EUROPEAN CENTRAL BANK

EUROSYSTEM

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: 4CB	**Institute:** 4CB		**Date raised:** 17/05/2021
Request title: No intraday update of the Negative Position flag			**Request ref. no:** T2S-0764-SYS
Request type: Common	**Classification:** Scope enhancement		**Urgency:** Normal
1. Legal/business importance parameter[1]:		**2. Market implementation efforts parameter[2]:** Medium	
3. Operational/Technical risk parameter[3]:		**4. Financial impact parameter:** (provided by 4CB)	
Requestor Category: Eurosystem		**Status:** Registered	

Reason for change and expected benefits/business motivation:

T2S is designed in compliance with the URD requirement of preventing undue negative securities positions and cash balances. However, an incident occurred in a sequence of the NTS (Night Time Settlement) period of 25th May 2020 running under highly stressing operational conditions, which caused misfunctions and undue negative securities positions and cash balances.

This situation has among several actions revealed the need of implementing software enhancements to complement the existing design principles.

As such, the Design Review preventing occurrence of undue negative positions/balances in T2S Settlement database has requested to raise a Change request dealing with the use of the Negative Position indicator in the settlement process that may lead to inconsistent value or any misuse of this indicator.

In practice, some types of securities accounts in T2S are allowed to bear negative positions depending on their "Negative Position" attribute. This attribute is subject to intraday updates in the T2S Static data domain (switched from True to False or vice versa) upon request (A2A and U2A) from the account owner. The update is performed and confirmed by the T2S Static data domain (SDMG, or CRDM in T2-T2S Consolidation context) while the T2S settlement domain (SETT) is informed asynchronously.

This attribute is checked in SETT during the Provisioning/Booking process while checking whether a collection of settlement transactions is able to settle or not, preventing by this way the risk of undue negative position.

The main goal of the current change request is to manage properly the impact on settlement of any update request in SDMG of the "Negative Position" attribute, especially when such a request is received while settlement activities are going on.

The issue does not impact cash balances which are allowed to be negative according to the type of account (NCB Account or T2S DCA) which is not subject to intraday change.

Description of requested change:

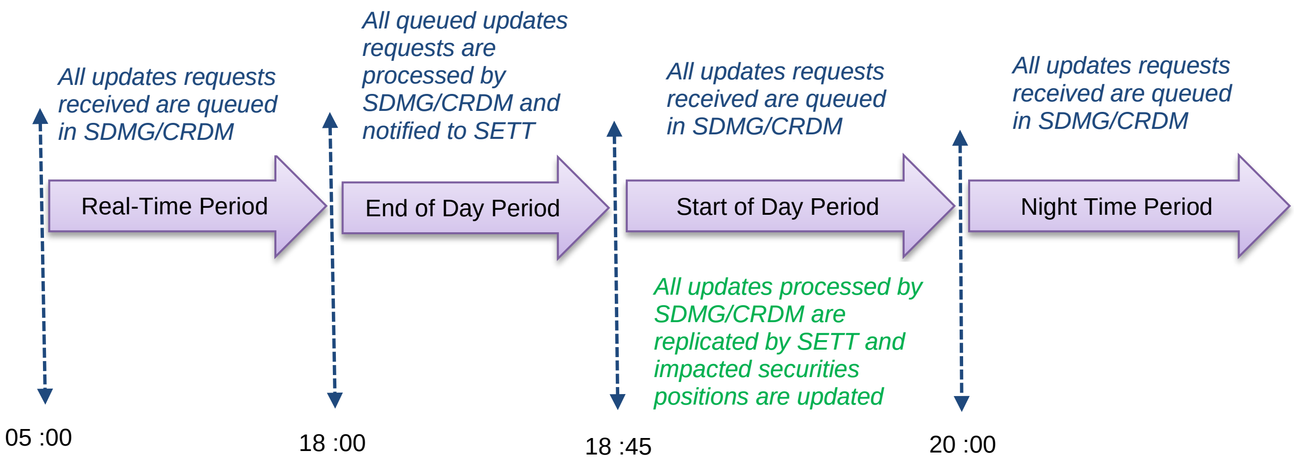
The requested change aims at preventing any impact intraday in SETT of an update request of the "Negative Position" attribute. In other words, if any update request of this attribute is received in SDMG/CRDM out of the End of Day period, it must not be applied until the End of Day period and SETT should consider the new attribute as of the next business day.

It is proposed accordingly to implement the following rules in T2S:

1. When receiving a request for updating the "Negative Position" attribute out of the End of Day period, SDMG/CRDM should not apply it until the following End of Day.

2. SETT will not manage anymore any update request impacting the "Negative Position" attribute if notified by SDMG/CRDM out of the End of Day period. The new attribute will be handled by SETT during the next Start of Day replication process.

3. Upon reception of an update notification regarding the "Negative Position" attribute; SETT will consider the new value during the Start of Day Replication process and will control the consistency between the attribute change and the update of the relevant positions. If the impacted securities position becomes unduly negative due to the static data update (Flag switched from True to False with position already negative), a non-blocking alert must be raised to the Operational Team. The settlement engine in RTS as well as in NTS is designed in order to keep settling transactions crediting such securities positions until they become positive.



Example:

Illustration of Use Cases in SDMG/CRDM and SETT

Period of reception	***RTS***	***End of Day***	***Start of Day (SOD)***	***Night-Time***
Update of the Negative Position Flag	**SDMG/CRDM**: Request not completed until EOD.	**SDMG/CRDM**: Pending requests will be completed and notified to SETT.	**SDMG/CRDM**: New request not completed until next EOD.	**SDMG/CRDM**: Request not completed until next EOD.
	SETT: No action as the request is not sent to SETT.	**SETT**: No action as SETT will replicate the new attribute at the following Start of Day.	**SETT**: The new value of the flag will be replicated, impacting all related securities positions.	**SETT**: No action as the request is not sent to SETT.

Illustration of Use Cases in SETT

	Flag « T » updated to « F »	***Flag « F» updated to « T »***
Existing positive positions (Before update)	**SETT** will settle during the RTS and the Night-Time periods: • All transactions crediting the related positions. • All transactions debiting the related positions as long as they remain positive or null	**SETT** will settle during the RTS and the Night-Time periods, all transactions debiting or crediting the related positions.
Existing authorised negative positions (Before update)	SETT will • Raise an alert towards the Operational Team, • Settle during the RTS and the Night-Time periods only the transactions crediting the related positions until they become positive	N/A (T2S prevents undue negative positions)

In a contingency situation, it must remain possible to perform an intraday update of the 'Negative position' flag, following an operational procedure.

Submitted annexes / related documents:

Outcome/Decisions:

*CRG on 25 May 2021: the CRG agreed to launch the preliminary assessment of CR-764.

Documentation to be updated:

Preliminary assessment:

Detailed assessment: