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: Iberclear	**Institute:** CSD		**Date raised:** 17/05/2023
Request title: Add new reason code in the sese.024 to identify that there is a mismatch in the partial settlement indicator			**Request No.:** T2S 0807 SYS
Request type: Common	**Classification:** Scope Enhancement		**Urgency:** Fast-track[1]
1. Legal/business importance parameter[2]**:** Medium		**2.** Market implementation efforts parameter[3]**:** Low	
3. Operational/Technical risk parameter[4]**:** Low		**4.** Financial impact parameter[5]**:** High	
Requestor Category: CSD		**Status:** Implemented	

Reason for change and expected benefits/business motivation:

T2S offers different features which facilitates the possibility to improve the settlement efficiency to the participants. Additionally to partial release, T2S provides partial settlement process when full settlement is not possible due to lack of securities or cash. A Settlement Instruction is partially settled in case there are insufficient securities to settle the full quantity and provided the following conditions are met:

- The partial settlement window is currently running
- The partial settlement threshold criteria are fulfilled
- The Settlement Instructions are eligible to settle partially

The settlement eligibility depends on the conditions set by the T2S parties on their matched Settlement Instructions. A matched pair of Settlement Instructions is eligible to partial settlement, when these Settlement Instructions meet the following conditions:

- They are related to Free Of Payment or to Delivery Versus Payment or Delivery With Payment
- The partial settlement indicator is not set to "No" in any of the Settlement Instructions
- They are not linked to any other Settlement Instruction or Settlement Restriction by the T2S parties by a link type “Before”, “After” “With” or by a pool reference.

In case the delivering party allows partial settlement but its counterparty does not allow it, then partial settlement will not be possible and the delivering party will not be aware of it as it will not be informed about the value of the Partial Settlement Indicator resulting from the combination of the values informed by both counterparties.

This lack of information may lead, specially under the CSDR regime, to a situation where the delivering party is being penalized for the total of the undelivered securities, even if it has part of the position available for partial settlement, just because the counterparty does not have the partial settlement indicator activated.

In this context, the SMPG submitted the ISO change request 001779 ‘*Add status reason code to indicate a mismatch on the partial settlement indicator*’ with the aim to include a new reason code ‘PATD’ (Partial Differ) to the settlement status ‘PEND’ (Pending) and ‘PENF’ (Failing) to identify that there is a mismatch of the partial settlement indicator.

T2S should leverage on this ISO-CR-1779 and, whenever a transaction has been submitted to a first settlement attempt, be able to report in the sese.024 and semt.018 that there is a mismatch in the partial settlement indicator.

[1] Fast-track justification: A fast-track approach is requested due to the need to have CR-807 detailed assessed in parallel with the *T2S-0809-SYS ‘Alignment of T2S Messages with ISO Maintenance Release 2020 – 2024’* to make sure they can be implemented within R2025.JUN.

[2] Legal/business importance parameter was set to “Medium” because T2S Actors will benefit from this information by reducing their penalty ratios.

[3] Market implementation effort parameter was set to “Low” as the change does not imply significant changes to T2S Actors.

[4] Operational/technical risk parameter was set to “Low” because it is not expected that this change will have an operational impact on the T2S Actors.

[5] Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

This reporting will make possible that the CSDPs take action and can resolve this disagreement.

With this enhancement implemented in T2S, the CSDs will be able to benefit from this additional information by reducing the amount of penalties computed on average when there is a disagreement in the partial settlement indicator and full settlement cannot take place.

Description of requested change:

Whenever a transaction is pending or failing and that there is a disagreement in the partial settlement indicator, a new reason code 'PATD' (Partial Differ) should be provided to advice about this disagreement which does not allow partial settlement.

For this, T2S should leverage on the ISO CR-001779 and, as soon as a transaction is submitted to settlement attempt a new reason code 'PATD' (Partial Differ) should be reported with settlement status unsettled 'Pending' ('PEND') or unsettled 'Failing' ('PENF'), if all these conditions are fulfilled:

- There is a disagreement in the partial settlement indicator.
- There is a reason preventing the settlement, identified during either the eligibility check or the provision check.

This should be reported in the sese.024 'Securities Settlement Transaction Status Advice' and in the semt.018 'Securities Transaction Pending Report'.

From a planning viewpoint, this change should be implemented together with the ISO-CR001779, that was allocated to the ISO Maintenance Release 2022. Following the T2S unfreeze strategy, it is foreseen that the ISO MR2022 will be implemented in T2S in R2025.JUN, when it would be desirable to also have this change request CR-0807.

Submitted annexes / related documents:

CR 001779: Add status reason code to indicate a mismatch on the partial settlement indicator

Outcome/Decisions:

*ECB on 17 May 2023: the ECB team checked the completeness of the CR template, assigned change request number CR-0807 and informed the CR initiator.
*CRG on 04 July 2023: the CRG agreed to request the preliminary assessment of CR-0807.
*CRG on 27 September 2023: the CRG took note from 4CB that due its dependency with CR-0809 'Alignment of T2S Messages with ISO Maintenance Release 2020 – 2024', CR-0807 should be detailed assessed in parallel with CR-0809, therefore it was agreed to skip the preliminary assessment. The CRG agreed to recommend CR-0807 for Steering Level authorisation, following a fast-track approach.
*AMI-SeCo on 9 October 2023: the AMI-SeCo agreed with the CRG recommendation of CR-807 for T2S Steering Level authorisation.
*CSG on 09 October 2023: the CSG agreed to authorise CR-807.
*NECSG on 09 October 2023: the NECSG agreed to authorise CR-807.
*MIB on 11 October 2023: the MIB agreed to authorise CR-0807.
*PMG on 18 October 2023: the PMG agreed to launch the detailed assessment of CR-0807 with a view of scoping in R2025.JUN.
*PMG on 6 June 2024: the PMG agreed to launch the detailed re-assessment of CR-0807 with a view of scoping in R2026.JUN.
*CRG on 11 September 2024: the CRG agreed to recommend to the PMG the inclusion of CR-0807 in the scope of R2026.JUN.
*OMG on 11 September 2024: the OMG identified no operational impact from the inclusion of CR-0807 in the scope of R2026.JUN.
*PMG on 12 September 2024: the PMG agreed to recommend the inclusion of CR-0807 in the scope of R2026.JUN.
*CSG on 19 September 2024: the CSG approved the implementation of CR-0807 with R2026.JUN.
*NECSG on 19 September 2024: the NECSG approved the implementation of CR-0807 with R2026.JUN.
*MIB on 26 September 2024: the MIB approved the implementation of CR-0807 with R2026.JUN.

Documentation to be updated:

The following UDFS section should be modified:

4.1 Index of Business Rules and Error Codes

BR NAME	DESCRIPTION	INBOUND MESSAGE	REPLY MESSAGE	CODE USE	REASON CODE	ERROR TEXT
…						
SXAA037	A settlement instruction cannot be submitted to a partial settlement attempt, due to a discrepancy in the partial settlement indicator	n/a	sese.024	<Pdg> or <Flng>	PATD	Settlement Instruction is not submitted to partial settlement because of a discrepancy in the partial settlement indicator

1.6.1.14.4 Penalty Eligibility
The PATD Reason Code should be added to the Failing Reasons Dictionary

Reason Code	Description of the Error	Eligibility Result
…	…	…
PATD	SXAA037 - Settlement Instruction is not submitted to partial settlement because of a discrepancy in the partial settlement indicator.	FALSE

3.3.6.5.3 The message in business context
Message usage: Provision Check Failure

MESSAGE ITEM	DATA TYPE/ CODE	UTILISATION
Code Document/SctiesSttlmTxStsAdvc/SttlmSts/Pdg/Rsn/Cd/Cd	PendingReason2Code [**Error! Bookmark not defined.**]	ISO reason code for the provision check failure. The only possible values are: l CLAC l CMON l LACK l LINK l MONY l PATD*
Code Document/SctiesSttlmTxStsAdvc/SttlmSts/Flng/Rsn/ Cd/Cd	PendingReason2Code [} **Error! Bookmark not defined.**]	ISO reason code for the provision check failure. The only possible values are: l CLAC l CMON l LACK l LINK l MONY l PATD*

*footnote: 'PATD'- Partial differ reason code will always be reported together with another pending or failing reason code and after a failed settlement attempt. It informs about a disagreement on the partial settlement indicator; hence the reporting will be the same regardless there are securities available for partial settlement or not. For example, a Settlement instruction delivering 100 securities and having a disagreement in the Partial Settlement Indicator will be reported after a failed settlement attempt with 'LACK+PATD' both in case there are 99 securities available or 0.

4.2 Index of Status Values and Codes
The value PATD will be added to the index.

GFS:
3.4.7.3 Description of the functions of the module
1 – Penalty Eligibility

SETTLEMENT INSTRUCTION'S UNSETTLED REASON CODES AND HOLD STATUSES	PENALTY ELIGIBLE
…	…
Unsettled and PATD – Partial Differ	"False"

Preliminary assessment:

Detailed assessment:

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

T2S Specific Components		Common Components	
LCMM			
	Instructions validation		
X	Status management		
	Instruction matching		
	Instructions maintenance		
X	Penalty Mechanism		
Settlement			
X	Standardisation and preparation to settlement		
X	Night-time Settlement		
	Daytime Recycling and optimisation		
X	Daytime Validation, provisioning & booking		
	Auto-collateralisation		
Liquidity Management			
	Outbound Information Management		
	NCB Business Procedures		
	Liquidity Operations		
T2S Interface		**Eurosystem Single Market Infrastructure Gateway** (from R6.0 June 2022)	
	Communication		Communication
	Outbound Processing		Outbound Processing
	Inbound Processing		Inbound Processing
Static Data Management *(until June 2022)*		**Common Reference Data Management** *(from R6.0 June 2022)*	
	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
Statistics and archive		**Statistics and archive**	
	Statistical information (until June 2022)		Short term statistical information
	Legal archiving (until June 2022)		Legal archiving (from R6.0)
			Data Warehouse (from R6.0)
Information *(until June 2022 containing reference data)*		**CRDM business interface** *(from R6.0 June 2022)*	
	Report management	X	Report management
	Query management		Query management
			Communication
			Outbound Processing
			Inbound Processing
Operational Services			
	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		

Impact on major documentation				
Document	**Chapter**		**Change**	
Impacted GFS chapter	3.4.7.3 Description of the functions of the module			
Impacted UDFS chapter	4.1 Index of Business Rules and Error Codes 1.6.1.14.4 Penalty Eligibility 6.3.3.8.5.3 The message in business context 4.2 Index of Status Values and Codes		Add business rule related to PATD reporting	
Additional deliveries for Message Specification (UDFS, MyStandards, MOP contingency templates)	Sese.024 Semt.018		Implementation of the new reason code. However, if delivered in the same Release as CR-809, which is the recommended approach, no additional impact. If delivered after the CR-809, the code needs to be unpruned for relevant messages.	
UHB				
External training materials				
Impacted GDPR message/ screen fields			No impact	
Links with other requests				
Links	Reference		Title	

OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT

Summary of functional, development, infrastructure and migration impacts

In order to report the new PATD reason code, a discrepancy in the partial settlement indicator for a transaction submitted for a settlement attempt, in which the transaction does not settle, needs to be detected. In this case, the notion of "settlement attempt" includes both the eligibility check and the provision check. Hence, the analysis will be made during both these checks, and reporting will be done if one of the two checks fail, and a discrepancy is detected.

A discrepancy in the partial settlement indicator is defined as follows (also see table below);

- One of the parties has not allowed partial settlement, i.e. the partial settlement indicator has been set to NPAR.
- The other party has allowed partial settlement, i.e. the partial settlement indicator has been set to PART, PARQ or PARC (or the indicator has not been specified).

LEG	**CounterLeg**	**Result**
NPAR	PART-PARQ-PARC	Disagreement
PART	PARC-PARQ	Not Disagreement
PARC	PARQ	Not Disagreement
PARQ	PARC	Not Disagreement
NPAR	empty	Disagreement

empty	PART-PARQ-PARC	Not disagreement

NPAR: Partial settlement is not allowed
PART: Partial settlement is allowed
PARQ: Partial settlement is allowed, but must satisfy a minimum quantity of securities
PARC: Partial settlement is allowed, but must satisfy a minimum cash value

This information of a detected discrepancy will be forwarded internally in order to report PATD on both legs in the sese.024 and the semt.018 according to subscriptions. In line with the CR description, no analysis will be done before a first settlement attempt has been done.

Every time a discrepancy in the partial settlement indicator is detected after each unsuccessful settlement attempt, the convened internal reason code will be received and stored so it can be reported in the sese.024 and semt.018. The new PATD reason code will be included into the Failing Reasons Dictionary with an Eligibility Result equal to FALSE, so this reason will not contribute to a positive eligibility result.
A change in the Partial Settlement Indicator will not trigger *per se* a communication of the new PATD reason code, it will only be reported following a failed settlement attempt. Hence, the 'PATD' reason code will be reported always together with another pending or failing reason code.

Since this CR-807 has a dependency with the CR-809 "Alignment of T2S Messages with ISO Maintenance Release 2020-2024" which adapts the message in order to use the new code PATD, it is recommended to deploy CR-807 in the same Release as CR-809 or after.

In addition, the attribute domain 'Instruction Status Reason Code' inserting the new value PATD needs to be modified.

Main cost drivers

- Updating of functional documentation [28%]
- Development related to detection of discrepancy in partial settlement indicator. [10%]
- Testing related to implemented changes, e.g. verifying the correct reporting of the new reason code. [44%]

Impact on other TARGET Services and projects

No impact on T2 or TIPS. ECMS has identified impact on sese.024 and semt.018 schemas in order to implement the new reason code. These points will be detailed and assessed in ECMS unfreeze CR (PCR111).

Summary of project risk

No risks on the stability or performance of T2S has been identified during the detailed assessment

Security analysis

No adverse impact has been identified during the detailed assessment

DG - MARKET INFRASTRUCTURE & PAYMENTS

28 August 2024

Cost assessment on Change Requests

T2S-807-SYS – Add new reason code in the sese.024 to identify that there is a mismatch in the partial settlement indicator			
One-off	Assessment costs* - Preliminary - Detailed	 not charged 20,000.00	 Euro Euro
One-off	Development costs	454,069.57	Euro
Annual	Operational costs - Maintenance costs - Running costs	 46,277.61 0.00	 Euro 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).