



EUROPEAN CENTRAL BANK

EUROSYSTEM

Olivier Leveque
DG Market Infrastructure and Payments

T2S Partial Release Functionality (CR-653)

XMAP Meeting
27 September 2018

Overview

1 Introduction: context and purpose of the workshop

2 Partial release: the T2S functionality in detail

Business requirement and related concepts

Conditions for the acceptance of a partial release request

Conditions for the successful execution of a partial release request

3 Partial release: focus on the interaction between T2S and T2S actors

Successful partial release - seen from the delivering and the receiving party

Cancellation of a partial release - initiated by the delivering party

Modification of the released quantity

Cancellation of a partial release - not initiated by the delivering party

Context of the workshop

- Partial release requirement
 - CR-653: “The aim of the CR is to create a functionality of ‘partial release’ which would allow CSD participants to release a transaction for part of the quantity.”
- CR-653 approval and allocation to T2S R3.2
 - Partial release as proposed in CR-653 is an innovation, not known to be offered in other settlement systems
 - The approval of CR-653 and its allocation to R3.2 were agreed following extensive discussions in the CRG, RMSG, CSG and MIB
- On 22 June 2018, the AMI-SeCo advised as follows
 - Some AMI-SeCo members raised concerns on the costs of the CR and risk of insufficient adoption of the future functionality.
 - While members generally supported the improvements this CR would bring from a functional perspective, they supported the organisation of a workshop to ensure an optimal implementation for the T2S community.

Objectives of the workshop

- Ensure an optimal implementation for the T2S community
 - Identify the factors that would favor, or prevent a broad use of partial release and the benefits expected from it
 - Identify the key actors/areas to be activated for the full benefits of CR-653 to be delivered
 - Report to the HSG and AMI-SeCo on the findings of the workshop.

Overview

1 Introduction: context and purpose of the workshop

2 Partial release : the T2S functionality in detail

Business requirement and related concepts

Conditions for the acceptance of a partial release request

Conditions for the successful execution of a partial release request

3 Partial release : focus on the interaction between T2S and T2S actors

Successful partial release - seen from the delivering and the receiving party

Cancellation of a partial release - initiated by the delivering party

Modification of the released quantity

Cancellation of a partial release - not initiated by the delivering party

Business requirement and related concepts

- Partial release requirement
 - CR-653: “The aim of the CR is to create a functionality of ‘partial release’ which would allow CSD participants to release a transaction for part of the quantity. The proposed functionality is limited to the delivery side.”
 - Partial release was designed as an innovative, automatable way to maximise settlement out of omnibus accounts when the underlying client(s) of CSD participants have provisioned less than the full quantity instructed to T2S.
 - With Partial release, the delivering party can allow the settlement of an instruction only up to a quantity defined by itself, thus ensuring that the highest possible quantity/value settles without unduly using other resources potentially available on the delivering securities account.

Partial release: related concepts

- Related concept #1: Hold/Release
 - Partial release builds on the existing Hold/Release functionality, whereby an instruction can be placed on hold, i.e. made ineligible to a settlement attempt, regardless of any other condition. The hold can subsequently be removed by releasing this instruction
 - Partial release is only partial *release*: no partial hold is foreseen
 - Several types of hold exist: Party hold, CSD Hold, CSD Validation hold, CoSD hold – Partial release can only apply to a *Party* hold
 - Only the delivering party can partially release its instruction, while full release is available to both parties
- Related concept #2: Partial settlement
 - Since inception, T2S offers partial settlement during specific windows as a way to optimise volumes/value settled for the resources available in the system
 - Partial release is *not* a prerequisite for partial settlement. Partial settlement functionality is not affected by Partial release.
 - From a business perspective, the logical next step to a partial release is the partial settlement of an instruction. Therefore several rules applicable to partial settlement are also applicable to partial release instructions.

Partial release vs full release request

- A partial release is instructed with the same message as a (full) release.
- The release request will be processed as a partial release if the quantity specified is lower than the quantity remaining to settle.
- If the quantity specified is equal to or greater than the quantity remaining to settle and lower than or equal to the original quantity of the instruction, the release request will be accepted, but processed as a full release.
- If the quantity specified is greater than the original quantity of the instruction or equal to zero, the release request will be rejected.

