

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: VP Securities	Institute: CSD	Date raised: 31/07/2012
Request title: Unblocking of ISIN as part of Corporate Actions handling		Request ref. no: T2S 0358 URD
Request type: Common	Urgency: Normal	
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:

When a Corporate Action that includes change of all holdings in an ongoing ISIN is executed, it will be needed for a CSD to block the ISIN for settlement in order to avoid changes of holdings while C.A. is handled. Instructions for changes of holdings concerning such a C.A. will be sent to T2S for settlement on an all or none basis.

In order to allow holdings in the blocked ISIN to be used for auto collateral (if eligible) and for settlement purposes as soon as possible after settling of the C.A. transactions some CSDs today offer the possibility to unblock ISIN as part of C.A. handling. In T2S this is not offered.

If a CSD will have to wait for feedback about successfully C.A. settlement before an unblocking instruction to T2S can be send, settlement sequences subsequent to C.A. sequence will neither allow settlement within the C.A.-blocked ISIN nor the use for auto collateralization until static data has been updated due to the unblocking request..

Unblocking of a C.A. blocked ISIN before subsequent sequences will increase efficiency of settlement and auto collateralization, minimize postponing of settlement of trades into daylight, and service level in T2S will equalise the one offered by some CSDs today.

In the Danish market, there are four very big settlement days (counted in DKK cash volume), for these dates (2.01, 1.04, 1.07 and 1.10) majority of ISINs eligible for auto collateral towards Danmarks Nationalbank (the Danish CB) will be blocked from start of settlement day due to C.A. handling. Therefore a solution allowing C.A. blocked ISIN s to be unblocked before start of the first sequence subsequent to the sequence where the C.A. instructions has been successfully settled is regarded mandatory by the Danish market, Danmarks Nationalbank and VP SECURITIES before inclusion of DKK as a settlement currency in T2S.

Volumetric implications

4CB high level analysis conducted shows that the implementation approach proposed by 4CB will allow to process volumes shown below in parallel, assuming that all pertinent SD updates (restrictions) are sent in advance (during the business day before the NTS in which CAs have to be settled, latest by 19.30 hrs CET).

Volumetric	VP Securities	Iberclear	Clearstream
Number of business days per year when you would use the new Processing Restriction Type	4 business days per year	250 business days per year, i.e. on each business day, 180 times per month	250 business days per year, i.e. on each business day
Number of ISINs affected	1.200	883	1.000 to 5.000
Average number of holdings in each ISIN	Average 208, ranging from 1 to 4.506 with a mean value of 50		In most cases only 1-2
Total number of holdings in the ISINs	213.617		In most cases only 1-2

Description of requested change:

It should be possible for a CSD to instruct T2S in advance on unblocking of an ISIN conditioned to successful settlement of C.A. (e.g. as additional information on C.A. settlement instruction, as additional information on blocking transaction or any other automated solution as a manual solution will probably not be feasible due to number of ISINs involved).

The basic idea would be for the T2S Operator to define a new Restriction Type "CAPR" (Corporate Action Processing Restriction) that may be used by CSDs to restrict ISINs in the scenario described.

The new Restriction Type will be created with a negative flag and one rule to allow only CORP (Corporate Action) instructions, Object Restriction Type "Securities" and Restriction Processing Type "Blocking".

After restricting all relevant ISINs with the correct Valid From and Valid To timestamps to comply with the CR assumptions, CSDs would send to T2S all CAs related to any given ISIN as a pool of linked instructions or as instructions linked by means of a WITH code.

On each ISIN restricted by CAPR T2S would only allow settlement of CAs (Corporate Actions), unless a settled CA FoP (free of payment) instruction on the same ISIN is found in the given system entity. In the latter case, any settlement instruction can settle on said ISIN.

This processing only applies during the night-time settlement sequence. As all CA FoP instructions for any given ISIN are linked together, the new Processing Type would ensure that, for said ISIN, T2S would settle all CA FoP first and any other settlement instruction only after all CA FoP are settled.

All the Static Data updates for restrictions have to be sent in advance (e.g. during the business day before the NTS in which CAs have to be settled).

Submitted annexes / related documents:**Proposed wording for the URD Change request:**

URD v.5.05

16.7.6 Securities Settlement Restrictions Model

Reference ID	T2S.16.510
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It shall be possible for a CSD and the T2S operator to block a security from settlement. For example, it may be necessary to restrict settlement in a security for all CSDs. For example, CSDs will need to restrict settlement in a security for corporate action processing affecting securities positions and settlement instructions. A CSD will not need to restrict a security for settlement that only requires the end-of-day position. The following table specifies the proposed business attribute requirements for settlement restrictions at the security level. The holding model defines the blocking of accounts and securities holdings within an account.

Table 16-8 – List of Attributes for Securities Settlement Restrictions

Attribute	Description
Security Identifier	This attribute shall define the unique technical identifier of a security in T2S. It shall link the restriction to the security static data.
Settlement Restriction Type	This attribute shall define the reason for restricting the security from settlement. The restriction type of security level across all CSDs shall be harmonised. Restrictions at the CSD level shall be harmonised to the maximum extent possible, but market-specific restriction types shall be definable.
Party Identifier	This attribute is the unique technical party identifier of the CSD or the T2S Operator in T2S.
Valid-From Timestamp	This attribute shall specify the date and time from which the security is restricted from settlement.
Valid-To Timestamp	This attribute shall specify the date and time until which the security is restricted from settlement. <u>When no end timestamp is specified a</u> restriction shall be valid until further notice <u>in general</u> when no end timestamp when this attribute specifies a value or valid until certain predefined parameters are met in case of very specific processing restriction types. T2S shall remove the restriction automatically after the date and time

	when the attribute specifies a timestamp.
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Proposed wording for the GFS Change request:

UDFS v2.3 1.4.4.2.4 First night-time settlement cycle processes, page 240

TABLE 96 - PROCESSES DURING THE FIRST NIGHT-TIME SETTLEMENT CYCLE

T2S PROCESSES	DESCRIPTION OF THE PROCESSES
...	
Settlement sequence 2	Only the following Settlement Instructions, Settlement Restrictions and liquidity transfers validated and accepted by T2S before start of sequence 1 are proposed for settlement: <ul style="list-style-type: none"> • Settlement Instructions related to Corporate Actions (CA) on “stocks” ^{156,x}; • All liquidity transfers: ...
...	

¹⁵⁶ CA on stocks are events applicable on final securities positions (e.g. cash distributions). CA on flows are events related to pending transactions (e.g. market claims and transformations).

^x CA FoPs settled during this sequence or any subsequent sequence may result in the automatic release of a Corporate action processing restriction (CAPR). This automatic removal of the CAPR intraday restriction occurs upon the settlement of the first CA FoP on an account belonging to the system entity defining the intraday restriction for this ISIN. It is assumed that any such CA FoPs are linked all or none either within a pool or via WITH links. When the CAPR is not removed automatically during the NTS period it remains active according to the defined validity period. For the management of the intraday restrictions please See section Restriction Types [] 42).

GFS V5.3, page 418

3.5.8.3 Description of the functions of the module

1 – Night-time settlement manager

Introduction

<i>Reference Id</i>	SETT.NTS.NTM.1.1
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This function receives an Event (Start of Cycle n / Sequence m) during the night-time settlement period {T2S.08.020} {T2S.08.080}. It then selects the Settlement Transactions related to the identified sequence {T2S.03.100} {T2S.07.010} {T2S.07.020}, creates a collection that includes them and sends it, through a Night-time Series Request, to the Night-time Series Manager function. When the last series ends, the Night-time Settlement Manager function notifies the Scheduling module when the last series ends.

- When relevant, removes Intraday Restrictions having restriction type code “CAPR” (Corporate Actions Processing Restriction);
- Notifies the Scheduling module.

[...]

For each sequence, the function:

- Sends a *Night-time Series Request* to the *Night-time Series Manager* function to inform it that a sequence of *Settlement Transactions* is ready to be executed;
- Sends one collection to the *Failure Management and Settlement Outcome* function with all *Settlement Transactions* that correspond to the sequence criteria but that were not selected due to at least one intraday *Settlement Restriction*, each of those transactions carrying its own reason for failure;

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- ~~Sends an End of Process Event (Start of Cycle n / Sequence m) to the Scheduling module at the reception of a Series Result sent by the Night-time Series Manager function, indicating that it has finished the processing of the sequence.~~
 - At the reception of a Series Result sent by the Night-time Series Manager function:
 - Checks if a Corporate Action on stock (CORP) FoP was settled during the series:
 - Using an ISIN under an Intraday Restriction having restriction type code "CAPR" (Corporate Actions Processing Restriction).
 - On a Securities Account belonging to the CSD who set this IR;
 - If such FoP exists, removes this Intraday Restriction on the ISIN at stake;
 - Sends an End of Process Event (Start of Cycle n / Sequence m) to the Scheduling module, indicating that it has finished the processing of the sequence.

High level description of Impact:

Outcome/Decisions:

- * CRG meeting of 1-2 October 2012: The Change Request is discarded for release 1 and will potentially be considered for a future release of T2S.
- * CRG meeting of 17-18 September 2015: The CRG agreed to put the Change Request on hold and indicated that the Change Request is a potential candidate for Release 2.
- * CRG telco on 10 October 2016: The CRG kept the Change Request on hold and agreed to continue the discussion in the next CRG meeting.
- * CRG meeting on 12-13 December 2016: The CRG recommended to launch the detailed assessment of the Change Request and asked the 4CB to check the feasibility to deliver the Change Request in the T2S Release 2.0.
- * OMG on 20 December 2016: During a written procedure from 13-20 December 2016, the Operations Managers Group did not identify any blocking operational impact.
- * CRG teleconference of 8 February 2017: The CRG agreed to update the Change Request and asked the 4CB to continue the detailed assessment on the basis of the updated Change Request.
- * CRG meeting on 24 April 2017: The CRG recommended the Change Request for approval and its inclusion in the T2S Release 2.0.
- * Operational Managers Group on 4 May 2017: Following a written procedure from 26 April - 4 May 2017, the Operations Managers Group reconfirmed that the Change Request does not have any blocking operational impact and was in favour of adding the Change Request to the T2S Release 2.0
- * Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) on 8 June 2017: Following a written procedure from 02 to 08 June 2017, the AMI-SeCo was in favour of approving the Change Request and its inclusion in T2S Release 2.0.
- * CSD Steering Group on 9 June 2017: Following a written procedure from 02 to 09 June 2017, the CSG adopted the resolution to approve the Change Request and its inclusion in T2S Release 2.0.

EUROSYSTEM ANALYSIS – GENERAL INFORMATION

Impact On T2S	Static data management		Interface		
		Party data management		Communication	
	X	Securities data management		Outbound processing	
		T2S Dedicated Cash account data management		Inbound processing	
		Securities account data management			
	X	Rules and parameters data management			
	Settlement		Liquidity management		
	X	Standardisation and preparation to settlement		Outbound Information Management	
	X	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			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	§3.5.8.3 Description of the functions of the module	Describe the mechanism aimed at removing, when required, the IR set on an ISIN.		
Impacted UDFS chapter	§1.4.4.2.4 First night-time settlement cycle processes	Add footnote relating to removal of CAPR.		
Additional deliveries for Message Specification				
UHB				
External training materials				
Other documentations	Configuration Guide	New Restriction Type 'CAPR' to be defined by T2S Operator with negative flag, no Valid To, one rule to allow only CORP instructions, Object Restriction Type "Securities" and Restriction Processing Type "Blocking".		
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
<ul style="list-style-type: none"> - Introduction of a new Restriction Type "CAPR", to be configured by T2S Operator. This Restriction Type should have an Object Restriction Type "Securities", a Restriction Processing Type "Blocking, a negative flag and one rule to allow only CORP instructions, - Update of Configuration Guide accordingly. - Modification of "Update Securities" business rule DSU1300 to allow multiple restriction types with the same code to be applied by different parties on the same ISIN. - The settlement processing of an intraday restriction on an ISIN using this new restriction type continues to function as today in T2S: the intraday restriction considers the customer defined 'valid from' and 'valid to' parameters. - The change in settlement processing is limited to the automatic removal of the intraday restriction as soon as the first CORP/FOP instruction on the same ISIN is found in the given system entity is settled during NTS. As all CA FOPs should be linked "all or none" – either as belonging to a pool or linked together with "WITH" links. This ensures that all these CA FOPs are settled before allowing the timely settlement of non-CA instructions on this ISIN during NTS
Summary of project risk
Security analysis
No potentially adverse effect was identified during the security assessment.

Cost assessment on Change Requests

T2S-358-SYS – Unblocking of ISIN as part of Corporate Actions handling			
One-off	Assessment cost*		
	- Preliminary	2,000.00	Euro
	- Detailed	10,000.00	Euro
One-off	Project phase costs	195,583.06	Euro
Annual	Operational costs	20,556.60	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).