

General Information (Origin of Request)		
<input 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: 09/01/2015
Request title: No check on minimum settlement unit when settling Corporate Action instructions		Request ref. no: T2S 0497 SYS
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: Low	
Requestor Category: CSD	Status: Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

The proposed change will allow CSDs to continue also after migration to T2S to issue bonds (including settling of corporate actions transaction for these bonds) under the "limited prospectus"-waiver in Art. 3, section 2, litra d in the EU Prospectus Directive, which allows for exemption of full prospectus requirements for public offers with a minimum trading amount of 100.000 EUR.

CSDs are currently allowed to offer "limited prospectus"-service to issuers either by 1: issuing the bond with a minimum denomination of 100.000 EUR or by 2. issuing the bonds with a low nominal denomination (e.g. 0.01 EUR). To ensure that the bond issued with a low nominal denomination will be available to professional investors only according to section 2, litra d of the Prospectus Directive, CSDs must be able to ensure that such bonds for settlement of trades must have a "minimum settlement unit" of 100.000 EUR.

Issuance with a minimum denomination of 100.000 EUR is commonly used today, but may cause practical challenges on inter alia settlement of "odd amounts" as well as with processing of corporate actions on redeemable bonds, e.g. on covered bonds or corporate bonds).

Issuance with a low denomination is also used today and settlement of C.A. (e.g. redemption) is handled by CSDs today without check of minimum settlement unit. T2S does not allow settlement of C.A. instructions ((transaction code "CORP") without check on minimum settlement unit which is actually meant for settlement of trades. VP has raised an issue on this problem (VP issue 422.1) and a work around has been proposed by Eurosystem/4CB. This work around requires that before handling C.A. the ISIN must be blocked, static data (minimum settlement unit) must be changed intraday, C.A. transactions can then be send to T2S for processing while the ISIN must remain blocked. After the issuer CSD has received settlement confirmation for C.A. settlement instructions the static date for the ISIN must be changed back to the original value intraday and the ISIN can be unblocked. The work around can work for the issuer CSD but will not allow investor CSDs to carry out C.A. on their securities account as soon as issuer CSD has change back static data (minimum settlement unit) to a value of 100.000 EUR and as the issuer CSD does not know when all investor CSDs (direct or relayed) has received settlement confirmation on C.A. instructions the issuer CSD (acting as SME) will most likely change back the static data before all C.A. stemming from investor CSD's C.A. handling has been processed.

Relaying on the work around could therefore lead to a situation where already existing bonds issued in accordance with the EU-directive cannot be offered to investor CSDs in T2S.

Description of requested change:

(VP issue 422.1)

T2S should skip the check related to the minimum settlement unit in case of Corporate Actions-related instructions (i.e. Settlement Instructions with ISO Transaction code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled). Therefore, the settlement quantity of Corporate Actions-related instructions can be equal, greater or lower than the minimum settlement unit of the security specified in the instruction.

URD version 5.03:

Chapter 5 – Instruction life cycle management and matching requirements:

Minimum settlement unit check

Reference ID	T2S.05.090
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T2S shall check the settlement unit against the minimum settlement unit or nominal when the quantity is greater than zero.

UDFS version 2.0:

1.2.2.2 Concept of Securities in T2S:

Upon defining an eligible security within T2S, the responsible CSD (see section [1.2.2.1 "Setup of securities in T2S"](#)) has to provide the following pieces of information:

- Identification of the security, i.e. its ISIN code, CFI code, short³⁸ and long³⁹ name;
- Validity period of the security, i.e. its issue date and maturity/expiry date;
- Settlement-related data, i.e. its settlement type (specifying whether trades for this security specify quantities in units or nominal), **minimum settlement unit**, settlement unit multiple and possible deviating settlement units;
- Country of issuance;
- Currency.

1.6.1.1.3 Validation Process:

- Settlement Quantity Validation: Either the Settlement Quantity or the Settlement Amount is greater than zero and:
 - The Settlement Type (Unit or Nominal) stated in the Settlement Quantity of a Settlement Instruction or of a Settlement Restriction on Securities must be the same as the Settlement Type specified in T2S Reference Data for the ISIN Code of the Instruction or of the Restriction.
 - The Settlement Quantity of a Settlement Instruction with a settlement quantity greater than zero or of a Settlement Restriction on securities is equal or greater than the **Minimum Settlement Unit** specified in Static Data for the security.
 - The Settlement Quantity of a Settlement Instruction with a settlement quantity greater than zero or of a Settlement Restriction on securities, if not related to a "Corporate Action" (i.e. Settlement Instructions with ISO Transaction code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled), is a multiple unit of the Settlement Unit Multiple or a Deviating Settlement Unit for the corresponding ISIN Code. The Deviating Settlement unit has to be always equal or higher than the Minimum Settlement Unit, see example below:

4.1 Business Rules and Error Codes:

BR NAME	DESCRIPTION	INBOUND MESSAGE	REPLY MESSAGE	CODE USE	REASON CODE	ERROR TEXT
MVSQ604	The Settlement Quantity specified in a Settlement Instruction with exchange of securities, must be equal or greater than the Minimum Settlement Unit specified in T2S.	sese.023	sese.024	<Rjctd>	MINO	The Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit
MVSQ604	The Settlement Quantity specified in a Settlement Instruction with exchange of securities, must be equal or greater than the Minimum Settlement Unit specified in T2S.	sese.023	sese.024	<Canc>	CANS	The Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit
MVSQ605	The Settlement Quantity specified in a Settlement Restriction on securities must be equal or greater than the	sest.013	sest.014	<Rintrd>	MINO	The Settlement Quantity of the Settlement

¹⁹⁶ In order to ensure the reimbursement of the intraday credit and prevent the cancellation of reverse collateral on the same day of its creation, any update of Securities attributes **Minimum Settlement Unit**, Settlement Unit Multiple, Deviating Settlement Unit or Settlement Type is allowed only under one of the two following conditions:

- the update applies to a security created on the current settlement day;
- the update applies to a security created before the current settlement day and not eligible for auto-collateralisation since the start of day.

The second condition implies that, in case of securities eligible for auto-collateralisation, T2S will queue the security update and only apply it during EOD procedure of the current day.

Please note that the CASG has requested that the Business rule MVSQ604 is not performed in case of corporate actions.

Submitted annexes / related documents:

Proposed wording for the Change request:

UDFS v2.0

Section 1.6.1.1.3 Validation process, page 256

- Settlement Quantity Validation: Either the Settlement Quantity or the Settlement Amount is greater than zero and:
 - The Settlement Type (Unit or Nominal) stated in the Settlement Quantity of a Settlement Instruction or of a Settlement Restriction on Securities must be the same as the Settlement Type specified in T2S Reference Data for the ISIN Code of the Instruction or of the Restriction.
 - The Settlement Quantity of a Settlement Instruction with a settlement quantity greater than zero or of a Settlement Restriction on securities, **if not related to a “Corporate Action”¹ (i.e. Settlement Instructions with ISO Transaction code “CORP” or Settlement Restrictions with the field “Corp Action Event ID” filled)**, is equal or greater than the Minimum Settlement Unit specified in Static Data for the security.
 - The Settlement Quantity of a Settlement Instruction with a settlement quantity greater than zero or of a Settlement Restriction on securities, **if not related to a “Corporate Action”¹ (i.e. Settlement Instructions with ISO Transaction code “CORP” or Settlement Restrictions with the field “Corp Action Event ID” filled)**, is a multiple unit of the Settlement Unit Multiple or a Deviating Settlement Unit for the corresponding ISIN Code.

Section 1.6.1.1.3 Validation process, page 257

In addition the following checks are done during the revalidation process for Settlement Quantity Validation:

- o In case of a partially settled Settlement Instruction with a settlement quantity greater than zero or of a partially settled Settlement Restriction on securities **and not related to a "Corporate Action"1**, the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S.
- o In case of a partially settled Settlement Instruction with a settlement quantity greater than zero or of a Settlement Restriction on securities and not related to a "Corporate Action" 1, the remaining Settlement Quantity must be a multiple unit of the Settlement Unit Multiple or a Deviating Settlement Unit.

Section 3.3.7.2 IntraPositionMovementInstructionV03 (semt.013.001.03), page 1207

Business rules applicable to the schema

MESSAGE ITEM	DATA TYPE / CODE	BUSINESS RULES
.	.	.
.	.	.
.	.	.
CorporateActionEventIdentification Document/IntraPosMvmntInstr/CorpActnEvtId	Identification4	MVSQ607 MVSQ611 MVSQ605 MVSQ609
.	.	.
.	.	.
.	.	.

 1 Including T2S internally generated instructions created as a consequence of a CORP instruction, i.e. realignment instructions and CoSD generated intra-position movements.

Section 3.3.8.4 SecuritiesSettlementTransactionInstructionV03 (sese.023.001.03), page 1288

Business rules applicable to the schema

MESSAGE ITEM	DATA TYPE / CODE	BUSINESS RULES
.	.	.
.	.	.
.	.	.
Code Document/SctiesSttlmTxInstr/SttlmParams/SctiesTxTp/Cd	SecuritiesTransactionType7Code	MVCP052 MVCP053 ... MVSQ604 MVSQ608
.	.	.
.	.	.
.	.	.

Section 4.1 Index of Business Rules and Error Codes:

Short Name of BR	Description	Incoming Message	Reply Message	Code Utilisation	Reason Code	Error Text
MVSQ604	The Settlement Quantity specified in a Settlement Instruction with exchange of securities and not related to a "Corporate Action" , must be equal or greater than the Minimum Settlement Unit specified in T2S.	sese.023	sese.024	<Rjctd>	MINO	The Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit
MVSQ605	The Settlement Quantity specified in a Settlement Restriction on securities and not related to a "Corporate Action" , must be equal or greater than the Minimum Settlement Unit specified in T2S.	semt.013	semt.014	<Rjctd>	MINO	The Settlement Quantity of the Settlement Restriction is lower than the Minimum Settlement Unit
MVSQ608	In case of a partially settled Settlement Instruction with exchange of securities and not related to a "Corporate Action" , the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S.	sese.023	sese.024	<Can>	CANS	The remaining Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit
MVSQ609	In case of a partially settled Settlement Restriction on Securities and not related to a "Corporate Action" , the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S.	semt.013	semt.014	<Can>	CANS	The remaining Settlement Quantity of the Settlement Restriction is lower than the Minimum Settlement Unit

GFS 5.0**Section 3.4.3. Instruction Validation, page 229:**Settlement Quantity Validation

<i>Reference Id</i>	<i>LCMM.IVA.SMIV.3.4</i>
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The following checks are performed on the Original Settlement Quantity:

- The Original Settlement Quantity is equal or greater than zero;
- In case the Original Settlement Quantity is greater than zero, the following checks are applied:
 - The Original Settlement Quantity is greater than or equal to the Settlement Unit Minimum (in units or nominal) for the ISIN code, as it is defined in T2S Static Data, **unless the instruction is related to corporate actions {T2S.05.090}**,
 - The Original Settlement Quantity is multiple of the securities Settlement Unit Multiple (in units or nominal) or Deviating Settlement (in units or nominal), unless the instruction is related to corporate actions **{T2S.05.100}**,

High level description of Impact:**Outcome/Decisions:**

* CRG meeting of 6 February 2015: The CRG agreed to put the Change Request on hold.

* CRG meeting of 12 March 2015: The CRG agreed to update the Change Request to make it clear that the scope only covers the instructions with ISO transaction code 'CORP' and recommended to launch the detailed assessment of the updated Change Request and indicated that the Change Request is required for the Community Testing for Wave 3 or Community Testing for Wave 2 if the wave 2 CSDs indicate so. The Wave 2 CSDs will indicate whether the Change Request is required for the Community Testing for Wave 2. The 4CB will analyse when the Change Request and its detailed assessment can be available.

* Advisory Group's meeting on 23 March 2015: The AG was in favour of launching the detailed assessment on the Change Request.

* CSG resolution on 27 March 2015: Following a written procedure, the CSG was in favour of launching the detailed assessment on the Change Request.

* OMG on 27 March 2015: During a written procedure from 16 March 2015 to 27 March 2015, the Operations Managers Group did not identify any operational impact of the Change Request.

* CRG Telco of 18 August 2015: The CRG recommended the approval of the Change Request and its addition to Release 1.1.

* PMG on 26 August 2015: During a written procedure from 19 to 26 August 2015, the Project Managers Group was in favour of adding the Change Request to Release 1.1.

* OMG on 27 August 2015: During a written procedure from 19 to 27 August 2015, the Operations Managers Group reviewed the detailed assessment on the Change Requests and did not identify any operational impact. The OMG also

was in favour of adding the Change Request to Release 1.1.

* Advisory Group's advice on 7 September 2015: The AG was in favour of approving the Change Request and including it in Release 1.1.

* CSD Steering Group's resolution on 8 September 2015: The CSG took the resolution to approve the Change Request and to include it in Release 1.1.

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	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	Addition of the exception on Minimum Settlement Unit check for CA instructions
Impacted UDFS chapter	1.6.1.1.3 Validation process	Addition of the exception on Minimum Settlement Unit check for CA instructions
	3.3.7.2 IntraPositionMovementInstructionV03	Addition of mapping for BRs MVSQ605 and MVSQ609
	3.3.8.4 SecuritiesSettlementTransactionInstructionV03	Addition of mapping for BRs MVSQ604 and MVSQ608
	4.1 Index of Business Rules and Error Codes	Redrafting of four business rules regarding the Minimum Settlement Unit
Additional deliveries for Message Specification	Messages - BR Mapping: <ul style="list-style-type: none"> • Addition of BRs MVSQ604 and MVSQ608 to the field Document/ScitiesSttlmTxInstr/SttlmParams/ScitiesTxTp/Cd for sese.023 and • Addition of BRs MVSQ605 and 	Update of UDFS Chapter 3 as described above and of the relevant sese.023 and sent.013 message documentation to include the relevant BRs mapping

	MVSQ609 to the field Document/IntraPosMvmtInstr /CorpActnEvtId for semt.013	
UHB	N/A	N/A
External training materials	Lifecycle Management and Matching: Changes on the business validation training materials: <ul style="list-style-type: none"> T2S_FA_WS 2_Part2_SETT_BVAL_RVAL_S RVP_DIAPO_V00.07 	
Other documentations		
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		
<p><u>Functional Impact:</u></p> <p>The instruction validation process needs to be changed to allow settlement of Corporate Actions (Settlement Instructions with ISO Transaction code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled) that do not comply with the Minimum Settlement Unit/Nominal of the securities</p> <p>Additionally the revalidation process also changes to exclude CAs from revalidations triggered by modifications on Minimum Settlement Unit or Nominal.</p>		
Summary of project risk		
<p>Security analysis</p> <p>No potentially adverse effect was identified during the security assessment.</p>		

DG - MARKET INFRASTRUCTURE & PAYMENTS
MARKET INFRASTRUCTURE MANAGEMENT

ECB-PUBLIC

11 August 2015

COST ASSESSMENT ON CHANGE REQUESTS

T2S-497-SYS – No check on minimum settlement unit when settling Corporate Action instructions		
Project phase costs (total)	56,811.38	Euro
Running costs (annual average over cost recovery period)	6,025.70	Euro