\text{31}\), none of the above cross-CSD scenarios should apply and the rules do not need be implemented by Investor CSDs. Nevertheless, Investor CSDs must have their own mechanism for segregation of elected positions, ensuring these positions are not used for trade-related settlement, and may opt for a segregation model by account or position type. In the former case, this can be achieved with access rights without defining restriction rules.

The rejection rule “SR03” using the position type “BL26” will not be triggered for trade-related cross-CSD transactions since only the available position (“AWAS”) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the

\(^\text{31}\) The election process used by Interbolsa is slightly different than the CAJWG model and subject to change.
Interbolsa participant tries to deliver from the blocked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the blocked position in the omnibus account (this should not happen in normal business scenarios).

The restriction will be implemented in the context of Voluntary Reorganisations, which will result in intra-CSD transactions: Investor CSDs must first block the elected positions of their participants in their books then communicate the elected positions to be blocked in the Issuer CSD. Investor CSDs have the choice between following the segregation by position type implemented by Interbolsa, and replicate the rule, or use their own segregation model to ensure that the elected securities positions are not used for trade-related settlement. This can be achieved with the configuration of access rights without defining restriction rules.

The restriction “EA43” (used in conjunction with the rejection rule “SR03”) will not impact trade-related cross-CSD transactions since only the available position (“AWAS”) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the Interbolsa participant tries to deliver from the earmarked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the earmarked position in the omnibus account (this should not happen in normal business scenarios).

The restriction will be implemented for rights subscriptions after all elections have been made and until payment of securities proceeds. The restriction does not need to be replicated by Investor CSDs, however, Investor CSDs must have their own mechanism for segregation of elected positions, ensuring these positions are not used for trade-related settlement, and may opt for a segregation model by account or position type. In the former case, this can be achieved with the configuration of access rights without defining restriction rules.

4.1.5 Monte Titoli

Current State – Process Controls

In Monte Titoli’s legacy systems, a specific cycle is dedicated for settlement of CA on stock at the start of the settlement day. In addition, blocking is performed at the level of the ISIN (underlying and outturn), and sometimes securities account during the application of Reorganisations.

For dividend only, in case there is a dividend waiver, balances for the same ISIN are moved on a different suffix (considered as interim ISIN).

Adapted State – Process Controls

Monte Titoli plans to define several restriction rules in the context of CA processing:

- “RBCA”, a negative blocking (Case 2 Restriction Type) rule. The rule will be defined to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed, recognised by the use of the following ISO transaction code included in the settlement instruction: “CORP”. The usage
of this transaction code is controlled by privilege and will not be available to CSD participants. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume. No MSA is created in the context of this rule. According to the feedback collected, the rule will be applied for the following CA events: Redemptions, Mandatory Conversions, Capital Increases with rights.

- “RC1I”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement instructions on segregated securities positions “CUS1” unless instructed by Monte Titoli (with the CSD as Instructing Party). The blocked securities positions are created with a Restriction Type 3. No MSA is needed for this rule. The business context of this rule is described in the “CUS1” restriction hereafter.

- “RC1R”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement restrictions on blocked securities positions “CUS1” unless instructed by Monte Titoli (with the CSD as Instructing Party). The blocked securities positions are created with a Case 3 Restriction Type. No MSA is needed for this rule. The business context of this rule is described in the “CUS1” restriction hereafter.

- “CUS1”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to block securities position in the context of elective CA, and in particular the following events: Voluntary Conversion, Exercise of Warrants, and Capital Increase with Rights (on the originating positions).

- “RC2I”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement instructions on segregated securities positions “CUS2” unless instructed by Monte Titoli (with the CSD as Instructing Party). The blocked securities positions are created with a Restriction Type 3. No MSA is created for this rule. The business context of this rule is described in the “CUS2” restriction hereafter.

- “RC2R”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement restrictions on blocked securities positions “CUS2” unless instructed by Monte Titoli (with the CSD as Instructing Party). The blocked securities positions are created with a Case 3 Restriction Type. No MSA is needed for this rule. The business context of this rule is described in the “CUS2” restriction hereafter.

- “CUS2”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined for segregation and blocking of securities position in order to manage deposit, split, and withdrawals operations on physical securities immobilised in Monte Titoli and represented by a global certificate. The following rules have been defined by Monte Titoli for CA management as Investor CSD of Clearstream Banking Frankfurt:

32 There is only a small percentage of physical securities held by Monte Titoli as Issuer CSD, as the vast majority of securities is held in dematerialised form. These physical securities are processed by book-entry and fungible from a settlement perspective.
• “VHEC”, a positive CSD Validation Hold (Case 1 Restriction Type) rule. The rule will be defined to put on CSD Validation Hold settlement instructions debiting or crediting the earmarked position “EXCM” in order to verify that the transfer is allowed. Both instructions sent by CSD participants as well as Monte Titoli as Instructing Party will be placed on CSD Validation Hold. The business context of this rule is described in the “EXCM” restriction hereafter.

• “REXR”, a positive rejection (Case 1 Restriction Type) rule. The rule will be defined to reject settlement restrictions on earmarked securities positions “EXCM” unless instructed by Monte Titoli (with the CSD as Instructing Party). The business context of this rule is described in the “EXCM” restriction hereafter.

• “EXCM”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to earmark securities position of German securities corresponding to the quantity ex-dividend which are considered cum-dividend in Germany. The background of this rule is that in Germany, for some events, Record Date is before Ex-Date, whereas in Monte Titoli, according to the CA standards, EX-Date is always before Record Date. Monte Titoli therefore needs to manage ex/cum securities positions during this short period.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The rule “RBCA” does not rely on account configuration parameters and does not involve account segregation, therefore no impact is foreseen on Investor CSDs’ account configuration.

The rule “RC1I” and “RC1R”, along with the position type “CUS1”, are defined for elective CA (Voluntary Conversion, Exercise of Warrants, and Capital Increase with Rights) in order to block elected securities position into the “CUS1” position type, and to restrict access to this position. This segregation is applicable to the Investor CSD omnibus account. Investor CSDs must also apply segregation on the securities accounts of its participants, to block the elected positions, but can choose to segregate the positions into position types or into separate accounts.

The specific position type “CUS2” will be created in Monte Titoli to block physical securities in case of deposit, withdrawal, or split operations on the global certificate. Investor CSDs holding these securities should ensure to have a mechanism preventing the settlement of these securities while these operations are performed.

The position type “EXCM”, along with the rules defined to restrict access to this position, “VHEC” and “REXR”, are necessary because of the difference in key CA dates between Germany and other markets for some CA event types. According to Monte Titoli, the volume of CA to be handled in this way averages less than one event per day. Investor CSDs of Monte Titoli do not hold German securities via relayed link (through Monte Titoli), and are therefore not impacted by the rule. However, the underlying question is how will other Investor CSDs of Clearstream Banking Frankfurt (via direct CSD link) handle
the differences in CA processing dates? Is a segregation of positions necessary or can other controls be put in place?

Impact on Investor CSD settlement flows

The rule “RBCA” will impact any cross-CSD settlement transaction involving realignment movements at Monte Titoli. As a result, no settlement will take place on the ISIN defined in the restriction rule while it is active, and an Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement (see the Section 3.2.1 for additional details).

However, the rule defined by the Issuer CSD will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions to be debited or affected by the CA are not being used for trade-related transactions. Monte Titoli will activate the rule for the following CA events: Redemptions, Mandatory Conversions, Capital Increases with rights. As explained in Section 4.1.1, an appropriate definition of the maturity/expiry date of an ISIN in T2S could be used as an effective way to prevent settlement between participants in the underlying security after Record Date, in the context of Reorganisations involving a change of ISIN, and therefore alleviate the need for a restriction rule in both Issuer and Investor CSDs.

The rule “RC1I” and “RC1R”, along with the position type “CUS1” are defined for elective CA on stock, and are therefore only subject to intra-CSD transactions. These rules will not impact trade-related cross-CSD transactions since only the securities in the available position ("AWAS" Position Type) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the Monte Titoli participant tries to deliver from the blocked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the blocked position in the omnibus account (this should not happen in normal business scenarios). Investor CSDs should ensure to prevent settlement of elected securities positions in their books for trade-related transactions by restricting access to the segregated securities positions.

The rules “RC2I” and “RC2R” along with the position type “CUS2” are defined for CA on stock, and are therefore only subject to intra-CSD transactions. These rules will not impact trade-related cross-CSD transactions since only the securities in the available position ("AWAS" Position Type) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the Monte Titoli participant tries to deliver from the blocked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the blocked position the omnibus account (this should not happen in normal business scenarios). Investor CSDs should ensure to prevent settlement of the securities subject to CA in their books depending on the operation performed by the Issuer.
The rules “VHEC” and “REXR”, along with the position type “EXCM” are defined to manage ex/cum securities positions on German securities due to non-compliance of Germany to CA standards regarding ex-date and record date for some CA events.

From a technical perspective, the rule can affect cross-CSD transactions involving a Monte Titoli participant where there is a delivery from or into the “EXCM” position type. T2S generated Realignment Instructions will not be impacted as these always use the available (AWAS) position.

As stated above, the question remains whether controls will need to be put in place by Investor CSDs of Clearstream Banking Frankfurt in the context of this rule, and how this will impact cross-CSD flows.

4.1.6 SIX-SIS

Current State – Process Controls

In SIX-SIS legacy systems, a specific processing cycle is dedicated for settlement of CA on stock at the start of the settlement day. No blocking is performed at the level of the ISIN in case of Reorganisations. For elective CA as well as Mandatory Reorganisations, securities positions are segregated within a sub-position into the same account.

Adapted State – Process Controls

Note: Compared to the previous published version of the XMAP catalogue, the restriction rule RT03 used for the blocking of an ISIN is removed. Instead, the restriction rules RT03 and RT04 described below, will be implemented. RT04 will be integrated in the next version of the CSG’s “Reference Data Extension”.

SIX-SIS plans to define the following restriction rules in the context of CA processing:

• “RT03”, a positive rejection (Case 1 Restriction Type) rule. The rule will be setup to reject settlement restrictions sent by DCP participants of SIX-SIS on specific securities positions. The parameters used in the context of the rule are the following:
  o Party Type of the Instructing Party, with the value: “CSDP” (i.e. CSD participant)
  o Instructing Party with the value of the DCP’s BIC
  o Debited or Credited Position/Balance: “BL08”, “BL10”, “BL12”

• “RT04”, a positive rejection (Case 1 Restriction Type) rule. The rule will be setup to reject settlement instructions sent by DCP participants of SIX-SIS on specific securities positions. The parameters used for the configuration of the rule are the following:
  o Party Type of the Instructing Party, with the value: “CSDP” (i.e. CSD participant)
  o Instructing Party with the value of the DCP’s BIC
  o Debited or Credited Position/Balance: “BL08”, “BL10”, “BL12”

The following position types will be used in the configuration of the restriction rules described here above, to restrict access to these positions:
• “BL08”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to block securities positions on which an election has been made in the context of CA events with Proxy voting.

• “BL10”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to block securities positions in the outturn ISIN in the context of Mandatory Reorganisations. On Payment Date, securities positions in the outturn ISIN will temporarily be blocked in the dedicated position type, then transferred into the available position once confirmation is provided from the relevant party (Issuer, Issuer CSD, or Custodian) that the CA has been successfully carried out.

• “BL12”, a Case 3 Restriction Type defined on securities positions. The restriction will be defined to block securities positions on which an election has been made in the context of Voluntary Reorganisations.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction “BL08” is defined in the context of CA events with Proxy Voting and blocks securities into a specific position type, which is applicable to Investor CSDs’ omnibus account. Investor CSDs must also apply the segregation on the securities accounts of their participants, to block the elected positions, but can choose to segregate the positions into position types or into separate accounts.

The restriction “BL10” is defined in the context of Mandatory Reorganisations and blocks securities in the outturn ISIN into a specific position type, which is applicable to Investor CSDs’ omnibus accounts. Investor CSDs do not need to segregate the positions in their books, but must ensure that settlement in the outturn ISIN does not take place through a blocking on ISIN level (Case 2 Restriction Type), until securities are transferred into the available position in the omnibus account. Alternatively, Investor CSDs can also choose to replicate the process put in place by SIX-SIS, and segregate such securities positions in their books into position types or into separate accounts.

The restriction “BL12” is defined in the context of Voluntary Reorganisations and blocks securities into a specific position type, which is applicable to Investor CSDs’ omnibus account. Investor CSDs must also apply the segregation on the securities accounts of their participants, to block the elected positions, but can choose to segregate the positions into position types or into separate accounts.

Impact on Investor CSD settlement flows

The rejection rules “RT03” and “RT04” using the position type “BL08” and “BL12” will not be triggered for trade-related cross-CSD transactions since only the available position (“AWAS”) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the SIX-SIS participant tries to deliver from the blocked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the blocked position in the omnibus account (this should not happen in normal business scenarios).
The restriction rules will be implemented in the context of CA events with Proxy Voting (“BL08”) and Voluntary Reorganisations (“BL12”), which will result in intra-CSD transactions: Investor CSDs must first block the elected positions of their participants in their books then communicate the elected positions to be blocked in the Issuer CSD. Investor CSDs have the choice between following the segregation by position type implemented by SIX-SIS, and replicate the rule, or use their own segregation model to ensure that the elected securities positions are not used for trade-related settlement. This can be achieved with the configuration of access rights without defining restriction rules.

The rejection rules “RT03” and “RT04” using the position type “BL10” will not be triggered for trade-related cross-CSD transactions since only the available position (“AWAS”) will be used by T2S generated Realignment Settlement Instructions. It is only in the case of a cross-CSD transaction where the SIX-SIS participant tries to deliver from the blocked position to a participant of another CSD that the rule would be triggered. It would also be the case if an Investor CSD would try to debit directly the blocked position in the omnibus account (this should not happen in normal business scenarios).

The restriction rules will be implemented in the context of Mandatory Reorganisations (“BL10”), to temporarily block securities positions in the outturn ISIN until confirmation is provided by the relevant party that the CA has been processed successfully. Investor CSDs must ensure that settlement in the outturn ISIN does not take place until the CA is successfully processed, and can do so through a blocking on ISIN level (Case 2 Restriction Type). Alternatively, Investor CSDs can also choose to replicate the process put in place by SIX-SIS, and segregate such securities positions in their books into position types or into separate accounts.

4.1.7 VPLux

Current State – Process Controls

A specific cycle is dedicated for settlement of CA on stock at the start of the settlement day. In addition, blocking is performed at the level of the ISIN for CA that do not involve a change of ISIN and result in a change of holdings, e.g. Partial Redemptions. VPLux currently does not process elective CA events.

Adapted State – Process Controls

VPLux plans to define “RTBS”, a negative blocking (Restriction Type 2) rule. The rule will be setup to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed, recognised by the “CORP” ISO transaction code included in the settlement instruction. The usage of this transaction code is controlled by privilege and will not be available to CSD participants. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume.

According to the feedback collected, the rule will be applied for CA events that do not involve a change of ISIN and result in a change of holdings, e.g. Partial Redemptions. VPLux does not handle elective CA and does not plan to implement any specific process in this context.
Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The rule “RTBS” does not rely on account configuration parameters and does not involve account segregation, therefore no impact is foreseen on Investor CSDs’ account configuration.

Impact on Investor CSD settlement flows

The rule “RTBS” will impact any cross-CSD settlement transaction involving realignment movements at VPLux. As a result, no settlement will take place on the ISIN defined in the restriction rule while it is active, and the Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement.

However, the rule defined by the Issuer CSD will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions to be affected by the CA are not being used for trade-related transactions. At present, the selective blocking of securities is planned to be activated for the processing of CA events that do not involve a change of ISIN and result in a change of holdings (which includes Partial Redemptions).

4.1.8 VP

Current State – Process Controls

A specific cycle is dedicated for settlement of CA on stock at the start of the settlement day. In addition, blocking is performed at the level of the ISIN for CA that do not involve a change of ISIN and result in a change of holdings, e.g. Partial Redemptions. VP handles all elective CA with the generation of temporary ISINs representing the options, and this process does not require further segregation of elected securities positions.

Adapted State – Process Controls

VP plans to define “RTBS”, a negative blocking (Restriction Type 2) rule. The rule will be setup to temporarily block settlement instructions on an ISIN affected by a CA event until the CA is fully applied on all the affected securities accounts. During this period, only CA settlement is allowed, recognised by the “CORP” ISO transaction code included in the settlement instruction. The usage of this transaction code is controlled by privilege and will not be available to CSD participants. After all relevant CA instructions have been settled, the restriction on the ISIN will be removed so that regular trade-related settlement can resume.

According to the feedback collected, the rule will be applied for CA events which do not involve a change of ISIN and result in a change of holdings, e.g. Partial Redemptions.
VP does not plan to setup restriction rules to handle elective CA, as the process relies on the usage of temporary ISINs and does not require segregation of securities positions.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The rule “RTBS” does not rely on account configuration parameters and does not involve account segregation, therefore no impact is foreseen on the Investor CSD account configuration.

**Impact on Investor CSD settlement flows**

The rule “RTBS” will impact any cross-CSD settlement transaction involving realignment movements at VP. As a result, no settlement will take place on the ISIN defined in the restriction rule while it is active, and an Investor CSD’s Business Settlement Instruction will be matched but “Pending” for settlement.

However, the rule defined by the Issuer CSD will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs. Depending on the CA event, the rule will need to be implemented by Investor CSDs in order to ensure the consistency of securities positions; for instance, in case of Partial Redemptions, while the CA is being applied on the omnibus account of Investor CSDs in the Issuer CSD, Investor CSDs must also ensure that underlying participants’ securities positions to be affected by the CA are not being used for trade-related transactions. At present, the selective blocking of securities is planned to be activated for the processing of CA events that do not involve a change of ISIN and result in a change of holdings (which includes Partial Redemptions).

**Conclusion**

CA processing is a mandatory process performed by each Issuer and Investor CSD as part of standard customer asset servicing, and this translates in a large number of restriction rules to be implemented on the T2S platform: among the CSDs in scope of this analysis, 7 have defined restriction rules for the management of CA and related settlement instructions.

Depending on the CSD, restriction rules will be created to control the processing and settlement of different CA events, according to their operational model and market practices, as illustrated in the table below:

**Table 6 - Overview of usage of restriction rules for management of CA**

<table>
<thead>
<tr>
<th>CSD</th>
<th>Type of restriction</th>
<th>CA events for which the rule applies</th>
<th>Number of MSAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearstream</td>
<td>ISIN blocking (Case2)</td>
<td>Following Reorganisations: Redemptions, Redemptions in securities, Reclassification, Conversion of Shares, Capital Decrease, Merger, Pari-Passu, Reverse Stock Split, Series-/Group</td>
<td>0</td>
</tr>
<tr>
<td>CSD</td>
<td>Type of restriction</td>
<td>CA events for which the rule applies</td>
<td>Number of MSAs</td>
</tr>
<tr>
<td>-------------------------</td>
<td>------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Depozitarul Central</td>
<td>ISIN blocking (Case2)</td>
<td>Under analysis</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Rejection (Case 1)</td>
<td>No specific CA events (access rights validation for the usage of “CORP” ISO transaction code)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Conditional Securities Delivery</td>
<td>CA on stock, involving securities proceeds in T2S and cash proceeds in RON</td>
<td>0</td>
</tr>
<tr>
<td>ESES</td>
<td>Rejection (Case 1)</td>
<td>Compatibility between accounts and securities, no specific CA events</td>
<td>4</td>
</tr>
<tr>
<td>Interbolsa</td>
<td>ISIN blocking (Case2)</td>
<td>Reorganisations where the CA processing changes the underlying security</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ISIN rejection (Case1)</td>
<td>Rights subscriptions</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Securities positions blocking (Case 3)</td>
<td>Elective CA</td>
<td>0</td>
</tr>
<tr>
<td>Monte Titoli</td>
<td>ISIN blocking (Case2)</td>
<td>Redemptions, Mandatory Conversions, Capital Increases with rights</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Securities positions blocking (Case 3)</td>
<td>Elective CA: Voluntary Conversion, Exercise of Warrants, and Capital Increase with Rights (on the originating positions)</td>
<td>0</td>
</tr>
<tr>
<td>SIX-SIS</td>
<td>Securities positions blocking (Case 3)</td>
<td>Elective CA and Mandatory Reorganisations</td>
<td>0</td>
</tr>
<tr>
<td>VP - VPLux</td>
<td>ISIN blocking (Case2)</td>
<td>CA events which do not involve a change of ISIN and result in a change of holdings</td>
<td>0</td>
</tr>
</tbody>
</table>

In the case of Reorganisations, a selective blocking of settlement instructions based on the ISIN will be commonly implemented by many CSDs in their role as Issuer and Investor CSD. The blocking is activated during the period of time in which the CSD(s) are applying the CA, to prevent changes in their participants’ holdings until the CA is applied and all CA-related settlement instructions have been settled.
The CA events requiring the activation of this rule are not always defined and seem to differ between CSDs. Note that this does not necessarily imply a problem, as it could be the result of the complexity of CA which require a granularity beyond categories or event types to determine which processing to apply. Market and T2S CA standards are also supporting standardisation of CA processing and market practices and the respect to these standards are being monitored. However, if different rules were to be applied for the selective blocking of an ISIN, CSD participants would experience a different behaviour of T2S regarding the management of their settlement instructions, depending on the CSD managing the CA. Ultimately, such differences in CA handling could result in de-synchronisation of positions between Issuer and Investor CSDs because, e.g., trade-related transactions are settling in the Investor CSD while the CA is applied by the Issuer CSD: the blocking implemented by the Issuer CSD will not prevent intra-CSD settlement of trade-related transactions at Investor CSDs.

In the context of elective CA, segregation of securities positions is required, as “underlying securities on which an election is made should be separated accounting-wise from non-elected securities”\(^3\). The segregation needs to be performed both at Issuer CSD and Investor CSD level, according to the “Bottom-up” approach\(^4\), and can be achieved using either specific accounts or sub-positions within the same account. In the former case, access to the account can be restricted via privileges and does not necessarily require the setup of restriction rules in T2S. For the purpose of managing elective CA, different segregation models co-exist between the Issuer CSD and its Investor CSDs, but will result in different setup in terms of restriction rules, and reconciliation mechanisms of securities positions, as omnibus and mirror positions will differ.

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\(^3\) CAJWG standards for Distribution with Options, Mandatory Reorganisations with Options, Voluntary Reorganisations

\(^4\) Election information is passed from end-investors, to Investor CSDs and intermediaries, up to the Issuer (CSD)
4.2 Registration

Introduction

Registration can be defined as the “function of keeping the central register for the issuer (of registered securities), which usually provides information on beneficial owners and/or end-investors”\(^3\). The central register function can be performed by other entities that are not CSDs (i.e. register-maintaining entities), such as registrars, issuer agents, stock exchanges or the issuer itself. Most European markets have implemented registration processes and 73% of ECSDA CSDs currently offer registration services. 66% of the CSDs operating the central register in their country ensure this function under a legal privilege.

The provision of information on beneficial owners and/or end-investors to the issuers is the current key aim of registration. Registration provides transparency about shareholders as it allows issuers to identify beneficial owners and investors, thus enabling them to provide Investor Relation services.

In markets with registration practices it is usually the issuer who decides upon the issuance of the securities (in the prospectus) whether or not the security shall require or allow registration. Furthermore, registration can also be a requirement defined by the issuer for attaining certain rights (e.g. voting rights, loyalty bonus) on a registered share. Finally registration can serve as a means for issuers of monitoring or even (in some markets) controlling ownership.

In some markets, dedicated types of securities have been created, for which ownership needs to be granted by the issuer (“registered securities with restricted transferability”) such that shareholder groups can be excluded from obtaining ownership. This concept originates in family businesses, which aimed at controlling the transfer of securities to shareholders outside the family, but is also used in regulated industries.

In many markets the national legislation offers the issuers the choice between different types of securities (or share attributes) i.e. issuers have the choice between issuing “registered securities” (requiring registration) or “bearer securities” (not requiring registration). Over time more sub-types have been established in some markets such as bearer securities that can be converted into registered securities to account for additional issuer needs. In addition, in some markets there are securities for which registration is optional, depending on the choice of the investor. In this case of “on-demand registration”, the investor decides whether or not registration is to take place (otherwise these securities are handled as bearer securities). Consequently, the securities which need to be registered “on-demand” can only be determined transaction-by-transaction and not exclusively based on their type.

According to the latest Harmonisation Report prepared by the HSG, although local registration procedures may have an impact on cross-CSD settlement efficiency resulting in inefficient and costly settlement processes, the issue is not perceived as a risk for the launch of T2S.

\(^3\) Source: Public consultation on CSDs and on the harmonisation of certain aspects of securities settlement in the EU, 13 January 2011. Registration in terms of the CSD notary function is not within scope of the issue.
Registration procedures implemented in European markets vary depending upon various factors such as legal and regulatory needs, issuer’s requirements and market structure configuration36 (i.e. direct holding versus indirect holding markets). The above mentioned factors govern the content, frequency and timing of information flow amongst the stakeholders.

