



EUROPEAN CENTRAL BANK

EUROSYSTEM

| T2S CHANGE REQUEST FORM | | |
|---|---|----------------------------------|
| General Information (Origin of Request) | | |
| <input type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS) | | |
| Request raised by: Clearstream | Institute: CSD | Date raised: 10/03/2021 |
| Request title: T2S should apply a 20-day transformation period for instructions subject to COSD | | Request No.: T2S 0757 SYS |
| Request type: Common | Classification: Maintenance | Urgency: Normal |
| 1. Legal/business importance parameter: High ¹ | 2. Market implementation efforts parameter: Low ² | |
| 3. Operational/Technical risk parameter: Low ³ | 4. Financial impact parameter: Medium | |
| Requestor Category: CSD | Status: Authorised by the T2S Steering Level | |

Reason for change and expected benefits/business motivation:

With T2S Change Request T2S-0515-URD, validation rules on T2S were adjusted so that T2S still accepts instructions in matured securities during a 20-day transformation period. In this way, it was ensured that T2S complies with the Corporate Action Standards for Transformations which foresee a 20-day detection period for transformations.

However, the related business rules (MVIC311, MVIC313) were updated only for Settlement Instructions while the corresponding business rules for Settlement Restrictions (MVIC312, MVIC314) were left unchanged.

| Short Name of BR | Description | Incoming Message |
|------------------|--|------------------|
| MVIC311 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Instruction, or the Settlement Instruction is a cross-CSD sent as already matched to T2S, the Intended Settlement Date of a Settlement Instruction must be earlier than the Maturity Date of the Security plus the transformation detection period. | sese.023 |
| MVIC312 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Restriction, the Intended Settlement Date of a Settlement Restriction on Securities must be earlier than the Maturity Date of the Security. | semt.013 |
| MVIC313 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Instruction, or the Settlement Instruction is a cross-CSD sent as already matched to T2S, the Current Business Date must be earlier than the Maturity Date of the ISIN code plus the transformation detection period. | sese.023 |
| MVIC314 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Restriction on Securities, the Current Business Date must be earlier than the Maturity Date of the ISIN code. | semt.013 |

This is resulting in processing problems when performing transformations for settlement instructions that are subject to COSD logic, as T2S cancels such instructions before a transformation can be applied:

- The instructions are accepted in T2S during the transformation period according to MVIC311/MVIC313.
- Once the instructions are matched and ISD is reached, then T2S invokes the COSD process, and tries to block the position into the COSP position type via a Settlement Restriction.
- However, during the transformation period where the ISIN is already matured, the generation of the

¹ Parameters was set to "HIGH" as the change is needed to comply with Corporate Action Standards for Transformations.

² Parameter was set to "LOW" as the change does not imply changes to T2S Actors except for that they are now enabled to comply with the standards also for instructions subject to COSD.

³ Parameter was set to "LOW" as the change does not affect any SLA.

Settlement Restrictions fails due to MVIC312/MVIC314.

- Then T2S cancels the leg subject to COSD according to business rule SXAA034 "A *business settlement instruction is cancelled when the validation of a CoSD Blocking Restriction has failed*".
- Then T2S also cancels the counterleg, according to MMCS007 "*Matched Settlement Instructions are cancelled when the counterpart instruction has been cancelled during the revalidation process*".

As a result, the Settlement Instructions subject to COSD are cancelled by T2S during the transformation period, and thus it is not possible to apply transformations according to the T2S Corporate Action Standards for Transformations on them.

T2S should be adjusted to apply a transformation period logic also to settlement instructions subject to COSD.

Description of requested change:

Business rules MVIC312 and MVIC314 for Settlement Restrictions should be adjusted in line with the adjustments already applied for Settlement Instructions in the context of CR-515:

| Short Name of BR | Description | Incoming Message |
|------------------|--|------------------|
| MVIC312 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Restriction, the Intended Settlement Date of a Settlement Restriction on Securities <i>must be earlier than the Maturity Date of the Security plus the transformation period.</i> | semt.013 |
| MVIC314 | When the Instructing Party is not the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN Code specified in a Settlement Restriction on Securities, the Current Business Date <i>must be earlier than the Maturity Date of the ISIN code plus the transformation period.</i> | semt.013 |

Additionally, a new business rule should be implemented to prevent settlement of settlement restrictions during the transformation period, unless they were instructed by CSDs (current business rules SPST0030 and SPST0031 for Settlement Instructions can be taken as a blueprint). The rule shall apply on ISD, or on current BD if ISD is in the past:

| Short Name of BR | Description | Incoming Message | Error Text |
|------------------|---|------------------|--|
| SPSTnnnn | When the Maturity Date of the Security involved in a restriction is passed, the Instructing Party of the restriction or of the underlying instruction – in case the restriction is COSD related- must be a CSD. | semt.013 | Settlement Restriction is not settled because the Maturity Date of the Security involved is passed, and the restriction or underlying instruction (if the restriction is COSD related) is not instructed by a CSD. |

With those adjustments, T2S will not cancel Settlement Instructions subject to COSD during the transformation period. Instead, the instructions will be kept pending in the system, so that the CSDs can apply the transformation process according to the Corporate Action Standards.

The same logic is applied to Settlement Restrictions, independent from whether they are related to COSD or not. They would be accepted by T2S, but then blocked from settlement, unless the Settlement Restriction or the underlying Settlement Instruction (in case of COSD) was instructed by a CSD.

Submitted annexes / related documents:

Outcome/Decisions:

- *CRG on 24 March 2021: the CRG agreed to launch the preliminary assessment of CR-757
- * CRG on 07 July 2021: the CRG agreed to recommend CR-757 for authorization by the T2S Steering Level
- * AMI-SeCo on 15 July 2021: the AMI-SeCo agreed with the CRG recommendation of CR-757 for T2S Steering Level authorisation
- *CSG on 15 July 2021: the CSG agreed to authorise CR-757
- *NECSG on 15 July 2021: the NECSG agreed to authorise CR-757

*MIB on 11 August 2021: the MIB agreed to authorise CR-757

Documentation to be updated:

Preliminary assessment:

- **Impact: Medium**
- **Impacted modules: LCMM, SETT**
- **Impact on other Eurosystem Services or Projects: None**

- **Findings:**

The logic currently applied for BRs MVIC312 & MVIC314 needs to be modified. Once CR757 is implemented, settlement restrictions having an Instructing Party different to the investor CSD, the technical Issuer CSD or the Issuer CSD of the ISIN will not be rejected or cancelled once the maturity date of the related ISIN has been reached, but will be allowed in the system for a predefined number of days after the maturity date. This predefined number of days is known as the "transformation detection period (i.e. 20 T2S opening days after the record date/market deadline).

This update aligns the behaviour of settlement restrictions to the current behaviour of settlement instructions. This behaviour applies both to validation and revalidation process.

Only one transformation detection period parameter is defined for both settlement instructions and settlement restrictions.

The transformation detection period is stored as a system parameter and changes on this parameter do not trigger revalidation since it is understood to be stable.

The parameter indicates the number of days expressed in T2S opening days.

Following further changes are necessary:

- Update of the rules applicable to the checks on the Maturity Date.
- Implementation of a new Business Rule applicable to the Settlement Restrictions in the Daytime Collection Generator (DCG) function.
- Addition of a new Business Rule and Error code to the Configuration Guide.

- **Open issues/ questions to be clarified by the originator: n/a**

Detailed assessment:
