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General Information (Origin of Request) ☐ User Requirements (URD) or GUI Business Functionality Document (BFD) ☒ Other User Functional or Technical Documentation (SYS)		
Request raised by: 4CB	**Institute:** 4CB	**Date raised:** 03/12/2013
Request title: Communication of condition modification status advices during automatic release of collateral reimbursements		**Request ref. no:** T2S 0441 SYS
Request type: Common	**Urgency:** High	
1. Legal/business importance parameter: Low	**2. Market implementation efforts parameter:** Medium	
3. Operational/Technical risk parameter: High	**4. Financial impact parameter:** No cost impact	
Requestor Category: 4CB	**Status:** Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

T2S performs the automatic release of collateral instructions in two different scenarios:

- In the automated substitution of collateral. In case lack of securities detected during the provision check
- Forced reimbursements that could follow a decrease of NCB auto-collateralisation limit
- During the EoD, when there is pending intraday collateral reimbursement instructions related to credit provided by a NCB. T2S forces the reimbursement of the credit by releasing and settling the reverse collateral instructions.

At their creation, the reverse collateral instructions that are released in the scenarios above are generated on hold. The T2S Actor receives the corresponding “Securities Settlement Transaction Generation Notification” (sese.032) message advising of the creation of collateral instructions with the corresponding hold status. No T2S generated Hold Instruction is produced for the hold purpose.

Similarly, when T2S performs their automated release, the hold status of the reverse collateral instruction is updated to “released”. Consequently, T2S sends the “Securities Settlement Transaction Status” (sese.024) advising the T2S Actor of the status change of the reverse collateral instructions with the corresponding pending (“no hold remains”) status. No T2S generated Release Instruction is produced for the release purpose and thus, no Condition Modification Message (sese.031) is generated either.

This behaviour is in line with the SGMS decision on this matter, where it was agreed that for maintenance actions performed automatically by T2S, only the status advice related to the underlying instruction should be returned to the participant (i.e. sese.024/semt.014 or pillar III intra-balance movement status advice”) and no communication on the maintenance action should be communicated.

The rationale behind this decision is that both statuses would inform about the same event, (in this case the automatic release of the collateral instruction), so it is understood that for reconciliation purposes, the T2S Actors would only need to receive one of them. Therefore, in case two messages would be sent, one of them would be filtered out by means of the message subscription configuration. In the current scenario, as the Securities Settlement Transaction Status Advice contains all the details of the underlying collateral instruction, it is assumed that the message to be discarded is the Condition Modification Status Advice.

The unique scenario where T2S shall deviate from SGMS decision is for the CoSD processing, where T2S shall also send the execution of the CoSD Hold instructions (each of them including a CoSD rule) as each of them is relevant just for one Administering Party, as already described in the UDFS 1.2.1.

However, the current UDFS 1.2.1 description of the automated substitution of collateral (page 740) and EoD

reimbursement (page 809), mentions the creation of a “Securities Settlement Condition Modification” message (sese.031) to inform the status change of the reverse collateral instruction. As no T2S generated Release Instruction is created based on the description above, the current T2S implementation does not envisage the population of this message, in line with SGMS discussion

UDFS 1.2.1 should be amended to remove the abovementioned inconsistency, since with current UDFS description the T2S Actor would receive two status advices;

- A Securities Settlement Condition Modification Status Advice (sese.031) related to the execution of the generated release instruction.
- A Securities Settlement Transaction Status Advice (sese.024) related to the status change of the underlying collateral instruction.

As a conclusion, it is considered that aligning UDFS description with SGMS decision and with current implementation, would have limited impact on the market, as T2S Actors would nevertheless not use the Settlement Condition Modification Status Advice for these scenarios.

Description of requested change:

The expected benefits of this implementation are the followings:

- Avoid the receipt of unnecessary condition modification messages of maintenance instructions as the status change can be tracked with the “Securities Settlement Transaction Status” message of the collateral instruction.
- Unnecessary storage in T2S of T2S generated release instructions.
- Align UDFS description with current T2S implementation.