Conditions for the acceptance of a PR request

- In a successful scenario, a request for Partial release must first be accepted, then executed by T2S. Acceptance and execution are subject to different conditions.
- If the following Business validation criteria are met, the Partial release request is 'Accepted' (created in the system for further checks and processing).
 - The underlying settlement instruction to be partially released must exist
 - Underlying SI is not an internally generated instruction
 - Underlying SI is delivering securities
 - The ISD of the underlying settlement instruction has been reached
 - The quantity to be released is a multiple of the Settlement Unit Multiple (SUM) defined for the security being instructed on. It should also be consistent with (i) the number of decimals of the SUM and (ii) the settlement type of the security being instructed on
- Otherwise the Partial release request is 'Rejected'

Conditions for the execution of a PR request

- Following its acceptance, T2S assesses whether the PR request can be 'Executed' or should be 'Denied'.
- The following criteria apply for a Partial release request to be 'Executed':
 - Underlying SI is not awaiting approval / revoked
 - Underlying SI is matched
 - Underlying SI and counterpart have not reached their cut-off time
 - Quantity complies with partial settlement rules regarding MSU, SUM & Cash threshold
 - Underlying SI is not settled / cancelled
 - Underlying Settlement SI is not identified with CoSD Flag
 - Underlying SI is on Party Hold
 - No other hold must apply to the transaction (party and counterparty)
 - Underlying SI and counterpart must allow partial settlement
 - Underlying and/or counterpart SI is not involved in any pool or any business link
- Otherwise the partial release request is 'Denied'

Conditions for the acceptance and execution of a PR request – Focus on specific rules

- Underlying SI is matched and No other hold must apply to the transaction (party and counterparty)
 - In general, partial release is intended to be used when the only reason for a transaction's ineligibility to a settlement attempt is a hold placed by the delivering party
 - This business logic is also beneficial to performance, as it limits the number of cases to be managed and the consumption of processing capacity by the PR functionality
- The ISD of the underlying settlement instruction has been reached and Underlying SI and counterpart have not reached their cut-off time
 - Partially released instructions are put back on (full) hold during RTS closure.
 - This implies that a partial release request can only be submitted from SoD of the ISD (usually around 18:45)
- Quantity complies with partial settlement rules regarding MSU, SUM & Cash threshold; Underlying SI and **counterpart must allow partial settlement** and Underlying and/or counterpart SI is not involved in any pool or any **business link**
 - These rules are derived from the partial settlement principles in T2S. Executing a partial release not complying with these conditions would be pointless, as the partial settlement expected to occur subsequently would in fact, not be possible

Outcome of the execution of a PR request

- Following the successful execution of a PR request, the underlying instruction enters the Partial release process, which consists of the following.
- The instruction remains pending and, from an external perspective, on hold. Internally to T2S, a status “Partially released” is managed.
- Unlike other “on hold” instructions, partially released instructions are eligible for settlement attempt during partial settlement windows (and night-time sequence X).
- If the entire released quantity is settled, the instruction is put back on “normal” hold, since none of the quantity remaining to be settled is released.
- If only part of the released quantity is settled, T2S updates the released quantity. This remaining (released) quantity is eligible for further settlement attempts until the full released quantity is settled or the relevant cut-off is reached.

