

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: 4CB	Institute: 4CB	Date raised: 15/12/2014
Request title: Clarification of the collateral relocation and reimbursement of reverse collateral processes		Request ref. no: T2S 0482 SYS
Request type: Common	Urgency: Normal	
1. Legal/business importance parameter: Low	2. Market implementation efforts parameter: Low	
3. Operational/Technical risk parameter: Low	4. Financial impact parameter: No cost impact	
Requestor Category: 4CB	Status: Authorised at Steering Level	

Reason for change and expected benefits/business motivation:

This CR is required to clarify within the UDFS certain aspects of the relocation and collateral reimbursement processes.

- Firstly, the market has requested further information regarding the ISINs that are used during the relocation process. The UDFS states that the ISIN of the collateral released in the pending matched reverse collateral Settlement Instructions are used but circumstances may arise where upon the relocation process may not select the ISIN as found in the reverse collateral reimbursement instructions. These include the following situations:
 - ISIN not allowed for cross-border settlement between the PB Securities account and the CB Regular Security Account in another CSD.*
 - ISIN under intraday restriction

Collateral relocation takes a best match from the ISIN available to satisfy the missing cash when relying on multiple reimbursements. Use of ISINs available within the earmarked position occurs only when reimbursed ISINs are not sufficient due to the circumstances listed above. Relocation then occurs using a combination that most closely covers the missing cash. This process is not clearly outlined in the UDFS and must be corrected.

* Cross-border configuration should be detected at set-up for REPO procedure and would no longer occur during relocation.

- Secondly, the market has requested clarification regarding the reimbursement of reverse collateral instructions under intraday restriction. An intraday restriction on an ISIN will prevent the settlement of all instructions including those related to auto-collateralisation and relocation. T2S Actors may require the reimbursement of collateral despite such intraday restrictions during the following circumstances:
 - During contingency scenarios where new collateral operations are blocked but reimbursement of outstanding reverse collateral instructions is required
 - At the end of day

T2S allows for such reimbursement by associating the ISO transaction code AUTO to the reverse collateral settlement transaction (since the reverse collateral and the set-up instructions use the same ISO Transaction Code COLI/COLO). To allow for reimbursement the intraday restriction applying on the ISIN as described above must be created with a complementary negative rule for the parameter ISO Transaction code AUTO*. This is not clearly described in the UDFS and must be corrected.

* For Cross CSD scenarios the negative rule applied to the intraday restriction must also consider the ISO Transaction Code REAL

Description of requested change:

The change comprises the addition of text within the UDFS to clarify the relocation ISIN selection criteria and the configuration of intraday restrictions to allow the reimbursement of reverse collateral instructions relating to Central Bank collateralisation.

During the End of Day collateral management process on relocation, when the ISINs found in the reverse collateral instructions being reimbursed are unavailable, it should be clarified that other eligible ISINs can be used by T2S. The reasons for this unavailability will also be included, namely when the ISIN is under intraday restriction or when not allowed for cross-border settlement between the payment bank securities account and central bank regular securities account.

The UDFS section on Auto Collateralisation will be enhanced to describe the use of a negative rule with the parameter ISO transaction code 'AUTO' when defining the intraday restriction to allow for the end of day reimbursement of reverse collateral instructions relating to Central Bank collateralisation. It should be noted that this negative rule will also apply to incoming settlement instructions with the 'AUTO' ISO transaction code. For Cross CSD scenarios the negative rule must also include the ISO Transaction code 'REAL'

Submitted annexes / related documents:**Proposed wording for the Change request:****UDFS Section 1.6.2.3.3 "EOD Cash Management Process"****Relocation of collateral (page 520)**

For all T2S Dedicated Cash Accounts for which a negative final end of day amount is identified, T2S automatically applies a relocation of collateral. This collateral relocation aims at guaranteeing the credit extension processed in the RTGS to cover the missing cash.

T2S generates a collateral relocation for each reverse collateral Settlement Instruction which remains pending after the rebalancing. These collateral relocation Settlement Instructions contain the following information:

INFORMATION	DESCRIPTION
Debited Cash Account	Reference Id of the central bank cash account credited in the pending matched reverse collateral Settlement Instructions.
Credited Cash Account	Reference Id of the T2S Dedicated Cash Account debited in the pending matched reverse collateral Settlement Instructions
Settlement Amount	Missing amount to settle the pending matched reverse collateral Settlement Instructions
Debited Securities Account	Reference Id of the securities account credited in the pending matched reverse collateral Settlement Instructions.
Debited Securities Position	Restriction Type Id of the securities position credited in the pending matched reverse collateral Settlement Instructions.
Credited Securities Account	Reference Id of the securities account previously set by the central bank in the static data as the regular collateral securities account.
Credited Securities Position	Restriction Type Id of the deliverable securities position of the credited securities account.
Securities	ISIN of the collateral released in the pending matched reverse collateral Settlement Instructions. <u>When the reimbursed ISINs are insufficient or unavailable alternative ISINs from those defined as eligible for collateral are used(1). Relocation then occurs using the combination that most closely covers the missing cash.</u>
Settlement Quantity	Quantity of securities necessary to cover the provided liquidity and calculated with the applicable collateral valuation and the maximum credit percentage.