The business requirements, controls and dependencies of the registration process are quite different from those of the securities settlement process; however, some markets tend to define registration procedures that are dependent upon the securities settlement process.

Each market may define registration processes to be performed before, after, or in parallel to the settlement process. Registration of securities may be required either in conjunction with a settlement activity, or corporate actions activity, events that entail a change in ownership (e.g. inheritance of registered securities) or events wherein the securities form changes from bearer to registered form.

In the context of the T2S, markets will continue to use the existing legacy processes for (re-)registration, and de-registration of securities, but settlement resulting from this activity will be performed on T2S. The CSDs have defined restriction rules in T2S with the objective of restricting the activities that could be executed by a T2S actor.

The description of the current controls and how these will be translated into restriction rules in T2S as well as the impact analysis is detailed per market in the next sections.

4.2.1 Clearstream Banking Frankfurt (CBF)

**Current State – Process Controls**

In CBF, the settlement of registered securities can be performed prior to their re-registration, as long as the securities have first been moved to an “Unregistered Position”. Note that the "Unregistered Position" in CBF only reflects the fact that the actual holder of a security might deviate from the registered owner, whereas for the "Registered Position", the two are identical. The process of re-registration follows the settlement.

To enable this model, CBF has implemented necessary controls in their systems to ensure that registered securities are held in dedicated position types only. In specific cases, additional validations are performed to control settlement activity debiting or crediting registered securities from such dedicated position types. The CSD or the issuer’s registrar performs the additional validations based on information provided by the registered owners or other intermediaries.

Nevertheless the above mentioned controls are not applicable on Investor CSDs securities accounts, as Investor CSDs wishing to service registered securities can use of the CBF automated (re-)registration

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36 In direct holding markets, the end-investor / beneficial owner is the account holder in the CSD contrary to indirect holding markets wherein intermediaries are the account holders at the CSD. In some direct holding markets, concept of nominee accounts also exists, whereby the information regarding beneficiary owners is maintained by the intermediary offering nominee services.
service for registered shares. Since the register is updated automatically by CBF, no position types other than “held free” are applied on the omnibus accounts of Investor CSDs.

For securities originating from either corporate actions or issuance, no controls or special validations are required to ensure completion of registration process prior to the settlement of corporate action or issuance related transactions. CBF has implemented additional validations to prevent the usage of securities positions resulting from CA for the purpose of OTC or stock exchange settlement prior to registration.

**Adapted State – Process Controls**

Clearstream has defined a specific earmarked position type (RSHB) to segregate registered securities from unregistered securities. Settlement instructions unregistering the securities (debiting the registered position type RSHB) will be put on “CSD Validation Hold” (for additional validations performed by Clearstream). Registering the securities (crediting the RSHB position type) could only be instructed via Clearstream (in ICP mode).

However, Investors CSDs (as currently) servicing German registered shared can continue to use the CBF automated registration service for registered shares after migration into T2S. In this service, the register will be updated automatically by CBF and therefore no position types other than AWAS will apply on the omnibus accounts of Investor CSDs. Thus, for Investor CSDs using the automated registration service the position types RSHB and RSKE and related controls are not applicable.

The diagram below shows the current Position Types used by CBF in the context of Registration and the mapping to future T2S Position Types:

**Figure 12 – Clearstream’s future position keeping of registered shares**

<table>
<thead>
<tr>
<th>CASCADE RS Position Type</th>
<th>T2S Position Type†</th>
<th>T2S Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unregistered Position</td>
<td>AWAS</td>
<td>„Held Free“ (available for settlement)</td>
</tr>
<tr>
<td>(Freier Meldebestand – FMB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated Position</td>
<td>RSHB</td>
<td>„Earmarked“ (not available for settlement)</td>
</tr>
<tr>
<td>(Zugewiesener Meldebestand – ZMB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Hauptbestand – HB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unregistered Position CA</td>
<td>RSKE</td>
<td></td>
</tr>
<tr>
<td>(freier Meldebestand aus Kapitalmaßnahmen – FMB KE)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated Position CA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Zugewiesener Meldebestand aus Kapitalmaßnahmen – ZMB KE)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CBF has defined the following restriction rules for the purpose of controlling the registration process:
Restriction Type 1: Positive Rejection

- “Registered Shares – Reject”:
  - Settlement related to (re-)registration of registered securities: T2S must reject all instructions crediting the “RSHB” position except when instructed by CBF
  - Settlement related to internal account transfers of registered securities: T2S must reject all instructions debiting the “RSHB” position except free of payment instructions sent to T2S as already matched

Restriction Type 1: Positive/Negative CSD Validation Hold

- “Registered Shares – CVAL”
  - Settlement related to de-registration of registered securities: T2S must put on CSD Validation Hold all instructions debiting “RSHB”
  - Settlement related to portfolio transfers of registered securities: T2S must not apply CSD Validation Hold on instructions flagged as portfolio transfers and debiting “RSHB”

Clearstream has also defined a specific earmarked position type (RSKE) to be used in the issuance processes for registered shares. The restriction rules restrict the usage of this earmarked position type by CSD participants. Only Clearstream can instruct the transfer bookings on this earmarked position type.

- Case 1 Restriction Type: Positive Rejection (Registered Shares - REJ)
  - Settlement related to initial registration of registered securities: T2S must reject all instructions debiting or crediting the “RSKE” position in case instructed by a CSD participant

- Case 1 Restriction Type: Positive CSD Validation Hold (Registered Shares - CVAL)
  - Settlement related to initial registration of registered securities: T2S must put on CSD Validation Hold, all instructions either crediting or debiting the “RSKE” position

The parameters configured in the rules are listed below:

Registered Shares (MSA on securities) with the values: ‘YES’, ‘NO’

Credited/Debited Position Balance with the values:
  - ‘RSHB’: registered position type
  - ‘RSKE’: a specific earmarked position type to be used in the issuance processes for registered shares

Party type of the Instructing Party, with the value:
  - ‘CSD participant’

Payment type code, with the value:
  - ‘APMT’: against payment
Matching status, with the value:

- ‘NMAT’: non matching

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

No impact is foreseen on Investor CSDs’ account configuration because Investor CSDs servicing German registered securities can use the CBF automated (re-)registration service for registered shares. Since the register will be updated by CBF automatically, no position types other than AWAS will apply on the omnibus accounts of Investor CSDs. In other words, Investor CSDs do not need to replicate the position types of CBF (RSHB) or to have a specific account configuration.

**Impact on Investor CSD Settlement Flows**

No impact is foreseen on Investor CSD settlement flows because Investor CSDs servicing German registered securities can use the CBF automated (re-)registration service for registered shares. Since the register will be updated by CBF automatically, no position types other than AWAS will apply on the omnibus accounts of Investor CSDs. Therefore, the CBF restriction rules put in place for the handling of registered shares will not be applicable.

4.2.2 **ESES (Euroclear Belgium, Euroclear France)**

**Euroclear Belgium**

**Current State – Process Controls**

Euroclear Belgium ensures that the registration of securities is completed prior to settlement based on the provision of registration related documentation by the selling and buying parties. The stock exchange related settlement transaction is blocked (i.e. put on hold) until all the required documentation related to registration has been validated and accepted by the registrar (see below the depiction of stock exchange transactions and related registration process at Euroclear Belgium). Currently, this procedure is foreseen for a very limited number of securities (2 ISINs) that are not traded on a regular basis amongst the Belgian domestic participants. No cross-CSD activity is envisaged for such securities.

**Adapted State – Process Controls**

Registration related processes on Belgian registered securities can only be instructed by the CSD Euroclear Belgium in T2S. The restriction rules defined by Euroclear Belgium aim at rejecting settlement instructions on Belgian registered securities unless instructed by the CSD. The existing registration process implemented at Euroclear Belgium will still be used for the settlement of registered securities.

Euroclear Belgium has defined the following restriction rules to support the registration process:

Case 1 Restriction Type: Positive Rejection
• RT15 (ESE-046-REG) – This control ensures that settlement instructions on Belgian registered securities are only instructed by ESES.

The parameters configured in the rule are listed below:

Party type of the instructing party:
- ‘CSD Participant’
- ‘External CSD’

Security:
- ISINs representing Belgian registered securities

![Figure 13 - Connecting ‘Belgian registered shares’ system to T2S](image)

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

According to the current information available on the restriction rules in Euroclear Belgium, no segregation of holdings is required for holding Belgian registered securities, therefore no impact on Investor CSDs’ omnibus accounts is foreseen.

**Impact on Investor CSD Settlement Flows**

Given the very limited number of Belgian registered securities which are traded amongst Belgian participants only, as well as the dematerialisation process which will be completed shortly, the impact on Investor CSDs’ settlement flows can be disregarded.

**Euroclear France**

**Current State – Process Controls**

In order to understand the needs related to the processing of registered securities in the French market, the following concepts need to be explained, as regards the distinction between registered securities, communication channels, and channel and intermediaries involved.
Need for registration (VEN vis-à-vis VON)

VEN ‘Valeur Essentiellement Nominative’ (means registered securities) means that a company can only issue registered securities and is governed by the article of laws of the company or the law for certain sectors like defense.

VON “Valeur Occasionellement Nominative” means that the securities are issued under bearer form and can be registered on demand on the shareholder.

For both types of registration, the issuer (or issuer agent) is responsible for the management of the register of shareholders which holds the name, the security balance, the address and any mandatory information of the owner of security.

Shareholder and Issuer communication (Nominatif Pure vis-à-vis Nominatif Administer)

Irrespective of the need for registration (on demand versus mandatory), the shareholder may opt to hold registered securities in an account opened with a financial intermediary (such as custodian bank) and for all communication with the issuer, the shareholder must use the financial intermediary’s services only. This operating model is known as ‘Nominative Administer’.

For the ‘Nominative Pure’ operating model, there is no intermediary between the shareholder and the issuer. The shareholder is allowed to send its instructions directly to the issuer, in charge of the execution of trades on the market through a broker. All shares in ‘Nominatif Pur’ form must be converted into bearer form to permit trading and settlement. For both operating models, the ownership is reflected in the books of the company by the registrar services. If the date of the settlement is the date of transfer of ownership rights (the registration date), the name in the register is the owner of the security. This requirement is the main reason for the strict regime in France for registered securities and movement of securities between Account Natures is validated to avoid any discrepancy between settlement (and securities holdings) and register maintenance.

Settlement of registered securities

For VON model (i.e. on demand registration), securities trading and settlement is done in the bearer form only. Since the registration is ‘on demand’ based upon the request of the shareholder, financial intermediaries receiving instructions for sale of registered securities must convert the registered securities into the bearer form. The process of conversion from registered to bearer form requires an FOP movement between Account Nature 'Administered registered securities' (001) to Account Nature 'Ordinary securities' (000) 37. Similarly, from the buyer’s perspective, the registration of the purchased bearer form securities requires an FOP movement by the intermediary from Account Nature 000 to Account Nature 001. The registration process is initiated after the settlement of trade and upon the request

37 The conversion of securities from NDC 001 to NDC 000 can entail the loss of specific privileges for the shareholder.
of investor. This registration procedure is applicable for ‘Nominatif Administered’ operating model because instructions are managed via the intervention of a financial intermediary. All FOP movements transferring securities between the Account Natures 001 versus 000 of the same participant do not require any additional validations. For ‘Nominatif Pur’ operating model, the Account Nature 'Accounts for issuer registered securities' (009) is applicable and the investor sends the instruction directly to the issuer. However, the sale of securities follows the same principle as applicable in case of Nominative Administer’, the issuer (Registrar services) must transfer the securities from the Account Nature NDC09 of the Issuer reflecting the fully registered position to the Account Nature NDC00 of a broker to sell the securities (and vice versa for the purchase).

For VEN model, the conversion from registered to bearer form is not required because the securities can exist in the registered form only (e.g. a share cannot be held in the 'Ordinary securities' 000 Account Nature).

For corporate actions or new issuance, Euroclear France allows the debit of underlying CA ISIN or credit of outturn ISIN as long as the postings are made on eligible accounts or position types dedicated for registered securities (e.g. Euroclear France).

**Concept of registered intermediary in Euroclear France**

‘Registered Intermediary’ ('Intermédiaire Inscrit') is a legal concept described in the French ‘Code de Commerce’ for foreign custodians or CSDs whereby the intermediary is allowed to send BRN in their name, without specifying the underlying investor, as long as it is not a French resident. The Investor CSD acts as nominee for the French registered shares and therefore only supports the registration and deregistration process into the share register in the context of cross border settlements. For any delivery of securities into the French market, the Investor CSD is deleted from the share register as nominee while the counterparty in Euroclear France will be registered. This registration and deregistration process is not necessary for internal transfers at Investor CSD, that is between two counterparties within the same Investor CSD.

**Adapted State – Process Controls**

ESES France will adapt the existing Account Natures in ESES to T2S using a Market Specific Attribute (MSA) defined at securities account level. Each securities account opened in T2S will be assigned a specific MSA value indicating the Account Nature. All the restriction rules implemented for registration aim at ensuring that the registered securities are settled via the eligible securities accounts (identified by MSA). Since none of the rules require the instruction to be on CSD Validation Hold until other processes or validations are complete, it implies that the registration and settlement process are independent.
For the ESES has defined the following restriction rules in T2S:

Case 1 Restriction Type: Positive Rejection

- **RT02 (ESE-002-REG):** This control ensures that settlement instructions against payment, sent by CSD participants on registered securities which come from corporate actions currently being registered with the issuer, are rejected when delivered from the dedicated Account Nature (045).

  The parameters configured in the rule are listed below:

  Account nature (MSA on securities account):
  - 'Registered securities which come from corporate actions currently being registered with the issuer' (045)

  Securities Movement Type:
  - ‘DELI’

  Payment type code:
  - ‘APMT’

  Party Type of the Instructing Party:
  - ‘CSDP’

- **RT05 (ESE-015-REG):** This control ensures the compatibility between the Account Nature (debit or credit) of the securities account (MSA) and the security category (MSA).

  The parameters configured in the rule are listed below:

  Account nature (MSA on securities accounts):
  - 'Underlying securities for certificates of deposit (Caisse nominative)' (061)
  - Security category (MSA on securities):
- 'Domestic dematerialised security except drawing'

**RT07 (ESE-034-REG):** This rule ensures the compatibility between the 'legal form of the security' (MSA) and the 'Account Nature' (MSA) of the account. The main purpose is to check that registered securities transactions are held on authorised accounts to guarantee reliable information to issuers, and that accounts dedicated to specific instruments are actually used for related legal form of security.

The parameters configured in the rule are listed below:

Legal form of security (MSA on securities):
- 'Bearer or registered' (0)

Account nature (MSA on securities account):
- 'Specific NOMS for Belgian registered securities' (104)
- 'Blocked Securities' (107)

**RT07 (ESE-035-REG):** This rule ensures the compatibility between the 'legal form of the security' (MSA) and the 'Account Nature' (MSA) of the account. The main purpose is to check that registered securities transactions are held on authorised accounts to guarantee reliable information to issuers: accounts dedicated to specific instruments are actually used for related legal form of security.

The parameters configured in the rules are listed below:

Legal form of security (MSA on securities):
- 'Registered' (2)

Account nature (MSA on securities account):
- 'Ordinary Securities' (000)
- 'Bearer securities distributed to employees by their company' (004)
- 'Bearer securities account excluded from direct payment' (015)
- 'Bearer securities distributed to employees by their company' (004)
- 'Direct payment on bearer securities without commission' (014)
- 'Bearer securities account excluded from direct payment' (015)
- 'Foreign companies’ securities presented for exchange offer or odd-lot offer' (050)
- ‘Bonds presented for early redemption and securities from Belgian, French or Dutch companies presented for acquisition or tender offer' (052)
- 'Coupons or rights to be paid in cash' (55)
- 'Coupons or rights to be exchanged against securities' (56)
- 'Bearer securities presented for a mandatory conversion into registered securities' (58)
- 'Stripped securities' (60)
- 'Underlying securities for certificates of deposit' (061)
- 'Local transfer agent on foreign securities' (64)
- 'Total issued amount of stripped securities' (78)
- 'Coupon paid in non-Euro currency' (79)
- 'Securities that have been blocked due to non-presentation of the certificate' (86)
- 'Securities in physical form' (91)
- 'TCN issuing account' (92)
- 'Physical securities that are lost on non-dematerialised securities' (93)
- 'Unknown owner securities' (094)
- 'Typical certificates in traffic' (095)
- 'Typical certificates out of traffic' (96)
- 'New issues account' (105)
- 'Securities exchange account' (106)

RT07 (ESE-036-REG): This rule ensures the compatibility between the 'legal form of the security' (MSA) and the 'Account Nature' (MSA) of the account. The main purpose is to check that bearer securities transactions are held on authorised accounts to guarantee reliable information to issuers, and that accounts dedicated to specific instruments are actually used for related legal form of security.

The parameters configured in the rule are listed below:

Legal form of security (MSA on securities):
- 'Bearer' (3)

Account nature (MSA on securities account):
- 'Administered registered securities' (001)
- 'Specific NOMS for Belgian registered securities' (104)
- 'Blocked Securities' (107)

RT7 (ESE-040-REG): This rule ensures the compatibility between the 'legal form of the security' (MSA) and the 'Account Nature' (MSA) of the account. The main purpose is to check that securities deposited in EBE or ENL (domestic or foreign) transactions are held on authorised accounts to guarantee reliable information to issuers, and that accounts dedicated to specific instruments are actually used for related legal form of security.

The parameters configured in the rule are listed below:
Legal form of security (MSA on securities):
- 'Securities deposited in EBE or ENL (domestic or foreign)' (7)

Account nature (MSA on securities account):
- 'Administered registered securities ' (001)
- ‘Bearer securities distributed to employees by their company ’ (004)
- 'accounts for registered securities' (008 or 009 or 017)
- 'Securities to be converted to mandatory registered form' (044)

- RT15 (ESE-046-REG): This control ensures that settlement instructions on Belgian registered securities are only instructed by ESES.

The parameters configured in the rule are listed below:

Party type of the instructing party:
- ‘CSD Participant’
- ‘External CSD’

Security: the ISIN of Belgian registered securities.

Restriction Type 1: Positive CSD Validation Hold

- RT18 (ESE-047-REG): This control prevents settlement instructions between administered registered securities account and ordinary securities account, as prior to such transfer, the transfer of ownership and shareholders’ details must be sent to the issuer agent to process registration or de-registration. Instructions are released after the CSD has performed the checks in its system.

The parameters configured in the rule are listed below:

Account nature (MSA on securities account):
- ‘Administered registered securities' (001)

Legal form (MSA on securities):
- 'Bearer or registered' (0)

- RT18 (ESE-048-REG): This restriction rule puts on CSD Validation Hold settlement instructions with Account nature ' Registered securities (employees shareholding)'or 'Accounts for issuer registered securities' if instructing party is a CSD participant. The parameters configured in the rule are listed below:

Account nature (MSA on securities account):
- 'Registered securities (employees shareholding)')(008)
- 'Accounts for issuer registered securities' (009)
Party type of the instructing party:
- CSD participant

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The use of distinct securities accounts categorised for (fully and administered) registered and bearer securities settlement also requires the segregation of holdings in the Investor CSD’s omnibus accounts. The ESES planned solution for mapping the participants’ current account structure to the T2S accounts involves the configuration of an MSA for securities accounts to specify dedicated type of holdings. All participants of Euroclear France including Investor CSDs will have to segregate their French registered holdings to a specific T2S account. This implies that omnibus accounts of Investor CSD will also be qualified to hold French registered securities based on the value of the MSA on the omnibus account.

However, the need for account segregation in Investor CSD is conditional upon the provision of services for both registered and bearer forms of the security by the Investor CSD.

In short, the Account Nature 'Ordinary Securities' (000) will be opened by default for Investor CSDs, while the Account Nature ‘Administered registered securities’ (001) will be opened for those Investor CSDs servicing registered securities of Euroclear France.

Note that Investor CSDs reflecting ‘legal’ or ‘holding’ forms of securities (MSA) according to ESES’ specifications must segregate holdings of their clients in their books accordingly and implement the related restriction rules which apply to Account Natures 000 and 001. This approach may bring complexity to the segregation of securities holdings within the Investor CSD.

Figure 15 - Segregation of accounts in Investor CSD A books

<table>
<thead>
<tr>
<th>Investor CSD A</th>
<th>Issuer CSD I</th>
<th>Investor CSD B</th>
</tr>
</thead>
</table>

Restriction rule setup

- a) Investor CSD A supports both registered and bearer forms of the ISIN ABC
- b) Investor CSD B supports only the bearer form of the ISIN ABC
Impact on Investor CSD Settlement Flows

The impact of Euroclear France’s restriction rules on Investor CSDs’ settlement flows is limited to settlements involving ESES France as either an intermediary CSD between the buyer and seller CSDs or as the counterparty CSD (buyer / seller).

All instructions on the Investor CSD’s omnibus account irrespective of their origin (sent by T2S actor or generated by T2S) are subject to the restriction rules for registered securities settlement to ensure compliance between type of securities and eligibility of the omnibus account to hold the security type. Since these restriction rules may result in a non-generation of the T2S generated realignment instructions38 in specific cross-CSD settlement scenarios, Investor CSDs and their participants settling registered securities are exposed to the risk of receiving acceptance status advice for Business Instructions followed by cancellations from T2S and should therefore implement restriction rules of ESES involving segregation of securities positions on Account Natures 000 and 001.

The example below illustrates this situation:

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38 UDFS version 2.0: Validity of T2S generated realignment Settlement Instructions (p. 375)
Scenario: Cross-CSD transaction between two Investor CSDs where realignment between omnibus accounts takes place at the Issuer CSD (registration related restriction rules). The participants at Investor CSD settle securities based on VON registration scheme (securities exist in bearer and registered form) and the delivering and receiving securities accounts mapped to different omnibus accounts (Account Nature 001 and 000).

Findings: In this scenario, T2S creates realignment instructions on the omnibus accounts of CSD A and CSD B in ESES France. The delivering omnibus account is assigned the MSA value 001 corresponding to the Account Nature eligible for holding registered securities whereas the receiving omnibus account is assigned the MSA value 000 corresponding to the Account Nature for holding bearer form securities only.

The restriction rules set-up by ESES France will not allow the creation of realignment instructions on the omnibus account mapped to Account Nature 000 for VON registration scheme. This will result in a cancellation of Business Instructions at both Investor CSDs (i.e. CSD A and CSD B) after their initial acceptance.

To prevent this situation, the Investor CSD B will need to propagate the ESES restriction rules and related MSA corresponding to ESES Account Natures. This will result in the earlier rejection of the Business Instruction at the Investor CSD B, at the time of initial validation, before the matching process has taken place.

Conclusion

While many European markets have implemented procedures for registration of securities, the controls and processes required to perform registration are quite different among CSDs. This is the result of a number of factors: the actors involved in the registration procedures and the dependency with the settlement process vary across markets. In addition, registration procedures
are defined according to specificities and long-standing practices unique to each market. In the context of this analysis, it results in different restriction rules being implemented by CSDs in their role as Issuer CSD.

The registration procedures and restriction rules planned by Euroclear France may impact Investor CSDs’ account structure and settlement flows, if they decide to service registered securities. Segregation of securities positions will be required to distinguish between registered and non-registered securities and the restriction rules related to this segregation will need to be replicated. This will ensure that validations are performed on the Business Instructions of Investor CSDs rather than at the level of realignment, where settlement instructions may become cancelled after initial acceptance and matching. For this purpose, Investor CSDs would also have to implement the relevant MSAs on securities and account level, albeit with a limited set of values.

For Euroclear Belgium, the restriction rule put in place for registered securities involves a very limited number of non-standardised securities (2 ISINs) that are not traded on a regular basis amongst the domestic participants. The impact on Investor CSDs’ settlement flows is negligible.

Finally, Clearstream has implemented restriction rules and position types for registration and de-registration of securities, but the impact on Investors CSDs will be mitigated as these can continue to use the automated (re-)registration service for registered shares after migration into T2S. In this service, the register will be updated automatically by the CSD, and hence no specific registered position types or controls will apply on the omnibus accounts of Investor CSDs.

Based on this information, no potential for harmonisation of restriction rules related to registration procedures in T2S has been identified.
4.3 Taxation

Introduction

The taxation process in the context of securities settlement involves withholding tax on securities income (such as dividends and interest) and applies to both resident and non-resident investors of the market where securities income is sourced.

Withholding tax is defined as the ‘Tax on income from securities and securities transactions’\(^{39}\). The party responsible for the tax processing differs across European markets. For some markets, it can be the Issuer CSD that directly debits withholding tax from the participant’s cash account, as it is the case in NBB-SSS. In some other cases, the Investor CSD or the CSD participant that has a withholding status is responsible to interact with the local tax authorities, e.g. in Italy. Finally, the end-investor himself can be responsible for its tax payment via the regular tax declarations. All in all, the European market is fragmented with regards to the party (individual or legal entity) that has to perform the tax processing.