Submitted annexes / related documents:

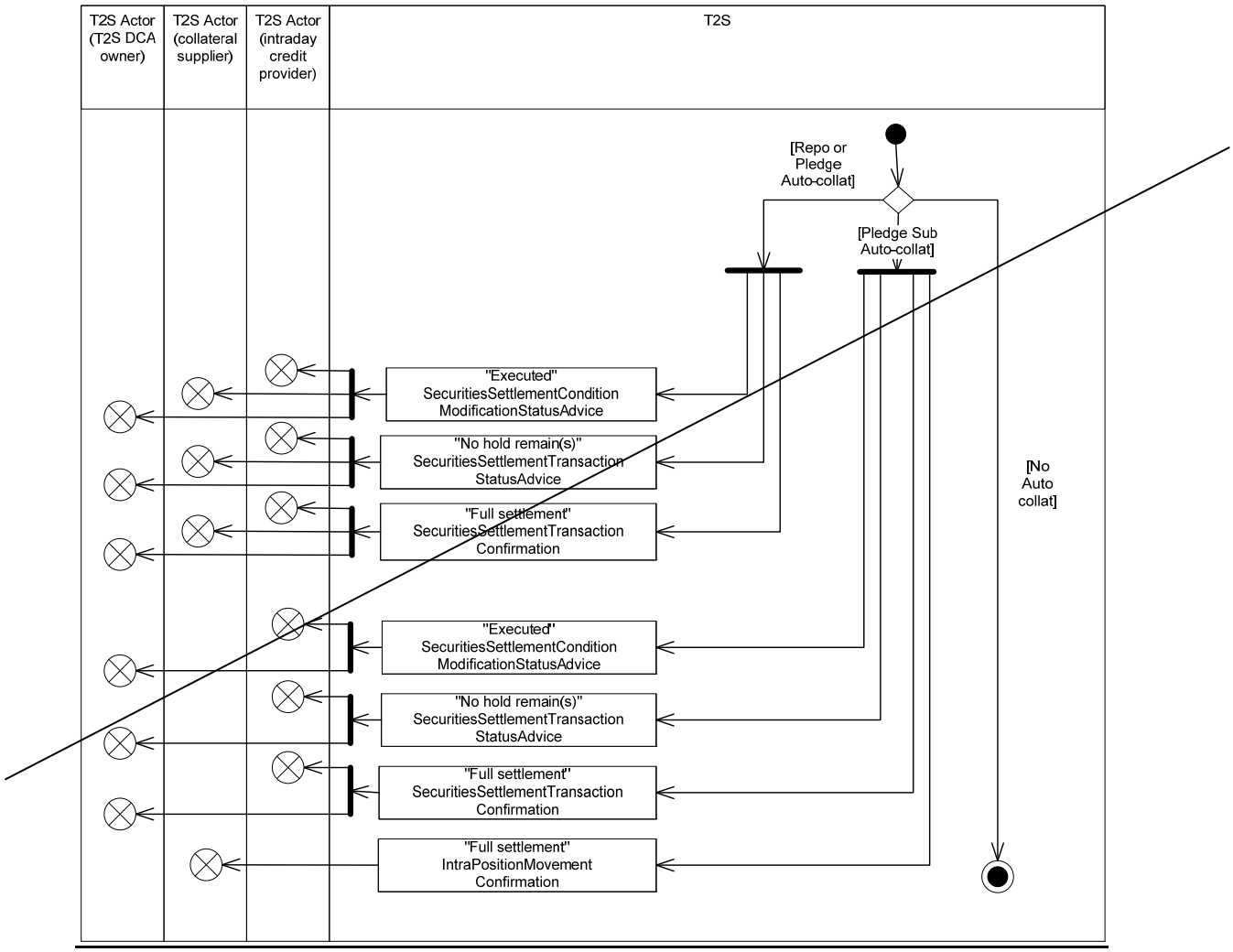
Presentation of the Message Standardisation Sub-group Telco on 30-09-2010:
dp_T2S2010_7088_Instructions_generation_300910.ppt

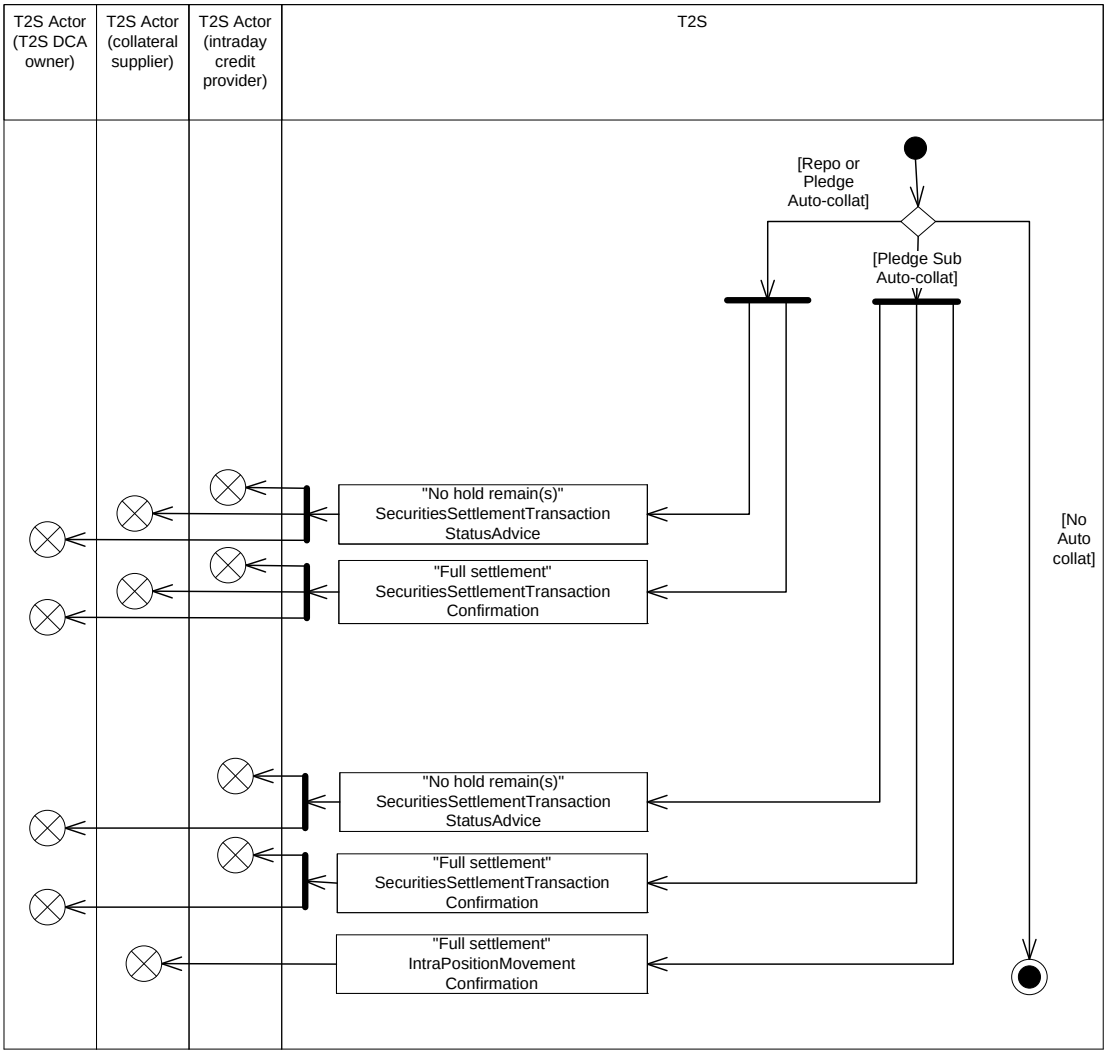
Proposed wording for the SYS Change request:

The following UDFS sections should be amended:

- Section 2.3.4.5 Booking.

Additional notification reverse collateral (page 740):





As for the initial auto-collateralisation operation, all involved T2S Actors are provided with:

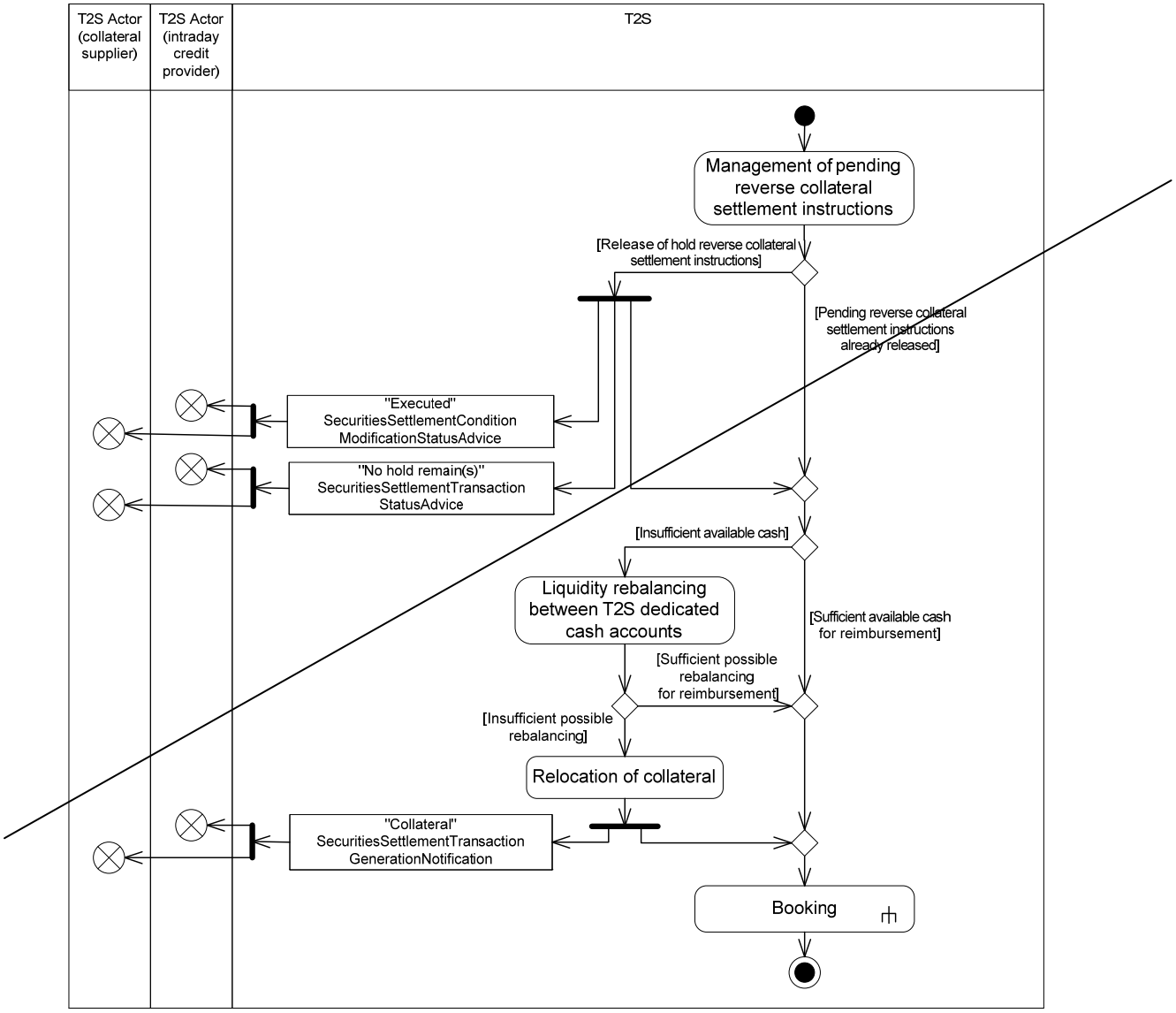
- In case of Repo or Pledge auto-collateralisation procedure:
  - ~~A "Executed" SecuritiesSettlementConditionModificationStatusAdvice for the confirmation of the execution of the generated maintenance request~~;

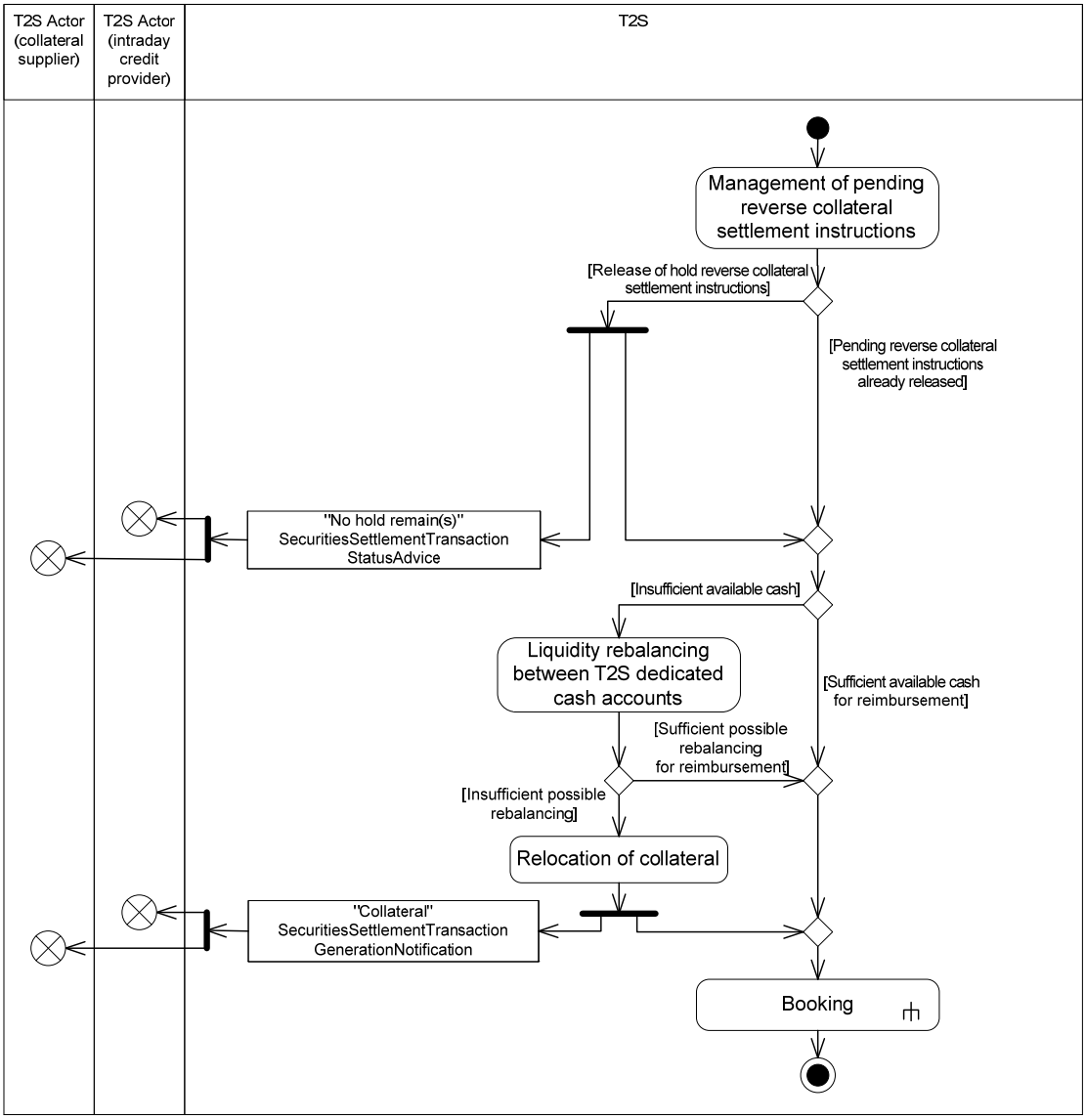
  - A"No hold remain(s)" SecuritiesSettlementTransactionStatusAdvice for the notification of the update of the released reverse collateral Settlement Instruction;

  - A "Full settlement" SecuritiesSettlementTransactionConfirmation for the confirmation of the full settlement of the released reverse collateral Settlement Instruction;

- In case of Pledge-sub auto-collateralisation procedure:
  - ~~A "Executed" SecuritiesSettlementConditionModificationStatusAdvice for the confirmation of the execution of the generated maintenance request~~;
  - A "No hold remain(s)" SecuritiesSettlementTransactionStatusAdvice for the notification of the update of the released reverse collateral Settlement Instruction;
  - A "Full settlement" SecuritiesSettlementTransactionConfirmation for the confirmation of the full settlement of the released reverse collateral Settlement Instruction;
  - A "Full settlement" IntraPositionMovementConfirmation for the confirmation of the full settlement of the released reverse collateral Settlement Restriction.

- Section 2.17.2.2 Reimbursement of pending intraday credit provided by central banks (page 809)





Management of pending reverse collateral Settlement Instructions

Firstly, T2S identifies the held reverse collateral Settlement Instructions, related to a central bank collateralisation, in order to release them.

This process may result in the detection of the following settlement contexts:

- **[Release of hold reverse collateral Settlement Instructions]** When held reverse collateral Settlement Instructions, related to a central bank collateralisation, are identified**:**

  - T2S updates the party hold indicator of those pending reverse collateral Settlement Instructions to "No".

    For each released pending reverse collateral Settlement Instructions, all involved T2S Actor (i.e. the central bank which provided the intraday credit –and possibly its collateral management system-, the T2S Dedicated cash account, the collateral supplier), according to their message subscription, are provided with:

    - ~~An "Executed" SecuritiesSettlementConditionModificationStatusAdvice for the confirmation of the execution of the generated maintenance request~~;

- A "No hold remain(s)" SecuritiesSettlementTransactionStatusAdvice for the notification of the update of the released reverse collateral Settlement Instruction;

- The released reverse collateral Settlement Instructions (and in case of pledge sub the linked reverse collateral Settlement Restrictions) are then processed with the pending reverse collateral Settlement Instruction already released (See next point);

Submitted annexes / related documents:

SGMS Telco 30-09-2010: dp_T2S2010_7088_Instructions_generation_300910.ppt

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High level description of Impact:

The impact relates to the drafting changes of the UDFS 1.2.1 as described in the "*Proposed wording for the SYS Change request*"

Outcome/Decisions:

* CRG meeting of 16 December 2013: The CRG decided to recommend the approval of the Change Request.

* Advisory Group's advice on 3 February 2014: Following a written procedure from 27 January to 3 February 2014, the AG was in favour of the Change Request.

* CSG resolution on 5 February 2014: Following a written procedure from 27 January to 5 February 2014, the CSG adopted the resolution to approve the Change Requests.

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T2S_0441_SYS_attachment

Generation of instructions by T2S

SGMS Telco 30-09-2010:
dp_T2S2010_7088_Instructions_generation_300910.ppt

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Instructions generated by T2S

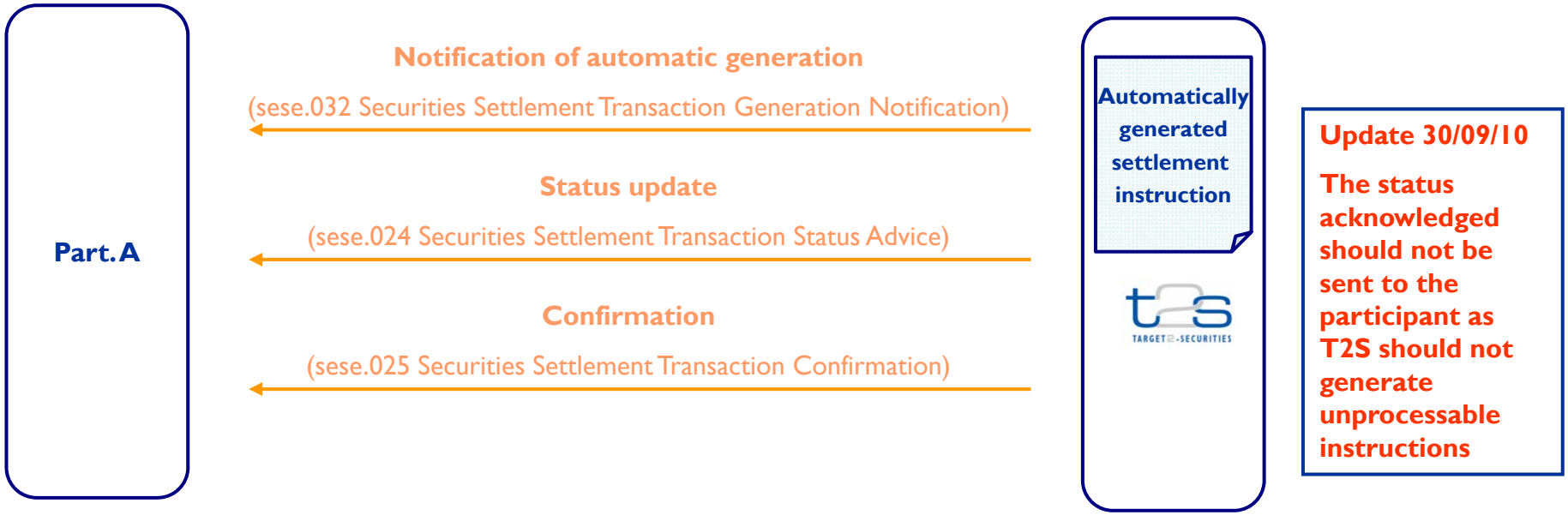
- Settlement instructions (SI)
- Intra-position movements (IP)
- Intra-balance movements (IB)
- Cancellations of SI/IP
- Cancellations of IB
- Hold/Release of SI

