

General Information (Origin of Request)		
<input checked="" type="checkbox"/> User Requirements (URD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: XMAP	Institute: ECB	Date raised: 29/06/2015
Request title: Currency, Settlement amount and debit/credit indicator should be additional matching fields for FOP instructions		Request ref. no: T2S 0526 URD
Request type: Common		Urgency: Fast-track
1. Legal/business importance parameter: High	2. Market implementation efforts parameter: Low	
3. Operational/Technical risk parameter: Low	4. Financial impact parameter: Medium	
Requestor Category: T2S sub-group	Status: Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

T2S is designed as a multi-currency securities settlement platform in Central Bank Money, and provides the possibility to settle securities against payment (DVP) as well as Free-Of-Payment (FOP). For the initial release of T2S however, Euro will be the only eligible settlement currency. The Danish Krone will become eligible in 2018.

T2S also offers the flexibility to facilitate settlement in non-T2S settlement currencies, e.g. through the use of the Conditional Securities Delivery (COSD) functionality. This is deemed as a key functionality as several CSDs offer settlement services in multiple currencies.

As part of the business validation process, T2S validation rules prevent any non-T2S currency to be used in a DVP settlement instruction (see UDFS, page 229, line 6: "To that purpose, the following checks are performed: - The Currency of a Settlement Instruction against payment or of a Settlement Restriction on cash is a T2S Settlement Currency."). In order to cope with settlement of transactions containing a cash leg in a non-T2S currency, DVP instructions in non-T2S currencies can be submitted into T2S as FOP instructions (i.e. with Payment Flag FREE), and use the COSD process to ensure DVP.

This approach implies that such "masked DVP" instructions are subject to the matching rules of a FOP instruction. In particular this implies that neither currency nor amount nor credit/debit indicator is considered during the matching process. As a consequence, such non-T2S Currency FOP instructions could be subject to the following matching results. E.g.:

- A non-T2S Currency FOP Instruction could be matched to a "true" FOP instruction
- A non-T2S Currency FOP Instruction in USD could be matched to a non-T2S Currency Instruction in GBP
- The cash amounts of two non-T2S Currency Instructions which are matched could be outside of the matching tolerance
- A non-T2S Currency FOP which mimics a DVP could be matched to another one which mimics a RWP instruction.

The risk of mismatching in T2S is therefore deemed high for settlement of those transactions with a cash leg in non-T2S-currencies. Furthermore, in case of discrepancy in the fields informed by the two counterparties of the transaction for FOP instructions, the COSD functionality might not have the expected behaviour, as the check on the fulfilment of a rule is performed at transaction level but the value assigned is derived from a single leg.

An approach must be found to make sure that the matching process of such non-T2S Currency FOP instructions provides meaningful results.

Following a CRG written procedure, the CRG members indicated below list of non-T2S currencies being currently maintained in their system:

Code	Currency
AUD	Australian dollar
BHD	Bahraini dinar

CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan
CZK	Czech koruna
DKK	Danish krone
GBP	Pound sterling
HKD	Hong Kong dollar
HUF	Hungarian forint
JPY	Japanese yen
MXN	Mexican peso
NOK	Norwegian krone
NZD	New Zealand dollar
PLN	Polish złoty
SEK	Swedish krona/kronor
RUB	Russian ruble
TRY	Turkish lira
SGD	Singapore dollar
USD	United States dollar
ZAR	South African rand
ZMK	Zambian kwacha
BRL	Brazilian real
ARS	Argentine peso
BAM	Bosnia and Herzegovina convertible mark
BGN	Bulgarian lev
COP	Colombian peso
EGP	Egyptian pound
HRK	Croatian kuna

IDR	Indonesian rupiah
ILS	Israeli new shekel
ISK	Icelandic króna
KRW	South Korean won
KZT	Kazakhstani tenge
MYR	Malaysian ringgit
PEN	Peruvian nuevo sol
PHP	Philippine peso
QAR	Qatari riyal
RON	Romanian leu
RSD	Serbian dinar
SAR	Saudi riyal
THB	Thai baht

It should be possible for the T2S Operator to maintain a list with an OMG procedure to configure the tolerance for the currency.

The number of decimals for the settlement amount in the FOP with the non-T2S currency need not be validated in T2S against the number of decimals defined for that currency, as the cash settlement will never be done in T2S for non-T2S currencies.

This Change Request is accompanying the accepted defect with ticket number PBI000000153772 (COSD hold not activated despite rule and rule set being in place.).

Description of requested change:

In order to ensure correct processing of DVP transactions in non-T2S currency, the following solution is proposed:

Extend set of additional matching fields for FOP instructions: The set of additional match fields for FOP instructions must be extended by the following three fields: "Currency", "Amount" and "Credit/Debit" Indicator. If such fields are present in a FOP instruction, T2S must ensure during the matching process that the corresponding attributes in the counter-leg match. This will ensure that the risk of mismatching is minimised, while not forcing to populate the field in "normal" FOP instruction due to the additional character of the field.

To enable correct matching for amounts based on tolerance level, the tolerance amount per currency must be configurable in T2S. In case the tolerance amount is not available for a currency defined in ISO 4217 standard, T2S must do matching with the exact amount available in the instruction.

Submitted annexes / related documents:

Proposed wording for the URD Change request:

The User Requirement Document shall be modified as follows:

5.5.3 Non-mandatory matching fields

[...]

DVP	FOP
Opt-out ISO transaction condition indicator	Opt-out ISO transaction condition indicator
Ex/cum ISO transaction condition indicator	Ex/cum ISO transaction condition indicator
<u>n/a</u>	<u>Currency</u>
<u>n/a</u>	<u>Settlement Amount</u>
<u>n/a</u>	<u>Credit/Debit</u>

Proposed wording for the SYS Change request:

UDFS section <1.6.1.2.3 Matching process>

Diagram 70 on page 317 of the UDFSv2.1 must be updated to include the additional matching fields for FOP instructions:

DVP/DWP	FOP
Opt-out ISO transaction condition indicator	
CUM/EX Indicator *	
<u>n/a</u>	<u>Currency</u>
<u>n/a</u>	<u>Settlement Amount</u>
<u>n/a</u>	<u>Credit/Debit</u>

The corresponding picture for diagram 70 must be updated to include the new additional matching fields and a footnote to clarify why such attributes would be present in a FOP instruction, namely in case of DVP settlement in a non-T2S currency where the instructions are entered into T2S as FOP instructions with the DVP-related attributes are filled.

e.g. Matching of Additional Fields:

DVP/DWP	FOP		SETTLEMENT INSTRUCTION 1		SETTLEMENT INSTRUCTION 2
Opt-out ISO transaction condition indicator		→	Opt out	← MATCH →	Opt out
CUM/EX Indicator ¹		→	ExCoupon	← NO MATCH →	CumCoupon
n/a	Currency ²	→	USD	← NO MATCH →	(blank)
n/a	Settlement Amount ²	→	(blank)	← MATCH →	(blank)
n/a	Credit/Debit ²	→	Credit	← MATCH →	Debit

¹ Matching only takes into account “ExCoupon” and “CumCoupon” values for this message field. Values different from these are considered as “blank”

² The attributes “Currency”, “Settlement amount” and “Credit/Debit” are defined as additional matching fields for FOP instructions in order to ensure that the risk of mismatching is minimised for settlement of transactions containing a cash leg in a non-T2S currency (DVP instructions in non-T2S currencies can be submitted into T2S as FOP instructions (i.e. with Payment Flag FREE), and use the COSD process to ensure DVP)

The statement on the tolerance amount (UDFS page 291, “If all the Matching fields on both instructions match, except for the Settlement Amount, T2S checks if the difference between both Settlement Amounts is compliant with the tolerance amount configured in T2S.”) implicitly applies equally to the case where the amount is contained in a FOP instruction as an additional match field.

GFS section <3.4.5 Instruction Matching>

To update the list of Additional Matching fields described in page 246 of the GFS 5.1:

DVP/DWP	FOP
Opt-out	Settlement transaction condition indicator
	CUM/EX Indicator
<u>n/a</u>	<u>Currency</u>
<u>n/a</u>	<u>Settlement Amount</u>
<u>n/a</u>	<u>Credit/Debit</u>

High level description of Impact:

Outcome/Decisions:

* CRG meeting of 9 July 2015: The CRG decided to put the Change Request on hold and agreed that the Change Request T2S-0526-URD could be a potential candidate for fast-track Release 1.2. The CRG also agreed that the Change Request needs to be updated with regards to the currency values which will be included in operations and a procedure for revising their tolerance values on a regular (e.g. yearly) basis.

* CRG meeting of 17-18 September 2015: The CRG agreed to put the Change Request on hold and agreed to include it in the list of Change Requests for Release 1.2. The CRG considered that the Change Request is critical for the migration of wave 3 participants.

* CRG teleconference of 1 October 2015: The CRG recommended to launch the detailed assessment on the Change Request.

* Advisory Group’s advice on 8 October 2015: Following a written procedure, the AG was in favour of launching the detailed assessment on the Change Request.

- * CSG resolution on 9 October 2015: Following a written procedure, the CSG was in favour of launching the detailed assessment on the Change Request.
- * OMG on 16 October 2015: During a written procedure from 2 October 2015 to 16 October 2015, the Operations Managers Group did not identify any operational impact of the Change Request.
- * CRG meeting of 15 December 2015: The CRG agreed to conclude on its final recommendation on the Change Request during the CRG teleconference of 18 December 2015.
- * CRG teleconference of 18 December 2015: The CRG recommended the approval of the Change Request and its addition to Release 1.2.
- * PMG meeting on 13 January 2016: During a written procedure from 30 December 2015 to 13 January 2016, the Project Managers Group was in favour of adding the Change Request to Release 1.2.
- * OMG on 13 January 2016: During a written procedure from 30 December 2015 to 13 January 2016, the Operations Managers Group did not identify any operational impact. The OMG also was in favour of adding the Change Request to Release 1.2.
- * Advisory Group's advice on 21 January 2016: The AG was in favour of approving the Change Request and including it in Release 1.2.
- * CSD Steering Group's resolution on 22 January 2016: The CSG took the resolution to approve the Change Request and to include it in Release 1.2.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

Impact On T2S	Static data management		Interface		
		Party data management		Communication	
		Securities data management		Outbound processing	
		T2S Dedicated Cash account data management		Inbound processing	
		Securities account data management			
		Rules and parameters data management			
	Settlement		Liquidity management		
		Standardisation and preparation to settlement		Outbound Information Management	
		Night-time Settlement		NCB Business Procedures	
		Daytime Recycling and optimisation		Liquidity Operations	
		Daytime Validation, provisioning & booking	LCMM		
		Auto-collateralisation		Instructions validation	
				Status management	
		Operational services	x	Instruction matching	
		Data Migration		Instructions maintenance	
		Scheduling	Statistics, queries reports and archive		
		Billing		Report management	
		Operational monitoring		Query management	
			x	Statistical information	
				Legal archiving	
		All modules (Infrastructure request)			
		No modules (infrastructure request)			

	Business operational activities
	Technical operational activities

Impact on major documentation		
Document	Chapter	Change
Impacted GFS chapter	3.4.5 Instruction Matching	To update the list of Additional Matching fields
Impacted UDFS chapter	Section 1.6.1.2.3 Matching Process	To update the pictures for table 111 To add a footnote to clarify why some attributes would be present in a FOP instruction
Additional deliveries for Message Specification		
UHB	No impact	
External training materials	LCMM T2S_FA_WS 2_Part3_SETT_MTCH_MNTN	Update matching training materials
Other documentations		
Links with other requests		
Links	Reference	Title

OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT
<p>Summary of functional, development, infrastructure and migration impacts</p> <p>The impacts of this change request on the T2S domains/modules are the following:</p> <p><u>LCMM:</u></p> <p>The matching algorithm function needs to be updated in order to include the credit debit indicator, the currency and the settlement amount as new additional matching fields for FoP instructions.</p> <p>Also, the settlement amount tolerance function should be updated in order to take into account the FoP instructions. If no tolerance amount is found when accessing Static Data, then both settlement amounts must be identical.</p> <p>Fields credit/debit indicator, settlement amount and currency of the FoP instructions will behave as any other additional matching field. I.e. they are initially not mandatory but their values have to match when one of the counterparties provides a value for them in its instruction. Therefore, when an Additional matching field is filled in by one Counterparty, the other Counterparty should also fill it in, since a filled-in Additional matching field cannot match with a field with no value.</p> <p>It should also be noted that given the structure of the message schema, as soon as one of the three fields is filled in, the other two become mandatory as otherwise the instruction would not be schema compliant.</p> <ul style="list-style-type: none"> • Credit Debit Indicator: when one of the instructions contains CRDT, the counterpart instruction must contain DBIT and vice versa. • Settlement Amount: when one of the instructions states a settlement amount, the counterpart instruction must contain identical values unless a tolerance amount is specified for the currency and related amount. In this later case, the difference between both instructions must be compliant with the tolerance amount. • Currency: when one of the instructions contains a currency, the counterpart instruction must contain the same value. <p><u>STSI</u> FOPs in non-T2S currency shall be identified and reported.</p>
<p>Summary of project risk</p> <p>No</p>
<p>Security analysis</p> <p>No potentially adverse effect was identified during the security assessment.</p>

DG-MIP/MIM



ECB-PUBLIC

11 December 2015

COST ASSESSMENT ON CHANGE REQUESTS

T2S-0526-URD – Currency, Settlement amount and debit/credit indicator should be additional matching fields for FOP instructions		
Project phase costs (total)	132,636.18	Euro
Running costs (annual average over cost recovery period)	14,320.05	Euro