Withholding tax relief is defined as the ‘(Partial) Exemption from tax available under domestic law or pursuant to double taxation treaties’\(^{40}\). The tax relief procedures also vary across the EU markets and are categorised as ‘at-source relief procedure’ and ‘refund or reclaim procedures’:

- ‘At-source relief’ method involves the provision of tax relief during the payment of securities income (i.e. dividend or interest). The withholding tax procedures based on ‘at-source relief’ are preferred due to the optimised cash flow offered to the investors. For some cross country investors, some markets may have implemented bilateral double taxation agreement (DTA) to provide (partial) relief on the tax to be paid.

- ‘Refund or reclaim’ method involves the deduction of tax at source (i.e. during payment of securities income) followed by the submission of reclaim request by investor. This is not considered as the preferred tax relief method due to the time value of money cost, varying reclaim time frames across EU and mandatory documentation requested by the tax authorities for every reclaim request as opposed to tax relief at source that allows for one time documentation. The tax reclaim is considered as a critical activity and according to the study carried out by European Commission, costs related to current reclaim procedures are estimated at a value of €1.09 billion annually, whereas the amount of foregone tax is estimated at €5.47 billion annually\(^{41}\).

For markets wherein the CSDs (Issuer or Investor) act as the withholding tax agent and have implemented ‘at-source relief’ procedures, special controls can be designed by the CSDs to meet the taxation related eligibility criteria for holding and settling specific securities on certain securities accounts. The next


\(^{41}\) Simplified withholding tax procedures from DG Internal Market and Services 2010
sections focus on the description of current controls and future restriction rules that CSDs plan to put in place for withholding tax collection procedures, and analyse their impact on cross-CSD settlement.

4.3.1 NBB-SSS

Current State – Process Controls

NBB operates a securities settlement system for debt securities called ‘X/N system’\(^{42}\). A key feature of the X/N system is the special Belgian withholding tax rule whereby investors are required to hold securities either on an exempt account (X-account) or a non-exempt account (N-account). This depends upon the investor’s withholding tax status.

- Non-residents of Belgium and all Belgian companies are entitled to hold their securities on an X-account (exempt account). The interest earned on securities held on X-accounts is exempt from Belgian withholding tax.
- Belgian resident individuals and most Belgian non-profit organisations are required to hold their securities on an N-account (non-exempt account). The interest on securities held on N-accounts is subject to 25% Belgian withholding tax, which is deducted and paid to the Belgian treasury.

Holding debt securities through the X/N system enables X-account holders to receive gross interest income on their securities and to transfer the securities on a gross basis. NBB-SSS follows “pro rata temporis” withholding system for interest bearing securities, whereby tax is levied at source on the interest accrued upon each transfer of the securities between interest payment dates.

The following controls are put in place in the context of taxation by NBB-SSS:

- Securities exempt from withholding tax cannot be held on N-account
- By Article 12 of Royal Decree, borrowing of securities, repurchase agreements, swap of securities, and exchange of securities cannot be performed with securities booked on an N-account.
- By Article 8 to 11 of Royal Decree, the calculation of withholding tax on ISD must be done for all instructions on N-account, if the quantity of securities delivered or received is not zero.

Adapted State – Process Controls

The restriction rules defined by NBB for implementation of current controls in X/N system are based on two MSAs for securities and securities accounts. The use of MSAs is required as T2S does not store the taxation attributes of securities and securities accounts.

The MSA on securities account level is based on the combination of two account attributes:

- A type of account from Belgian fiscal point of view combined with type of account in terms of holder type:
  - Belgian Tax Status: Subject to withholding tax (‘N’) and Exempt from withholding tax (‘X’)

\(^{42}\) Referenced from Annexes to the regulations of the Securities settlement system of the National Bank of Belgium, Jan 2011
- Holder Type: Own account ('0'), Client account ('1'), Pledge account ('2') and Issuance accounts ('3')

The MSA values defined at securities account level are a combination of the above attributes, namely: “X0”, “X1”, “X2”, “X3”, “N1”, “N2”

The MSA on securities is based on the limitations (according to the Royal Decree of 1994) applicable for a security according to the Belgian Fiscal point of view, with the following values:

- ‘0’: Security not allowed in X/N system
- ‘1’: Full XN, security is not exempted
- ‘2’: X only, security exempted from withholding tax
- ‘3’: Security is not subject to withholding tax at transaction time

Restriction Rules in T2S

- “NBBE-RT01”, a positive rejection rule (Case 1 Restriction Type), will be implemented in order to:
  - Reject all settlement instructions on non-exempt client securities accounts (MSA value N1) and non-exempt pledge securities accounts (MSA value N2) when security exempted from withholding tax (MSA value 2);
  - Reject all settlement instructions on non-exempt client securities accounts (MSA value N1) and non-exempt pledge securities accounts (MSA value N2) when ISO transaction code is REPU, REPO, RVPO and RVPU is used

- “NBBE-RT02”, a positive CSD Validation Hold rule (Case 1 Restriction Type), will be implemented in order to:
  - Put on CSD Validation Hold all settlement instructions from CSD participants on non-exempt client securities accounts (MSA value N1) when the security is not exempted from withholding tax (MSA Value 1);
  - Put on CSD Validation Hold all settlement instructions from CSD participants on non-exempt pledge securities accounts (MSA value N2);
  - Put on CSD Validation Hold all delivering settlement instructions from CSD participants on securities not subject to withholding tax at the time of transaction (MSA value 3);
  - Put on CSD Validation Hold all settlement instructions from CSD participants on exempted pledge securities account (MSA value X2);

Note: this particular control on non-exempt pledge securities accounts is analysed in the context of the business process related to collateral management Section 4.4.

Note: this particular control on exempted pledge securities accounts is analysed in the context of the business process related to collateral management Section 4.4.4. Also note that the parameter value
“CSD participant” is missing from the configuration of the rule in the current version of the CSG documentation, this will be reflected in the next release of the CSG’s “Reference Data Extension”;

- “NBBE-RT02”, a negative CSD Validation Hold rule (Case 1 Restriction Type), will be implemented in order to bypass the validations defined in the positive rule:
  
  - Payment Free of Delivery (PFOD) Settlement instructions from CSD participants on non-exempt client securities accounts (MSA value N1) must not be put on CSD Validation Hold.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The concept of an exempt account (X-account) and a non-exempt account (N-account) also applies to Investor CSDs in NBB-SSS. The omnibus account of an Investor CSD would also be qualified as either exempt or non-exempt upon presentation of a tax certificate according to the tax status of the underlying participants in the Investor CSD.

Segregation will be required for Investor CSDs that have both categories of investors (exempted as well as non-exempted from Belgian withholding tax) as participants. Two different types of omnibus accounts will have to be opened in NBB-SSS, and, based on the tax status of the participant, the securities account(s) owned by the participant will be linked to either an exempted or non-exempted omnibus account of the Investor CSD at NBB–SSS. For business scenarios wherein the Investor CSD participants hold securities on behalf for their clients in omnibus accounts at Investor CSD, further level of segregation may be required depending upon the tax status of the participant’s clients, as illustrated in the example below:

**Figure 17 - Relationship between the participant accounts at Investor CSD and omnibus accounts in Issuer CSD (split of participant account holdings due to different tax status of clients)**
Impact on Investor CSD settlement flows

To ensure that the tax related validations are performed at the level of Business Instructions prior to their initial acceptance in T2S, Investor CSDs must implement the tax related rejection restriction rule defined by NBB–SSS.

Indeed, the restriction rule NBBE-RT01 rejects settlement instructions on non-exempt securities account when the security is exempt from withholding tax, or when specific ISO transaction codes related to collateral management operations are used:

- In case of a cross-CSD scenario between a participant of NBB-SSS whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction of the NBB-SSS’ participant would be rejected and the Business Instruction at the Investor CSD level would remain unmatched.

- In other cross-CSD scenarios generating realignments at NBB-SSS (i.e. between Investor CSDs’ participants or a participant of NBB-SSS and a participant of an Investor CSD), the rejection rule can be triggered on the realignment instructions, resulting in the Business Instructions being accepted, matched, then cancelled.

Investor CSDs having both exempt and non-exempt participants will have to open two different types of omnibus accounts and implement the restriction rule NBBE-RT01 defined by NBB-SSS. In addition, they will have to implement the MSA for securities accounts to categorise participant accounts as exempt or non-exempt as well as the MSA for securities to categorise securities issued by NBB-SSS as exempt or non-exempt.

The restriction rule NBBE-RT02 does not need to be implemented by Investor CSDs.

It is used by NBB-SSS for the calculation of withholding taxes. The restriction rule will potentially impact cross-CSD transactions, putting the Business Instruction of the NBB-SSS participant or a T2S Generated Realignment Instruction on CSD Validation Hold. This will result in the transaction being pending for settlement until NBB-SSS has performed the relevant checks and calculations; once done, the settlement instruction on hold will be released by NBB-SSS and the transaction will be eligible for settlement. Note that this restriction rule may prevent the use of such non-exempt securities as eligible for T2S auto-collateralisation.

Conclusion

Withholding tax calculation procedures will be supported by the use of restriction rules by NBB-SSS in its role as Issuer CSD. This may impact Investor CSDs’ account structure and settlement flows depending on the tax status of their underlying participants. In the case where an Investor CSD would have participants which are exempt, and participants which are non-exempt from Belgian withholding tax:
• The Investor CSD’s account structure will require segregation of omnibus and participants according to the tax status of its participants;

• The Investor CSDs should implement the rejection restriction rule defined by NBB-SSS in its own environment in order to ensure that the tax related validations are performed at the level of Business Instructions, to avoid settlement scenarios where cancellation takes place after initial acceptance and matching. For this purpose, the Investor CSD is likely to implement the MSAs defined for tax status on account and securities level.

With a single CSD having defined restriction rules in the context of withholding tax, the XMAP does not currently identify potential for harmonisation of restriction rules used in T2S. It must be emphasised that tax information is not part of the standard set of static data and will require the use of MSAs.
4.4 Collateral Management

Introduction

Collateral Management refers to the handling of all tasks related to the management of collateral (collateral valuation, reporting, processing of margin calls and returns, monitoring of collateral substitution, notification of corporate events, processing of securities transfers on behalf of the client, etc…) posted by a borrower, or collateral provider, to a lender, or collateral taker, to secure its obligations.

According to the ECB glossary, collateral management includes the process used to control the correspondence between the market value of the relevant collateral and the required value of that collateral. It generally also includes the generation and processing of collateral transfers.

The collateral provided by the borrower (i.e. collateral provider) serves as protection for a lender (i.e. collateral taker) against the borrower's default and can be provided as securities or cash. If the borrower defaults on his obligation, the borrower forfeits the assets pledged as collateral and the lender assumes the ownership of the collateral.

In the case of securities collateral, the assets can be provided either by transfer of full ownership (i.e. repo) from a collateral provider (borrower) to a collateral taker (lender) or by the transfer of possession from a collateral provider to a collateral taker under a security right (i.e. pledge, charge or lien), where the full ownership of the assets remains with the collateral provider.

Collateral management can be categorised as an ancillary service provided by CSDs and will continue to be offered upon migration to T2S. T2S as a settlement platform only facilitates the functions of collateral management; CSDs may use the functionalities available in T2S to offer their collateral management services, inter alia centralisation of collateral pools and liquidity, earmarking of collateral, or STP cross-CSD settlement. However, the necessary framework and controls for providing collateral management services are for a great part managed outside T2S.

The collateral taker defines the eligibility criteria of the collateral to be received, in order to mitigate the financial risk on the transaction. Securities collateral transfer could take place in the context of various transactions, inter alia:

- Pledge transactions between two parties
- Securities lending and borrowing
- Initial margin for CCP transactions
- Tri-party repo collateral services

Below is an example of current implementation of collateral mobilisation during a classic pledge transaction between two parties; the CSD only performs the function of settlement infrastructure and pledge account servicer, acting upon authorisation of the parties, but does not provide collateral management services such as collateral eligibility check or collateral valuation. The pledger is the party...
that provides the collateral and the pledgee is the party that accepts the collateral as a pledge. Participant A is the pledger pledging the securities from his securities account to the pledge account in favour of the pledgee. The pledgee could be participant B of CSD A or external to CSD A (non-participant C).

**Figure 18 - Pledge service - Current model - sample**

Based on the settlement instruction from the pledger (step 1), the CSD will proceed to the transfer of collateral to the pledge account (step 3) upon confirmation that the collateral is eligible for the pledge by the pledgee (step 2).

The instructions mobilising collateral can be identified using specific transaction codes in T2S, inter alia ISO transaction codes COLI and COLO, which can be used in the configuration of restriction rules. This enables the collateral mobilisation process to be distinguished from other processes.

The description of current services and controls, restriction rules and impact analysis by market is detailed in the next sections.

4.4.1 **BOGS**

*Current State – Process Controls*

In BOGS, some securities have been issued for a specific purpose: certain Greek banks which are participants of BOGS are only allowed to use them for liquidity purposes, i.e. using repos, buy sell backs, and collateral operations. In order to monitor the activity on these securities, the relevant banks are requested to hold them on the specific security account category ‘502’ from where they can only be moved using specific operation types. However, this rule applies for the banks having received these securities on issuance: if these securities are moved from the securities account of category ‘502’ to another participant via a repo or buy sell back operation, then the latter may execute all the possible operation types. Some exceptions are possible and this is the reason why instructions referring to other operation types are not directly rejected, but put on hold in order to be verified by BOGS.

*Adapted State – Process Controls*
BOGS has defined the following restriction rules (Case 1 Restriction Type) in order to implement the required controls related to the above process in T2S:

- “RT01”, a negative CSD Validation Hold rule, will be implemented to bypass the validations defined in the restriction rule “RT02”, if specific ISO transaction codes are used in the settlement instructions: REPU, RVPO, COLI, COLO, BSBK, SBBK.
- “RT02”, a positive CSD Validation Hold rule, will be defined to put settlement instructions from CSD participants acting as DCPs on special security account category ‘502’ on CSD Validation Hold. More specifically, the delivering party will be checked in case of deliveries, and the receiving party in case of receiving (RECE) settlement instructions. This restriction rule defines the scope of settlement instructions to be affected by the rule, the exceptions being defined in the above negative rule (RT01).

The parameters used in the context of these rules are:

- ‘SecAccountCategory’, an MSA on account level, with specific value ‘502’
- ‘PartyFlag’, an MSA on party level, with values ‘DCP and ‘ICP’ (and parameter debit and credit)
- Securities Movement Type: DELI, RECE

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction rules of BOGS impact only the security accounts of category ‘502’. These accounts are applicable only for domestic participants. Therefore, no impact is foreseen on Investor CSD account configuration.

Impact on Investor CSD settlement flows

The specific service put in place in BOGS is only offered to domestic participants (some Greek banks). The restriction rules have been implemented accordingly and do not need to be implemented by Investor CSDs. As the restriction rules use an MSA ‘Party Type’ with value ‘DCP’, as well as another one to define a specific securities account category (502), the use of these MSAs ensure that settlement instructions from Investor CSDs are not impacted, as the omnibus accounts of Investor CSDs will not be of category ‘502’. It would only be in the case of a cross-CSD transaction between a DCP of BOGS and a participant of an Investor CSD where the BOGS participant would erroneously use the account category ‘502’ without the allowed ISO transaction codes that the transaction would be pending for settlement.

4.4.2 Clearstream Banking Frankfurt (CBF)

Current State – Process Controls

Clearing Members of Eurex Clearing can currently choose to open pledged securities accounts either at Clearstream Banking Frankfurt (CBF), SIX Securities Services, or Clearstream Banking Luxembourg (CBL) for the purpose of providing collateral to the CCP. These securities accounts are maintained on a
Clearing Member's behalf with the securities pledged to Eurex Clearing. The Clearing Member debits the securities directly within the system of the relevant CSD to the relevant pledged account.

In this context, specific instruction types are used for collateral transfers in CBF.

Pledge securities accounts are not available to Investor CSDs of CBF.

**Adapted State – Process Controls**

CBF has defined the below restriction rules for movement of securities on Eurex collateral accounts held in CBF:

- **“Party and account configuration – REJECT” – Case 1 Restriction Type: Positive Rejection**
  
  T2S should reject delivering settlement instructions from CSD participants debiting securities out of Eurex Collateral Accounts.

- **“Party and account configuration – REJECT” – Case 1 Restriction Type: Negative Rejection**
  
  This rule defines the exception to the previous restriction, so that CBF and Eurex Clearing AG (ECAG) are allowed to instruct already matched free of payment deliveries debiting Eurex collateral accounts.

- **“Party and account configuration – REJECT” – Case 1 Restriction Type: Positive CSD validation hold**
  
  T2S should put on CSD Validation Hold all receiving settlement instructions from CSD participants crediting securities into Eurex collateral accounts in order to perform additional validations on the securities to be pledged as collateral.

An MSA on account level ‘Konto-Art’ is used in the above rules to identify the specific collateral accounts that are impacted by the rules. There are no specific values provided currently for the MSA. But the values reflect the internal account types used in CBF.

The parameters configured in the rules are listed below:

- **Konto Art (MSA) with alphanumeric values reflecting CBF internal account types in T2S, in order to distinguish Eurex Collateral Accounts**

- **Party type of the Instructing Party, with the value:**
  - ‘CSD participant’

- **Instructing Party, with the BIC values of CBF and ECAG**

- **Payment type code, with the value:**
  - ‘FREE’: free of payment

- **Matching status, with the value:**
  - ‘MACH’: matching

- **Securities Movement Type, with the values:**
'RECE’

‘DELI’

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

Eurex Collateral Accounts are opened to allow Clearing Members of Eurex Clearing to deposit collateral and fulfill margin requirements resulting e.g. from Clearing activity. Such accounts are not available to Investor CSDs as per current market practices.

Impact on Investor CSD settlement flows

The controls put in place by CBF result from collateral obligations of Clearing Members towards Eurex Clearing for trading activity, and should not be replicated by Investor CSDs.

Investor CSDs’ settlement flows would only be impacted in the case of a cross-CSD transaction delivering securities into a Eurex Collateral Account: the transaction would be pending for settlement, as the instruction entered by the Eurex participant is put on “CSD Validation Hold”.

4.4.3 Interbolsa

Current State – Process Controls

Interbolsa offers its participants the possibility to pledge securities in favour of third-parties. More specifically, special transfer instructions are used by Interbolsa’s participants in order to, e.g. transfer collateral to Banco de Portugal in the context of credit operations. Currently the following “situations” (position types) are being used to segregate the pledged collateral. Collateral management services such as collateral eligibility check and valuation are not performed by Interbolsa.

Table 7 - Situations (position types) at Interbolsa

<table>
<thead>
<tr>
<th>Situation of securities</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>003</td>
<td>Blocked for pledge</td>
</tr>
<tr>
<td>004</td>
<td>Blocked for guarantee</td>
</tr>
<tr>
<td>024</td>
<td>Blocked for SII (Investor Compensation Scheme) pledge</td>
</tr>
<tr>
<td>027</td>
<td>Blocked for FGD (Deposit guarantee fund) pledge</td>
</tr>
</tbody>
</table>

The pledged “situations” (i.e. position types) “003” and “004” will be used in the context of bilateral pledge operations, while the position types “024” and “027” are used in the Portuguese market for specific collateral takers, namely the Investor Compensation Scheme (024) managed by the Portuguese regulator, CMVM, and the Deposit Guaranty Fund (027) operated by the central bank, Banco de Portugal. These functions are available only for participants of the Portuguese market.

Adapted State – Process Controls
Interbolsa has defined the below restrictions types and rule in order to implement controls for the pledge services it provides to its participants. The CSD plans to use specific position types to implement the pledge services.

- **BL03 – Case 3 Restriction Type**
  Creation of the “Blocked for pledge” position type

- **BL04 – Case 3 Restriction Type**
  Creation of the “Blocked for guarantee” position type

- **BL24 – Case 3 Restriction Type**
  Creation of the “Blocked for SII (Investor Compensation Scheme) pledge” position type

- **BL27 – Case 3 Restriction Type**
  Creation of the “Blocked for FGD (Deposit guarantee fund) pledge” position type

- **SR03 – Case 1 Restriction Type : Positive rejection rule**
  T2S should reject all instructions debiting/crediting the securities positions that are blocked for settlement. Only the CSD can instruct on the below position types in T2S.

### Table 8 - Position Types of Interbolsa in T2S

<table>
<thead>
<tr>
<th>Position type in T2S</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BL03</td>
<td>Blocked for pledge</td>
</tr>
<tr>
<td>BL04</td>
<td>Blocked for guarantee</td>
</tr>
<tr>
<td>BL24</td>
<td>Blocked for SII (Investor Compensation Scheme) pledge</td>
</tr>
<tr>
<td>BL27</td>
<td>Blocked for FGD (Deposit guarantee fund) pledge</td>
</tr>
</tbody>
</table>

The parameters configured in the rules are listed below:

- **Party type of the Instructing Party**, with the value:
  - ‘CSD participant’

- **Debited/Credited position balance**, with the values:
  - ‘BL03’, ‘BL04’, ‘BL24’, ‘BL27’

The usage of the pledged positions will be aligned to the practice pre-T2S with “situations” (see description of the *Current State – Process Controls*).

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The securities positions available for pledging at Interbolsa are either not available to Investor CSDs, in the case of the Investor Compensation Scheme “BL24” and Deposit Guarantee Fund “BL27”, or the
segregation at the level of omnibus account is not necessary, in the case of “BL03” and “BL04” which are used in the context of bilateral pledge operations. Therefore no impact is foreseen on Investor CSDs’ account configuration.

**Impact on Investor CSD settlement flows**

Investor CSDs do not need to replicate the restriction rule implemented by Interbolsa, and the impact of the restriction rule on cross-CSD settlement flows will be strongly mitigated.

Indeed, while cross-CSD transactions delivering into a pledge account would be common, as pledge accounts are standard custody accounts in which pledged positions are segregated (if the participant of Interbolsa uses the pledge account as receiving account in a trade-related transaction), the result of a trade transaction can only be a credit of the available positions (AWAS position type) of the pledge account, and will not be affected by the rule defined by Interbolsa.

The actual pledging, moving securities positions into one of the blocked position types, can only be instructed by Interbolsa, and the restriction rule has been defined accordingly to reject any settlement instructions debiting or crediting the blocked position type unless instructed by the CSD. This is illustrated in the example below:

**Figure 19 - Cross-CSD mobilisation of collateral between a participant of Interbolsa and a participant of an Investor CSD**

![Diagram of cross-CSD mobilisation of collateral](image)

**Scenario:** In this scenario, the Investor CSD participant is either also a participant of Interbolsa for the purpose of opening accounts used for pledge services (pledger), or simply the trade counterparty from the participant of Interbolsa which has decided to pledge securities resulting from the trade.

The cross-CSD transaction will credit the available position type (AWAS) in the pledge account of Interbolsa’s participant (R1 & R2).

In a second step, upon successful settlement of this transaction, the pledger instructs the opening of the pledge transaction to Interbolsa outside T2S. The CSD then instructs the movement of the pledge securities into the blocked pledge position type (R3) using intra-position movement instructions (settlement restrictions).
Findings: Neither the Business Instructions from the Investor CSD participant nor the Business Instruction from the pledger is impacted by the restriction rules setup by Interbolsa. The restriction rules only prevent the opening of the pledge which is a separate operation executed by the CSD.

It would only be in the case of a cross-CSD delivery from a participant of Interbolsa using one of the blocked position types, that the transaction would be impacted: the Business Instruction of Interbolsa’s participant will be rejected and the Business Instruction at the Investor CSD level will remain unmatched.

4.4.4 NBB-SSS

Current State – Process Controls

Participants of NBB-SSS wishing to use the pledge services offered by NBB-SSS need to open and use a specific type of securities accounts:

- Account type 51 - pledge account – Used for pledge transactions outside NBB-SSS

A participant may pledge securities that he holds on his own securities or trading account by transferring them to the ‘51 account type’ opened in his name.

Securities pledged shall not be released from the pledge account except in case of:

- Pledge substitution
- Increase/reduction in the amount pledged
- Total release of the pledge due to closure of the underlying transaction
- Realisation of the pledge by the pledgee

For any of the changes above, the pledgee must provide his consent to the CSD.

Pledge instructions use COLI and COLO ISO transaction codes that differentiate these instructions from settlement instructions used in other business areas.

Adapted State – Process Controls

NBB-SSS has defined the below restriction rule to implemented controls related to the pledge services it offers:

- “NBBE-RT02”, a positive CSD Validation Hold rule (Case 1 Restriction Type), will be implemented in order to:
  - Put on CSD Validation Hold all settlement instructions from CSD participants on non-exempt pledge securities accounts (MSA value N2);
  - Put on CSD Validation Hold all settlement instructions from CSD participants on exempted pledge securities account (MSA value X2)

Note: only the relevant part of the restriction rule NBBE-RT02, related to pledge securities accounts, is analysed in the context of this business process. Also note that the parameter value “CSD participant” is
missing from the configuration of the rule in the current version of the CSG documentation, this will be reflected in the next release of the CSG’s “Reference Data Extension”;

The MSA at account level “Account WT Type”, also used in the context of taxation, identifies the pledge accounts to which the rules should apply (MSA value N2/X2). Please refer to section 4.3.1 on Taxation for the full description of the MSA. The parameter “Instructing Party Type” is used with the value “CSD Participant” to identify settlement instructions sent by participants of NBB-SSS.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

Participants willing to use the pledge service provided by NBB-SSS must open a securities account dedicated for holding securities pledged as collateral. Such accounts are identified with the use of MSAs. The service is available to Investor CSDs, which may open pledge accounts on behalf of their participants. Investor CSDs using this service must segregate their participants’ holdings, in order to distinguish between pledged and available positions, and are likely to implement NBB-SSS’ MSA on account level. Segregation by separate accounts is in this case advisable to benefit from the cross-CSD STP functionality of T2S; segregation position types is also possible but would require a 2-step process for the settlement in a pledge account, the Investor CSD instructing directly NBB-SSS with the pledge instruction and, upon successful settlement, transferring the securities to its participants’ pledge positions.

**Impact on Investor CSD settlement flows**

While Investor CSDs using the pledge services of NBB-SSS will need to ensure the pledged positions are segregated from securities available for other purposes, NBB-SSS’ restriction rules do not need to be replicated by Investor CSDs. In the case of segregation into separate accounts, a pledge transaction involving an Investor CSD will be materialised by an intra-CSD transfer from the participant’s regular account to the participant’s pledge account. As these accounts will be mapped to different omnibus accounts at NBB-SSS, the restriction rule will be triggered on the realignment instructions being generated: NBB-SSS will only release the transaction once the authorisation has been provided by the pledgee. In the case of segregation by position types, settlement at NBB-SSS and the Investor CSD will in any case be asynchronous.

**Conclusion**

Restriction rules will be put in place by CSDs to support different services they provide in the context of collateral management. The need for Investor CSDs to implement segregation or restriction rules in their own structure (i.e. data scope) depends on the availability of the service to Investor CSDs.

In the case of NBB-SSS, the service will be available to Investor CSDs opening a pledge account on behalf of their participants. Investor CSDs using this service will need segregate their participants’ securities positions to distinguish pledged positions from those available for other purposes, and map them to separate omnibus accounts at NBB-SSS. Replication of the restriction rules is not
required, as pledge transactions involving Investor CSDs will be pending until released by NBB-SSS. If segregation by position types is chosen by an Investor CSD for the pledging of securities, the pledge transaction will rely on a two-step asynchronous process between NBB-SSS and the Investor CSD.

In the case of Interbolsa, restriction rules will be implemented to control the pledge services offered to participants for collateral transactions with third-parties. The pledge services will rely on the mechanism of segregation by position types for blocking the pledged positions. These rules do not need to be implemented by Investor CSDs, as the pledged positions are either only relevant to domestic participants, e.g. pledge in favour of Banco de Portugal, or used in the context of bilateral operations, in which case no segregation is required at the level of omnibus accounts. Furthermore, in the case of cross-CSD mobilisation of collateral where securities from a trade would be used for pledging by Interbolsa’s participant, the transaction would not be affected: the restriction rule controls the pledge itself, which is a separate operation executed by the CSD.

In the case of Clearstream, restriction rules will be defined to support the activity of Eurex Clearing as Central Counterparty, more precisely to control provision and withdrawal of collateral on dedicated Eurex Collateral Accounts. Such accounts will not be available to Investor CSDs according to current market practices: this limits the potential impacts on settlement flows. In a scenario of cross-CSD mobilisation of collateral where securities from a trade would be received directly on the pledge account of the CBF participant, the transaction would be put on hold until additional collateral eligibility check is performed by the CSD.

In the case of BOGS, restriction rules will be put in place to control the usage of some securities which can only be used for liquidity purposes by certain participants of the CSD. This control is only applicable to domestic participants, and the restriction rules exclude any impact on Investor CSDs.
4.5 Regulatory Compliance

Introduction

CSDs and NCBs have to comply with regulations put in place by the competent regulatory bodies, supervisors and authorities and, in some cases, are also responsible of ensuring that the transactions sent by participants are compliant with regulations and national laws.

A CSD or NCB may have to block all or part of the activity of a client because of, among other reasons, insolvency, bankruptcy proceedings, liquidation proceedings, suspicion of money laundering or clients not meeting their contractual obligations with the CSD. In many cases, blocking of the activity of a client is performed after a court order has been enforced against the client.

T2S offers CSDs and NCBs the necessary toolkit to implement the necessary controls in case of court orders enforced by the competent authority against a client. This can be achieved either:

- At the level of business validation, through the use of Case 1 Restriction Types to reject or put on “CSD Validation Hold” instructions non-compliant with regulations or sent by suspended clients,
- At the level of settlement eligibility, through the use of Case 2 Restriction Types to prevent settlement (i.e. intra-day restrictions on parties, accounts or securities). Case 3 Restriction Types may be also used in those cases in which specific securities positions or cash balances have to be blocked.

It is important to note that in some cases CSDs and NCBs will have to use a combination of different restriction cases in T2S.

For illustration purposes, upon reception by the CSD of a court order enforced against a client that has to be applied with immediate effect, a CSD might be requested to:

- Block the activity of the suspended client using an intra-day restriction (Case 2) to prevent settlement of the instructions of the suspended client with immediate effect and;
- Reject all new incoming instructions of the suspended client (Case 1). From a technical perspective, it must be stressed that in case of update of an existing restriction rule or creation of a new one, it could only be valid as of the next business day at the earliest.

The description of current services and controls, restrictions rules, and impact analysis by market is detailed in the next sections.

4.5.1 Clearstream Banking Frankfurt (CBF)

Current State – Process Controls

Due to regulatory reasons, settlement of a security might blocked by CBF. In some cases, settlement of a given ISIN is blocked for a specific Investor CSD upon its request.

Adapted State – Process Controls
CBF will setup restriction rules in T2S in order to put on “CSD Validation Hold” (restriction case 1) realignment instructions referring to a specific ISIN against any of the omnibus accounts of the investor CSD having requested the blocking of cross-border settlement due to regulatory reasons.

CBF will also make use of intraday restriction on securities (restriction case 2) to block settlement of an ISIN according to CBF internal blocking rules (KV Sperren).

CSD Validation Hold (Restriction case 1)

“X-Border Settlement” – puts on CSD Validation Hold realignment instructions referring to a specific ISIN on any of the omnibus accounts of the investor CSD that has requested blocking of cross-border settlement for a given ISIN. Market specific attributes on securities are used to define securities blocked for cross-border settlement (CSD Sperre).

The parameters configured in the rule are listed below:

- Market-specific attribute on securities, with value:
  - “CSD Sperre” to identify the blocked ISIN
  - “CSD Sperre2”, a continuation of the previous MSA on the ISIN

- Securities account list, including all the omnibus accounts of the investor CSD blocked for settlement on the ISIN.

- ISO transaction code with value:
  - “REAL”, to identify realignment instructions

Blocking (Restriction case 2)

“Security Blocking” – blocks settlement of a specific ISIN except for instructions sent by CBF or any of the authorised actors (STORNO BIC).

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction rule “X-Border Settlement” relies on ISIN as well as account parameters (omnibus account of the Investor CSD at CBF) to determine in which cases the restriction should apply. Impacts on Investor CSD account structure cannot be ascertained: indeed, the question remains in which concrete business scenario an Investor CSD would request the blocking of an ISIN on omnibus accounts held at CBF instead of blocking the securities, securities accounts, or participants directly in its books.

The restriction rule “Security blocking” does not rely on account configuration parameters and does not mandate account segregation at the Issuer CSD, therefore no impact is foreseen on Investor CSDs’ account configuration.

Impact on Investor CSD settlement flows

The restriction rule “X-Border Settlement” would impact any cross-CSD transaction generating realignment instructions on the specific ISIN against the omnibus accounts of the Investor CSD.
Realignment instructions would be put on “CSD Validation Hold” and the transaction would be pending for settlement, until released by CBF.

The restriction rule would also impact the auto-collateralisation process in case of cross-CSD transfer: auto-collateralisation instructions would not be generated by T2S and cross-border auto collateralisation would not be possible; i.e. auto collateralisation instructions are not generated if they match a positive restriction rule of any type, either rejection or “CSD Validation Hold”.

As mentioned earlier, Investor CSDs could directly implement a restriction rule in their books, for blocking the securities, securities accounts, or participants, instead of relying on CBF.

The restriction rule “Security Blocking” would impact any cross-border transaction including the blocked ISIN as settlement would not be possible while the blocking applies.

4.5.2 Depozitarul Central

Current State – Process Controls

Based on regulatory requirements, or upon request from the competent authority, Depozitarul Central controls the acceptance of new settlement instructions on a particular security, party, or security account by maintaining the attribute to indicate the suspension status of the security, account, or party to be used for settlement. The suspension can be enforced by the competent authorities but also from other reasons as reflected in the Depozitarul Central’s regulatory framework, which is approved by the competent authorities.

Acceptance of new incoming instructions is only allowed in case that the status assigned to the security, securities account or party is not suspended.

Adapted State – Process Controls

In order to stop acceptance of new incoming settlement instructions upon enforcement of suspension of a security, party, or security account, Depozitarul Central will create the following restriction rules; RT01DC, RT02DC, and RT03DC are positive rejection rules (Case 1 Restriction Type) defined in order to reject settlement instructions by CSD participants including suspended securities accounts, securities, or parties.

MSAs are used to define the eligibility status of securities accounts (Account status), securities (Security status) and parties (Participant Status).

While acceptance of new incoming instructions on suspended securities, parties or accounts by CSD participants is prevented by the restriction rules RT01DC, RT02DC, RT03DC, booking of pending instructions received in T2S prior to the suspension is allowed; i.e. pending settlement instructions on the suspended object can settle.

Rejection (Case 1 Restriction Type)

“RT01DC” - rejects settlement instructions by CSD participants under the status “Suspended”. 
The rule parameters are defined as below:

- **Participant status (MSA on parties):**
  - Suspended

- **Party type of the instructing party:**
  - CSD Participant

**“RT02DC”** - rejects settlement instructions by CSD participants on securities with status “Suspended”.

The rule parameters are defined as below:

- **Security status (MSA on securities):**
  - Suspended

- **Party type of the instructing party:**
  - CSD Participant

**“RT03DC”** - rejects settlement instructions by CSD participants on securities accounts with status “Suspended”.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction rules “RT01DC”, “RT02DC”, and “RT03DC” do not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on the Investor CSDs’ account configuration has been identified. However, in case a participant is also participant in an Investor CSD, the blocking or suspension of its account(s) may also be required in the Investor CSD.

Impact on Investor CSD settlement flows

Depozitarul Central’s restriction rule “RT01DC” (suspension of a participant) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a suspended participant of Depozitarul Central and a participant of an Investor CSD, the Business Instruction sent by the suspended participant of Depozitarul Central would be rejected and the Business Instruction at the Investor CSD level would remain unmatched.

- In other cross-CSD scenarios generating realignments at Depozitarul Central (i.e. between Investor CSDs’ participants or a participant of Depozitarul Central and a participant of an Investor CSD),
realignment instructions on an omnibus account owned by a suspended Investor CSD would not be generated and the Business Instructions would be cancelled after acceptance and matching.

Depozitarul Central’s restriction rule “RT02DC” (suspension of a security) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a participant of Depozitarul Central and a participant of an Investor CSD on a suspended security, the Business Instruction sent by the participant of Depozitarul Central will be rejected and the Business Instruction at the Investor CSD level will remain unmatched.
- In other cross-CSD scenarios generating realignments at Depozitarul Central (i.e. between Investor CSDs’ participants or a participant of Depozitarul Central and a participant of an Investor CSD), realignment instructions on suspended securities will not be generated and the Business Instructions would be cancelled after acceptance and matching.

Depozitarul Central’s restriction rule “RT03DC” (suspension of a securities account) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a participant of Depozitarul Central and a participant of an Investor CSD, if the participant account included in the Business Instruction sent by the Depozitarul Central participant is suspended, the Business Instruction will be rejected and the Business Instruction at the Investor CSD level will remain unmatched.
- In case of a cross-CSD transaction generating realignments at Depozitarul Central (between Investor CSDs’ participants or a participant of Depozitarul Central and a participant of an Investor CSD), realignment instructions on suspended omnibus accounts owned by the Investor CSD at Depozitarul Central will not be generated and the Business Instructions will be cancelled after acceptance and matching.

The need for Investor CSDs to implement the rules defined by Depozitarul Central would depend on the scope of the regulatory requirement, i.e. whether it has to apply outside the Issuer CSD jurisdiction. Intra-CSD transactions at an Investor CSD on a security, securities account, or party suspended at Depozitarul Central would not be prevented by the rules.

Investor CSDs could have to implement Depozitarul Central’s restriction rules defined on parties and securities accounts, “RT01DC” and “RT03DC”, if the suspended participant is also a participant of the Investor CSD. The need to replicate the restriction rule “RT02DC” defined on securities for the Investor CSD will solely depend on the scope of the underlying regulatory requirements.

4.5.3 ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)

Current State – Process Controls

ESES performs blocking of securities account upon request of the competent authority preventing settlement of any transaction against the blocked account; e.g. if an institution is suspended by the NCB from issuing TCN (Money Market Instruments), ESES blocks its issuing account. In this case, no
debit instruction is allowed on the considered account. Similarly, ESES may need to block all settlement instructions of a specific party.

**Adapted State – Process Controls**

ESES will define restriction rules through intraday restrictions (Case 2 Restriction Type) for blocking delivering settlement instructions on securities accounts “ESE-001-REC” (“RT01”) or parties “ESE-044-REC” (“RT09”).

**Blocking (Restriction case 2)**

- “ESE-001-REC” (“RT_01”) - blocks settlement of delivering settlement instructions (configured with rule parameter “Securities movement type: DELI”) on a suspended securities account upon request of the competent authority.
- “ESE-044-REC” (“RT_09”) - blocks settlement of delivering settlement instructions (configured with parameter “Securities movement type: DELI”) on suspended parties upon request of the competent authority.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The restriction rules “ESE-001-REC” (“RT_01”) and “ESE-044-REC” (“RT_09”) do not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on the Investor CSD account configuration has been identified. However, the blocking of the underlying participants accounts may be required if these are also participants of the Investor CSD.

**Impact on Investor CSD settlement flows**

The restriction rules “ESE-001-REC” (“RT_01”) and “ESE-044-REC” (“RT_09”) would have an impact on cross-border transactions involving the blocked party or security:

- In case of a cross-CSD transaction between a participant of ESES as delivering party and a participant of an Investor CSD, the transaction will not be eligible for settlement while the blocking applies.
- In other cross-CSD scenarios generating realignment movements at ESES, in the specific case where the account is owned by an Investor CSD or the party being blocked is one of the Investor CSDs, the transaction will not be eligible for settlement while the restriction applies.

The need for Investor CSDs to implement the rules defined by ESES would depend on the scope of the regulatory requirement, i.e. whether it has to apply outside the Issuer CSD jurisdiction. Intra-CSD transactions at an Investor CSD on a securities account, or party suspended at ESES would not be prevented by the rules.

Investor CSDs could have to implement ESES’ restriction rules defined on parties and securities accounts, if the suspended participant is also a participant of the Investor CSD.
4.5.4 Interbolsa

Current State – Process Controls

Interbolsa makes use of a specific securities position blocking type when a court order has been enforced against one of its clients (“010 Bloqueio judicial”). Only authorised actors can make use of the blocked positions.

Adapted State – Process Controls

Interbolsa will define a position type (“BL10”) for blocking securities positions (Case 3 Restriction Type) upon request of the court.

Interbolsa will prevent participants to make use of the above restricted securities positions (i.e. “BL10”), by defining a restriction rule to reject settlement instructions (Case 1 Restriction Type) sent by Interbolsa participants attempting to make use of the restricted positions.

Blocking (Restriction case 3)

“BL10” - Blocks securities position (judicial blocking)

Rejection (Restriction case 1)

“SR03” - rejects settlement instructions sent by CSD participants making used of the judicial or investor compensation system pledge blocked.

The rule parameters used are:

- Party type of the instructing party:
  - CSD participant

- Credited/Debited position:
  - “BL10” – (judicial blocking)

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction “BL10” is defined to block securities into a specific position type, in the context of judicial blocking.

For the restriction “BL10”, a court order could be applicable to specific securities positions in an Investor CSD’s omnibus account, but in this case, the Investor CSD is certainly required to block the settlement activity of the concerned participant, and does not need to use segregation of securities positions to do so.

Impact on Investor CSD settlement flows

Interbolsa’s restriction rules related to regulatory compliance will not have a direct impact on trade-related cross-border instructions, as realignment instructions would not make use of the restricted positions; i.e. realignment instructions would not match the restriction rules. However, blocking of securities positions could lead to de-synchronisation of positions between omnibus/mirror accounts and
trigger a lack of available securities available on the omnibus account for settlement while the blocking applies, if the Investor CSD does not restrict the securities positions in its own account structure.

4.5.5 Monte Titoli

Current State – Process Controls

When there is a dividend payment postponement option in Monte Titoli, the securities on which the postponement option has been chosen are issued into an interim ISIN. The interim ISINs cannot be transferred against payment but only free of payment under the direct responsibility of intermediaries.

Investors normally exercise dividend postponement options because of the tax benefits that may derive from postponing the dividend payment to the next fiscal year. On the contrary, according to Monte Titoli, dividend postponement is normally not chosen by Investor CSDs as they are not subject to the Italian legislation and therefore they are simply not concerned in registering in their balances such potential tax benefits. Consequently, interim securities are rarely transferred cross-border.

Settlement on Parties, accounts and securities can be blocked by Monte Titoli according to the regulatory framework or upon reception of a court order enforced against a client of Monte Titoli.

Adapted State – Process Controls

Monte Titoli will setup a restriction rule in order to reject (Case 1 Restriction Type) against payment instructions on interim ISINs. Interim ISINs will be defined in the T2S static data with a MSA on securities (Securities Transfer Mode).

Monte Titoli will create restriction rules in order to block (Case 2 Restriction Type) parties, securities or securities accounts according to the regulatory framework or upon reception of a court order enforced against a client of Monte Titoli.

Rejection (Case 1 Restriction Type)

“Only FOP allowed” - This restriction rule is used in the context of regulatory compliance checking the consistency between the following rule parameters:

- Security
- Securities Transfer Mode (Market specific attribute on securities)

Blocking (Case 2 Restriction Type)

“BLSC” – blocks settlement of a specific ISIN due to events such as (but not exclusively) default of a participant (issuer or intermediary), judicial authority instruction.

“BLPY” – blocks settlement of instructions by a given party due to events such as (but not exclusively) default of a participant (issuer or intermediary), judicial authority instruction.

“BLSA” – blocks settlement on specific securities account due to events such as (but not exclusively) default of a participant (issuer or intermediary), judicial authority instruction.
Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction rule “Only FOP allowed” is set at the level of the security. The restriction rule does not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on Investor CSDs’ account configuration has been identified.

The restriction rules “BLSC”, “BLPY” and “BLSA” do not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on Investor CSDs’ account configuration has been identified. However, in case a participant is also participant in an Investor CSD, the blocking of its account(s) may also be required in the Investor CSD.

Impact on Investor CSD settlement flows

The restriction rule “Only FOP allowed” will reject any settlement instruction against payment (DVP) on an interim ISIN:

- In case of a DVP cross-CSD transaction on a security, defined as Interim ISIN, between a participant of Monte Titoli and a participant of an Investor CSD, the Business Instruction in Monte Titoli would be rejected while the Business Instruction in the Investor CSD would remain unmatched.

- In case of a DVP cross-CSD transaction on a security, defined as Interim ISIN, between Investor CSDs’ participants generating realignment movements at Monte Titoli, the realignment instructions on the interim ISIN that would be generated for cross-CSD settlement would not match the rejection rule, as realignment instructions are free of payment.

Restriction rules “BLSC”, “BLPY” and “BLSA” would have an impact on any cross-CSD transaction involving the blocked party, account or security:

- In case of a cross-CSD transaction that involves a blocked static data object (account, party, or security) between a participant of Monte Titoli and a participant of an Investor CSD, the transaction would not be eligible for settlement while the blocking applies.

- In case of a cross-CSD transaction between Investor CSDs’ participants generating realignment movements at Monte Titoli:
  - For “BLPY” and “BLSA” in the specific case where the account is owned by an Investor CSD or the party being blocked is one of the Investor CSDs, the transaction would not be eligible for settlement while the restriction applies.
  - For “BLSC”, any the transaction on the blocked ISIN would not be eligible for settlement while the restriction applies.

The need for Investor CSDs to implement the rules defined by Monte Titoli would depend on the scope of the regulatory requirement, i.e. whether it has to apply outside the Issuer CSD jurisdiction. Intra-CSD transactions at an Investor CSD on a security, securities account, or party suspended at Monte Titoli would not be prevented by the rules.
Investor CSDs could have to implement restriction rules defined on parties and accounts, “BLPY” and “BLSA”, if the suspended participant is also a participant of the Investor CSD. The need to replicate the restriction rule “BLSC”, defined on securities for the Investor CSD will solely depend on the scope of the underlying regulatory requirements.

4.5.6 NBB-SSS

Current State – Process Controls

Based on regulatory requirements, or upon request from the competent authority, NBB-SSS prevents settlement of new incoming instructions sent by a specific participant, on a specific securities account, or on a specific security by maintaining the attribute to indicate the suspension status of the security, account, or participant to be used for settlement.

Adapted State – Process Controls

NBB-SSS will create restriction rules in order to put on CSD Validation Hold (Case 1 Restriction Type) settlement instructions sent by a specific party, on a specific securities account, or on a specific security according to predefined statuses configured with MSAs.

“NBBE-RT10” will be defined to prevent settlement of new incoming instructions sent by a specific CSD participant. Depending on the status assigned to the party, the rule will prevent settlement of new incoming delivering, receiving, or all settlement instructions.

The rule parameters are defined as below:

- ParticipantSuspension (MSA on party level), with the following values:
  - “D” for delivering settlement instructions
  - “R” for receiving settlement instructions
  - “A” for both delivering and receiving settlement instructions

- Securities Movement Type:
  - DELI (used in conjunction with the party MSA value “D”)
  - RECE (used in conjunction with the party MSA value “R”)

- Instructing Party Type, with the following values:
  - CSD Participant

Note: The current description used in the CSG documentation “Reference Data Extension” version 1.22 (with the “not” operator and NBB-SSS as Instructing Party is not allowed) and will be aligned in the next version of the CSG documentation.

“NBBE-RT11” will be defined to prevent settlement of new incoming instructions on a specific security. Depending on the status assigned to the security, the rule will prevent transfer of such securities to another party or settlement of all incoming instructions in that security.

The rule parameters are defined as below:
Security Suspension (MSA on security level), with the following values:

- “F”: (foreign currency asset frozen period): all settlement instructions with a security in this status where receiving party and delivering party are different trigger the rule

- “G”: Global suspension of all instructions in that security

Note: NBB-SSS is assessing how the check on delivering/receiving party will be performed, which cannot be done as described in the CSG documentation “Reference Data Extension” version 1.22; the check will probably be done outside T2S.

“NBBE-RT12” will be defined to prevent settlement of new incoming instructions on a specific account. Depending on the status assigned to the account, the rule will prevent settlement of new incoming delivering, receiving, or all settlement instructions.

The rule parameters are defined as below:

Account Suspension (MSA on account level), with the following values:

- “D” for delivering settlement instructions
- “R” for receiving settlement instructions
- “A” for both delivering and receiving settlement instructions

Securities Movement Type:

- DELI (used in conjunction with the account MSA value “D”)
- RECE (used in conjunction with the account MSA value “R”)

Instructing Party Type, with the following values:

- CSD Participant

Note: The current description used in the CSG documentation “Reference Data Extension” version 1.22 with the “not” operator and NBB-SSS as Instructing Party is not allowed and will be reflected in the next version of the CSG.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction rules “NBBE-RT10”, “NBBE-RT11”, and “NBBE-RT12” do not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on Investor CSDs’ account configuration has been identified. However, in case a participant is also participant in an Investor CSD, the blocking of its account(s) may also be required in the Investor CSD.

Impact on Investor CSD settlement flows

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43 The origin of this rule is a Belgian regulatory requirement: 1 open day before a coupon payment date or redemption date the security positions related to non-Euro cash payments (i.e. non-Euro denominated securities) can only change between the account of the same participant (Royal Decree of June 1994, Art 2, par 2.)
NBB-SSS’ restriction rule “NBBE-RT10” (suspension of a participant) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a suspended participant of NBB-SSS and a participant of an Investor CSD, the Business Instruction sent by the suspended participant of NBB-SSS matching the rule parameters (delivering, receiving, or all settlement instructions) will be put on CSD Validation Hold and the transaction will remain pending for settlement.

- In other cross-CSD scenarios generating realignments at NBB-SSS (between Investor CSDs’ participants or a participant of NBB-SSS and a participant of an Investor CSD), realignment instructions matching the rule parameters (delivering, receiving, or all settlement instructions) on an omnibus account owned by a suspended Investor CSD would be put on CSD Validation Hold and the transaction will remain pending for settlement.

NBB-SSS’ restriction rule “NBBE-RT11” (suspension of a security) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction on a suspended security between a participant of NBB-SSS and a participant of an Investor CSD, the Business Instruction sent by the suspended participant of NBB-SSS will be put on CSD Validation Hold and the transaction will remain pending for settlement.

- In case of a cross-CSD transaction on a suspended security generating realignments at NBB-SSS (between Investor CSDs’ participants), realignment instructions matching the rule parameters (with global suspension “G”, or “F” unless the delivery takes place between account of an Investor CSD) would be put on CSD Validation Hold and the transaction will remain pending for settlement.

NBB-SSS’ restriction rule “NBBE-RT12” (suspension of a securities account) would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a participant of NBB-SSS and a participant of an Investor CSD, if the account included in the Business Instruction sent by the NBB-SSS participant is suspended, the Business Instruction of the NBB-SSS participant will be put on CSD Validation Hold and the transaction will remain pending for settlement.

- In other cross-CSD scenarios generating realignments at NBB-SSS (between Investor CSDs’ participants or a participant of NBB-SSS and a participant of an Investor CSD), realignment instructions matching the rule parameters (delivering, receiving, or all settlement instructions) on a suspended omnibus account would be put on CSD Validation Hold and the transaction will remain pending for settlement.

The need for Investor CSDs to implement the rules defined by NBB-SSS would depend on the scope of the regulatory requirement, i.e. whether it has to apply outside the Issuer CSD jurisdiction. Intra-CSD transactions at an Investor CSD on a security, securities account, or party suspended at NBB-SSS would not be prevented by the rules.
Investor CSDs could have to implement NBB-SSS’ restriction rules defined on parties and securities accounts, “NBBE-RT10” and “NBBE-RT12, if the suspended participant is also a participant of the Investor CSD. The need to implement the restriction rule “NBBE-RT11” defined on securities for the Investor CSD will solely depend on the scope of the underlying regulatory requirements.

4.5.7 SIX-SIS

Current State – Process Controls

Based on regulatory requirements, or upon request from the competent authority, SIX-SIS prevents acceptance of new settlement instructions (rejection) on a particular securities account or security by maintaining the attribute to indicate eligibility of the account or the security to be used for settlement. Eligibility can be updated due to various reasons such as restrictions on account owner by competent/legal/regulatory authorities.

Depending on the eligibility of a security account or security, acceptance of new settlement instructions is allowed or restricted:

- Acceptance of new incoming instructions is only allowed in case that the eligibility assigned to the security or securities account is “Active”.

Adapted State – Process Controls

Note: The restriction rules published in the previous iteration of the XMAP catalogue have been updated as regards to the list of MSA values and the changes have been reflected below.

SIX-SIS will create restriction rules in order to reject (Case 1 Restriction Type) new incoming settlement instructions including securities accounts or securities with a status different than “Active”. MSAs are used to define the eligibility status of securities accounts (Account status) and securities (Security status).

In some rare situations, SIX-SIS may set up an intraday restriction (Case 2 Restriction Type) to block settlement on securities accounts or securities with a status “Frozen”.

Rejection (Case 1 Restriction Type)

“RT01” - rejects settlement instructions on securities accounts with a status different than active.

The parameters configured in the rules are listed below:

- “Account status” (MSA on securities accounts), with the following (non-exhaustive list of values):
  - “9 - Invalid”
  - “4 - Frozen”
  - “8 - Captured”
  - “3 - To delete”
  - “7- Deleted”
  - “5 - Stop”

“RT02” - rejects settlement instructions on securities with a status different than active.
The parameters configured in the rules are listed below:

- “Securities status” (MSA on securities), with the following (non-exhaustive list of values):
  - “9 - Invalid”
  - “4 - Frozen”
  - “8 - Captured”
  - “3 - To delete”
  - “7 - Deleted”
  - “5 - Stop”

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The restriction rules “RT01” and “RT02” do not rely on account configuration parameters and the business process does not require segregation of securities positions. No impact on the Investor CSD account configuration has been identified. However, in case a participant is also participant in an Investor CSD, the blocking of its account(s) may also be required in the Investor CSD.

**Impact on Investor CSD settlement flows**

SIX-SIS’ restriction rule “RT01” would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a participant of SIX-SIS whose account is not eligible (i.e. the status different than “Active”), and a participant of an Investor CSD, the Business Instruction of the SIX-SIS’ participant will be rejected and the Business Instruction at the Investor CSD level will remain unmatched.

- In other cross-CSD scenarios generating realignments at SIX-SIS (between two Investor CSDs’ participants or a participant of SIX-SIS and a participant of an Investor CSD), realignment instructions on suspended omnibus accounts (i.e. accounts under a status different than “Active”) will not be generated and the Business Instructions will be cancelled after acceptance and matching.

SIX-SIS’ restriction rule “RT02” would impact Investor CSDs’ settlement flows in the following scenarios:

- In case of a cross-CSD transaction between a participant of SIX-SIS and a participant of an Investor CSD on a non-eligible security, the Business Instruction sent by the participant of SIX-SIS will be rejected and the Business Instruction at the Investor CSD level will remain unmatched.

- In case of a cross-CSD transaction between two Investor CSDs involving realignments at SIX-SIS, realignment instructions on non-eligible securities (i.e. status different than “Active”) will not be generated and the Business Instructions will be cancelled after acceptance and matching.

The need for Investor CSDs to implement the rules defined by SIX-SIS would depend on the scope of the regulatory requirement, i.e. whether it has to apply outside the Issuer CSD jurisdiction. Intra-CSD
transactions at an Investor CSD on a security, securities account, or party suspended at SIX-SIS would not be prevented by the rules.

Investor CSDs could have to implement SIX-SIS’ restriction rules defined on securities accounts, “RT01”, if the suspended participant is also a participant of the Investor CSD. The need to replicate the restriction rule “RT02” defined on securities for the Investor CSD will solely depend on the scope of the underlying regulatory requirements.

**Conclusion**

CSDs may be required to suspend the activity of a client based on regulatory requirements from competent authorities, i.e. a court order, national regulator or national central bank.

With restriction rules, T2S offers CSDs the necessary toolkit to implement the controls related to regulatory compliance, e.g. in order to block the settlement activity of a client, on a specific account, or a security, or to prevent new settlement instructions to be accepted by the system. This can be achieved either at the level of business validation, to reject or put on hold settlement instructions, or at the level of settlement eligibility, to prevent settlement on the suspended resource (i.e. intra-day restrictions on parties, securities accounts or securities). Blocking of securities holding into specific position types can also be used.

Some CSDs use a combination of different restriction rules in T2S to achieve the required level of control.

The table below underlines the differences among CSDs in the implementation of restriction rules for regulatory compliance:

**Table 9 – Overview of usage of restriction rules for regulatory compliance purposes**

<table>
<thead>
<tr>
<th>CSD</th>
<th>Type of restriction</th>
<th>Purpose of the rule</th>
<th>Number of MSAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearstream CSD</td>
<td>Validation Hold (Case1)</td>
<td>Realignment on hold on request of Investor CSD on specific ISIN and omnibus account</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Intraday blocking (Case2)</td>
<td>Suspension of securities (Kauf Verkauf Sperren)</td>
<td>0</td>
</tr>
<tr>
<td>Depozitarul Central</td>
<td>Rejection (Case 1)</td>
<td>Suspension of securities, accounts, parties</td>
<td>3</td>
</tr>
<tr>
<td>ESES</td>
<td>Intraday blocking (Case2)</td>
<td>Suspension of securities, parties</td>
<td>0</td>
</tr>
<tr>
<td>Interbolsa</td>
<td>Securities positions blocking (Case 3)</td>
<td>Securities positions blocked due to court order</td>
<td>0</td>
</tr>
<tr>
<td>Monte</td>
<td>Rejection (Case 1)</td>
<td>Rules related to postponement of dividend</td>
<td>1</td>
</tr>
<tr>
<td>CSD</td>
<td>Type of restriction</td>
<td>Purpose of the rule</td>
<td>Number of MSAs</td>
</tr>
<tr>
<td>-----------</td>
<td>------------------------------</td>
<td>--------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Titoli</td>
<td>Intraday blocking (Case 2)</td>
<td>Suspension of securities, accounts, parties</td>
<td>0</td>
</tr>
<tr>
<td>NBB-SSS</td>
<td>CSD Validation Hold (Case 1)</td>
<td>Suspension of securities, accounts, parties</td>
<td>3</td>
</tr>
<tr>
<td>SIX-SIS</td>
<td>Rejection (Case 1)</td>
<td>Suspension of securities, accounts</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Intraday blocking (Case 2)</td>
<td>Suspension of securities, accounts</td>
<td>0</td>
</tr>
</tbody>
</table>

It is expected that each CSD will have its own procedures in case of e.g. suspension of a participant, based on the underlying national requirements.

However, these processes seem to differ between future T2S CSDs, and based on the planned implementation of restriction rules, there will be a different treatment of settlement transactions involving e.g. a suspended client, depending on the CSD.

In some cases, CSDs decide to put on hold or reject new incoming instructions. The related restriction rules (Case 1 Restriction Type) are set up with MSAs on securities, parties or securities accounts defining the status indicating whether they are subject to a suspension. Depozitarul Central, NBB-SSS, and SIX-SIS all have defined MSAs for this purpose (8 in total).

In other cases, CSDs decide to only prevent settlement of new and existing transactions by suspended clients, on suspended securities accounts or securities, while not preventing the validation of new incoming instructions. CSDs will set up restriction rules based on Case 2 Restriction Type to satisfy this purpose. Clearstream, ESES, Monte Titoli and SIX-SIS will use this mechanism.

Finally, Interbolsa has defined restriction rules to be able to block a specific sub-position or sub-balance within and account (Case 3 Restriction Type) and restrict the access only to authorised actors (e.g. CSD), the impact being a decrease in the available resources for settlement.

The need for Investor CSDs to implement the rules defined by an Issuer CSD, e.g. to suspend the securities of a certain issuer or a participant, depends on the regulatory requirement applicable in the jurisdiction. It is important to remind that intra-CSD transactions at an Investor CSD on the suspended resource would not be prevented by the rules defined by the Issuer CSD.

Within the T2S application, it could be considered for a future release to define standard static data and business validations covering regulatory compliance controls required by CSDs, alleviating the need to create MSAs for this purpose. This process can only be initiated once exact requirements are defined.
4.6 External Cash Settlement

Introduction

The settlement of a securities transaction involving a currency not eligible for settlement in T2S requires settlement of the cash leg outside T2S. In such case, the security leg can be conditionally settled in T2S upon successful settlement of the cash leg via the Conditional Securities Delivery (CoSD) functionality.

More generally, the CoSD functionality can be used whenever the settlement of a transaction requires fulfilment of conditions external to T2S, and securities or cash resources need to be reserved until the condition is met.

T2S is designed as a multi-currency securities settlement platform in Central Bank Money, and provides the possibility to settle securities against payment (DVP) as well as Free-Of-Payment (FOP)\(^44\). For the initial release of T2S however, Euro will be the only eligible settlement currency. The Danish Krone will become eligible in 2018.

Prior to T2S, some CSDs offer settlement services in multiple currencies. These vary in scope: currencies offered, money quality (Central Bank Money versus Commercial Bank Money), possible trade counterparties (Intra-issuer CSD settlement or external CSD settlement when acting as Investor CSD), FX rate conversion, etc…

The requirements for CSD participants to benefit from settlement services in multiple currencies depend on the link arrangements of CSDs as well as the banking services they provide. A few CSDs are authorised to hold cash accounts for their participants (reflected in their balance sheet), but the majority of CSDs rely on external agent banks or payment systems to offer such services.

In T2S, business validation rules have been put in place to prevent DVP in an ineligible settlement currency (instructions are rejected at business validation level). As for the denomination currency of a security, T2S does not impose any specific validation besides the compliance to (ISO4217) currency code standards. Consequently, securities accepted in T2S for settlement can be denominated in all valid currencies.

Settlement of the cash leg outside T2S is mandatory in case the currency is not eligible for settlement in T2S, as well as for transactions which do not involve Central Bank Money settlement\(^45\).

Proposed procedure for handling transactions involving cash settlement outside T2S

The following (non-mandatory) procedure has been defined among T2S actors to handle transactions involving cash settlement outside T2S:

- The instructions must be submitted to T2S as FOP\(^46\), but including all relevant cash information details (amount and currency, credit/debit indicator, and optionally cash account and cash parties)

\(^{44}\) Other instruction types have been designed in T2S to facilitate handling of inter-alia Corporate Actions payments (PFOD) and instructions submitted by CCPs, "strange nets" (DWP/RWP). See details in UDFS version 2.0, Section “1.2.5 Instruction Types”

\(^{45}\) When there are no settlement movements on Dedicated Cash Accounts in T2S
• T2S will not consider the cash information for matching the instructions: amount, currency, credit/debit indicator

• A “Conditional Securities Delivery” (CoSD) will be set up:
  o CoSD is an automatic setting on hold and blocking of securities (and/or cash) into a specific sub-position\(^{47}\) (position type in T2S) on the Intended Settlement Date at transaction level (once matching has taken place). This will ensure that the securities in the FOP instructions are blocked until cash settlement is performed outside T2S. Once settlement of the cash leg has taken place, the instructions will be released by the Administering Party (which must be a T2S Actor, but not necessarily the CSD) so that securities settlement can take place in T2S.

• T2S will provide a settlement confirmation for the FOP instructions with zero as settled amount, the confirmation of cash settlement will be provided by the external cash settlement entity

If necessary, other CSD specific rules may be put in place to perform additional validations before the Intended Settlement Date, e.g.: CSD Validation Hold is an automatic setting on hold during the T2S business validation process which is performed as soon as the instructions are received. CSD Validation Hold does not prevent the matching process to take place. It may be used by CSDs for additional validation and verification, e.g. validation of cash details in the counterparty’s matched FOP instructions, verification of business validation rules set up outside T2S (for instructions sent by DCPs), such as the existence of an external cash account for the trade counterparties. Once validated, the instructions will be released by the CSD.

The description of current services and controls, restrictions and CoSD rules, and impact analysis by market is detailed in the next sections.

4.6.1 BOGS

Current State – Process Controls

Bank of Greece (BoG) provides the services of a Payment bank to some specific domestic participants: brokers with no access to TARGET2, the issuer of the Greek Government Securities (e.g. the Ministry of Finance), social securities and pension funds. These participants are allowed to use the TARGET2 accounts opened by Bank of Greece, under the condition that the required funds are available upfront in the respective cash balances held at the internal system of BoG, as BoG cannot provide credit facilities to these participants (via auto-collateralisation). The current process foresees that the checks on the cash side are executed when the relevant securities are available. For this purpose, Bank Of Greece Securities Settlement Systems (BOGS) blocks the securities on the deliverer’s securities account first, calculates the net cash requirements to settle the transaction(s), and transmits this information to BoG. Based on this

\(^{46}\) Payment type code = “FREE”

\(^{47}\) The “COSP” position type will be created by the T2S Operator and available to all the CSDs’ securities accounts
information, BoG checks the cash balance, and ensures that the funds are made available in the relevant RTGS account in TARGET2. The transactions are then released for settlement.

**Adapted State – Process Controls**

*Note: The process described below is a conditional settlement where both the securities and the cash legs settle in T2S based on funds availability in the internal systems of BoG*

BoG will continue to provide Payment Bank services to these specific domestic participants by allowing liquidity flows via BoG’s DCAs that will be opened by BoG in T2S for this purpose. The service will be implemented according to the same logic as before T2S: as T2S DCAs will be shared by many of the participants (e.g. brokers), the process cannot rely on the cash balance available on a T2S DCA. Based on net cash requirements for a set of transactions (which e.g. the broker will have linked together via pool references), BoG will check the available cash balance of the participant in its internal systems and will ensure that a liquidity transfer is made to the relevant DCA. For the purpose of the service, BOGS will not create restriction rules, but a positive and negative CoSD rule:

- **“RT04”** will be defined to block the securities on the deliverer’s securities account while checking the cash balance of the respective party using BoG as Payment Bank.
- **“RT03”** will ensure that the above CoSD rule will not be triggered if the ISO transaction code “CORP” is used in the settlement instruction, for management of Corporate Actions.

The positive rule parameters are defined as below:

- Payment type code: APMT
- Securities Account number: list of account numbers of the participants subscribing to this service

Once the liquidity transfer is made by BoG in the relevant DCA, the transaction will be released for settlement.

The setup of a secondary Cash Memorandum Balance (CMB) with an external guarantee limit, defined based on the available balance of the participant in the internal system of BoG, and no auto-collateralisation limit, would alleviate the need for this conditional process. BoG has investigated this possibility and ruled it out due to legal constraints.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The CoSD rules “RT03” and “RT04” do not rely on account configuration parameters and the business process does not require segregation of securities positions. Besides, the service will not be available to Investor CSDs of BOGS in T2S. Therefore, no impact is foreseen on Investor CSDs’ account configuration.

**Impact on Investor CSD settlement flows**

The CoSD rules “RT03” and “RT04” do not need to be replicated by Investor CSDs.
Indeed, the service is only available to certain categories of domestic participants who have no cross-CSD activity. The volume of transactions of these participants is also very limited, averaging less than 10 per day. The rule configuration only allows the blocking of securities based on certain securities accounts when BOGS is both the delivering and receiving CSD. In the hypothetical case of a cross-CSD transaction with one of the above participants buying securities from a participant of another CSD, no CoSD rule would be triggered. This would not allow BOG(S) to have the required control over the transaction. It is also to be noted that BOGS currently has only one link as Investor CSD with Clearstream Banking Frankfurt and that this link is FOP. BOGS will reconsider the implementation of this rule if CSD participants using this service (brokers, Ministry of Finance and Security Funds) have cross-CSD activity or if new CSD links are put in place.

In the case of a transaction between participants of Investor CSDs so that only the realignment takes place in BOGS, the rule will not affect the realignment instructions (as the securities account number of Investor CSDs are excluded), and no CoSD rule will be triggered.

4.6.2 Clearstream Banking Frankfurt (CBF)

**Current State – Process Controls**

Clearstream Banking Frankfurt (CBF) provides settlement services in 20 currencies in Commercial Bank Money via Creation, the settlement platform of Clearstream Banking Luxembourg (CBL). The service is provided for the settlement of securities admitted in Collective Safe Custody (CSC) where CBF acts as Issuer or Investor CSD. For this purpose, CBF participants hold 6-series accounts, which are CBF accounts governed by German Law, but technically managed in CBL. For the settlement of CSC securities in a non-Euro currency, the seller's securities are first blocked until cash settlement is performed in Creation (CBL’s settlement platform), then in a second step, the blocking is released and settlement of the security leg takes place in CBF. In addition, CBF provides settlement in CHF in Central Bank Money via the Swiss National Bank. CBF participants must have an account in the Swiss National Bank to benefit from this service. Business validation rules are put in place in CBF to ensure correct usage of both services. Non-Euro currency settlement services are not available to Investor CSDs.

**Adapted State – Process Controls**

Clearstream (CBF) will continue to provide settlement services in multiple currencies ineligible for settlement in T2S, via its sister company in Luxembourg (CBL) and the Swiss National Bank. The service will be available upon subscription to ICPs and DCPs of CBF, but not to Investor CSDs (which are defined as internal CSDs in T2S). ICPs will have to instruct a DVP to CBF (CBF will perform the conversion and send FOP instructions with cash details to T2S), while DCPs will have to send FOP instructions with cash details to T2S, as described in the procedure in the “Introduction” section. CBF recommends using the optional matching field “Common Trade Reference” in the settlement

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48 CBF also provides the possibility to its participants to trade in Non-Collective Safe Custody (NCSC) securities, where both securities and cash legs are settled on CBL’s platform, regardless of the settlement currency
The “Common Trade Reference” will be populated by CBF for instructions received by ICPs. The following restriction rules are planned for the provision of non-Euro currency settlement services:

- “Foreign Currency Settlement - Rejection”, a positive rejection (Case 1 Restriction Type) rule. The rule will be set up to reject FOP instructions that include a currency which is not eligible for settlement by CBF

- “Foreign Currency Settlement – CVAL”, a positive “CSD Validation Hold” (Case 1 Restriction Type) rule. The rule will be set up to hold FOP instructions that include a currency eligible for non-Euro currency settlement by CBF. This will allow CBF to verify the cash details in the matched FOP instructions

- “Foreign Currency Settlement – CVAL”, a negative “CSD Validation Hold” (Restriction Type 1) rule. This rule will be defined so that already matched instructions sent by Eurex Clearing (Deutsche Börse’s Central Counterparty) or LION (internal application for the management of Stock-Exchange trades) are not affected by the previous rule (positive “CSD Validation Hold”), with the additional condition that the security is not within the 40 days trading suspension period imposed by US Tax Authorities (TEFRA-D). A Market-Specific Attribute on the security will be used for this purpose.

According to feedback collected from CBF, a CoSD rule will be triggered on the Intended Settlement Date to temporarily block the securities delivery while cash settlement is performed on CBL’s platform. The rule will hold all FOP deliveries in the accepted non-T2S settlement currencies according to the following parameters:

- Currencies: List of eligible currencies
- Securities movement type: DELI
- Payment Type Code: Free

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The restriction and CoSD rules implemented by CBF do not rely on account configuration parameters, and no segregation or static data configuration (MSA) is foreseen at account level in T2S for the provision of this service, as related business validations will be managed outside T2S. In any case, the service will not be available to Investor CSDs and no impact is foreseen in terms of account configuration.

**Impact on Investor CSD settlement flows**

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49 Cash details are not taken into account for matching by T2S in the case of FOP instructions, therefore populating the “Common Trade Reference” further minimises risks of mismatching

50 The details of the rule have been provided through bilateral information exchange. It has been requested to share the details of the rule in the next version of the CSG documentation
The restriction and CoSD rules put in place by CBF do not need to be implemented by Investor CSDs.

Indeed, the service will not be available to Investor CSDs of CBF in T2S, any cross-CSD transaction in an ineligible T2S settlement currency would be the result of erroneous instructions between a CBF participant and a participant of an Investor CSD or between participants of Investor CSDs directly.

Furthermore, in the case of a transaction between participants of Investor CSDs so that only the realignment takes place in CBF, the rules will not affect the realignment instructions, since realignment instructions do not include the currency field.

Below are the details of the transaction lifecycle in the hypothetical case of erroneous instructions:

- The rule “Foreign Currency Settlement - Rejection” will reject any FOP instruction of a CBF participant on a currency non-eligible for settlement with CBF:
  - In case of a cross-CSD transaction between a participant of CBF acting as DCP and a participant of an Investor CSD, the Business Instruction in CBF will be rejected while the Business Instruction in the Investor CSD will remain unmatched. No realignment for this transaction will be created.
  - In case of a transaction between Investor CSDs’ participants involving realignment movements at CBF, the realignment instructions will not be impacted by the rule.

- The positive rule “Foreign Currency Settlement –CVAL” will hold for CSD Validation any FOP instruction of a CBF participant on a currency eligible for the service with CBF:
  - In case of a cross-CSD transaction between a participant of CBF acting as DCP and a participant of an Investor CSD, the Business Instruction in CBF will be put on CSD Validation Hold and the transaction will remain pending for settlement. At this stage, CBF will cancel the Business Instruction of its participant, and a cancellation allegation will be sent to the Investor CSD to cancel its Business Instruction, as T2S requires bilateral cancellation of the transaction once instructions have been matched.
  - In case of a transaction between Investor CSDs involving realignment movements at CBF, the realignment instructions will not be impacted by the rule.

- The negative rule “Foreign Currency Settlement –CVAL” will ensure that already matched FOP instruction on a currency eligible for settlement in CBL sent by Eurex Clearing (Deutsche Börse’s Central Counterparty) or LION (internal application for the management of Stock-Exchange trades) are not put on “CSD Validation Hold”, unless they relate to TEFRA-D securities in the blocking period. The rule will not impact Investor CSD settlement flows.

