



<b>General Information (Origin of Request)</b>		
<input checked="" type="checkbox"/> User Requirements (URD)		
<input type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
<b>Request raised by:</b> 4CB	<b>Institute:</b> 4CB	<b>Date raised:</b> 24/06/2022
<b>Request title:</b> Instructions released during cut-off with failing reason 'CYCL' must be imposed with a SEFP penalty		<b>Request ref. no:</b> T2S-787-URD
<b>Request type:</b> Common	<b>Classification:</b> Scope enhancement	<b>Urgency:</b> Fast-track <sup>1</sup>
<b>1. Legal/business importance parameter<sup>2</sup>:</b> Medium		<b>2. Market implementation efforts parameter<sup>3</sup>:</b> Low
<b>3. Operational/Technical risk parameter<sup>4</sup>:</b> Low		<b>4. Financial impact parameter<sup>5</sup>:</b> Medium-Low
<b>Requestor Category:</b> Eurosystem		<b>Status:</b> Implemented

**Reason for change and expected benefits/business motivation:**

The T2S CSDR Task Force was established by the T2S Steering level, in order to identify the necessary changes to the T2S platform resulting from the CSD Regulation (CSDR), with the objective to facilitate T2S CSDs' timely compliance to CSDR.

The core of the work of the T2S CSDR Task Force (CSDR TF) is reflected in the T2S Penalty Mechanism's user requirements: it focuses on the daily calculation and reporting of cash penalties for settlement fails.

To determine whether a settlement instruction is eligible for a Settlement Fail Penalty (SEFP) or not, T2S retrieves all the matched settlement instructions which failed to settle at the end of the relevant business day's cut-off, and analyses one by one the reason(s) for failing that the settlement instruction had at the end of the applicable cut-off.

According to the failing reasons dictionary provided in UDFS table 140, reason for failing 'CYCL' "Awaiting Next Settlement Cycle", is not eligible for a penalty.

When a T2S actor sends a release request over a settlement instruction close to or during a cut-off of its intended settlement day, T2S proceeds to execute the release no matter if the settlement instruction can still be submitted to a settlement attempt or not. If the release is executed and no other hold remains on the settlement transaction:

- both settlement instructions receive a settlement status advice 'pending' and reason code 'FUTU';
- and additionally, if the released settlement transaction is not submitted to a settlement attempt<sup>6</sup> before the relevant cut-off ends, both settlement instructions receive a settlement status advice 'failing' and reason code 'CYCL'.

As a result, no SEFP penalty is imposed for any of those settlement instructions. However, the settlement instruction that was released at a point in time when it was no longer possible to settle on its intended settlement day, should be imposed with a SEFP penalty.

<sup>1</sup> Fast-track approach justification : A fast-track procedure is requested due to the fact that the short-term solution agreed at OMG level implies that 4CB faces unexpected operational efforts reducing the capacity to implement further change requests in parallel.

<sup>2</sup> Legal/business importance parameter was set to "Medium" because with this change the inconsistency of having some instructions not being imposed with a penalty when being released during cut-off time will be removed.

<sup>3</sup> Market implementation effort parameter was set to "Low" because with this change, it is not foreseen that a long implementation phase with significant resources is needed on the side of the Participating CSD, CB and their communities to be able to take full benefit of this change.

<sup>4</sup> Operational/technical risk parameter was set to "Low" because with this change it is not expected that there is an operational impact on the Participating CSDs, CBs or 4CB.

<sup>5</sup> Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

<sup>6</sup> Depending on the point in time when the release instruction is executed during the cut-off.

It is requested to enhance T2S to be able to identify which settlement instruction is released when executing the last release of a settlement transaction. This will allow the Penalty Mechanism to identify in the business scenario described above, the settlement instruction of the settlement transaction to be imposed with a SEFP penalty.

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**Description of requested change:**

Once the last hold on a settlement transaction is released, T2S will keep assigning reasons 'FUTU' (for pending instructions) and 'CYCL' (for failing instructions) to both settlement instructions, but T2S will identify the settlement instruction released and will assign different business rules to each settlement instruction of the settlement transaction, i.e.:

- The settlement instruction that completely released the settlement transaction will get a new business rule;
- The counterpart's settlement instruction will get the already present business rule.

This new business rule will be communicated in the corresponding status advice message.

This new business rule will be included in the Penalty Mechanism failing reasons dictionary with eligibility result "TRUE", and hence the settlement instruction that completely released the settlement transaction at a point in time when it was no longer possible to settle on its intended settlement date, will be imposed with a SEFP penalty. This penalty will be included in the corresponding Daily Penalty List semt.044, with the new business rule informed within the Related Transaction Details block (Penalty/PenaltyPerCounterparty/ PenaltyDetails/ RelatedTransaction/ TransactionDetails/ SettlementStatusFailing/ Reason/ AdditionalReasonInformation).

The current cut-off and release execution processing will remain unchanged.

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**Submitted annexes / related documents:**

Power Point Presentation - T2S Issue on Penalty CYCL- CRG 30 May 2022



CR-787\_Annex\_Instructions released du

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**Outcome/Decisions:**

\*CRG on 18/07/2022: the CRG agreed to recommend CR-0787 for authorisation by the T2S Steering Level following a fast-track approach.

\*AMI-SeCo on 27 July 2022: the AMI-SeCo agreed with the CRG recommendation of CR-0787 for T2S Steering Level Authorisation

\*CSG on 07 September 2022: the CSG agreed to authorise CR-0787.

\*NECSG on 07 September 2022: the NECSG agreed to authorise CR-0787.

\*MIB on 16 September 2022: the MIB agreed to authorise CR-0787.

\*PMG on 05 October 2022: the PMG agreed to launch the detailed assessment of CR-787 with a view of scoping in Release 2023.JUN.

\*CRG on 10 November 2022: the CRG agreed to recommend to the PMG the inclusion of CR-787 in the scope of R2023.JUN.

\*OMG on 10 November 2022: the OMG identified no operational impact from the inclusion of CR-787 in R2023.JUN.

\*PMG on 10 November 2022: the PMG agreed to recommend the inclusion of CR-787 in the scope of R2023.JUN.

\*CSG on 17 November 2022: the CSG approved the inclusion of CR-787 in the scope of R2023.JUN.

\*NECSG on 17 November 2022: the NECSG approved the inclusion of CR-787 in the scope of R2023.JUN.

\*MIB on 21 November 2022: the MIB approved the inclusion of CR-787 in the scope of R2023.JUN.

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**Documentation to be updated:****URD v10.2****22.4.1 Settlement Fail Penalty (SEFP)****Eligibility for SEFP**

<b>Reference ID</b>	T2S.22.080
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T2S shall consider a settlement instruction eligible to a Settlement Fail Penalty (SEFP) for a business day if it fulfils all of the following conditions:

- It has reached its Intended Settlement Date (ISD) and;
- It is matched before the completion of the settlement processing of the relevant cut-off of the instruction on that business day, i.e. 16:00 for DVP, 17:40 for bilaterally agreed treasury management and monetary policy operations, and 18:00 for FOP settlement, and;
- It is unsettled due to any of these reasons:
  - ~~because~~ it failed the eligibility/provision check with any reason associated to the instruction and not to the counterpart's instruction, by the end of the settlement processing of the relevant cut-off of the instruction on that business day and;
  - it was completely released during the cut-off period so late in time that a settlement attempt was not possible before the completion of the cut-off period and
- It is not cancelled, by the end of the settlement processing of the relevant cut-off of the instruction on that business day.

### **UDFS v7.2:**

The following UDFS v7.2 sections should be modified

#### **1.6.1.14.4 Penalty Eligibility**

(...)

#### **Eligibility for a Settlement Fail Penalty (SEFP)**

(...)

**TABLE 140 - FAILING REASONS DICTIONARY**

Reason Code	Description of the Error	Eligibility Result
(...)	(...)	(...)
CYCL	Awaiting Next Settlement Cycle	FALSE
<u>CYCL</u>	<u>MMRI214: -Instruction released the latest --</u>	<u>TRUE</u>

(...)

In order to illustrate how the eligibility result is determined, 4 5 examples are provided hereafter. All of the examples relate to a pair of Matched Settlement Instructions that having reached its ISD, fail to settle in T2S before the completion of the relevant cut-off.

(...)

I Settlement Instruction A is not exempted because of its ISO Transaction Code, hence, T2S analyses the reason for failing at the EFOP cut-off, i.e.: "CYCL" and the associated Business Rule informing that it was the instruction which completely released the Settlement transaction. According to the Failing Reasons Dictionary, the result is that Settlement Instruction A is eligible for a Penalty.

I Settlement Instruction B is not exempted because of its ISO Transaction Code hence, T2S analyses the reason for failing at the EFOP cut-off, i.e.: "CYCL". According to the Failing Reasons Dictionary, the result is that Settlement Instruction B is not eligible for a Penalty.

### **3.3.8.5 SecuritiesSettlementTransactionStatusAdviceV10 (sese.024.001.10)**

#### ***3.3.8.5.3 The message in business context***

Message usage: No Hold remain(s)

This message usage relates to the usage of a status advice message, sent by T2S, when the Settlement Instruction is totally released and no other Hold remains.

#### Specific message requirements

To inform about a No Hold Remain, the SecuritiesSettlementTransactionStatusAdviceV10 includes the following information:

- ! Unmatched – status indicating that the instruction is not matched;
  - ! NoSpecifiedReason – ‘NORE’ ISO code when the Settlement Instruction accepted is unmatched;
  - ! Pending/Failing – status indicating that the instruction is not settled. Depending on whether the instruction can settle on its ISD or not, the instruction is informed either with status Pending or Failing respectively;
  - ! Code – “FUTU” ISO Code for Pending and ‘CYCL’ ISO code for Failing, which indicates that the instruction is no longer on Hold.
- ! Additional information – text comprising a combination of the business rule and a short description to inform that the last hold of a transaction was released. Only informed if the instruction is matched.

MESSAGE ITEM	DATA TYPE / CODE	UTILISATION
Unmatched Document/SctiesSttImTxStsAdvC/MtchgSts/ Umtchd/NoSpfdRsn/ Code	NoReasonCode	When the instruction remains unmatched, the only possible value is NORE.
Document/SctiesSttImTxStsAdvC/SttImSts/Pdg /Rsn/Cd/Cd Code	PendingReason2Code	When the instruction can settle on its ISD, the only possible value is FUTU
Document/SctiesSttImTxStsAdvC/SttImSts/Flng /Rsn/Cd/Cd <u>AdditionalReasonInformation</u>	FailingReason2Code	When the instruction can no longer settle on its ISD, the only possible value is CYCL
<u>Document/SctiesSttImTxStsAdvC/SttImSts/Pdg /Rsn/AddtlRsnInf</u>	<u>RestrictedFINXMax210Text</u>	<u>Business rule and error description. Only present if the settlement instruction is matched and no other hold remains neither on the instruction released nor on its counterparty.</u>
<u>AdditionalReasonInformation</u> <u>Document/SctiesSttImTxStsAdvC/SttImSts/Flng /Rsn/AddtlRsnInf</u>	<u>RestrictedFINXMax210Text</u>	<u>Business rule and error description. Only present if the settlement instruction is matched and no other hold remains neither on the instruction released nor on its counterparty.</u>

Message usage example 1: [sese.024.001.10 T2S\\_PendingUnmatchedNoHoldRemains\\_Example.xml](#)

Message usage example 2: [sese.024.001.10 T2S FailingUnmatchedNoHoldRemains Example.xml](#)

A CSD Participant A (PRTAFRPPXXX) instructed the release of its instruction ‘T1290’ setting remaining Hold indicator to ‘false’ on its Intended Settlement Date. T2S informs that the Settlement instruction is totally released and no other hold remains. ~~delivery of 100000 securities of ISIN000001 from a securities account to its counterparty CSD Participant B (CSDPBICXXX) and its CSD B (CSDBBIC1XXX) versus a payment of 575000 Euros for settlement on the 3/1/2015.~~ In this example, the Settlement instruction remains unmatched at the end of its Intended Settlement Date, therefore T2S informs that the Settlement Instruction has been identified as “Failing”.

Message usage example 3: [sese.024.001.10 T2S Pending MatchedNoHoldRemains Example.xml](#)

A CSD Participant A (PRTAFRPPXXX) requested the release of its instruction ‘T1290’ setting remaining Hold indicator to ‘false’. The instruction is matched. In this example T2S informs that the Settlement Instruction

is totally released and that no other hold remains neither on the Settlement instruction released nor on its counterparty.

Message usage example 4: sese.024.001.10 T2S Failing MatchedNoHoldRemains Example.xml

A CSD Participant A (PRTAFRPPXXX) instructed the release of its instruction 'T1290' setting remaining Hold indicator to 'false'. In this example, the Settlement instruction is matched and failed to settle at the end of its Intended Settlement Date. T2S informs that the Settlement Instruction has been released and that no other hold remains neither on the Settlement instruction released nor on its counterparty.

(...)

## 4.1 Index of Business Rules and Error Codes

BR NAME	DESCRIPTION	INBOUND MESSAGE	REPLY MESSAGE	CODE USE	REASON CODE	ERROR TEXT
(...)						
MMRI213	No other hold remains neither on the released pending instruction nor on the counterparty	n/a	sese.024	<Pdg>	FUTU	Instruction released the latest
MMRI214	No other hold remains neither on the released failing instruction nor on the counterparty	n/a	sese.024	<Fng>	CYCL	Instruction released the latest
(...)						