No reverse collateral is generated for the collateral relocation as the purpose is to extend the credit outside T2S.

- (1) ISIN may be unavailable when under intraday restriction or when not allowed for cross-border settlement between the payment bank securities account and the central bank regular securities account in another CSD.

UDFS section 1.6.1.9.4 Auto-Collateralisation**Validity of T2S generated collateral Settlement Instructions (page 355)**

Once generated, the T2S generated collateral and reverse collateral Settlement Instructions (and linked Settlement Restrictions in case of pledge sub procedure), both for client and for central bank collateralisation, are subject to other T2S processes as any other Settlement Instruction. Furthermore in order to ensure the consistency of the auto-collateralisation application process the following principles are implemented:

- Validation: T2S does not create T2S generated collateral and reverse collateral instruction if at least one of them (or any of the T2S generated realignment in case of cross-CSD mobilisation) does not successfully pass the business validations.
- Revalidation: T2S revalidates Settlement Instructions upon static data update in order to cancel the Settlement Instructions which become not compliant with the new static data. (See section 1.6.1.1.5 "Revalidation process"). In order to ensure the reimbursement of the intraday credit and hence, prevent the cancellation of reverse collateral the day of their creation, following rule has been set-up:
 - If the static data update applies on a security created and updated the same current business day, T2S allows the intraday static data update since in such case the security cannot be eligible to auto-collateralisation as the eligibility is identified at the start of day.
 - If the static data update applies on a security created before the current business date, T2S allows the static data intraday update only if the security was not eligible to auto-collateralisation at the start of day (in such a case no reverse collateral exists)
- Intraday Restriction: T2S does not generate collateral Settlement Instruction which would be subject to intraday restriction. T2S does not attempt settlement of reverse collateral Settlement Instructions which are subject to Intraday Restriction (See section 1.6.1.8.3 "Eligibility check process"). However, the CSD has the possibility to configure the Intraday Restriction in a way that would still allow the end of day intraday credit reimbursement of reverse collateral Settlement Instructions: T2S assigns a specific ISO Transaction Code 'AUTO' to reverse collateral settlement transactions (footnote 1) which can be used to specifically exclude them from the Intraday Restriction, e.g. by configuring a negative rule using ISO Transaction Code 'AUTO' (footnote 2). If the reverse collateral Settlement Instruction relates to central bank collateralisation, the Intraday Restriction has to be handled with parameters which allow the end of day intraday credit reimbursement.

(footnote 1) To be complemented by CSDs by additional rules to ensure blocking of related realignment instructions which are not related to reimbursements for complex scenarios.

(footnote 2) To enable Cross CSD reimbursements, the rule also needs to exclude the ISO Transaction Code 'REAL'. It might be required to complement it by additional rules to ensure blocking of realignment instructions which are not related to reimbursements.

High level description of Impact:

The changes will only bring clarification to the description of the Relocation and Reimbursement processes within the UDFS. Additional text is added within the following two sections:

UDFS Section 1.6.2.3.3 "EOD Cash Management Process"**Relocation of Collateral**

Text added to describe the ISIN selection criteria during relocation.

UDFS section 1.6.1.9.4 Auto-Collateralisation**Validity of T2S generated collateral Settlement Instructions**

Text added to describe how to ensure the reimbursement of reverse collateral instruction during the end of day when intraday restriction apply.

Outcome/Decisions:

* CRG meeting of 15 December 2014: The CRG agreed to make some changes in the wording section of the Change Request. The CRG recommended the approval of the updated Change Request in principle.

* CRG meeting of 6 February 2015: The CRG approved the Change Request in principle subject to some wording updates by a CRG member.

* OMG on 9 March 2015: During a written procedure from 24 February 2015 to 9 March 2015, the Operations Managers Group did not identify any operational impact of the Change Request.

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

* CSG resolution on 27 March 2015: The CSG adopted the resolution to approve the Change Request via written procedure.