- The CoSD rule will hold FOP delivery instructions of a CBF participant on a currency eligible for the service with CBF, however, in the hypothetical case of erroneous transactions involving Investor CSDs, the settlement flows would be affected as follows:
In case of a transaction between a participant of CBF and a participant of an Investor CSD, the Business Instruction of the CBF participant will have been cancelled by CBF at the validation stage, or will still be on “CSD Validation Hold” pending cancellation from the counterparty.

In case of a transaction between Investor CSDs involving realignment movements at CBF, the realignment instructions will not be impacted by the rule.

4.6.3 Interbolsa

Current State – Process Controls

Interbolsa provides non-Euro currency settlement services in Commercial Bank Money via the Caixa Geral de Depósitos operating the Non-Euro Payment System (SPME) for the following currencies: USD, GBP, CHF, JPY, AUD, and CAD. The service is provided for the settlement of debt securities issued in non-euro currencies. For this purpose, Interbolsa’s participants must have an account (per currency) either directly or indirectly in the SPME. Settlement in non-Euro currencies is available to Investor CSDs of Interbolsa provided they fulfil this requirement. For transactions involving settlement in a non-Euro currency, the securities are first blocked into the seller’s account until cash settlement is performed in the external payment system. Business validation rules are put in place in Interbolsa for settlement in non-Euro currency, to check that the currency is accepted by Interbolsa, as well as to verify the existence of the corresponding account at SPME.

Adapted State – Process Controls

Interbolsa will continue to provide settlement services in multiple currencies ineligible for settlement in T2S, via the Non-Euro Payment System (SPME) platform. The service will be available upon subscription, for ICPs and DCPs of Interbolsa, but not for Investor CSDs (defined as internal CSDs in T2S). For this purpose, no restriction rules will be set up; however a CoSD rule “CRS01” will be defined for intra-CSD transactions for currencies accepted by Interbolsa, to temporarily block the securities delivery while cash settlement is performed on the SPME. The parameters configured in the rules are listed below:

- **Currencies:** List of eligible currencies
- **Securities movement type:** DELI
- **Payment type code:** Free
- **CSD:** Interbolsa BIC - CSD owning the delivering or receiving securities account in the settlement instruction
- **Place of Settlement:** Interbolsa’s BIC - CSD of the counterparty defined in the settlement instruction
The parameters “CSD” and “Place of Settlement” are used to restrict the scope of CoSD rule to intra-CSD transactions. If instructions are mismatched, or do not fulfil the Business Validation rules set up outside T2S, or cash settlement fails, these will be cancelled by Interbolsa (and securities will be unblocked automatically by T2S). No Market-Specific Attribute will be used for the set-up of the rule.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The CoSD rule “CSR01” implemented by Interbolsa does not rely on account configuration parameters, and no segregation or static data configuration (MSA) is foreseen at account level in T2S for the provision of this service, as related business validations will be managed outside T2S. In any case, the service will not be available to Investor CSDs and no impact is foreseen in terms of account configuration.

**Impact on Investor CSD settlement flows**

The CoSD rule “CSR01” put in place by Interbolsa does not need to be implemented by Investor CSDs. Indeed, the service will not be available to Investor CSDs of Interbolsa in T2S, any cross-CSD transaction in an ineligible T2S settlement currency would result from erroneous instructions. At the time of writing, this limitation impacts the scope of the instruments that Investor CSDs are able to hold in Interbolsa, for those securities (not denominated in Euro) for which the Issuer pays CA proceeds in non-Euro.

The rule will not impact investor CSD settlement flows: it is defined for ICPs and DCPs of Interbolsa, for intra-Issuer CSD transactions only, due to the rules parameters (“CSD” and “Place of Settlement”). The CoSD rule will not be triggered for transactions involving an Investor CSD of Interbolsa in T2S, or transactions that include a currency that is not in the scope of the service. Such transactions would settle as FOP. In the case of a transaction between participants of Investor CSDs so that only the realignment takes place in Interbolsa, the rule will not affect the realignment instructions, since realignment instructions do not include the currency field.

**4.6.4 Monte Titoli**

**Current State – Process Controls**

Monte Titoli provides non-Euro currency settlement services in Commercial Bank Money, when acting as Investor CSD for securities not denominated in Euro, and is in the process of offering the service for intra-CSD settlement. For accessing this service, Monte Titoli’s participants must hold cash accounts in authorised agent banks in Italy and EU. For transactions involving settlement in a non-Euro currency, the securities are first blocked into the seller’s account in Monte Titoli until cash settlement (and securities settlement in case Monte Titoli is acting as Investor CSD) is performed in the external entity, then debited

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51 Further information can be found in the UDFS 2.0: “TABLE 11 – COSD PARAMETER TYPES”
in a second step once settlement confirmation is received. Non-Euro currency settlement is available to Investor CSDs. Business validation rules are put in place in Monte Titoli to ensure correct usage of the service.

Adapted State – Process Controls

Monte Titoli will continue to provide settlement services in currencies ineligible for settlement T2S via agent banks. The service will be provided upon subscription for ICPs and DCPs of Monte Titoli for intra-CSD transactions, as well as for ICPs for external CSD settlement transactions, but it will not be available to Investor CSDs52 (defined as internal CSDs in T2S). For this purpose, no restriction rules will be set up, but a CoSD rule “CMCY” will be defined for all transactions in currencies accepted by Monte Titoli for intra-CSD and external CSD settlement, to temporarily block the securities delivery while cash settlement is performed outside Monte Titoli. The rule parameters are defined as follows:

- Currencies: List of eligible currencies
- Securities Movement Type: DELI
- CSD: Monte Titoli’s BIC
- Place of Settlement: Monte Titoli’s BIC

The parameters “CSD” and “Place of Settlement” are used to restrict the scope of CoSD rule to intra-CSD transactions53. The parameters “CSD” and “Place of Settlement” have been communicated through bilateral exchange and still need to be reflected in the CSG’s “Reference Data Extension”.

If instructions are mismatched, or do not fulfil the Business Validation rules set up outside T2S, or cash settlement fails, these will be cancelled by Monte Titoli (and securities will be unblocked automatically by T2S). No Market-Specific Attribute will be used for the provision of this service.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The CoSD rule “CMCY” implemented by Monte Titoli does not rely on account configuration parameters, and no segregation or static data configuration (MSA) is foreseen at account level in T2S for the provision of this service, as related business validations will be managed outside T2S. In any case, the service will not be available to Investor CSDs and no impact is foreseen in terms of account configuration.

Impact on Investor CSD settlement flows

The CoSD rule “CMCY” put in place by Monte Titoli does not need to be implemented by Investor CSDs.

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52 Monte Titoli confirmed that the service will be available for Investor CSDs which are external CSDs in T2S
53 Further information can be found in the UDFS 2.0: “TABLE 11 – COSD PARAMETER TYPES”
Indeed, the service is not available to Investor CSDs, and any cross-CSD transaction in an ineligible T2S settlement currency would result from erroneous instructions.

The rule will not impact investor CSD settlement flows: it is defined to control intra-Issuer CSD and external CSD settlement transactions only. Based on the rule parameters, the CoSD rule will not be triggered for transactions involving an Investor CSD of Monte Titoli in T2S, or transactions that include a currency that is not in the scope of the service. A transaction involving an Investor CSD on a currency eligible for settlement with Monte Titoli would settle as a FOP, as well as any transaction on a currency not eligible with Monte Titoli, regardless of the trade counterparties (intra-CSD or cross-CSD transaction). In the case of a transaction between participants of Investor CSDs so that only the realignment takes place in Monte Titoli, the rule will not affect the realignment instructions, since realignment instructions do not include the currency field.

**Conclusion**

Clearstream, Interbolsa, and Monte Titoli will offer external cash settlement services to their participants, i.e. settlement in currencies non-eligible in T2S. To this end, they will use the “Conditional Securities Delivery” (CoSD) functionality available in T2S, which allows blocking the securities leg of the transaction while the cash leg settles outside T2S, then in a second step to settle the securities in T2S. Clearstream will complement the CoSD process with other restriction rules, to perform additional validations before the Intended Settlement Date: verification of cash details in matched FOP instructions, or verification of business validation rules setup outside T2S, for instructions sent by DCPs.

Based on the CSDs in scope of this analysis, external cash settlement services in non-T2S currencies will not be part of the service offering to Investor CSDs. Impact on Investor CSDs’ settlement flows is expected to be negligible.

Indeed, cross-CSD transactions involving such currencies would result from erroneous instructions sent by the participants. In addition, the restriction and CoSD rules have also been defined to exclude any impact on Investor CSDs: account requirements, e.g. holding a cash account in a specific payment system, will not be reflected through static data configuration in T2S. CSDs have also configured the restrictions to exclude triggering the rule for any cross-CSD transactions, even when they are initiating one side of the trade (one Business Instruction in the technical Issuer CSD). By design, T2S generated Realignment Instructions do not include a currency and will never be impacted by external cash settlement rules that include currencies as parameter. Note that this also prevents the CSDs offering settlement services in these currencies to have the necessary control over the transaction in order to provide the service to Investor CSDs when both Business Instructions come from Investor CSDs’ participants.

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54 which are defined as internal CSDs in T2S
There is potential room for harmonisation of market practices due to different implementation of
the service among CSDs; for example, settlement instructions in ineligible currencies are rejected in
a CSD, and are eligible to settle as normal FOP in others. Handling of erroneous cross-CSD
transactions is also different among CSDs due to the scope of the CoSD rules.

Until the implementation of a long-term solution, the optional matching field “common trade
reference” could be systematically populated with cash details by CSDs when sending settlement
instructions in currencies non-eligible in T2S in order to minimise risks of mismatching.

BOGS will use the CoSD functionality differently, in order for the central bank to verify that the
cash provision is available in its internal systems, before authorising the settlement of the
transaction and debit of the T2S Dedicated Cash Account (DCA) used for this service. The service
is only relevant to certain categories of domestic participants who have no cross-CSD activity,
which excludes impact on Investor CSDs.

55 Cash details are not taken into account for matching by T2S in the case of FOP instructions. Such details can be added in the
common trade reference field when sending FOP in non-T2S currencies to alleviate the risk of mismatching. The topic will
be addressed in the XMAP in order to come up with a long-term solution, i.e. definition of a more suitable field or change to
the T2S functionality (CR0353 had been raised for this purpose).
4.7 External CSD Settlement

*Note: CoSD rules will be commonly implemented by CSDs for all their activity with non-T2S Issuer CSDs. However, as referred in the introduction of this document, CoSD rules are currently included on a voluntary basis in the CSG’s “Reference Data Extension” which is the scope defining document for this analysis. CSDs are currently organising workshops with the aim of identifying the different standard CoSD scenarios that will be given in T2S and to have a harmonised approach to the definition of such conditional rules in T2S. Once finalised, such rules will be included in the CSG documentation on a systematic basis and analysed by the XMAP.*

**Introduction**

In the context of T2S, *External CSD Settlement* can be defined as settlement which involves at least one CSD not participating in T2S.

Prior to T2S, settlement of all cross-CSD transactions involving multiple CSDs is performed in 2 steps:

1. Settlement is carried out by the *Issuer CSD*
2. Settlement is reflected by the *Investor CSD* in its books.

The cross-CSD securities settlement mechanism requiring a 2-step process will no longer exist in T2S for scenarios where both CSDs are participating to T2S, as settlement will take place on a single platform on an all or none basis.

This 2 step process will still be required, depending on the scenario, if one of the CSDs is not participating in T2S. External CSD Settlement scenarios in T2S involve at least one CSD outside T2S:

- The “*External CSD*” T2S Party type is considered as a CSD participant of the CSD in T2S
- In order for external CSD settlement to take place in T2S, each Investor CSD in T2S needs at least one omnibus account in the books of its technical issuer CSD in T2S and an equal number of mirror accounts and inter-CSD accounts (used for external CSD settlement with external issuer CSDs only) in its own books.

*Figure 20 - Example of external-CSD account structure with issuer CSD external to T2S*
CSDs can use the T2S functionality for Conditional Securities Delivery (CoSD). The CoSD functionality also requires the set-up of rules in T2S which may impact cross-CSD settlement.

Although in the T2S specifications, only one External CSD Settlement scenario is described as conditional in T2S, it is up to CSDs to define which scenarios require conditionality.

The description of current services, CoSD rules for External CSD Settlement, and impact analysis by market, are detailed in the next sections.

### 4.7.1 Monte Titoli

**Current State – Process Controls**

Monte Titoli has currently direct (I)CSD links to the following markets: Austria (OeKB), Belgium (NBB and Euroclear Belgium - ESES), France (Euroclear France - ESES), Germany (Clearstream Banking Frankfurt), Greece (Bank of Greece), Ireland (Euroclear UK&IE operated by Citi), Luxembourg (VP Lux), Spain (Iberclear), Switzerland (SIX-SIS), The Netherlands (Euroclear Netherland - ESES), UK (Euroclear UK&IE operated by Citi), United States (DTCC), Euroclear Bank and Clearstream Banking Luxembourg.56

**Adapted State – Process Controls**

Monte Titoli will define a Conditional Securities Delivery (CoSD) rule in order to block securities when there is a transaction involving a CSD external to T2S in order to control that an external settlement condition has been fulfilled prior to settlement in T2S. This will allow Monte Titoli to coordinate the settlement of instructions in T2S with a cash or securities settlement leg outside T2S. External CSDs will be all CSDs which have not migrated to T2S.

**CoSD – Securities blocking**

CEXT– “External Settlement management” will put on CoSD Hold the following instructions:
- Receiving settlement instructions with delivering CSD “External CSD”, triggering CoSD securities blocking.
- Delivering settlement instructions with receiving CSD “External CSD”, triggering CoSD securities blocking.

The following rule parameters are used:

- Delivering/Receiving CSD in T2S:
  - External CSD
- Securities movement type:
  - Receiving

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- Delivering

Note: Monte Titoli still needs to confirm the inclusion of the Issuer CSD as parameter of the CoSD rule for the next version of the CSG’s “Reference Data Extension”. The analysis will be updated accordingly.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

External CSD settlement scenarios might require specific account configuration in T2S (e.g. use of an inter-CSD account when the issuer CSD is external to T2S). Nevertheless, the CoSD rules of Monte Titoli related to external CSD settlement do not rely on account configuration parameters and do not require a specific account configuration. No impact on Investor CSDs’ account configuration has been identified.

**Impact on Investor CSD settlement flows**

The CoSD rule “CEXT” by Monte Titoli will have an impact on the Investor CSD settlement flow in any cross-CSD scenario involving a CSD external to T2S, as the settlement instructions will be put on CoSD Hold and settlement will be prevented until the instructions have been released by the relevant administering parties upon completion of the external condition outside of T2S. This includes the following cross-CSD scenarios:

- Business instructions instructed by a Monte Titoli participant being the counterpart CSD of a CSD external to T2S;
- Business instructions instructed by a participant of any Investor CSD being the counterpart of an External CSD for which Monte Titoli is acting as Technical Issuer CSD. In this case, realignment movements generated by T2S at Monte Titoli will fulfil the CoSD rule and settlement of the whole realignment chain would be prevented until release of the administering parties is sent to T2S.

**Conclusion**

Note: CSDs are currently organising workshops with the aim of identifying the different standard CoSD scenarios that will be given in T2S and to have a harmonised approach to the definition of such conditional rules in T2S. Once finalised, such rules will be included in the CSG documentation on a systematic basis and analysed by the XMAP.

No impact on the account structure of Investor CSDs has been identified due to the implementation of rules for external CSD settlement.

As regards to the Investor CSD settlement flows, the realignment chain and Business Instruction of Investor CSDs will be impacted by the rules related to external CSD settlement, as settlement of the transaction will be prevented until the relevant administering parties of the CoSD rule release the instructions after fulfilment of the external condition outside of T2S.
4.8 Foreign Securities

Introduction

In the context of this analysis, foreign securities refer to securities, for which CSDs act as Investor CSD or Issuer CSD, and for which they have defined specific controls or restrictions due to the foreign nature or denomination currency of the security. Such limitations sometimes originate from the CSD’s local rules or regulatory framework. In other cases, validation rules are put in place to ensure the consistency between the account types and foreign securities held at the CSD. In T2S, some of these controls will be materialised by restriction rules.

4.8.1 ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)

Current State – Process Controls

ESES has internal validation rules in place for the compatibility between account types (Account Nature) and securities characteristics (Security Category, Security Legal Form, Security Holding Mode). Some of these validations have been put in place to control the holdings resulting from cross-CSD activity (e.g. securities for which ESES is acting as Investor CSD, but also securities from ESES that other CSDs are holding), which can only be held on specific accounts.

Adapted State – Process Controls

Based on validation rules currently in place, ESES will define restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Security Categories (MSA). The below rule relates to the control between the foreign securities and the category of the security.

RT05 (ESE-014-FOR), a positive rejection rule (Restriction Type 1), will be implemented in order to reject settlement instructions on a ‘Foreign security’ (MSA: Security Category), using one of the following Account Natures as delivering or receiving account (in T2S, each Account Nature will be represented by a dedicated securities account):

- 'Direct payment on bearer securities without commission' (014)
- 'Bearer securities account excluded from direct payment' (15)
- 'Direct payment on registered securities without commission' (16)
- 'Registered securities account excluded from direct payment' (017)
- 'Securities to be converted to mandatory registered form' (044)
- 'Registered securities which come from corporate actions currently being registered with the issuer (045)'
- 'Shares of French nationalised companies that are presented for compensation' (059)
- 'Stripped securities' (060)
- 'Shares delivered following conversion of bonds' (069)
- 'Securities delivered following an exercise of warrants' (070)
- 'Shares delivered after exercise of a stock option' (071)
- 'Total issued amount of stripped securities' (078)
- 'TCN Issuing account' (092)
- 'Typical certificates in traffic' (095)
- 'Typical certificates out of traffic' (096)
- 'TCN Issuing account' (092)
- 'Blocked Securities' (107)

The below rule relates to the control between the foreign securities and the Account Nature.

RT05 (ESE-016-FOR), a positive rejection rule (Restriction Type 1), will be implemented in order to reject settlement instructions on a ‘Domestic dematerialised security except drawing’ (MSA: Security Category), using the following Account Nature as delivering or receiving account:

- 'Foreign securities held by another CSD (foreign organisation or foreign custodian)' (080)

ESES will define restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Holding Modes of securities (MSA).

The below rule relates to the control between the foreign securities and the holding mode of the security.

RT06 (ESE-027-FOR), a positive rejection rule (Restriction Type 1), will be implemented in order to reject settlement instructions on a ‘securities held in Foreign CSD’ (MSA: Holding Mode), using one of the following Account Natures as delivering or receiving account:

- 'Securities to be converted to mandatory registered form' (044)
- 'Registered securities which come from corporate actions currently being registered with the issuer' (045)
- 'Shares of French nationalised companies that are presented for compensation' (059)
- 'Stripped securities' (060)
- 'Underlying securities for certificates of deposit' (061)
- 'Reserved for Euronext for Tender offers' (066)
- 'Shares delivered following conversion of bonds' (069)
- 'Securities delivered following an exercise of warrants' (070)
- 'Shares delivered after exercise of a stock option' (071)
- 'Total issued amount of stripped securities' (078)
- 'Coupon paid in non-Euro currency' (079)
Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The below Account Natures are opened for Investor CSDs for their activity:
Ordinary securities (000)

Administered registered securities (001) if needed for handling registered securities

For the rules RT05 (ESE-014-FOR), RT06 (ESE-016-FOR), RT06 (ESE-027-FOR), no impact on the Investor CSD account configuration has been identified, as none of the Account Natures triggering the rejection are available to Investor CSDs.

For the rule RT07 (ESE-042-FOR), Investor CSDs may hold the dedicated Account Nature 'Administered registered securities' (001) in order to keep registered securities. However, securities whose legal form is 'foreign securities (held in EF)' cannot be held on this Account Nature. Therefore, Investor CSDs must segregate securities positions accordingly and implement the MSAs (Account Nature – Legal Form) with the relevant values for their activity.

Impact on Investor CSD settlement flows

For the rules RT05 (ESE-014-FOR), RT06 (ESE-016-FOR), RT06 (ESE-027-FOR), none of the Account Natures triggering the rejection are available to Investor CSDs, therefore:

- For a cross-CSD transaction between an ESES participant whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.
- For a cross-CSD transaction between Investor CSD(s) participants involving realignment at ESES (between omnibus accounts), the realignment instructions will not be impacted by the rule and the transaction will be able to settle.

For the rule RT07 (ESE-042-FOR), the Investor CSD holds the Account Nature for registered securities 'Administered registered securities' (001):

- For a cross-CSD transaction between an ESES participant whose Business Instruction is matching the rule parameters and a participant of the Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.
- For a cross-CSD transaction involving Investor CSD(s) participants with realignment instructions generated in ESES, the rejection rule can be triggered on the realignment instructions, resulting in the Business Instructions being accepted, matched, then cancelled.

Investor CSDs should implement the restriction rule RT07 (ESE-042-FOR) as well as the MSAs and relevant values for their activity (Account Nature/Security legal form).

Conclusion

ESES has put in place validations in the form of restriction rules, to ensure the consistency of securities holdings resulting from cross-CSD activity, inter alia foreign securities held at the CSD,
and the account types holding these securities. These securities cannot be held on the account dedicated to registered securities, and in the case where Investor CSDs hold foreign securities via ESES, they should implement the restriction rules and MSAs with relevant values for their activity.
4.9 Issuance

Introduction

Issuance of securities is defined as a procedure wherein an entity (e.g. governments, corporations or investment funds), known as the “issuer”, offers securities to raise funds. A typical issuance process consists of activities which may include a number of actors: CSDs, issuers, issuer’s agents (investment banks acting as underwriters, dealers, transfer/payment/settlement agents etc.) registrars, national numbering agencies, custodians, etc.

Issuance is an activity under the notary function of CSDs, which aims at establishing and maintaining a system of initial bookkeeping that records the amount of a securities issued in a specific account in the name of the issuer and that enables securities transactions to be processed by book entry.

Several issuance models exist in the current securities markets landscape, which vary according to:

- The actors involved in the issuance (e.g. CSD, issuer, issuing agent);
- The type of the security subject to issue (e.g. equities, debt instruments, funds)

Based on the above elements, CSDs make use of different securities account structures for the distribution of securities to the initial owners, being currently carried out intra-CSD. Whilst market-specific variations may exist, two issuance distribution models can be identified according to the accounts involved in the issuance process:

1. Two-tiered issuance distribution model - distribution directly from the issuance account

The distribution of securities takes place directly from an issuance account (i.e. any account opened in the name of an issuer in the books of the CSD on the debit of which all securities of a same issue which are admitted by the CSD are recorded). Distribution can be conducted by the issuer, the issuer’s agent or the CSD.

57 Adapted from AFME glossary of financial terms.
58 Referenced from the “Public consultation on Central Securities Depositories (CSDs) and on the harmonization of certain aspects of securities settlement in the European Union” by the Commission of the European Communities.
59 Adapted from the Euroclear Clearing and Settlement Glossary.
2. Three-tiered issuance distribution model - distribution from the distribution account.

Some issuers or issuer’s agents require the set-up of an additional distribution account for parking the issued securities credited from the issuance account until final distribution orders are available for crediting the securities accounts of initial owners. The distribution account could be in the name of the issuer or the issuer’s agent.

In the particular case of funds, an additional three-tiered account structure is currently frequently used: in addition to the issuance account there is a transfer agent’s issuance account (i.e. an issuance account which can have a negative/debit balance) in the name of the transfer agent (TA), and possibly another distribution account (in this specific case it would be a four-tiered issuance distribution model). This approach allows the CSD to hand the funds issuance settlement over to the TA and giving the TA the freedom to conduct the issuance out of its account. The TA can then conduct mark-up and mark-down operations in order to increase or decrease the issue amount based on subscriptions and redemption orders received. Keeping issuance accounts for every TA offers CSDs the possibility to use the services of multiple TAs.
Issuance will continue to be carried out by the CSDs as part of its notary function after their migration into T2S. T2S provides the necessary functional toolkit to tailor the service to each CSD’s individual business and legal requirements; i.e. the issuance related controls already in place at the CSDs and the existing issuance distribution models (i.e. account structures) are supported by the T2S functionality.

**Issuance distribution models in T2S static data**

Regarding the CSD implementation in the T2S static data of any of the issuance distribution models, some of the required securities account configurations in T2S are:

- Setting a securities account with account type “issuance account” which can be under the name of the CSD or any authorised participant\(^\text{60}\) (e.g. issuer or issuing agent). Issuance accounts are allowed to have negative positions in T2S.

- Defining the CSD in which the issuance account is held as “issuer CSD” of the ISIN subject to issue.

In the specific case of the three-tiered issuance distribution model, the relevant actor (e.g. CSD, issuer, issuing agent, TA) would need to open an additional distribution account. However, distribution accounts in T2S are standard securities accounts which do not have a specific account type. Nevertheless, CSDs have the possibility to differentiate distribution accounts in T2S by defining market-specific attributes (MSAs) on securities accounts.