### **UHB v7.2:**

No impact

### **Detailed assessment.**

#### EUROSYSTEM ANALYSIS – GENERAL INFORMATION

T2S Specific Components		Common Components
<b>LCMM</b>		
	Instructions validation	
X	Status management	
	Instruction matching	
X	Instructions maintenance	
X	Penalty Mechanism	
<b>Settlement</b>		
	Standardisation and preparation to settlement	
	Night-time Settlement	
	Daytime Recycling and optimisation	
	Daytime Validation, provisioning & booking	

	Auto-collateralisation	
<b>Liquidity Management</b>		
	Outbound Information Management	
	NCB Business Procedures	
	Liquidity Operations	
<b>T2S Interface (as of June 2022 without Static Data Management, Communication for SDMG, Scheduler, Billing)</b>		<b>Eurosystem Single Market Infrastructure Gateway (from R6.0 June 2022)</b>
	Communication	Communication
	Outbound Processing	Outbound Processing
	Inbound Processing	Inbound Processing
<b>Static Data Management (until June 2022)</b>		<b>Common Reference Data Management (from R6.0 June 2022)</b>
	Party data management	Party data management
	Securities data management	Securities data management
	Cash account data management	Cash account data management
	Securities account data management	Securities account data management
	Rules and parameters data management	Rules and parameters data management
<b>Statistics and archive</b>		<b>Statistics and archive</b>
	Statistical information (until June 2022)	Short term statistical information
	Legal archiving (until June 2022)	Legal archiving (from R6.0)
		Data Warehouse (from R6.0)
<b>Information (until June 2022 containing reference data)</b>		<b>CRDM business interface (from R6.0 June 2022)</b>
	Report management	Report management
	Query management	Query management
		Communication
		Outbound Processing
		Inbound Processing
<b>Operational Services</b>		
	Data Migration (T2S DMT)	Data Migration (CRDM DMT, from R6.0)
	Scheduling (until June 2022)	Business Day Management (from R6.0)
		Business Day Management business interface (from R6.0)
	Billing (until June 2022)	Billing (from R6.0)
		Billing business interface (from R6.0)
	Operational Monitoring	Operational and Business Monitoring
	MOP Contingency Templates	

<b>Impact on major documentation</b>		
<b>Document</b>	<b>Chapter</b>	<b>Change</b>
Impacted URD chapter	22.4.1 Settlement Fail Penalty (SEFP)	On requirement T2S.22.080, to add a new condition to be fulfilled in order to be eligible for a Settlement fail Penalty (SEFP).
Impacted GFS chapter	No impact	
Impacted UDFS chapter	1.6.1.14.4 Penalty Eligibility - Eligibility for a Settlement Fail Penalty (SEFP)	Update the Failing Reasons Dictionary in section <i>Eligibility for a Settlement Fail Penalty (SEFP)</i> adding a new row for reason code CYCL with the new BR and eligibility result TRUE. A new example has been added to illustrate this new business case.
	3.3.8.5 SecuritiesSettlementTransactionStatusAdviceV10 (sese.024.001.10) - Message usage: No Hold remain(s)	Include in the <i>message requirement</i> section that the sese.024 for message usage No Hold remain(s) will also inform the pending/ failing additional reason information for those settlement instructions released. Additionally, two new

	4.1 Index of Business Rules and Error Codes	examples are to be included to illustrate the new functionality  The new BRs to indicate that a Settlement Instruction has been released and that no other hold(s) remain for its associated Settlement transaction has been added.
Additional deliveries for Message Specification (UDFS, MyStandards, MOP contingency templates)	Securities Settlement Transaction Status Advice (sese.024)	2 new examples for the message usage 'No hold remains' to be uploaded in MyStandards.
UHB	No impact	
Other impacted documentation (FA Sch. 05, FA Sch. 07)		
Impacted GDPR message/ screen fields	No impact	
Links with other requests		
Links	Reference	Title

**Summary of functional, development, infrastructure and migration impacts**

When the Penalty Mechanism evaluates whether a Settlement Instructions that failed to settle on the previous business day is to be imposed with a SEFP Penalty or not, it is based on the reason(s) for failing that such Settlement Instructions received at the end of their relevant cut-off. For those instructions whose last reason code communicated is 'CYCL', no penalty is computed for because this reason has Penalty Eligibility result 'FALSE'.