At present, 2 ways of notifying automatic generation in T2S:

Via a specific notification message (SI)

Via a status advice (IP&IB, Cancellation and Hold/Release)

Reporting of automatically generated Settlement instructions



Update 30/09/10

The status acknowledged should not be sent to the participant as T2S should not generate unprocessable instructions

In the case of auto-collateralisation, realignement, reimbursement of auto-collateralisation

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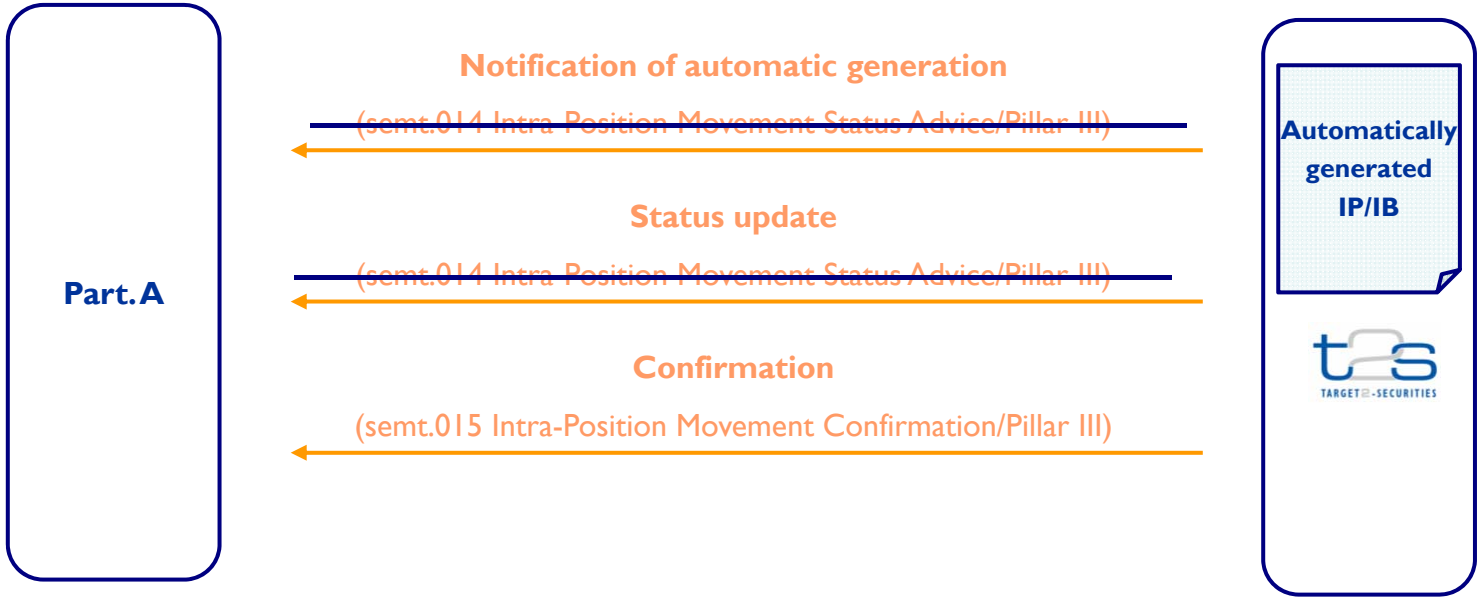
Reporting of automatically generated intra-position, intra-balance instructions



Update 30/09/10

Only the confirmation of the intra-position/balance should be sent to the participant