In case multiple CSDs are involved in the distribution of issued securities in T2S, distribution accounts will be held in investor CSDs as depicted in the illustration below:

\(^{60}\) Refer to CR 372 “Issuance accounts in the name of entities other than CSD”
According to the CSD Steering group (CSG) document on CSD restriction rules, most of the issuance related restriction rules that CSDs have defined in T2S aim at controlling the actors taking part to the issuance process.

More specifically, the restriction rules for issuance are defined by CSDs either to:

- Limit access to issuance related securities accounts (e.g. issuance accounts, transferring agent accounts, distribution accounts etc.) and/or sub-position types.

- Prevent non-authorised actors to use specific transaction identifications identifying issuance related instructions (e.g. “ISSU”). These rules might be defined in combination with the type of security that constitute the subject of the issue (e.g. stripping instructions identified through the ISO code “MKDW” might be only allowed on certain types of securities).

- Reject against payment settlement instructions on issuance accounts.

It is important to note that some of the above controls can be implemented in T2S by restricting the relevant privileges (i.e. privilege to instruct against a specific securities account, privilege to make use of a specific transaction identification) to the actors involved in the issuance process (e.g. issuer, issuing agent).

Furthermore, CSDs can setup restriction rules for those issuance related checks in which several conditions have to be fulfilled (e.g. Instructions with a specific transaction identification are only accepted on a limited list of ISINs) or for specific checks that cannot be managed through standard validations (e.g. there is no privilege to restrict usage of an account sub-position).

The next sections focus on the description of current controls and future restriction rules that CSDs plan to put in place in the context of issuance, and analyse their impact on cross-CSD settlement.

4.9.1 Clearstream Banking Frankfurt (CBF)

Current State – Process Controls

Issuance distribution model: Two-tiered and three-tiered
There are three ways in which registered shares are admitted to collective safe custody and to CASCADE-RS (system in CBF responsible for registered shares):

- **First deposit**
- **Conversion of bearer shares into registered shares**
- **IPO with the issue of registered shares.**

The first registration of shareholders in the share ledger, on admission of registered shares to collective safe custody or in the case of credits in the form of registered shares resulting from corporate actions, is carried out via CASCADE-RS.

**Adapted State – Process Controls**

CBF will create a restriction rule to prevent non-authorised actors to instruct settlement instructions including position type “RSKE” used for the issuance of registered shares. Against payment instructions will be also be rejected.

CBF will create another restriction rule to reject realignment settlement instructions referring to issuance accounts, to ensure consistency with CBF vaults (i.e. with CBF issuance processing), as in case of multi-issued securities realignment instructions would be automatically generated by T2S and CBF would like to ensure alignment with the CBF vaults preventing settlement of realignment instructions to be executed straight-through processing (STP).

Finally, CBF will put on CSD Validation Hold instructions against a special purpose customer sub-account with type *Nicht Verkehrende Werte* ("unissued securities") allowing issuing agents to perform some pre-activities on securities to be issued. The rule allows CBF to perform some additional market specific validations on those settlement instructions.

**Rejection (Restriction case 1)**

“Registered shares - reject” - rejects settlement instructions using position type “RSKE” sent by non-authorised participants.

The parameters configured in the rules are listed below:

- Credited/Debited position/balance:
  - “RSKE”
- Registered share (MSA on securities):
  - “NO”
    - Party type:
      - “CSD Participant”
- Payment type code:
  - APMT (against payment)
The combination of values triggering the instruction rejection is described below:

- Settlement instructions with Credit or Debited position “RSKE” and Party type different than the CSD.
- Settlement instructions with Credit or Debited position “RSKE” against payment.
- Settlement instructions Credit or Debited position “RSKE” and registered share “NO”

“X-Border Settlement – reject” – rejects realignment instructions against issuance accounts, to ensure consistency with CBF vaults.

The parameters configured in the rules are listed below:

- Transaction identification:
  - Realignment
- “Konten-Gruppe”, (MSA on party)
  - CBF Vaults, as owner of the account (Issuance processing)

CSD Validation Hold (Restriction Case 1)

“Party and account configuration-CVAL” – puts on hold instructions against securities account with an account type reserved for special preparatory issuance processes to be performed by CBF.

The parameters configured in the rules are listed below:
- Party type of the Instructing Party:
  - “CSD Participant”
- “Konto-Art”, i.e. Account type (Market-specific attribute on Securities Account):
  - *Nicht Verkehrende Werte*

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The restriction rules put in place by CBF apply on dedicated issuance accounts and do not affect Investor CSDs. No impact on Investor CSDs’ account configuration has been identified.

**Impact on Investor CSD settlement flows**

The following restriction rules defined by CBF do not need to be implemented by Investor CSDs as the underlying controls are performed prior to the issuance process:
- The restriction rule “Registered shares – reject” limits the access to the issuance related sub-positions to itself. Settlement instructions against the issuance related sub-positions will be always sent by CBF.
• The restriction rule “Party and account configuration-CVAL” limits the access of some specific issuance accounts to issuing agents putting the settlement instructions on CSD Validation Hold in order for CBF to perform additional validations.

The restriction rule “X-Border Settlement – reject” rejects realignment instructions on CBF vaults (i.e. issuance accounts) in order to ensure that cross-border settlement of multi-issued securities does not trigger realignment of securities positions involving these accounts. This rule does not need to be implemented by Investor CSDs, but it would impact any cross-CSD transactions on a multi-issued security which triggers realignment instructions on CBF vaults.

4.9.2 ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)

Current State – Process Controls

Issuance distribution model: Two-tiered and three-tiered

Any issuer of financial instruments currently listing its securities on a Euronext market must appoint an agent (a service financier) in the country where the securities are admitted to trading in order to comply with the harmonised Euronext listing rules.

In the context of ESES, dedicated account types are available to issuers:

• Issuance account (Account Nature 92 or 105), which can only be adjusted by the CSD of reference in ESES;

For the distributor, a standard safekeeping account (Account Nature 000) or dedicated Account Natures are required depending on the instrument type.

Adapted State – Process Controls

Note: ESES has defined additional restriction rules to control the issuance process in T2S which are not reflected below. These will be included in the analysis once their configuration is stable.

In ESES, specific Account Natures with specific rights can be used by the issuing agent. Some Account Natures are specific to some instruments (e.g. UCITs). ESES rules will be set up to check the use of the dedicated accounts for the appropriate types of securities.

Subscription and redemption of TCN instruments can only be performed by the debit and credit of specific accounts.

Rejection (Case 1 Restriction Type)

RT05 (ESE-017-ISS) – This restriction rule rejects settlement instructions on 'Domestic dematerialised security except drawing' with an Account Nature equal to 'TCN issuing account' (092).

The parameters configured in the rules are listed below:

• Security category (Market-specific attribute on securities):
  - 'Domestic dematerialised security except drawing'
• Account nature (Market-specific attribute on securities accounts):
  - 'TCN Issuing account' (092)

RT07 (ESE-033-ISS): this restriction rule ensures the compatibility of the Account Nature related to issuance with the security legal form.

The parameters configured in the rules are listed below:

• Security legal form (Market-specific attribute on securities account):
  - 'bearer or registered' (0)

• Account nature (Market-specific attribute on securities accounts):
  - 'TCN Issuing account' (092)
  - 'New issues account' (105)

RT07 (ESE-039-ISS): this restriction rule ensures the compatibility of the Account Nature related to issuance with the security legal form.

The rule parameters used are:

• Security legal form (Market-specific attribute on securities account):
  - 'bearer'(3)

• Account nature (Market-specific attribute on securities accounts):
  - 'New issues account' (105)

CSD Validation Hold (Case 1 Restriction Type)

RT18 (ESE-049-ISS): this restriction rule puts on CSD Validation Hold instructions settlement instructions instructed by CSD participants on Account Natures related to issuance enabling ESES to perform additional validations.

The parameters configured in the rules are listed below:

• Party type of the instructing party:
  - 'CSD participant'

• Account nature (Market-specific attribute on securities accounts):
  - 'Non-issued printed securities' (097) or
  - 'Blocked securities for secondary issue' (101) or
  - 'New issues account' (105) or
  - 'Securities exchange account' (106)

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration
Issuance is initiated by ESES. In case that multiple CSDs are involved in the distribution of issued securities, distribution accounts would be held in investor CSDs. However, distribution accounts are standard securities accounts in T2S and the Account Natures used in the context of issuance are not available to Investor CSDs; therefore, no impact at the Investor CSD account configuration has been identified.

Impact on Investor CSD settlement flows

The restriction rules defined by ESES in the context of Issuance do not need to be implemented by Investor CSDs.

In case that multiple CSDs would be involved in the distribution of issued securities generating realignments at ESES, the ISO transaction code is used as parameter in most of the issuance restriction rules of Euroclear (ESES) and realignment settlement instructions would not be impacted by the restriction rule as the ISO transaction code “REAL” identifying realignment instructions is not included in the Euroclear issuance restriction rules; i.e. realignment instructions would not match the restriction rule. Additionally, Euroclear restriction rules for issuance are aimed at checking the usage of specific Account Natures defined with MSAs by Euroclear, so that Investor CSDs are not bound by these restriction rules, i.e. Account Natures related to issuance are not available to Investor CSDs.

For all the rules defined by ESES in the context of the issuance process, the only impact on Investor CSDs’ settlement flows would be:

- In case of a cross-CSD transaction (i.e. distribution) between an ESES participant whose Business Instruction is matching the rule parameters and a participant of an Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.

**Conclusion**

Clearstream and ESES have defined restriction rules to control the actors taking part to the securities issuance process.

The issuance process itself is always carried intra-CSD, and the issuance related restriction rules apply exclusively on the Business Instructions sent by the issuer CSD in order to monitor the amount of issued securities and to ensure that the process is initiated according to the specific requirements of the issue.

The initial distribution of the issue, in case of three-tiered issuance distribution model, could involve several CSDs. In this case, the distribution account can be held at Investor CSDs. Based on the CSDs in scope of the analysis, no specific validation has been implemented on distribution accounts, which are regular accounts in T2S. No impact on Investor CSDs’ account structure or settlement flows has been identified in this context.
The restriction rule on “X-Border Settlement – reject” is defined by Clearstream in order to reject realignment instructions of multi-issued securities on CBF vaults account. This rule does not need to be implemented by Investor CSDs, but it would have an impact in any cross-CSD scenario on a multi-issued security which triggers realignment instructions on CBF vaults.
4.10 Investment Funds Processing

Introduction

The processing of open-ended investment funds require frequent increases / decreases in the volume of funds shares corresponding to the mark-up/ mark-down process performed by the fund managers.

Common market practices for investment funds processing among CSDs include blocking securities positions for redemption or performing validation checks on investor instructions on investment funds to ensure that the counterparty is the fund and that redemption and subscription requests by intermediaries are transmitted to the issuer.

The increases/decreases in the volume of funds shares shall be settled according to the standard T2S process for securities increases/ decreases in T2S via securities issuance and redemption.

For generic information about the issuance process, distribution models, and issuance of funds, please refer to the dedicated section “4.9 Issuance” of the present document.

4.10.1 Interbolsa

Current State – Process Controls

Interbolsa has a specific securities position blocking (‘Situations’) for funds redemption.

Adapted State – Process Controls

- Interbolsa will define “SR03”, a positive rejection (Case 1 Restriction Type) rule. The rule is generic and defined to reject settlement instructions on securities positions blocked/reserved for settlement unless instructed directly by Interbolsa (with the CSD as Instructing Party Type). It is used in conjunction with the Case 3 Restriction Type below that is used to create the blocked securities positions. No MSA is created for this rule. No specific business context applies to this rule, as it depends on the blocked position type.

- Interbolsa will define the restriction type (“BL29”) for blocking of securities positions (Case 3 Restriction Type) in the context of fund redemptions. Positions will be blocked until the fund manager confirms the redemption.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The restriction “BL29” is defined to block securities into a specific position type prior to redemption. In principle, Investor CSDs should also restrict the securities positions on the accounts of their participants, but can choose to segregate the positions into position types or into separate accounts. At the time of writing, this service is rarely used, even by Interbolsa’s participants. Impact on Investor CSDs is expected to be limited.

Impact on Investor CSD settlement flows
Interbolsa’s restriction rules related to Funds Processing will not have a direct impact on trade related cross-CSD transactions, as realignment instructions would not make use of the restricted positions; i.e. realignment instructions would not match the restriction rules. However, blocking of securities positions could lead to de-synchronisation of positions between omnibus/mirror accounts and trigger a lack of available securities available on the omnibus account for settlement while the blocking applies, if the Investor CSD does not restrict the securities positions in its own account structure. At the time of writing, this service is rarely used, even by Interbolsa’s participants. Impact on Investor CSDs is expected to be limited.

**Conclusion**

Interbolsa will put in place a restriction rule related to redemption of funds.

Funds securities will be blocked into a specific position type prior to redemption. Investor CSDs holding these securities shall also segregate and restrict these positions for settlement in their account structure via the use of a restriction rule, but are free to choose their preferred segregation method to do so (e.g. the use of separate accounts rather than position types). At the time of writing, this service is rarely used, even by Interbolsa’s participants. Impact on Investor CSDs is expected to be limited.
4.11 Limitations due to CSD Legacy Platform

Introduction

Legacy platforms of CSDs may restrict the scope of functionalities available in T2S.

For example, some CSDs allow segregation of securities positions in their legacy platforms through the creation and usage of securities sub-positions in securities accounts, while some others limit segregation of positions exclusively to the use of different securities accounts.

In T2S, some CSDs will define restriction rules to prevent the creation or usage of securities sub-positions by participants. Those CSDs not supporting segregation of securities positions through sub-positions in a given securities account will also prevent the CSD itself to create securities sub-positions.

There are however key functionalities in T2S relying on the creation of securities sub-positions which are internally generated by T2S (e.g. Conditional Securities Delivery, auto-collateralisation in case of pledge and sub-pledge). Restriction rules are also applicable on T2S generated settlement restrictions and settlement instructions, and should therefore be carefully configured in order not to impact these functionalities. A key element to take into account for the definition of such restriction rule is that CSD participants can only create or access sub-positions when the relevant position type has been created by the CSD or the T2S operator.

4.11.1 ESES

Note: ESES has defined restriction rules which may restrict the use of securities sub-positions and the availability of earmarking of securities positions for auto-collateralisation. Such rules are still under analysis and will be included in this report once their configuration is stable.

4.12 Non-European Regulations

Introduction

In the context of this analysis, non-European Regulations refer to the controls put in place by CSDs to comply with non-European regulatory requirements in the context of their activity as Issuer or Investor CSD. Note that such regulations do not generally impose obligations on the CSD side but are provided as optional added-value services to support intermediaries, e.g. for identification and reporting of beneficial owners. In T2S, some CSDs will define restriction rules materialising the controls needed to facilitate the disclosure of such requirements.

Based on the restriction rules documentation and information provided by CSDs, the following regulations are in scope of this analysis:

- **TEFRA**: The Tax Equity and Fiscal Responsibility Act (TEFRA) is a Federal Law implemented by the US Tax Authorities. The underlying TEFRA D requirements make it unlawful for the issuer of the
securities to sell bearer debt securities to US citizens and persons qualifying as US tax residents within a period of 40 calendar days from the date of issue.\textsuperscript{61}

The description of current services and controls, restrictions rules, and impact analysis by market is detailed in the next sections.

\textbf{4.12.1 Clearstream Banking Frankfurt (CBF)}

\textit{Current State – Process Controls}

Clearstream provides an optional service to its participants in order to comply with TEFRA D requirements. This service is available to Investor CSDs. No quantification data is available on the number of TEFRA D securities and volume of transactions involving these securities, but the scope is broader than USD denominated securities.

Two procedures are possible when subscribing to the TEFRA D service:

- **Strict procedure**: Each time a TEFRA D security is credited to the account holder within the 40-day period, it is automatically transferred and blocked into a specific sub-account. It can be unblocked via a specific instruction, as long as Clearstream receives a statement that the participant or its own customer is not subject to the tax laws in the US and complying with TEFRA D requirements. After the end of the allocated period (40 calendar days + 3 business days), securities can only be unblocked if the issuing bank/lead manager has given its approval.

- **Flexible procedure**: TEFRA D securities are not initially blocked during the 40 days period, but only at the end of the 40 days. The condition is that the account holder monitors compliance with the TEFRA D rules using its own verification procedures. A detailed certification of the overall positions (own/clients) at the end of the 40-day period must be provided by the Clearstream participant. Positions blocked in a sub-account can then be unblocked via a specific instruction. After the end of the allocated period (40 calendar days + 3 business days), securities can only be unblocked if the issuing bank/lead manager has given its approval.

**Adapted State – Process Controls**

For the purpose of TEFRA-D processing, Clearstream has defined the rule “TEFRA D- CVAL”, a positive “CSD Validation Hold” rule (restriction type 1):

- To ensure that receiving (RECE) settlement instructions (security movement type: “RECE”) on a TEFRA D ISIN within the blocking period, for a participant to the strict procedure with specific account types, are put on “CSD Validation Hold”, so that Clearstream can initiate a transfer of the securities on a dedicated blocking account in T2S. The transfer will be sent to T2S with a link to the original receipt (WITH), and the receipt instruction will then be released so that both can settle together.

\textsuperscript{61} securities must initially be issued in temporary global form exchangeable for permanent global form following the 40-day restricted period
To ensure that receiving (RECE) settlement instructions (security movement type: “RECE”) on a TEFRA-D ISIN within the blocking period, for an account type with additional TEFRA-D related validation rule to be checked, are put on “CSD Validation Hold”, so that Clearstream can verify the transfer is allowed according to internal rules (transfers between the accounts of same parties are allowed, between different parties have to be checked). If not allowed, the instruction will be cancelled by Clearstream.

Three MSAs are used in this context of this rule:

- “TEFRA-D Blocking Period” on a security, to indicate whether an ISIN is within the 40-days restricted period defined by US Tax authorities. If so, the MSA indicates the current TEFRA-D period. Possible values: “Yes”, “No”
- “TEFRA-D-Teiln” on a party, to indicate whether the party is subscribing to the TEFRA-D service of Clearstream, and if yes, which procedure he has chosen. Possible values: “NO”, “STRIKT”, “FLEXI”
- “Konto-Art”, this reflects CBF internal account types. Possible values: 0-99

For the purpose of TEFRA-D processing, Clearstream has also defined Security Blocking, a negative blocking rule (restriction type 2):

- To block settlement instructions on a TEFRA-D ISIN in the last 15 min prior to the FOP deadline on the 40th day of the TEFRA-D period (except if instructed with the STORNO BIC used by Clearstream) so that related securities can be moved to the dedicated blocking account in case the flexible procedure is used by the participant.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

Investor CSDs may decide, on an optional basis, to use the TEFRA-D service of Clearstream, in which case a specific omnibus account will be opened in Clearstream to hold the blocked securities. If they opt for the strict procedure, a separate account must be opened in the Investor CSD for each participant, mapped to the blocking account in Clearstream. If they opt for the flexible procedure which is the recommendation of CBF, the impact can be alleviated provided the certification of underlying customer positions is provided to Clearstream at the end of the 40 days period, as no blocking occurs until then.

**Impact on Investor CSD settlement flows**

Investor CSDs offering the strict procedure services to their participants should implement a mechanism to ensure consistency between positions on TEFRA-D securities, e.g. when these are transferred on the blocking omnibus account they hold at CBF: it is their choice to replicate the restriction rule or implement another process. If they opt for the flexible procedure, the impact can be alleviated provided the certification of underlying customer positions is provided to Clearstream at the end of the 40 days period.

The details of the impacts on Investor CSDs’ settlement flows are described below:
• In case of a cross-CSD transaction between a participant of an Investor CSD and a participant of Clearstream, when either the participant of Clearstream or the Investor CSD has opted for the strict procedure, the transaction will be pending for settlement (either the Business Instruction in Clearstream or the T2S generated Realignment Instruction will be on CSD Validation Hold)

• In case of a cross-CSD transaction between participants of Investor CSDs where the realignment takes place in Clearstream, if either has opted for the strict procedure, the transaction will be pending for settlement (T2S generated Realignment Instruction will be on CSD Validation Hold)

The effective time during which the transaction will be pending will only be a few minutes, until CBF links the transfer to the blocking account with the original transaction. Once the linkage is confirmed, the instructions will be released for settlement.

The rule “Security Blocking” does not need to be activated by Investor CSDs in this context: the rule is put in place to block settlement instructions on a TEFRA D ISIN in the last 15 min prior to the FOP deadline on the 40th day of the TEFRA D period. During this short lapse of time, Investor CSDs’ settlement flows will be impacted as follows:

• In case of a cross-CSD transaction between a participant of an Investor CSD and a participant of Clearstream on a TEFRA D security matching the rule parameters, the transaction will be pending, as both Business Instructions and T2S generated Settlement Instructions will have the “security blocked” (SBLO) pending status.

• In case of a cross-CSD transaction between participants of Investor CSDs where realignment takes place in Clearstream on a TEFRA D security matching the rule parameters the transaction will be pending, as both Business Instructions and T2S generated Settlement Instructions will have the “security blocked” (SBLO) pending status.

4.12.2 ESES

Current State – Process Controls

ESES has internal validation rules in place for the compatibility between account types (Account Nature) and securities characteristics (Security Category, Security Legal Form, Security Holding Mode). In this context, ESES provides an optional service to its participants in the context of the US Regulation TEFRA D. The background of this rule is that, for Eurobonds, Custodians must provide ESES with a certificate to prove that they have no US-resident underlying clients for this security. If they fail to send this certificate, ESES will block the securities under the Account Nature: 'Securities that have been blocked due to non-presentation of the certificate' (086).

Adapted State – Process Controls

In line with existing practice, ESES will define RT05 (ESE-18-NER), a positive rejection rule (Restriction Type 1), to reject settlement instructions on a 'Domestic dematerialised security except drawing' (MSA on securities: “Security Category”), which in this case refer to Eurobonds, on the Account
Nature 'Securities that have been blocked due to non-presentation of the certificate' (086) (MSA on account: “Account Nature”) where securities would have been blocked by ESES.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The service can be used by Investor CSDs: this entails that Investor CSDs willing to make use of the service need to open an omnibus account at ESES with Account Nature ‘086’, where ESES will block the securities for which it has not received the certificate requested by TEFRA D. Internally, Investor CSDs can either open a separate account for each participant, where the MSA of ESES can be replicated, or create a sub-position in the securities accounts of their participants, where to block (by means of an ad-hoc restriction rule) the securities included in the ‘086’ omnibus account at ESES.

**Impact on Investor CSD settlement flows**

Investor CSDs opting for this service must implement the rules (and potentially the MSAs depending on their implementation choices) of ESES. The detailed impacts on Investor CSDs’ settlement flows are described below:

- In case of a cross-CSD transaction between an ESES participant whose Business Instruction is matching the rule parameters and a participant of the Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.

- In other cross-CSD scenarios generating realignment movements at ESES (i.e. between Investor CSDs’ participants or a participant of ESES and a participant of an Investor CSD), if a realignment instruction matches the rule parameters, realignment instructions will not be generated while Business Instructions will be cancelled after acceptance and matching.

4.12.3 SIX-SIS

Note: Compared to the previous published version of the XMAP catalogue, the rules RT04 and RT05 related to US taxation rules are removed. The rule name RT04 will be used in the context of CA processing, described in the 4.1 Section of this document.

**Conclusion**

CSDs, as part of their commercial service offering, may provide optional services to their participants in order to facilitate the disclosure requirements imposed by non-European Regulations. In this context, controls are put in place to support intermediaries in the identification of end-investors.

Both Clearstream and ESES have defined restriction rules in the context of the TEFRA-D regulation in order to support their participants in complying with the underlying requirements.
When this optional service is used by Investor CSDs, they should consider whether to implement the rules and potentially the MSAs defined by the CSDs.
4.13 Non-Standardised Securities\textsuperscript{62}

\textit{Introduction}

In the context of T2S, non-standardised securities are all those securities that are compliant with the first three T2S eligibility criteria (i.e. ISIN, held by CSD, book-entry form), but are non-fungible from a settlement perspective. Certain “non-standardised securities” that comply with the first three criteria but are not fungible from a settlement perspective may still be entered in and processed by T2S under specific conditions\textsuperscript{63}. “Fungible” from a settlement perspective means that quantities/fractions of a certain security issue (designated by a specific ISIN) are interchangeable during the settlement process and that no additional security identifier relating to a specific balance or part of a balance is required to complete valid settlement.

The present document covers restriction rules put in place for non-standardised (non-fungible) securities but also for physical securities represented by individual certificates that are fungible, meaning financial instruments which are held in physical form but settled by book-entry in the CSD.