In order to impose and calculate the relevant SEFP Penalties to a settlement instruction released during the cut-off processing without having a settlement attempt before the closure of the cut-off (i.e. the last reason code communicated is 'CYCL'), the following updates have to be performed:

Processing of Release Instructions:

Every time a Settlement instruction is released and no other hold remains neither on the settlement instruction nor in the counterparty, LCMM will assign and store in the data base a new business rule for such instruction. The execution of this release instruction will trigger the generation of the corresponding status advice message (sese.024) informing the reason code 'FUTU' with the new BR MMRI213 (if the unsettled instruction is pending or 'CYCL' with the new BR MMRI214 (if the unsettled instructions is failing), with error text "Instruction released the latest"-.

The behaviour of the counterparty will remain unchanged i.e. the status advice message triggered to communicate the release of the counterparty instruction will inform the reason code 'FUTU'/'CYCL' without informing any BR.

This new BR will allow the PM to distinguish between the settlement instruction with last release executed (to be imposed with a Settlement Fail Penalty) and its counterparty (no penalty to be imposed on this settlement instruction) when both instructions of a transaction have received 'CYCL' as reason code at the end of the cut off processing.

This new behaviour will apply to the release of any type of hold (Party Hold, CSD Hold, CoSD hold and CSD validation hold) executed on a matched settlement instruction whose ISD has been reached, including the release of Reimbursement of Collateral Instructions.

Current partial release process will remain unchanged, i.e.: the instruction partially released will keep on receiving only reason 'FUTU' or 'CYCL' but no business rule.

Status Management:

During the cut off processing the Status Update function is also to be amended in order to correctly assign the reason code 'CYCL' and the corresponding new business rule whenever an instruction changes its status from pending to failing and the instruction had previously been communicated as 'pending' by means of code 'FUTU' and the new business rule MMRI213.

Additionally, the Data Collection for Messages function needs to be improved in order to communicate the new business rule MMRI214 together with the reason code 'CYCL' in the ad hoc sese.024 status advice message generated when an instruction changes its unsettled status from pending to failing.

Penalty Mechanism

The Settlement Fail Penalty Eligibility Process must also be amended in order to include in the Failing Reasons Dictionary the new business rule MMRI214 assigned to reason code 'CYCL' with eligibility result 'TRUE' so that a SEFP penalty is imposed on any Settlement Instruction having received reason 'CYCL' and the new business rule. This new business rule will be informed, in the corresponding Daily Penalty List and List of Modified Penalties semt.044.

Main Cost Drivers:

- Investigation phase to analyse all the possible scenarios to close the scope of the change request and to analyse the different solutions.
- Update of the Release instruction processes so that the new business rule is assigned to the settlement instruction whose release was last executed and it is reported in the corresponding sese.024 status advice message
- Enhancement of the Status Management module to assign and inform via sese.024 status advice message, the new corresponding business rule, if proceed, in the failing cut off communication process.
- Improvement of the Penalty Mechanism module in order to update the Reason for failing dictionary and impose a SEFP penalty to each settlement instruction having received reason 'CYCL' and the new business rule; and in order to report such business rule, when available, in the corresponding Daily Penalty List and List of Modified Penalties semt.044.
- Testing of the release instruction functionality (for all types of hold and for all type of instructions) to verify that the new corresponding business rule is correctly assigned and reported.



- Testing of the failing cut off communication process to ensure that the new business rule is correctly assigned and reported when the settlement instruction is identified as failing during the cut off.
- Testing of the Penalty Mechanism to confirm that a SEFP penalty is imposed to any settlement instruction having received reason 'CYCL' and the new business rule and that the new business rule is correctly informed, when available, in the corresponding Daily Penalty List and List of Modified Penalties semt.044.
- Non regression testing regarding the abovementioned three functionalities.

**Impact on other TARGET Services and projects**

No impact identified on other Eurosystem systems or projects (Target2, CSLD, TIPS, ECMS)

**Summary of project risk**

No risk has been identified during the detailed assessment.

**Security analysis**

No adverse effect has been identified during security assessment.



27 October 2022

## Cost assessment on Change Requests

<b>T2S-787-SYS – Instructions released during cut-off with failing reason ‘CYCL’ must be imposed with a SEFP penalty</b>			
One-off	Assessment costs*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Development costs	154,033.59	Euro
Annual	Operational costs		
	- Maintenance costs	14,165.82	Euro
	- Running costs	0.00	Euro

\*The relevant assessment costs will be charged regardless of whether the CR is implemented (Cf. T2S Framework Agreement, Schedule 7, par. 5.2.3).