Case where T2S generates on Hold intra-position movement to be investigated (Flow to be removed from UDFS page 222)

Possible CR for links to be followed up

In the case of pledge-sub auto-collateralisation (transfer of securities on pledged sub-position)

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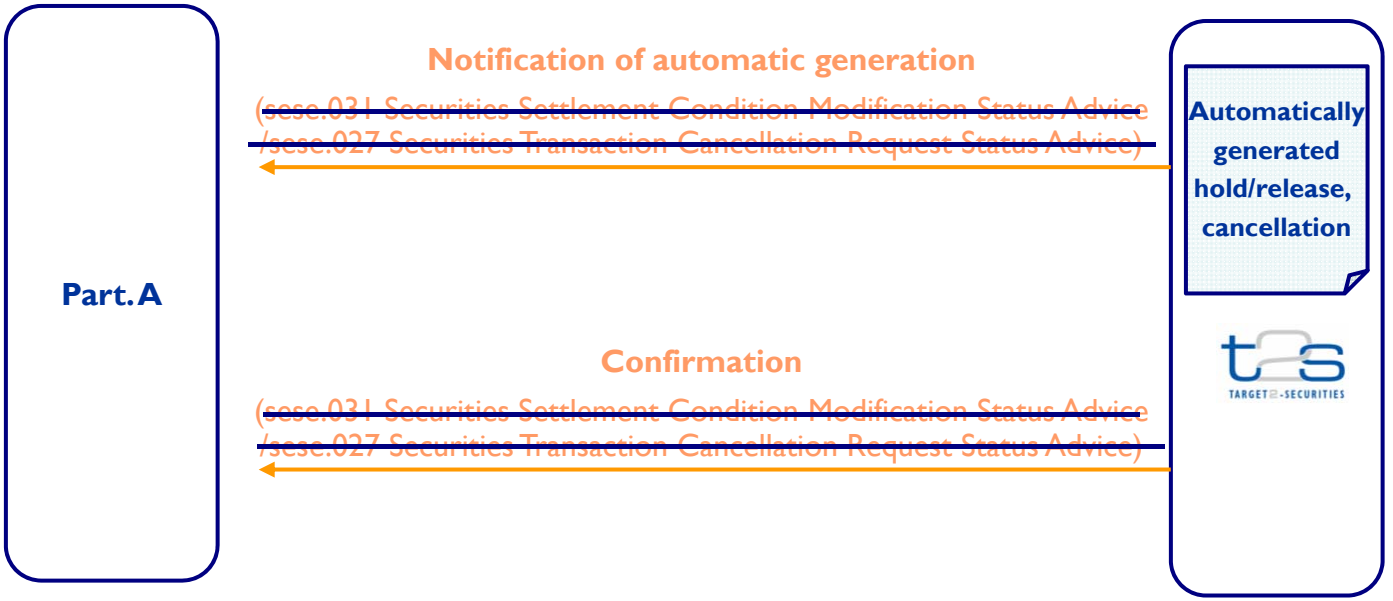
Reporting of automatically generated Hold/Release, cancellation instructions



Update 30/09/10

In those cases, only the status advice of the underlying instruction should be returned to the participant (i.e. sese.024/semt.014 or pillar III intra-balance movement status advice.

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Question to the SG

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(option 1)

Are you fine with the current process?

as such (1.a) or possibly with additional flag in status message to flag the fact of the automatic generated instruction (1.b) ?

or

(option 2)

do you see the need the two processes to be aligned?

If so, which one? Status (2.a) or notification (2.b)?

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Alignment on the status process (2.a)

Pros:

consistent process for T2S, i.e. same way of advising a generation independently of the type of instruction or maintenance instruction.

Cons:

Not fully consistent with market practice for automatically generated instructions

In addition:

Does the existing status message contain sufficient info for further processing, or should additional information be inserted/created, e.g., a new flag to indicate the status message is sent as a result from automatic generation?

Alignment on the notification process (2.b)

Pros:

consistent process for T2S, i.e. same way of advising a generation independently of the type of instruction or maintenance instruction.

Cons:

- any other benefit but greater consistency in T2S? (for instance: use in processing?);

- significant number of messages to be developed for this purpose;

- already tight planning for UDFS1.0.