



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Clearstream	Institute: CSD	Date raised: 09/11/2022
Request title: T2S COSD logic should support partial release of instructions subject to COSD and partial COSD release		Request No.: T2S 0798 SYS
Request type: Common	Classification: Scope Enhancement	Urgency: Normal
1. Legal/business importance parameter: High ¹		2. Market implementation efforts parameter: Low ²
3. Operational/Technical risk parameter: Low ³		4. Financial impact parameter: (provided by 4CB) ⁴
Requestor Category: CSD		Status: Registered

Reason for change and expected benefits/business motivation:

With partial settlement and partial release logic, T2S has two efficient mechanisms in place to increase settlement efficiency, and to reduce the number of fails and penalties.

However, those mechanisms cannot be used for settlement processes where the Conditional Settlement (COSD) logic is involved. Namely,

- the COSD process considers only instructions where party hold is fully released,
- it only foresees blocking of the complete quantity / amount needed to settle the underlying instruction, and
- it only allows a complete COSD release, but not a partial one.

As a result, COSD logic in its current form is incompatible with partial settlement or partial release, and the underlying business processes such as settlement with an External CSD, or settlement in a non-T2S currency cannot benefit from the partial settlement and partial release logic of T2S. On the other hand, extension of such business processes to partial settlement and/or partial release is conceptually straightforward, provided the external condition can also be met for a partial quantity.

The settlement with an External CSD might serve as an example. In this case, the external condition to be met to release the COSD hold is the confirmation by the External CSD that the settlement in the External CSD was executed. With the current COSD implementation, the following process steps are applied⁵:

1. A COSD rule is configured to put any instruction where the External CSD is either Receiving or Delivering Depository on COSD hold.
2. On ISD, T2S applies COSD hold to the matched instructions.
3. The T2S Actor releases the party hold on the instruction. Only full release of party hold is possible.
4. Once the instruction is released, T2S tries to block securities (for DVP instructions) or cash (for RVP instructions) according to the COSD rules.
5. Once the blocking is successful, T2S informs via a sese.024 status message with CDLR reason. This is the trigger for the T2S CSD to release their leg in the External CSD.
6. The settlement in the External CSD is **executed for the full quantity**, and a settlement confirmation is sent to the T2S CSD.
7. This is the trigger for the T2S CSD to **release the COSD hold** in T2S. Then the settlement in T2S is concluded.

In case the **External CSD supports partial settlement**, and the T2S CSD leg in the External CSD is enabled for

¹ Legal/business importance parameter was set to "HIGH" as the change has a positive impact onto settlement efficiency for settlement flows what are settled with use of COSD logic.

² Market implementation effort parameter was set to "LOW" as the change is optional for any COSD Administering Party.

³ Operational/technical risk parameter was set to "LOW" as the change is optional for any COSD Administering Party and does not affect any SLA.

⁴ Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

⁵ This is just a sketch of the process flow. In reality, different CSDs might have chosen different implementation options.

partial settlement, then there might be a partial settlement confirmation in step 6, with subsequent additional partial settlement confirmations until eventually a confirmation for the remaining quantity is received.

To reflect such partial settlement in T2S, T2S should offer the functionality to apply a **Partial COSD Release**:

6. The settlement in the External CSD is **executed for a partial quantity**, and a partial settlement confirmation ("PARS/PAIN") is sent to the T2S CSD.
7. This is the trigger for the T2S CSD to **partially release the COSD hold** in T2S for the quantity that has settled. Then the settlement in T2S is concluded for the partially COSD released quantity.
8. The settlement in the External CSD is **executed for another partial quantity**, and a partial settlement confirmation ("PARS/PAIN") is sent to the T2S CSD.
9. This is the trigger for the T2S CSD to **partially release the COSD hold** in T2S for the additional quantity that has settled. Then the settlement in T2S is concluded for the additional partially COSD released quantity.
10. Finally, the **remaining quantity is settled** in the External CSD, and a last partial settlement confirmation ("PARS/PAIN") is sent to the T2S CSD.
11. This is the trigger for the T2S CSD to **fully release the COSD hold** in T2S for the remaining quantity. Then the settlement in T2S is concluded for the remaining quantity.

In other words, with partial COSD release, it will be possible to reflect partial settlement in the External CSD correctly into T2S, by partially COSD releasing the quantity that has settled externally.

In case the External CSD also supports partial release logic, partial release in T2S can be combined with partial release in the External CSDs, via enhanced logic to **enable partial party hold release for instructions subject to COSD**. The following process steps would be executed:

1. A COSD rule is configured to put any instruction where the External CSD is either Receiving or Delivering Depository on COSD hold.
2. On ISD, T2S applies COSD hold to the matched instructions.
3. The T2S Actor **partially releases the party hold** on the instruction subject to COSD. This can only be done for DELI instructions.
4. Once the instruction is partially released, **T2S tries to block the partially released securities quantity**. Only full blocking of the partially released quantity is supported⁶.
5. Once the blocking of the partially released quantity is successful, T2S informs via a sese.024 status message with CDLR reason. This is the trigger for the **T2S CSD to partially release their leg in the External CSD**.
6. The settlement in the External CSD is **executed for the partially released quantity**, and a settlement confirmation is sent to the T2S CSD.
7. This is the trigger for the T2S CSD to **partially release the COSD hold** in T2S. Then the settlement in T2S is concluded for the partially released quantity, and the remaining instruction is put back on party hold.

It should be noted that in the case above, the External CSD might only partially settle the partially released quantity. Then the same approach is applied as in the first example: only the quantity settled in the External CSD is partially COSD released:

- T2S Actor partially releases quantity q1 on the instruction subject to COSD.
- T2S blocks quantity q1, and then the T2S CSD partially releases quantity q1 in the External CSD
- The External CSD settles quantity q2 < q1.
- Then the T2S CSD partially COSD releases quantity q2 < q1 in T2S.

In summary, by enhancing T2S COSD logic with functionality to partially release instructions subject to COSD, and to apply a partial COSD release subsequently, partial settlement and partial release logic can be enabled also for settlement with External CSDs.

Description of requested change:

T2S Conditional Settlement logic ("COSD logic") shall be upgraded to support partial release of instructions subject to COSD, and partial COSD release:

- It shall be possible to flag COSD rules for partial release.
- It shall be possible to partially release from Party Hold underlying settlement instructions subject to COSD logic. In this case, T2S shall attempt to block the partially released quantity.
- It shall be possible to partially release from COSD Hold underlying settlement instructions where a (potentially partial) quantity was blocked before. In this case, T2S shall settle the partially COSD released quantity.

COSD Rule Management: a "Partial Release" flag should be enabled on COSD rule level, to indicate whether partial release of instructions subject to COSD hold and partial COSD release shall be supported or not.

- The partial release flag will enable partial release of instruction subject to COSD, and also partial COSD

⁶ The option to partially block the partially released quantity was discarded, in order to keep the logic in line with current blocking logic.

release. It is only possible to enable both options, or none of them.

- If the partial release flag is not ticked, partial release attempts of the instruction subject to COSD hold or of the COSD hold are rejected. (This is also the case if different COSD rules apply, and at least one of them is not ticked for partial release.)
- If the partial release flag is ticked, then partial release of instructions subject to COSD hold and partial COSD release is possible. (In case different COSD rules apply, all of them must be ticked for partial release to enable such processes.)
- Default logic should be that COSD rules are not configured for partial release. This will limit cutover impact, and shield COSD Administering Parties that do not want to benefit from this feature from the change.

Partial Party Hold Release for instructions subject to COSD hold: Partial Party Hold release shall be enabled for instructions subject to COSD hold., i.e.

- If the COSD rule is enabled for partial release, then the delivering party can apply, in addition to the full release of party hold, also a partial release of party hold for a sub-quantity.
- In case of partial release of party hold, T2S shall attempt a blocking of the partially released quantity.
 - In line with current blocking logic, this blocking attempt shall only be done for the complete partially released quantity.
 - This blocking is done via an Intra-Position Movement with the partially released quantity. It can settle independent from any partial settlement window and can be attempted immediately after the partial release of the instruction subject to COSD is applied.
 - If the blocking of the partially released quantity is successful, then T2S informs the T2S Actor via sese.024 with reason CDLR, including the information about the blocked quantity.
- Once an instruction subject to COSD hold is partially released, it is not possible for a T2S Actor to put such partially released instruction back on party hold.
- However, a T2S Actor can fully release the party hold in a subsequent step, or partially release an additional quantity.
 - In such cases, T2S shall attempt to block the additionally released quantity via additional Intra-Position Movements which are generated for the additionally released quantity. Again, such additional blocking instructions can settle independently from any partial settlement window and can be attempted for settlement immediately.
 - If the blocking of the additionally released quantity is successful, then T2S informs the T2S Actor via sese.024 with reason CDLR, including the information about the additionally blocked quantity.
- Once an instruction subject to COSD hold is partially released, this status must not be reverted by T2S.
 - Partial Release for instruction subject to COSD can be kept at cutoff.
 - Other conditions that could lead to cancellation of the partial release (new hold, linkage, etc.) need to be prevented by corresponding business rules.
 - Only in case the Intra-Position Movement to block the position cannot be generated, or it is cancelled during revalidation, then T2S shall revert the partial release, and put the instruction back on party hold.

Partial Party Hold Release for instructions subject to COSD hold serves as a trigger to block the partially reserved positions, but otherwise it does not trigger any partial settlement activity on the instruction. This is only done once the partial COSD release is applied.

Partial COSD Release of COSD blocked position: To be able to replicate a partial fulfilment of the external condition in T2S, partial release of COSD Hold shall be enabled for the COSD administering party.

- Partial COSD release is only possible for instructions subject to COSD rules that are enabled for partial release.
- The quantity to be partially COSD released must be less or equal to the quantity that was COSD blocked so far (whereby this can be the full quantity, or a partially released quantity, or the sum of several partially released quantities that were blocked after partial Party Hold release(s) of the instructions subject to COSD).
- Once a quantity is partially COSD released by the COSD Administering Party, T2S will attempt the settlement for the quantity that was partially COSD released, using the COSD blocked positions for this purpose. T2S will unblock the quantity that was partially COSD released and conclude the settlement of the underlying instruction with this quantity. This follows the logic implemented for full settlement after COSD Release, with the only difference that it is applied now for the partially released quantity only.

Partial settlement in T2S will be triggered by the partial COSD release, and therefore it is assumed that such partial COSD releases will be treated similarly to the standard partial release case, i.e.:

- Partial settlement can only occur in the next partial settlement windows.
- After the partially COSD released quantity was settled, the remaining instruction is put back on COSD hold.
- If the partially COSD released quantity was not fully settled at the cutoff, the instruction is put back on COSD hold, and can be partially COSD released again on the next business day.

In summary, COSD logic shall be enhanced to support partial release in the following way:

- Partial Release of Party Hold on instructions subject to COSD triggers that the partially released quantity is blocked, thus enabling the process step to fulfil the external condition for a partial quantity.
- Once the external condition is fulfilled for a partial quantity, then partial COSD release allows to reflect this on the instructions in T2S.

Submitted annexes / related documents:

Outcome/Decisions:

Documentation to be updated:

Preliminary assessment:

Detailed assessment:
