

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: CSD Steering Group (CSG)	Institute: CSD	Date raised: 23/10/2015
Request title: Enhance functionality to prevent acceptance (i.e. reaching SF1) of new settlement instructions based on the T2S dedicated cash account or securities account		Request ref. no: T2S 0558 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: CSD	Status: Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

The CSG Task-force on insolvency proceedings has been focusing on two deliverables:

- (i) the elaboration of a Collective Agreement that sets out inter alia the legal rights and obligations of the T2S CSDs and T2S NCBs arising in connection with the harmonised definition of the moment of entry and irrevocability of transfer orders which are subject to matching
- (ii) the definition of high-level procedures and principles to handle the insolvency of a participant in T2S, be it a CSD participant or a central bank's participant and the subsequent reporting requirements

In the context of the discussion on the procedures, it has been identified that, while the T2S application offers the adequate tools to ensure compliance with the legal requirements stemming from the Settlement Finality Directive, an insolvency situation cannot be managed adequately from an operational standpoint with the current T2S functionalities.

In particular, it is not possible to prevent the acceptance of new settlement instructions submitted by insolvent parties with the same level of granularity in the case of a Central Bank participant as for a CSD participant. Indeed, in configuring the restriction rules, the parameter for triggering the rejection of settlement instructions needs to be set at the level of the Securities Account and cannot be set directly at the level of the Dedicated Cash Account (DCA) in the case that a DCA Holder is under insolvency proceedings. In specific scenarios¹, this may lead to a situation where new settlement instructions debiting the account of the insolvent party, received after the operator has been made aware as depicted in scenario 6 of the enclosed presentation, cannot be rejected automatically but are instead (automatically) put on hold; the instructions must then be checked on an individual basis and either manually released or cancelled depending on the DCA Holder (as described in Appendix Example 2 of the attached presentation). Furthermore, instructions put on hold are not prevented from matching, and once instructions are matched, bilateral cancellation is required which adds operational burden/risk in cross-CSD scenarios.

Description of requested change:

In order to ensure an acceptable level of operational risk in case of insolvency of a DCA holder, the following requirement must be fulfilled:

Trigger rejection of new incoming settlement instructions based on the DCA and securities account: It must be possible by one single action per T2S DCA to trigger the rejection of the settlement instructions submitted by the insolvent party or on its behalf and intended to debit the DCA of that insolvent party. It must be possible to bypass this rejection for transactions mandated by the insolvency liquidator². Such transactions must have the CSD where the Securities Account is held as instructing Party of the Settlement Instruction and must include the codeword "LIQR" as the first four characters of the common trade matching reference of the Settlement Instruction. The same level of granularity has to be achieved for triggering rejection of incoming settlement instructions based on securities account.

The request is to create two new restriction types at the level of securities accounts and the dedicated cash accounts

¹ Insolvency of a CB participant where a securities account is linked to several DCAs that do not all belong to the insolvent party

² In some jurisdictions, settlement instructions can be processed according to the system rules even when entered after the opening of insolvency proceedings upon demand of the insolvency liquidator.

which would be checked at validation level (new restriction type case 4). Once the insolvency is declared for a given SAC and/or DCA account owner and the relevant CSD and/or NCB is made aware of the insolvency procedure, they would need to apply the new "insolvency" restriction types (i.e. intraday restriction at validation level) on the relevant securities accounts and/or cash accounts, to reject incoming Settlement Instructions which debit the accounts of the insolvent holder, i.e. to prevent SF1 of new instructions.

In order to avoid the systematic execution of these new validations, the configuration of a system parameter "Insolvency Status" is required for triggering the described validations/rejections. This parameter will be updated by the T2S Operator as soon as the T2S Operator is made aware of the Insolvency situation by the CSD/CB. The additional validations must only be performed in case the system parameter is activated, to reduce the impact on performance.

Submitted annexes / related documents:

See attachment entitled "Insolvency of CSD/CB participants in T2S" from CSG Task Force (version of 29 October 2015)

See attachment entitled "4CB preliminary assessment on potential solutions for CR 558" presented in CRG meeting on 8-9 February 2016:

http://www.ecb.europa.eu/paym/t2s/progress/pdf/tg/crg/crg62/05.4cb_assessment_on_potential_solutions_for_cr_558.pdf

Proposed wording for the URD Change request:

The following user requirements shall be added to the URD:

Rejection of instructions where the cash or securities account is flagged as being under insolvency proceedings

Reference ID

T2S.05.065

T2S shall trigger the rejection of incoming settlement instructions on a T2S dedicated cash account or a securities account that has been flagged as being under insolvency proceedings, when those settlement instructions are intended to either debit the T2S Dedicated Cash Account or to debit the T2S securities account of the insolvent party.

Proposed wording for the SYS Change request:

The following UDFS v2.1 sections should be modified:

1.2.1.8 Restriction types

The concepts of restriction types and restrictions are used in T2S with reference to ~~three~~ four different contexts:

I Case one: acceptance/rejection of Settlement Instructions and Settlement Restrictions at business validation level (See section [Business Validation](#) [258]);

I Case two: intraday restrictions on parties, securities and securities accounts, external RTGS accounts and T2S dedicated cash accounts to block settlement on the relevant static data object;

I Case three: restriction of securities positions or cash balances.

I Case four: restriction of securities accounts and T2S dedicated cash accounts for insolvency.

T2S supports the definition and set-up of restriction for the following objects:

I Case one:

- A Settlement Instruction;
- A Settlement Restriction;

I Case two:

- Securities;
- A securities account;
- A T2S dedicated cash account;
- An external RTGS account 13;
- A party 14;

I Case three:

- A securities position;
- A cash balance;

I Case four:

- A securities account;
- A T2S dedicated cash account.

Restriction Types belonging to case two and four need to be set for a specific object in order to become effective: this is done by the relevant CSD/CB updating this object in static data (see use case [Restrict Static Data Object \[\] 918](#)] for the details of the process and, with specific reference to restriction types belonging to case two, see table below for the mapping between applicable restriction parameter types and object restriction types).

1.2.1.8 Restriction types (Table 9 – Restriction matrix)

<u>Case 4</u>	<u>Rejection</u>	<u>Securities account</u>	<u>Restriction type code is ISAC. Rejection during the Business Validation application process of any Settlement Instruction having the restricted securities account as delivering account. Their processing is definitely stopped.</u>	<u>CSD</u>
<u>Case 4</u>	<u>Rejection</u>	<u>T2S dedicated cash account</u>	<u>Restriction type code is IDCA. Rejection during the Business Validation application process of any Settlement Instruction debiting the restricted T2S dedicated cash account. Their processing is definitely stopped.</u>	<u>CB</u>

1.5.1 Business application configuration

General attribute domains: attribute domains provide a list of valid values for an attribute. The T2S Operator may define a set of general attribute domains that are applicable to all participants. This includes the following general configuration parameters: allegement periods (standard and before cut-off), recycling period for unmatched pending settlement instructions, acceptable time deviation period, settlement priority defaults, sequencing rules, duplicate check period (settlement instructions/restrictions, liquidity transfers, inbound files and messages, pools), billing information, retention period, insolvency setting.

1.6.1.1.3 Validation process

Update of the table 106 “Validation checks per type of instruction” on page 263 to include a new validation check on the Insolvency Restriction Type:

TABLE 1 – VALIDATION CHECKS PER TYPE OF INSTRUCTION

Validation Check	Settlement Instruction		Settlement Restriction		Amendment Instruction	Cancellation Instruction	Hold/ Release Instruction
	DVP/DWP/ RVP/RWP PFOD	FOP: DFP/RFP	CASH	SECURITIES			
ISIN Code Validation	X	X		X			

Validation Check	Settlement Instruction		Settlement Restriction		Amendment Instruction	Cancellation Instruction	Hold/ Release Instruction
Intended Settlement Date Validation	X	X	X	X			
Settlement Quantity Validation	X	X		X			
T2S dedicated cash account Validation	X		X				
<u>Insolvency Restriction Type Validation</u>	<u>X</u>	<u>X</u>					
.							
.							
.							

Addition of the description of the “Insolvency Restriction Type validation” on page 283

- Insolvency Restriction Type validation: In case of an insolvency of a T2S Actor, upon the activation of the “under insolvency situation” general configuration parameter by the T2S Operator, T2S verifies the following:
 - The Securities Account specified in a Settlement Instruction delivering securities must not have any active “Insolvency” Restriction type assigned. In case the Securities Account has been flagged through a Restriction Type as insolvent, T2S rejects the Settlement Instruction.
 - The T2S Dedicated Cash Account specified in a Settlement Instruction debiting cash must not have any active “Insolvency” Restriction type assigned. In case the T2S Dedicated Cash Account has been flagged through a Restriction Type as insolvent, T2S rejects the Settlement Instruction.

If the T2S Dedicated Cash Account is not specified by the user in the Settlement Instruction, the “Insolvency restriction type” is checked for the default T2S Dedicated Cash Account derived from the Securities Account³ of the Settlement Instruction.
 - In case of Settlement Instructions mandated by the Insolvency Liquidator, in order to bypass the rejection, the Instructing Party of the Settlement Instruction must be the CSD where the Securities Account is held and the Settlement Instruction must include the code word “LIQR” as the first four characters of the common trade matching reference of the Settlement Instruction.
 - This check is not performed at revalidation level for Settlement Instructions already in the system. Upon the activation of the “Under Insolvency Situation” system parameter, only new incoming Settlement Instructions are checked.

³ This check is only applicable when the default DCA is calculated at the validation time since the Insolvency Restriction type validation is only applicable at the entry of the instructions to T2S (i.e. no revalidation performed)

Addition of the system parameter “Under Insolvency situation” in the subsection 1.6.1.1.6 Parameter Synthesis on page 313:

1.6.1.1.6 Parameters Synthesis

CSDs need to configure restriction types case one (with the aim of applying their CSD specific validations) as described in section **Error! Reference source not found.** **Error! Reference source not found.**

Additional system parameters also exist relating to duplicate check and time frames for past and future dated instructions and to activate the Insolvency Restriction Type validation as defined in the table below.

- Duplicate check for Settlement Instructions and Settlement Restrictions: Specifies the number of days that T2S uses to ensure that there are no duplicates between new incoming instructions and settled or cancelled ones.
- Duplicate check for Pools: Specifies the number of days that T2S uses to ensure that there are no duplicates between new pools and existing ones in status settled or cancelled.
- Time frame for past/future dated instructions: Specifies the maximum number of settlement days between the reception date of a Settlement Instruction and its intended settlement date (in the past or in the future).
- Under Insolvency Situation⁴: Defines whether any T2S Actors in the system is affected by an insolvency proceeding. In case this general configuration parameter is activated, every incoming Settlement Instruction is checked for the “insolvency Restriction Type validation”.

No specific configuration by the T2S Actor is required.

Concerned Process	Parameter	Created by	Updated by	Mandatory / Optional	Standard or Default Value
Business Validation / Duplicate Check	Number of business days in the past for duplicate check on settlement instructions/restrictions	T2S Operator	T2S Operator	M	3 calendar months
Business Validation / Duplicate Check	Number of business days in the past for duplicate check on pools	T2S Operator	T2S Operator	M	3 calendar months
Business Validation	Time frame for past-dated instructions	T2S Operator	T2S Operator	M	Unlimited
Business Validation	Time frame for future-dated instructions	T2S Operator	T2S Operator	M	Unlimited
<u>Business Validation</u>	<u>Under Insolvency Situation</u>	<u>T2S Operator</u>	<u>T2S Operator</u>	<u>M</u>	<u>False</u>

⁴ The under insolvency situation will be activated upon request of a CSD or CB as explained in the Manual of Operational Procedures (MOP).

1.6.1.9.4 Auto-collateralisation

Validity of T2S generated collateral Settlement Instructions, page 389

...
 Intraday Restriction: T2S does not generate collateral Settlement Instruction which would be subject to intraday restriction ^x.

^x T2S generated collateral Settlement Instructions are not subject to insolvency restrictions (type 4) and as such are not impacted.

3.3.8.4 SecuritiesSettlementTransactionInstructionV03 (sese.023.001.03)

MESSAGE ITEM	DATA TYPE/CODE	BUSINESS RULES
SecuritiesMovementType Document/SctiesSttlmTxInstr/SttlmTpAnd AddtlParams/SctiesMvmntTp	ReceiveDelivery1Code	... MVCV299 MVCV305 MVIC315 ...
Identification Document/SctiesSttlmTxInstr/QtyAndAcct DtIs/SfkpgAcct/Id	RestrictedFINXMax35Text	... MVCV282 MVCV305 MVIC315 ...
Identification Document/SctiesSttlmTxInstr/DlvrgSttlmP ties/Pty1/SfkpgAcct/Id	RestrictedFINXMax35Text	... MVCV280 MVCV305 MVIC319 ...
Proprietary Document/SctiesSttlmTxInstr/QtyAndAcct DtIs/CshAcct/Prtry	RestrictedFINX2Max34Text	... MVCA516 MVCA519 MVCV256 ...
Proprietary Document/SctiesSttlmTxInstr/CshPties/D btr/CshAcct/Prtry	RestrictedFINX2Max34Text	... MVCA516 MVCA519 MVCV256 ...
CreditDebitIndicator Document/SctiesSttlmTxInstr/SttlmAmt/ CdtDbtInd	CreditDebitCode	... MVCA518 MVCA519 MVCV256 ...

4.1 Index of Business Rules and Error Codes

Two new business rules should be added at validation level:

BR Name	Description	Inbound Message	Reply Message	Code USE	Reason Code	Error Text
MVCV305	The delivering Securities Account specified in delivering securities Settlement Instruction must not have any Insolvency Restriction applicable for the current validation timestamp	sese.023	sese.024	<Rjctd>	OTHR	The delivering securities account of the instruction is under an Insolvency restriction type

MVCA519	The debited T2S Dedicated Cash Account specified in a Settlement Instruction must not have any Insolvency Restriction applicable for the current validation timestamp	sese.023	sese.024	<Rjctd>	OTHR	The debited T2S Dedicated Cash account of the Settlement Instruction is under an Insolvency restriction type
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Amendment of Business Rules:

BR Name	Description	Inbound Message	Reply Message	Code USE	Reason Code	Error Text
DAC1024	When performing a Security Account create request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be Blocking or <u>Rejection</u> ; in the latter case the it must be Earmarking or Earmarking for Auto-collateralisation.	reda.018	reda.020		REJT	Invalid Restriction Type
DAU1024	When performing a Securities Account update request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be Blocking or <u>Rejection</u> ; in the latter case the it must be Earmarking or Earmarking for Auto-collateralisation.	reda.023	reda.020		REJT	Invalid restriction type

The following GFS v5.1 sections should be modified:

GFS v5.1 – Section 3.4.3 Instruction Validation, page 213. Inclusion after 'T2S Dedicated Cash Account Validation'

Insolvency Restriction Type Validation

<u>Reference Id</u>	<u>LCMM.IVA.SMIV.3.6</u>
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When the “Under Insolvency Situation” general configuration parameter has been activated by the T2S Operator, the following checks are performed:

- The Securities Account specified in a Settlement Instruction delivering securities must not be flagged through a Restriction Type as insolvent {T2S.05.065};
- The T2S Dedicated Cash Account specified in a Settlement Instruction debiting cash must not be flagged through a Restriction Type as insolvent {T2S.05.065}. In case the debiting T2S Dedicated Cash Account is not specified by the user in the Settlement Instruction, the default T2S Dedicated Cash Account derived from the Securities Account of the Settlement Instruction must not be flagged through a Restriction Type as insolvent;
- In case of Settlement instructions mandated by the Insolvency Liquidator, in order to bypass the rejection, the Instructing Party of the Settlement instruction must be the CSD where the Securities Account is held and the first four characters of the Common Trade Matching Reference must be the code word “LIQR” . Otherwise, the Settlement instruction mandated by the Insolvency Liquidator will be rejected.
- This check is not performed at revalidation level for Settlement Instructions already present in the system, i.e. this check is only applicable for new incoming Settlement Instructions.

The following UHB v2.1 sections should be modified:

UHB v2.1 Section 2.5.9.9 Restriction Type – New/Edit Screen

Positive/Negative
Parameter Set*

Select whether the rules of the restriction type represent a positive or negative set of parameters. The default value is 'Positive'.
References for error messages:
I DRCL200

Submit

This function enables you to create or edit a restriction type according to the information filled in the fields. Upon clicking on the submit button you will be asked to enter your PIN for digital signature purposes (NRO). With the entry of the PIN, T2S attaches a digital signature to the instruction entered by the T2S actor.
Next screen:
I Restriction types – search/list screen [1039]
References for error messages [2223]:
I DRCL001
I DRCL005
I DRCL006
I DRCL007
I DRCL008
I DRCL100
I DRCL101

- I DRCL102
- I DRCL103
- I DRCL104
- I DRCL106
- I DRCL200
- I DRUL001
- I DRUL005
- I DRUL007
- I DRUL008
- I DRUL040

UHB v2.1 Section 6.4.2.139 Restriction Type – New/Edit Screen

Reference for error message	Field or Button	Error Text	Description
DRCL100	<ul style="list-style-type: none"> I Object Restriction Type field I Processing Restriction Type field I Submit button 	Object Restriction Type and Restriction Processing Type do not match	When performing a Restriction Type create request, if Restriction Processing Type is set to 'Rejection', the Object Restriction Type can be only set to ' <u>Securities Account</u> ', ' <u>T2S Dedicated Cash Account</u> ', ' <u>Settlement Instruction</u> ', ' <u>Intra-Position Movement</u> ' or ' <u>Intra-Balance Movement</u> '.

Reference for error message	Field or Button	Error Text	Description
<u>DRCL200</u>	<ul style="list-style-type: none"> I <u>Positive/Negative Parameter Set field</u> I <u>Submit button</u> 	<u>Positive/negative Parameter must be set to Positive</u>	<u>When performing a Restriction Type create request, if Restriction Processing Type is set to 'Rejection', and the Object Restriction Type is set to 'Securities Account' or 'T2S Dedicated Cash Account', the Positive/negative Parameter must be set to Positive.</u>

UHB v2.1 Section 6.4.2.141 Restriction Type Rule – New/Edit Screen

Reference for error message	Field or Button	Error Text	Description
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DRCX006	Submit button	Invalid Restriction Processing Type	When performing a Restriction Type Rule Create request, the Restriction Processing Type of the related Restriction Type must be 'Rejection', 'CSD Validation Hold' or 'Blocking'. <u>In case the Restriction Processing Type is 'Rejection', the Object Restriction Type must be equal to 'Securities Account' or 'T2S Dedicated Cash Account'.</u>
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UHB v2.1 Section 6.4.2.155 Securities Account – New/Edit Screen

Reference for error message	Field or Button	Error Text	Description
DAC1024	Restriction Type field Securities Account Number field Submit button	Invalid Restriction Type	When performing a Security Account create request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be <u>Blocking or Rejection</u> ; in the latter case the it must be Earmarking or Earmarking for Auto-collateralisation.
DAU1024	Restriction Type field Submit button	Invalid restriction type	When performing a Securities Account update request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be <u>Blocking or Rejection</u> ; in the latter case the it must be Earmarking

or Earmarking
for Auto-collateralisation.

UHB v2.1 Section 2.2.2.19 Settlement Instruction – New Screen

To add BR MVCV305 in the list of references for error messages for the following fields: “Securities Movement Type Code”, “Securities Account Number”, “Delivering CSD Participant - Securities Account” and Submit button

Securities Movement
Type Code*

Select if the movement on the securities
account results from a deliver or a receiver
instruction from one of the possible
values:

- DELI
- RECE

References for error messages [2342]:

- MVCV237
- MVCV243
- MVCV248
- MVCV253
- MVCV271
- MVCV272
- MVCV279
- MVCV280
- MVCV281
- MVCV282
- MVCV287
- MVCV288
- MVCV298
- MVCV299
- MVCV305
- MVR929
- MVR941
- MVIC315
- MVIC316
- MVIC317
- MVIC318

Securities Account
Number*

You can choose to either enter the securities
account number or to select it from the
suggested items in the
drop-down menu.

Required format is: max. 35 characters
(SWIFT-x)

References for error messages [2342]:

- MVCP009
- MVCP010
- MVCP036
- MVCP037
- MVCP044

	<ul style="list-style-type: none"> ┆ MVCV271 ┆ <u>MVCV305</u>
Securities Account	<p>Enter the securities account of the delivering CSD participant. Required format is: max. 35 characters (SWIFT-x) References for error messages [2342]:</p> <ul style="list-style-type: none"> ┆ MVCP044 ┆ MVCV271 ┆ MVCV273 ┆ MVCV275 ┆ MVCV276 ┆ MVCV280 ┆ MVCV001 ┆ MVCV003 ┆ MVCV272 ┆ <u>MVCV305</u> ┆ MVCP124 ┆ MVCP125 ┆ MVCP126 ┆ MVIC319 <p>This field becomes mandatory in case the settlement instruction is already matched and is receiving securities.</p>
Submit	<p>This function enables you to create a new settlement instruction. Upon clicking on the submit button you will be asked to enter your PIN for digital signature purposes (NRO). With the entry of the PIN, T2S attaches a digital signature to the instruction entered by the T2S actor. Next screen:</p> <ul style="list-style-type: none"> ┆ Settlement instructions – search/list screen [} 172] <p>References for error messages: [} 1903]</p> <p>...</p> <ul style="list-style-type: none"> ┆ MVCV303 ┆ <u>MVCV305</u> ┆ MVDC002 <p>...</p>
	<p>To add BR <u>MVCA519</u> in the list of references for error messages for the following fields: "T2S Dedicated Cash Account Number", "Debit Credit Indicator" and Submit button</p>
T2S Dedicated Cash Account Number	<p>Enter the dedicated cash account number. In case the T2S dedicated cash account number is not filled in, T2S uses the default DCA stored in static data for the relevant securities account and currency defined in the settlement instruction. Required format is: max. 34 characters (SWIFT-x) References for error messages [2342]:</p> <ul style="list-style-type: none"> ┆ MVCV256 ┆ MVCV257 ┆ MVCA105

- I MVCA501
- I MVCA502
- I MVCA503
- I MVCA505
- I MVCA506
- I MVCA507
- I MVCA509
- I MVCA510
- I MVCA511
- I MVCA514
- I MVCA515
- I MVCA516
- I MVCA517
- I MVCA518
- I MVCA519
- I MVR947

In case the payment type Code is set to 'APMT', and either the debtor cash account, if the instruction debits cash, or, the creditor cash account, if the instruction credits cash, is present, the dedicated cash account number becomes mandatory.

Debit Credit Indicator

Select the relevant value when the original settlement amount has a value from the possible values:

- I CRDT
- I DBIT

References for error messages [} 2342]:

- I MCV256
- I MCV257
- I MVCA517
- I MVCA518
- I MVCA519

In case the Payment Type Code is set to 'APMT' or the 'Settlement Amount' field is filled, the field Debit Credit indicator becomes mandatory.

If the 'Debit Credit Indicator' field is filled, the "Settlement Amount" field must be filled in too (and vice versa).

Submit

This function enables you to create a new settlement instruction.

Upon clicking on the submit button you will be asked to enter your PIN for digital signature purposes (NRO). With the entry of the PIN, T2S attaches a digital signature to the instruction entered by the T2S actor.

Next screen:

- I Settlement instructions – search/list screen [} 172]

References for error messages: [} 1903]

...

- I MVCA518
- I MVCA519
- I MVCP009

...

UHB v2.1 Section 6.4.2.174 Settlement Instruction – New Screen, pages 2347 and 2364

<u>MVCV305</u>	<ul style="list-style-type: none"><u>I Securities Account Number field</u><u>I Securities Account field</u><u>I Securities Movement Type Code field</u><u>I Submit button</u>	<u>The delivering securities account of the instruction is under an Insolvency restriction type</u>	<u>The delivering Securities Account specified in delivering securities Settlement Instruction must not have any Insolvency Restriction applicable for the current validation timestamp</u>
<u>MVCA519</u>	<ul style="list-style-type: none"><u>I T2S Dedicated Cash Account Number field</u><u>I Debit Credit Indication field</u><u>I Submit button</u>	<u>The debited T2S Dedicated Cash account of the Settlement Instruction is under an Insolvency restriction type</u>	<u>The debited T2S Dedicated Cash Account specified in a Settlement Instruction must not have any Insolvency Restriction applicable for the current validation timestamp</u>

EUROSYTEM ANALYSIS – GENERAL INFORMATION

Impact On T2S	Static data management		Interface		
		Party data management		Communication	
		Securities data management		Outbound processing	
	X	T2S Dedicated Cash account data management		Inbound processing	
	X	Securities account data management			
	X	Rules and parameters data management			
		Settlement		Liquidity management	
	X	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	X	Instructions validation	
				Status management	
		Operational services		Instruction matching	
		Data Migration		Instructions maintenance	
		Scheduling		Statistics, queries reports and archive	
		Billing		Report management	
		Operational monitoring		Query management	
				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	3.4.3 Instruction Validation SDMG: no impact	Definition of the new validation check stated in the new URD XX for the Insolvency Restriction Type validation.
Impacted UDFS chapter	SDMG: 1.2.1.8 Restriction types 1.5.1 Business application configuration 4.1 Index of Business Rules and Error Codes	Update the section in order to describe the new type of restriction to be used for flagging SACs and DCAs for insolvency. Update the section in order to add the Insolvency parameter in the list of general configuration parameters. Amendment of DAC1024 "When performing a Security Account create request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be Blocking_or_Rejection; in the latter case the it must be Earmarking or Earmarking for Auto-Collateralisation." Amendment of DAU1024: "When performing a Securities Account update request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity

	<p>SETT: 1.6.1.9.4 Auto-collateralisation 3.3.8.4 SecuritiesSettlementTransactionInstruction V03 (sese.023.001.03)</p> <p>LCMM: 1.6.1.1 Business validation</p> <p>4.1 Index of Business Rules and Error Codes</p>	<p>whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be <u>Blocking or Rejection</u>; in the latter case the it must be Earmarking or Earmarking for Auto-collateralisation.”</p> <p>Footnote added to address absence of impact of insolvency restrictions on T2SgSIs.</p> <p>Mapping added within ‘Business rules applicable to the schema’ table for BRs MVCA519 and MVCV305</p> <p>Definition of the new validation check “insolvency Restriction Type validation” and the new “Under Insolvency Situation” System parameter.</p> <p>Drafting of new business rules governing the rejection of new incoming settlement instructions based on the DCA and Securities Account in case of insolvency.</p>
Additional deliveries for Message Specification	3.3.8.4 SecuritiesSettlementTransactionInstruction V03 (sese.023.001.03)	Mapping added within ‘Business rules applicable to the schema’ table for BRs MVCA519 and MVCV305. MyStandards BR notes updates also required
UHB	<p>SDMG: 2.5.9.9 Restriction Type - New/Edit Screen 6.4.2.140 Restriction Type – New/Edit Screen</p> <p>6.4.2.142 Restriction Type Rule – New/Edit Screen</p>	<p>Addition of reference to new BRs DRCL200 under Positive/Negative Parameter Set* field, submit button</p> <p>Amendment of DRCL100 “When performing a Restriction Type create request, if Restriction Processing Type is set to ‘Rejection’, the Object Restriction Type can be only set to ‘<u>Securities Account</u>’, ‘<u>T2S dedicated Cash Account</u>’, ‘<u>Settlement Instruction</u>’, ‘<u>Intra-Position Movement</u>’ or ‘<u>Intra-Balance Movement</u>’.”</p> <p>Addition of new BRs DRCL200 “<u>When performing a Restriction Type create request, if Restriction Processing Type is set to ‘Rejection’, and the Object Restriction Type is set to ‘Securities Account’ or ‘T2S dedicated Cash Account’, the Positive/negative Parameter must be set to Positive</u>”</p> <p>Amendment of DRCX006 “When performing a Restriction Type Rule Create request, the Restriction Processing Type of the related Restriction Type must be ‘Rejection’, ‘CSD Validation Hold’ or ‘Blocking’. <u>In case the Restriction Processing Type is ‘Rejection’, the Object Restriction Type must be equal to ‘Securities Account’ or ‘T2S Dedicated Cash</u></p>

	<p>6.4.2.156 Securities Account - New/Edit Screen</p> <p>LCMM: 2.2.2.19 Settlement Instruction – New Screen 6.4.2.174 Settlement Instruction – New Screen</p>	<p><u>Account”</u></p> <p>Amendment of DAC1024 “When performing a Security Account create request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be <u>Blocking or Rejection</u>; in the latter case the it must be Earmarking or Earmarking for Auto-Collateralisation.”</p> <p>Amendment of DAU1024: “When performing a Securities Account update request, in case of creation of Securities Account Restriction, it must refer to an existing Restriction Type entity whose Object Restriction Type is Security Account or Securities Position. In the first case the Restriction Processing Type must be <u>Blocking or Rejection</u>; in the latter case the it must be Earmarking or Earmarking for Auto-collateralisation.”</p> <p>Addition of the two new BRs</p>
<p>External training materials</p>	<p>T2S_FA_WS_1_Part_3_SD_OBJ_DIAPO T2S_FA_WS_1_Part_3_SD_OBJ_Webinar</p> <p>T2S_FA_WS 2_Part2_SETT_BVAL_SRVP_RVAL_DIAPO</p>	<p>Introduction of RT case 4 in the slide related to RT entity (slide 257) in both live and webinar training versions.</p> <p>Introduction of RT case 4 validation</p>
<p>Other documentations</p>		
<p>Links with other requests</p>		
<p>Links</p>	<p>Reference</p>	<p>Title</p>
<p>OVERVIEW OF THE IMPACT OF THE REQUEST ON THE T2S SYSTEM AND ON THE PROJECT</p>		
<p>Summary of functional, development, infrastructure and migration impacts</p>		
<p>Functional Impact:</p> <p>The instruction validation process needs to be amended to prevent the acceptance of new Settlement Instructions (SI) submitted by parties debiting a Dedicated Cash Account (DCA) or debiting a Securities Account (SAC) flagged as insolvent. Additionally:</p> <ul style="list-style-type: none"> • The acceptance will be prevented only under the new system status “Under Insolvency Situation”. • The process must also allow for the bypassing of this rejection in case of new SIs mandated by the Insolvency Liquidator. The check will be bypassed when the CSD is the Instructing Party and the Common Matching reference contains the word “LIQR”. <p>The securities account and dedicated cash accounts that become insolvent will be flagged by the CSD or the NCB by means of a new Restriction Type Case 4 (RT4).</p>		

These new restriction types would work like the restrictions under Restriction Type Case 2 (RT2) in terms of T2S Static Data configuration, but while RT2 restrictions are applied at settlement level, RT4 would be aimed at preventing the acceptance of new incoming SIs.

Consequently these restriction types would only have "Positive" as Positive/Negative Parameter Set value, would only be checked at validation level (i.e. not considered for revalidation) and would only be applied to securities accounts and cash accounts respectively, leading to the subsequent intraday restriction at validation level over a given DCA/SAC (the only allowed processing type would be "Rejection").

The validation module will thus reject any settlement instruction debiting one of those insolvent accounts whenever there is any Insolvency Restriction applicable for the current validation timestamp. This check will be performed only once at validation time (no revalidation for this check is foreseen), in line with the requirements as the instructions already in the system, wouldn't have to be cancelled automatically when an insolvency is declared. In this line, please note that neither unsettled reverse auto-collateralisation instructions nor the creation of the new relocation instructions would be checked against the new RT4 due to the following reasons:

- On the day of the insolvency new auto-collateralisation would be prevented by the application of a "blocking" intraday restriction type case 2 on the account (templates wouldn't be affected intraday by the new restriction types for managing insolvency).
- On the following days, templates would be validated at SOD because: a) in case of insolvency at SAC level, the CSD would have removed the CMB Securities Account Link with the Auto-collateralization Settlement Link to TRUE for that day (and set a new one with Auto-collateralization Settlement Link to FALSE if needed); and b) in case of insolvency at DCA level the NCB would have set the limit of auto-collateralisation to zero.

Additionally, intra position movements and Intraday movements are not in the scope of this CR. Only securities accounts and dedicated cash accounts can be restricted by the Restriction Type Case 4. The extension at party level will be analysed for further releases.

From a Static Data Management viewpoint, three areas will be impacted:

- Restriction type management, to allow creating and maintaining a new type of restriction that allows flagging securities accounts and T2S dedicated cash accounts for insolvency.
- Securities account data management: to allow applying/removing to/from a securities account restriction types used to flag this account for insolvency.
- T2S dedicated account data management: to allow applying/removing to/from a T2S dedicated cash account restriction types used to flag this account for insolvency.

From T2S infrastructure point of view the CR-0558 will make more complex the validation algorithm for the sese.023 (one of the most critical point for the sizing of T2S). This impact will be considered within the volumetric assumptions' review.

Summary of project risk

None

Security analysis

No potentially adverse effect was identified during the security assessment.

Outcome/Decisions:

- * CRG meeting of 15 December 2015 and CRG teleconference on 18 December 2015: The CRG decided to put the Change Request on hold.
- * CRG teleconference of 22 January 2016: The CRG agreed to make some changes on the Change Request and put it on hold. The CRG also agreed to have a written procedure on the updated Change Request afterwards.
- * CRG meeting on 8-9 February 2016: The CRG agreed to make some minor changes on the Change Request and recommended to launch the detailed assessment on the updated Change Request.
- * Advisory Group's advice on 26 February 2016: Following a written procedure from 19 to 26 February 2016, the AG was in favour of launching the detailed assessment on the Change Request.
- * CSG resolution on 27 February 2016: Following a written procedure from 19 to 27 February 2016, the CSG was in favour of launching the detailed assessment on the Change Request.
- * CRG teleconference on 14 April 2016: The CRG agreed to make some updates on the Change Requests and recommended the approval of the updated Change Request in principle.
- * CRG written procedure from 18 to 20 April 2016: The CRG recommended the Change Request for approval.
- * CRG on 20 April 2016: The CRG recommended the Change Request for approval in a written procedure from 18 to 20 April 2016.
- * Advisory Group's advice on 25 April 2016: Following a written procedure from 21 to 25 April 2016, the AG was in favour of the Change Request.
- * CSD Steering Group's (CSG) resolution on 26 April 2016: Following the CSG Meeting on 26 April 2016, the CSG adopted the resolution to approve the Change Request and to include it in T2S Release 1.2 baseline.

DG - MARKET INFRASTRUCTURE & PAYMENTS
MARKET INFRASTRUCTURE MANAGEMENT



ECB-PUBLIC

8 April 2016

Cost assessment on Change Requests

T2S-558-URD – Enhance functionality to prevent acceptance (i.e. reaching SF1) of new settlement instructions based on the T2S dedicated cash account or securities account		
Project phase costs (total)	299,622.06	Euro
Running costs (annual average over cost recovery period)	26,405.15	Euro