A great majority of financial instruments held in CSDs today are dematerialised and European markets will tend towards full dematerialisation or immobilisation of securities instruments in the medium term, fostered by the Regulatory Framework. Indeed, the CSD Regulation requires securities to be recorded in book-entry form in a CSD, at least from the moment they are traded on trading venues or posted as collateral\textsuperscript{64}, but does not impose one particular method for the initial book-entry recording, which may take the form of immobilisation or of immediate dematerialisation\textsuperscript{65}.

However, non-standardised securities, whether in immobilised or dematerialised form, may still exist by the launch of T2S and potentially processed on the platform.

Non-standardised securities require specific validations to be performed outside T2S to complete settlement. These processes are generally performed by Issuer CSDs and vary according to market practices.

4.13.1 ESES (Euroclear Belgium, Euroclear France)

\textit{Current State – Process Controls}

Securities settlement in the ESES CSDs is carried out in book-entry form for dematerialised and physical securities. The completion of the dematerialisation process is foreseen for end 2015 for Euroclear Belgium, but some physical securities will still be held in Euroclear France (deposits of representative certificates mainly), and Euroclear Netherlands. The number of physical securities held by ESES as issuer CSD is very limited (15 ISINs) and the volume of transactions involving these securities is low.

\textsuperscript{62} The scope of the business process also covers physical securities which are fungible from a settlement perspective
\textsuperscript{63} URD v5.03
\textsuperscript{64} Please refer to the Article 3 of the CSDR for the exact terms
\textsuperscript{65} See CSDR Article 2 for definition of “Dematerialised form” and “Immobilisation” of securities
ESES has internal validation rules in place to define the compatibility between account types (Account Nature) and securities characteristics (Security Category, Security Legal Form, Security Holding Mode). Some of these validations relate to physical securities.

**Adapted State – Process Controls**

Based on validation rules currently in place, ESES will define restriction rules to check the consistency between specific Account Natures (MSA) of securities account and specific Security Categories (MSA). The below rules relate to Non-standardised securities due to the category of the security.

RT05 (ESE-020-NSS), a positive rejection rule (Restriction Type 1), will be implemented in order to reject settlement instructions on a ‘physical security’, using one of the following Account Natures as delivering or receiving account (in T2S, each Account Nature will be represented by a different securities account):

- 'Foreign companies securities presented for exchange offer or odd-lot offer' (050)
- 'Shares of French nationalised companies that are presented for compensation' (059)

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

For the rule RT05 (ESE-020-NSS), no impact on the Investor CSD account configuration has been identified, as none of the Account Natures triggering the rejection are available to Investor CSDs.

**Impact on Investor CSD settlement flows**

The rule RT05 (ESE-020-NSS) does not need to be replicated by Investor CSDs. Indeed, none of the Account Natures triggering the rejection are available to Investor CSDs. Investor CSD settlement flows would never be impacted at instruction level as described below:

- For a cross-CSD transaction between an ESES participant whose Business Instruction is matching the rule parameters and a participant of the Investor CSD, the Business Instruction of the ESES participant will be rejected while the Business Instruction of the Investor CSD will remain unmatched. No realignment will be created for this transaction.
- For a cross-CSD transaction between Investor CSD(s) participants involving realignment at ESES (between omnibus accounts), the realignment instructions will not be impacted by the rule and the transaction will be able to settle.

**4.13.2 Interbolsa**

**Current State – Process Controls**

Most of the securities issues integrated in the centralised securities system managed by Interbolsa are dematerialised securities, but physical securities are accepted for deposit and immobilised in vaults administered by Interbolsa (safekeeping is performed by third-party entities). While these securities are fungible, additional steps are needed in case of deposit and withdrawals of these physical securities from
the vaults (CSD counter services for attending participants in deposit and withdrawal operations). Investor CSDs may hold these securities. The number of physical securities (excluding warrants and certificates represented by global certificates) held by Interbolsa as issuer CSD is limited to 36 ISINs and the volume of transactions involving these securities is low.

**Adapted State – Process Controls**

Interbolsa will continue to provide settlement services for physical securities after joining T2S. The following restriction rules are planned to be defined in this context:

- “BL02”, a blocking restriction (Case 3 Restriction Type), will be implemented to block physical securities in a specific position type in case of withdrawal from the vaults, until a participant has taken physical ownership of the security.
- “SR03”, a positive rejection restriction rule (Restriction Type 1). This rule will be used in conjunction with “BL02” to reject all settlement instructions on the previously defined position type, that only Interbolsa can credit/debit. The rule is triggered with the following parameters:
  - Party type of the instructing party, for CSD participants
  - Debited/Credited position: BL02

Once physical delivery has taken place, Interbolsa will debit the securities position previously blocked for withdrawal. No Market-Specific attribute (MSA) will be used in the context of these rules.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

The specific position type “BL02” will be created in Interbolsa to block physical securities in case of withdrawal from the vaults, until a participant has taken physical ownership of the security. It is only in the hypothetical case where a participant of the Investor CSD would like to withdraw physical securities issued in Interbolsa that these securities should be blocked in the Investor CSD’s participant account until the operation is completed.

**Impact on Investor CSD settlement flows**

The rule “BL02” (used in conjunction with the rejection rule “SR03”) will not impact trade-related cross-CSD transactions since only the securities in the available position (“AWAS” Position Type) will be used by T2S generated Realignment Settlement Instructions. It is only in the case where the Investor CSD would try to debit directly the blocked position from the Omnibus account that the rejection rule (SR03) will be triggered, but it is questionable whether such scenario would be relevant from a business perspective.

**Conclusion**

European markets tend towards full dematerialisation or immobilisation of securities instruments in the medium term, but a small fraction of physical securities are still traded among participants.
Such physical instruments, represented by individual certificates are immobilised in the Issuer CSD and subsequently traded by book-entry, making them fungible from a settlement perspective.

Based on the CSDs in scope of this analysis, the related restriction rules do not need to be implemented by Investor CSDs.

In the case of Interbolsa, the controls and restriction rules that will be put in place relate to the physical handling of such securities, i.e. blocking of securities positions in case of withdrawal from the vaults. Impacts on Investor CSDs settlement flows can be disregarded as a blocking on the omnibus account would only take place in case of withdrawal by one of the Investor CSD’s participant.

In the case of ESES, validation rules ensure that physical securities cannot be held on specific accounts. This control does not directly impact Investor CSDs instructions since they will not hold this account nature.
4.14 Operational Procedures

Introduction

Operational Procedures can be defined as operational processes and procedures put in place by CSDs to ensure smooth operation of their system, in particular in order to deal with contingency situations and take appropriate actions. In the context of the present analysis, this will translate into restriction rules defined by CSDs inter alia to bypass all other restriction rules which they have setup.

4.14.1 Clearstream Banking Frankfurt (CBF)

Current State – Process Controls

Prior to T2S, Clearstream’s operations run on a proprietary platform and IT and operational teams have the adequate controls and access rights to take corrective actions in contingency situations. “Storno” settlement instructions are correction entries triggered by CBF for this purpose.

Adapted State – Process Controls

The T2S platform will be managed by the Eurosystem and CSDs will have control and access to the system within a predefined data scope. In this context, Clearstream has defined restriction rules wherein controls in the form of additional validations in T2S are required to manage adequately settlement flows of its participants. However, in contingency situations, Clearstream may need to bypass these restriction rules to take e.g. corrective actions. For this purpose, the following restriction rules have been defined to bypass Rejection and CSD Validation Hold restrictions rules:

- The rule “Storno – Reject”, a negative rejection rule, will ensure that all settlement instructions sent to T2S with the specific Storno BIC as Instructing Party (used by Clearstream) will not trigger any rejection.

- The rule “Storno – CVAL”, a negative CSD Validation Hold rule, will ensure that all settlement instructions sent to T2S with the specific Storno BIC as Instructing Party (used by Clearstream) will not be put on CSD Validation Hold.

No Market-Specific Attributes (MSA) will be defined for the purpose of these rules.

In addition, CBF has also defined restriction rules for certain business processes (e.g. issuance or vaults related activities) which are exclusively validated on Clearstream’s platform. These restrictions rules configured to exclude those instructions from other market specific validations; Rejection and CSD Validation Hold restriction rules:

- The rule “ICP only business processes - Reject”, a negative rejection rule, will ensure that all settlement instructions sent to T2S with specific ISO transaction codes will not trigger any rejection.

- The rule “ICP only business processes - CVAL”, a negative CSD Validation Hold rule, will ensure that all settlement instructions sent to T2S with specific ISO transaction codes will not be put on CSD Validation Hold.
No Market-Specific Attributes (MSA) will be defined for the purpose of these rules.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

As the rules “Storno - Reject” and “Storno – CVAL” do not rely on any account configuration parameter, no impact on the Investor CSD account configuration has been identified.

As the rules “ICP only business processes - Reject” and “ICP only business processes - CVAL”, no impact on the Investor CSD account configuration has been identified.

**Impact on Investor CSD settlement flows**

The rules “Storno - Reject” and “Storno – CVAL” may need to be implemented by Investor CSDs depending on their operational needs. They will be used by Clearstream to send settlement instructions which bypass other restriction rules and apply corrective actions in case of contingency scenarios, essentially in a domestic context. It must be stressed that using these rules in cross-CSD transactions (using the “STORNO” BIC as Instructing Party) will not allow CSDs to bypass restriction rules, since T2S generated Realignment Instructions will mention the account owner as Instructing Party.

Regardless of the usage of these rules, correction of securities positions on omnibus accounts of Investor CSDs could lead to de-synchronisation between the mirror and omnibus accounts. In this specific case, Investor CSDs would have to apply the correction in their books.

The rules “ICP only business processes - Reject” and “ICP only business processes - CVAL” will be used in specific cases by CBF in order to bypass other market-specific validations. Therefore, there would not be any impact of these rules on cross-CSD transactions.

4.14.2 **ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)**

**Current State – Process Controls**

Prior to T2S, ESES’ operations run on a proprietary platform and IT and operational teams have the adequate controls and access rights to take corrective actions in contingency situations.

**Adapted State – Process Controls**

The T2S platform will be managed by the Eurosystem and CSDs will have control and access to the system within a predefined data scope. In this context, ESES has defined restriction rules wherein controls in the form of additional validations in T2S are required to manage adequately settlement flows of its participants. However, in contingency situations, ESES’ Operations Team may need to bypass these restriction rules to take e.g. corrective actions. For this purpose, the following restriction rules have been defined:

- The rule “ESE-050-OPE” (RT19), a negative rejection rule, will ensure that all settlement instructions sent to T2S with ESES as Instructing Party and with the ISO transaction code “TURN” will not trigger any rejection
• The rule “ESE-051-OPE” (RT20), a negative “CSD Validation Hold” rule, will ensure that all settlement instructions sent to T2S with ESES as Instructing Party and with the ISO transaction code “TURN” will not be put on “CSD Validation Hold”

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

The rules “ESE-050-OPE” (RT19) and “ESE-051-OPE” (RT20) do not rely on any account configuration parameter. No impact is foreseen on Investor CSDs’ account configuration.

Impact on Investor CSD settlement flows

The rules “ESE-050-OPE” (RT19) and “ESE-051-OPE” (RT20) may need to be implemented by Investor CSDs depending on their operational needs. They will be used by ESES’ Operations Team to send settlement instructions which bypass other restriction rules and apply corrective actions in case of contingency scenarios. Regardless of the usage of these rules, correction of securities positions on omnibus accounts of Investor CSDs could lead to de-synchronisation between the mirror and omnibus accounts. In this specific case, Investor CSDs would have to apply the correction in their books. It must be stressed that using these rules in cross-CSD transactions (using the “TURN” ISO transaction code) will not allow CSDs to bypass restriction rules, since T2S generated Realignment Instructions will mention the “REAL” ISO transaction code.

4.14.3 Monte Titoli

Monte Titoli had originally planned a restriction rule but confirmed subsequently that the rule will not be needed. This will be reflected in the next release of the CSG’s “Reference Data Extension”.

Conclusion

Operational processes and procedures will be put in place by CSDs in order to deal with contingency situations and take corrective actions.

In this context, Clearstream and ESES have defined special restriction rules that will allow them to by-pass other restriction rules they have put in place. Such operational procedures could be considered by all CSDs having defined restriction rules in T2S, to manage potential contingency situations and be able to by-pass specific validations. The restriction rules analysed here could serve as a basis for harmonised guidelines across CSDs.

In contingency scenarios, and regardless of the usage of restriction rules, corrections may be applied to the securities positions in omnibus account of Investor CSDs, which would require them to apply the same correction in their books. However due to the exceptional nature of the process, impact on Investor CSDs’ settlement flows is expected to be limited.
4.15 Static Data Configuration

Introduction

CSDs perform specific static data configuration in their internal systems for various reasons such as blocking settlement prior to the deletion of an account, a party or a security, or for setting up specific configurations on accounts according to their domestic account setup specificities.

In T2S, CSDs will setup restriction rules to ensure compliance with their internal systems account setup and prior to the deletion of some static data objects (i.e. parties, securities, accounts).

The description of current services and controls, restrictions rules, and impact analysis by market is detailed in the next sections.

4.15.1 Clearstream Banking Frankfurt (CBF)

Current State – Process Controls

CBF perform certain static data operations prior to the deletion of parties, securities or securities accounts, as blocking settlement on the objects to be deleted. CBF also has some restrictions for custody reasons and settlement against payment is not allowed on some securities accounts types except for CBF. Additionally, some specific sub-positions are not allowed in some account types.

Adapted State – Process Controls

CBF will setup a restriction rule in order to reject (restriction case 1):

- Against payment instructions on some account types except when sent by CBF. An MSA is used to define if the securities account is enabled for DVP settlement (Teilnahme DVP).
- Instruction including position types not compatible with the account. An MSA is used to define if an account can in general hold position types other than AWAS (Position-Type).

CBF will create restriction rules in order to block (restriction case 2) parties, securities or securities accounts prior to its deletion allowing only CBF to instruct on the blocked static data object.

Rejection (Restriction case 1)

“Party and account configuration- Reject” – rejects settlement instructions on securities accounts not allowing DVP instructions or not supporting certain sub-position types.

The parameters configured in the rules are listed below:

- Payment type code:
  - Against payment
- “Teilnahme DVP” (Market-specific attribute on securities accounts)
- “Position-Type” (Market-specific attribute on securities accounts)
- Debited position
• Credited position

Blocking (Restriction case 2)

“Security Blocking” – blocks settlement of a specific ISIN except for instructions sent by CBF or any of the authorised actors (STORNO BIC).

“Party Blocking” – blocks settlement of instructions by a given party.

“Account Blocking” – blocks settlement on specific securities account except for instructions sent by CBF or any of the authorised actors (STORNO BIC).

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

No impact of the restriction rules of CBF related to static data configuration on the investor CSD account configuration has been identified as they do not rely on account configuration parameters.

Impact on Investor CSD settlement flows

Restriction rules defined by CBF in the context of static data configuration should not be replicated by Investor CSDs.

The restriction rule “Party and account configuration – Reject” will not have any impact on realignment instructions, since these are free of payment and do not debit or credit any position type, so the restriction rule would not be matched at the level of realignment instructions.

In case of a cross-CSD scenario between a participant of CBF and a participant of an Investor CSD, if the participant account included in the Business Instruction sent by the CBF participant is not compatible with the position types referenced in the instruction or is not enabled for DVP settlement, the Business Instruction of the CBF participant would be rejected and the Business Instruction of the Investor CSD level would remain unmatched.

Concretely, these restriction rules would have very little impacts, as they would be applied prior to the deletion of the static data object. The volume of pending instructions in T2S on the objects to be deleted should be minimal.

Restriction rules “Security Blocking”, “Party Blocking” and “Account Blocking”, in the context of static data configuration, have little potential impacts on Investor CSDs’ settlement flows, as they would be applied prior to the deletion of the static data object. The volume of pending instructions in T2S on the objects to be deleted should be minimal. Below is a description of the theoretical impacts on cross-border transaction involving the blocked party, account or security:

• In case of a cross-CSD transaction on a blocked static data object (account, party, or security) between a CBF participant and a participant of an Investor CSD, the transaction would not be eligible for settlement while the blocking applies.

• In case of a cross-CSD transaction between Investor CSDs generating realignment movements at CBF:
For “Party Blocking”, “Account Blocking”, in the specific case where the account is owned by an Investor CSD or the party being blocked is one of the Investor CSDs, the transaction would not be eligible for settlement while the restriction applies.

For “Security Blocking”, any the transaction on the blocked ISIN would not be eligible for settlement while the restriction applies.

4.15.2 ESES (Euroclear Belgium, Euroclear France, Euroclear Netherlands)

Current State – Process Controls

In the legacy platform of ESES, segregation of securities positions is based on securities sub-positions within securities accounts. Securities sub-positions are classified by ESES according to the business purpose or Account Nature of the sub-position (Nature de compte). ESES has in place some controls aimed at ensuring the compatibility of accounts (Account Nature) with certain securities which are classified according to the holding mode, category or legal form.

Adapted State – Process Controls

In T2S, ESES will adapt its segregation model in the T2S static data from a model based on securities sub-positions to a model based on segregation at securities account level. A market specific attribute on securities account is used to specify the Account Nature. The below Account Natures are assigned by ESES to accounts owned by Investor CSDs for their activity:

- Ordinary securities (000)
- Administered registered securities (001) if needed for handling registered shares

ESES will set up in the T2S static data restriction rules to ensure the compatibility of the Account Nature (MSA on securities account) with the security (MSA on securities). Securities are classified by ESES in the T2S static data through market specific attributes on securities according to different criteria as the security category, security holding mode and the legal form of the security. Some of these validations do not refer to a specific business process, therefore the related restriction rules have been assigned to static data configuration.

Furthermore, ESES will only allow CSD participants to earmark securities for auto-collateralisation through the position type “EXXX”, earmarking for auto-collateralisation for all currencies, rather than “EEUR”, which is specific to Euro.

Rejection (Restriction case 1)

ESE-013-SDC –RT04 – rejects settlement instructions debiting or crediting the “EEUR” position type.

The rationale is that ESES only allows earmarking for auto-collateralisation through the “EXXX” position type. The “EEUR” and “EXXX” position types will be created by the T2S Operator.

Note: This restriction rule is currently considered in the static data configuration business process as there is no functional restriction to the T2S functionality, the only settlement currency in T2S for the first
release being Euro. This rule would have to be reassessed and reallocated when other currencies become eligible.

ESE-028-SDC - RT06 - rejects settlement instructions on dematerialised securities or not admitted in ESES on accounts nature 'Unknown owner securities'.

The parameters configured in the rules are listed below:
- Account nature (MSA on securities accounts):
  - 'Unknown owner securities' (094)
- Holding mode (MSA on securities):
  - 'Dematerialised securities or not admitted in ESES' (9)

ESE-030-SDC – RT07 – rejects settlement instructions on securities with a legal form not supported on broker trading accounts.

The parameters configured in the rules are listed below:
- Account nature (MSA on securities accounts):
  - 'Broker trading accounts' (010)
- Legal form (MSA on securities):
  - 'Bearer or registered' (0)
  - 'Bearer' (3)
  - 'Securities deposited in EBE or ENL (domestic or foreign)' (7)

Note: The instructions are not rejected if the instructing party is a CSD. This allows “Ex-nominatives” securities to be moved from Account Nature 010. A control is performed in ESES to avoid wrong legal form to be processed.

**Cross-CSD Impact Analysis**

**Impact on Investor CSD account configuration**

No impact of the restriction rules of ESES related to static data configuration on the investor CSD account configuration has been identified:
- The rule ESE-013-SDC - RT04 relies on account configuration parameters which are internal to ESES
- For the rules ESE-028-SDC - RT06 and ESE-030-SDC - RT07, none of the Account Natures triggering the rejection are available to Investor CSDs.

**Impact on Investor CSD settlement flows**

The below Account Natures are assigned by ESES to accounts owned by Investor CSDs for their activity:
- Ordinary securities (000)
- Administered registered securities (001) if needed for handling registered securities
In case of a cross-CSD scenario involving realignments at ESES (between two investor CSDs or ESES and an Investor CSD), realignment instructions on omnibus accounts with Account Nature would not be affected by the restriction rules by ESES related to Static data configuration, as the restriction rules do not restrict Account Natures available to Investor CSD.

In case of a cross-CSD scenario between a participant of ESES and a participant of an Investor CSD, the Business Instruction including a security not compatible with the Account Nature would be rejected and the counterpart Business Instruction at the Investor CSD level would remain unmatched.

4.15.3 Interbolsa

**Current State – Process Controls**

Interbolsa uses “situations”, which are position types to segregate and restrict securities sub-positions from settlement.

**Adapted State – Process Controls**

For generic purposes, Interbolsa will define in the T2S Static Data a Case 3 Restriction Type for blocking of securities positions (“BL09”) for purposes other than judicial blocking and settlement management.

For settlement management, Interbolsa will define a Case 3 Restriction Type for earmarking (“EA40”) and reservation (“RE35”) of securities sub-positions.

**Blocking (Case 3 Restriction Type)**

“BL09”: blocks securities in a dedicated sub-position. This restriction type is currently not planned for a specific process.

“RE35”: reserves securities in a dedicated sub-position type for settlement management.

“EA40”: earmarks securities in a dedicated sub-position type for settlement management.

*Note: Interbolsa informed that the restriction type “BL11” will not be needed. This will be reflected in the next version of the CSG’s “Reference Data Extension”.*

**Rejection (Case 3 Restriction Type)**

“SR03”: rejects settlement instructions including any of the previously defined position types (i.e. “BL09”, “RE35”, “EA40”), that only Interbolsa can credit/debit.

The parameters configured in the rules are listed below:

- Party type of the instructing party:
  - CSD participant

- Debited/Credited position:
  - BL09, RE35, EA40

**Cross-CSD Impact Analysis**
Impact on Investor CSD account configuration

The position types “BL09”, “RE35” and “EA40” will only apply to Investor CSDs’ omnibus accounts on their request. In such case, Investor CSDs need to implement segregation of securities positions in their books.

Impact on Investor CSD settlement flows

The position types “BL09”, “RE35”, and “EA40”, and the rejection rule “SR03”, restricting access to these sub-positions would only apply to Investor CSDs’ omnibus accounts on their request. It is difficult to ascertain the impact on Investor CSDs’ settlement flows without knowing in which specific scenarios the restrictions will be used.

4.15.4 Monte Titoli

Current State – Process Controls

Monte Titoli currently allows its clients to block their own positions within their securities accounts.

Adapted State – Process Controls

Monte Titoli will allow its participants to create securities sub-positions in T2S. The type of sub-positions available to Monte Titoli clients will be extended in T2S to other types besides blocking. Monte Titoli will define in the T2S a restriction type case 3 for blocking (“BLK1”), earmarking (“EAR1”), and reservation (“RES1”) of securities sub-positions by CSD participants. This service will be available to Investor CSDs upon request.

Blocking (Restriction case 3)

“BLK1”: blocks securities in a dedicated sub-position. This restriction type is currently not planned for a specific process.

Earmarking (Restriction case 3)

“EAR1”: earmarks securities in a dedicated sub-position. This restriction type is currently not planned for a specific process.

Reservation (Restriction case 3)

“RES1”: reserves securities in a dedicated sub-position. This restriction type is currently not planned for a specific process.

Cross-CSD Impact Analysis

Impact on Investor CSD account configuration

Upon request of an Investor CSD, the position types defined by Monte Titoli “BLK1”, “EAR1” and “RES1” may apply to the Investor CSD’s omnibus account held in Monte Titoli, and subsequently require segregation of securities positions in the Investor CSD participants’ accounts.

Impact on Investor CSD settlement flows
Upon request of an Investor CSD, the position types “BLK1”, “EAR1” and “RES1” could be applied to the Investor CSD’s omnibus account held in Monte Titoli. Investor CSDs opting for this segregation have to implement adequate segregation in their books (by position types or separate accounts) in order to ensure consistency of available securities position (AWAS) between omnibus, participants, and mirror accounts.

**Conclusion**

CSDs will put in place restriction rules related to static data configuration to support their operational model, or, in the specific case of Monte Titoli, to provide further flexibility to participants in the choice of segregation of securities positions.

Clearstream has defined restriction rules in order to block the activity of a client, an account or a security prior to its deletion, and to adapt the account setup in T2S according to their current account configuration. Impact on Investor CSDs can be considered negligible.

ESES has defined restriction rules to ensure the compatibility between account types (Account Nature) and securities characteristics (Security Legal Form, Security Holding Mode). Some of these validations do not refer to a specific business process, hence their classification as static data validations. Another restriction rule defined by ESES controls the position type used for earmarking for auto-collateralisation. In all cases, no impact on Investor CSDs has been identified and the restriction rules shall not be replicated.

Interbolsa and Monte Titoli have created rules and restriction types based on the creation of securities sub-positions within securities accounts. In the case where Investor CSDs request the segregation of securities positions in omnibus accounts, they may need to implement segregation in their books to ensure consistency of available securities position between omnibus, participants, and mirror accounts.