T2S CHANGE REQUEST FORM

General Information (Origin of Request)
- User Requirements (URD) or GUI Business Functionality Document (BFD)
- Other User Functional or Technical Documentation (SYS)

Request raised by: Clearstream  
Institute: CSD  
Date raised: 02/09/2020

Request title: Enable PFOD for external CSD settlement  
Request No.: T2S 0742 SYS

Request type: Common  
Classification: Scope Enhancement  
Urgency: Fast track requested

1. Legal/business importance parameter: High
2. Market implementation efforts parameter: Low
3. Operational/Technical risk parameter: Low
4. Financial impact parameter: (provided by 4CB)

Requestor Category: CSD  
Status: Registered

Reason for change and expected benefits/business motivation:

Payment Free of Delivery (PFOD) instructions are broadly used in T2S for the settlement of market claims relating to income events such as dividends or interest payments. They are supported in intra-CSD as well as in cross-CSD settlement flows.

However, PFODs are not supported in external-CSD settlement flows. In such a scenario, instructions are accepted and matched, but then cancelled with error code SPRC001 “A settlement instruction cannot be submitted to a settlement attempt when its T2S Dedicated Cash account is not valid or is unavailable for settlement.” [INC000000263753]

It is therefore currently not possible to process PFOD market claims in T2S when one of the counterparties subject to the market claim is located in an external CSD. This is in contradiction to the CASG standards which require use of PFOD, and this can become an issue in the custody harmonization activities that are envisaged as part of the ECMS initiative.

This gap should be closed by enabling PFOD settlement in external-CSD scenarios.

Description of requested change:

T2S should enable settlement of PFODs for external CSD flows:
- PFODs for external CSD settlement are accepted by T2S, and subsequently matched according to the standard matching logic for external CSD. This logic exists today.
- For PFODs, no realignments are generated. This logic exists already today.
- The DCA mentioned in the external CSD leg is validated as follows:
  - In case the DCA is mentioned in the external CSD leg, then T2S checks whether this DCA is associated to the Inter-CSD account corresponding to the External CSD (if the external CSD is Issuer CSD for the affected ISIN).
  - In case the DCA is not mentioned in the external CSD leg, then T2S checks whether a default DCA is associated to the Inter-CSD account corresponding to the External CSD (if the external CSD is Issuer CSD for the affected ISIN) and uses this DCA for cash settlement.
  - The validation related to SPRC001 is adjusted accordingly, so that the current validation SPRC001 does not apply to PFOD, but only the adjusted one mentioned above.
- PFODs for external CSD settlement are settled according to the standard settlement logic, regarding eligibility and provision checks.

It should be noted that the change is only dealing with External CSD which are Issuer CSD of the affected security.

---

1 Parameters was set to “HIGH” as the change enables CASG compliant handling of market claims in external CSD scenarios, thus supporting harmonization.
2 Parameter was set to “LOW” as the change has low implementation effort on T2S Actor side.
3 Parameter was set to “LOW” as the change does not affect any SLA.
Submitted annexes / related documents:

Outcome/Decisions:
* CRG on 17 September 2020: CRG members agreed that the requirements of CR-742 were stable and complete and recommended the CR for authorisation by the T2S Steering Level following a fast track procedure.

Documentation to be updated:

UDFD, Section 1.6.1.10.3 Realignment process, page 474:

Settlement of the cash side for external-CSD settlements
In case of external-CSD settlements, the cash side is settled using:
- When it is mentioned, the T2S dedicated cash account referred in the incoming business Settlement Instructions. In such case the process checks if this cash account is associated in the static data
  - to the impacted securities account identified above, or,
  - in case of PFODS, to the Inter-CSD account associated to the External CSD, if the External CSD is configured as issuer CSD for the affected security.
  Otherwise the business Settlement Instruction is rejected;
- When the T2S dedicated cash account is not mentioned in the incoming business Settlement Instruction: the default cash account set in the static data
  - for the impacted securities account identified above, or,
  - in case of PFODs, to the Inter-CSD account associated to the External CSD, if the External CSD is configured as issuer CSD for the affected security.

The cash is settled with the settlement of the incoming business instructions.

Preliminary assessment:

Detailed assessment: