

General Information (Origin of Request)		
<input type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Euroclear, Iberclear	Institute: CSD	Date raised: 28/06/2016
Request title: Standing rebalancing of securities positions		Request ref. no: T2S 0623 SYS
Request type: Common	Urgency: Medium	
1. Legal/business importance parameter: Low	2. Market implementation efforts parameter: Low	
3. Operational/Technical risk parameter: Low	4. Financial impact parameter: High	
Requestor Category: CSD	Status: Preliminary assessed	

Reason for change and expected benefits/business motivation:

There are scenarios where CSDs need to operate some re-balancing between securities positions at the end of day or start of day, to comply with regulatory or service requirements. Such rebalancing must be performed based on the last end of day balance of the CSD participant.

Such CSD services that require EOD rebalancing include e.g.

- In Clearstream, a sweep is required in the context of TEFRA D processing or for automated mark-up / mark-down services in the context of issuance processing.
- In Euroclear, ESES CSDs need to re-balance securities positions from 'earmarked for auto-collateralisation' to 'non-earmarked for auto-collateralisation'. Reverse movements can also be generated at start of day, if required by clients. This stems from local regulations which forbid custodians to keep such earmarked positions overnight when securities belong to third parties.
- In Iberclear, the need for an account sweep is driven by the Spanish market reform which requires that all holdings on individual accounts belonging to the financial intermediary need to be swiped to the own account of that financial intermediary at EOD.
- In VP SECURITIES, account sweeps are required in the interim solution that will apply from migration 12.09.16 until the final solution will be in place (2018). Namely, in the interim solution all holdings on customer accounts are moved into an omnibus account held by VP before end of day. Additionally, it is expected that even with the final solution a demand for account sweeps will arise, i.e. that for some customer accounts it will be requested from account owners to move all holdings from a certain account into another account end of day

In the current T2S configuration, in order to continue to offer these services, CSDs are required to make specific developments in order to:

- 'freeze' the balances of related participants earlier than current EOD timing and stop their activity, which means a reduction in the FOP operational day window for related clients
- Generate rebalancings that must be settled before end of day closure, with the risk of non-execution in case of communication issues

The CR implementation will remove the need for CSDs to make such developments, keep current end of day timing benefits unchanged for clients.

Description of requested change:

T2S should provide the means to CSDs that allow them to generate, on a daily basis 'standing', 'already matched FOP transfers' among securities accounts belonging to their System Entity. These transfers will consist in transferring the whole or part of position of the SAC at the end of day or start of day.

The CSDs would provide the following parameters (via U2A mode only)

- Party and counterparty BICs
- Securities account of the party (optionally all securities account, if the transfer is among sub-balance types from the same SAC)
- Securities account of the counterparty (optionally all securities account, if the transfer is among sub-balance types from the same SAC)

- Securities sub-balance type of the party (e.g. AWAS, EXXX, EEUR)
- Securities sub-balance type of the counterparty
- Dates of effect and closure
- Quantity: whole balance (only possible value)
- Event generator (End of Day or Start of Day)

At the end of day closure or start of day for CSD participants, based on the static data parameter set-up by the CSDs, T2S creates related settlement instructions for value same day and transfers the eligible positions from the debited securities accounts or restrictions types to the SAC/RT to be credited.

End of day transfers will settle during RTS before the final closure of the operational day;.

Start of Day transfers will settle before the start of the 'standard' settlement activity Settlement should only occur during NTS period

For both kinds of transfers, related bookings will be reported in the EOD reports of the current business day.

A new ISO Transaction Code (REBL 'rebalancing') will be used to identify such FOP instructions. This new code will be used in the following messages:

- semt.017 – Securities Transaction Posting Report
- semt.018 – Securities Transaction Pending Report
- semt.026 – Securities Settlement Transaction Query
- semt.027 – Securities Settlement Transaction Query Response
- sese.024 – Securities Settlement Transaction Status Advice
- sese.025 – Securities Settlement Transaction Confirmation
- sese.032 – Securities Settlement Transaction Generation Notification

An ISO change request will be needed for the registered messages ([semt.017](#), [semt.018](#), [sese.024](#), [sese.025](#), [sese.032](#)). The list of messages to be modified may be extended following the discussion of the CR in the relevant ISO bodies.

NB: If a Rebalancing FOP is subject to an Intraday Restriction/CoSD/other, the sese.024 generated will inform the reason why the transaction is not settled. Additionally the FOP will not be subject to further recycling and will consequently be automatically cancelled by the system. The cancellation will be reported via a sese.024.

Submitted annexes / related documents:

Proposed wording for the Change Request:

High level description of Impact:

Outcome/Decisions:

* CRG meeting on 6/7 July 2016: The CRG decided to put the Change Request on hold.

* CRG telco on 22 September 2016: As the open questions on the Change Request need to be answered, the CRG agreed to keep the Change Request on hold.

* CRG meeting on 26 October 2016: The CRG agreed that the Change Request can be considered mature from a content point of view and therefore, it is ready for its preliminary assessment.

* CRG on 10 November 2016: the CRG recommended the launch of the preliminary assessment of the Change Request in a written procedure from 4 to 10 November 2016.

* OMG on 02 December 2016: During a written procedure from 11 November 2016 to 02 December 2016, the Operations Managers Group did not identify any blocking operational impact of the Change Request

* CRG meeting on 12/13 December 2016: The CRG took note of the T2S functionalities/modules impacted by the Change Request following the 4CB preliminary assessment. The CRG also took note that VP Securities decided to step back as CR initiator as they had already built the functionality and regarded it as very high impact to T2S.

* CRG meeting on 04 July 2017: The CRG agreed to put the Change Request on hold.

* CRG meeting on 28 August 2017: The CRG agreed to the updated version of the Change Request. It remains on hold.

* CRG teleconference on 30 May 2018: The CRG agreed to the updated version of the Change Request. It remains on hold.

Preliminary assessment:

- **Impacted functionality/module:** U2A, A2A, LCMM, SETT, LTSI, SDMG
- **Following issues have to be clarified before the start of detailed assessment:**
 - It should be clarified on the CR whether this new functionality -setting of the SD configuration for the FOP SI at EoD/SoD - will be approached through A2A and/or U2A.
 - If the FOP transfer can't be settled (for example due to LACK), should the instruction remain pending?
 - If so, should it be recycled for the next business day?
 - Should it be then created but cancelled? Or not created at all?
 - How should the CSDs be informed about that fact? Should we generate message(s) for this scenario?
 - In the current design, we could only inform about a sese.032 and a later pending status, however with cancellation it might not be interesting to get any message at all (and we do not have a sese.032 with status cancelled already).
 - What should be the T2S behaviour if a Restriction Type case 1, CoSD Rule or normal validation (incorrect Static Data Set up) makes the creation of the FOP invalid?
 - These FoP would be a new kind of T2SgSI, what should they bear as ISO transaction code?
 - Would you agree to set up a new ISO transaction code for this type of instructions? It would be cleaner although it would have more impact on T2S.
 - Please also note that with the CR, the start of the EoD is being delayed, as there should be a timeslot after the last cut off to settle this kind of instructions.
 - What should be the behaviour of T2S in case of a settlement failure of such a FOP?
 - Automatic cancel?
 - With or without reporting?
 - Or avoid any settlement failure?
 - In this CR, the settlement failure of these FOP is not envisaged, should T2S take into account Intraday restrictions, CoSD rules, RT case 1 before settling them?

No further functional, technical and risk related issues have been identified beyond the elements already described in the Change Request.