Overview

1 Introduction: context and purpose of the workshop

2 Partial release : the T2S functionality in detail

Business requirement and related concepts

Conditions for the acceptance of a partial release request

Conditions for the successful execution of a partial release request

3 Partial release : focus on the interaction between T2S and T2S actors

Successful partial release - seen from the delivering and the receiving party

Cancellation of a partial release - initiated by the delivering party

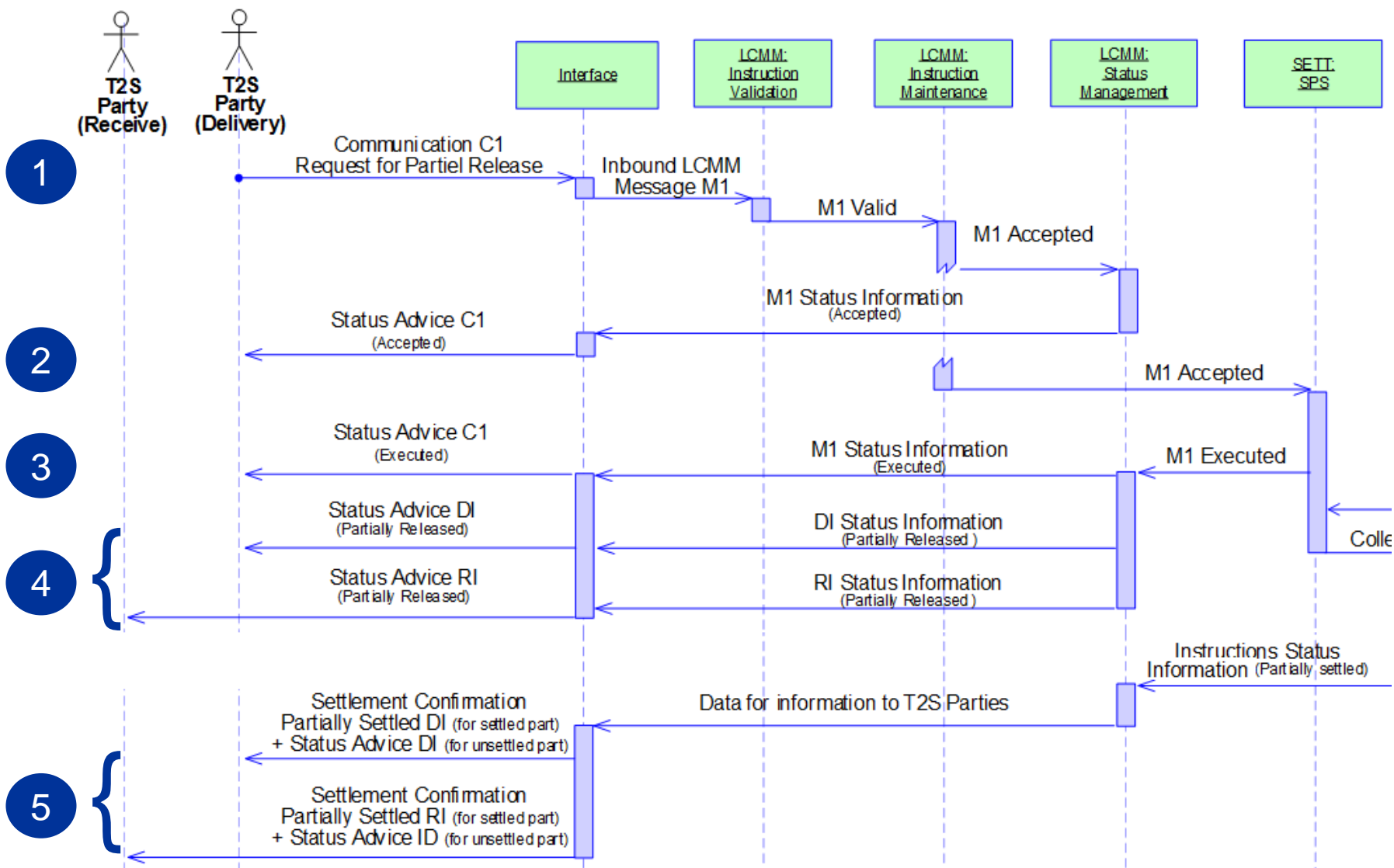
Modification of the released quantity

Cancellation of a partial release - not initiated by the delivering party

Focus on the interaction between T2S and T2S actors

- The following slides provide an overview of the possible interactions between T2S and T2S actors resulting from partial release functionality
- Simpler scenarios are described for clarity. More complex scenarios (e.g. partially released quantity not fully settled) may occur in practice, for which the following slides can be complemented by referring to CR-653 itself.
- Interaction is described with references to A2A messages, but the information is available to be sent/received in U2A mode as well.

Successful partial release - overview



Successful partial release - for the delivering party (1/2)

- For the initiator of a partial release, 5 interactions with T2S are expected (assuming that the partially released quantity does settle)
 1. Send the partial release request
 - Delivering party sends a sese.030 stating Party Hold Indicator = “No”
 - The quantity to be released (20) is specified in the Additional Information block
 2. Receive acceptance notification
 - T2S sends a sese.031 “Accepted” (cf. slide 9 for applicable rules)
 3. Receive execution notification
 - The sese.030 is processed as a Partial release request if the specified quantity is lower than the remaining to be settled quantity (100)
 - T2S sends a sese.031 “Completed”, relating to the request (cf. slide 10 for applicable rules)

Successful partial release - for the delivering party (2/2)

4. Receive Status advice for the underlying instruction, reflecting its partial release
 - T2S sends a sese.024 “Pending” with the following info
 - Pending reason code = FUTU,
 - Party hold = TRUE,
 - Quantity released and Quantity on hold specified in the newly unpruned field SttlInstrPrcgAddtlDtls (as PRQ/UNIT20UNIT80 in our example)

5. Receive Status advice for the underlying instruction after the released quantity has settled
 - Once the released quantity has settled (informed by sese.025), the full quantity remaining to settle is on hold. The partial release process ends and accordingly T2S puts the instruction back on ‘normal’ hold and informs the deliverer with two sese.024
 1. Unsettled part of the partial filling
 - Pending reason code: PART
 - Party hold: TRUE
 - SttlInstrPrcgAddtlDtls: Not used
 2. End of partial release process
 - Pending reason code: PREA
 - Party hold: TRUE
 - SttlInstrPrcgAddtlDtls: Not used
 - BR SPSA003 is provided (“on hold after the settlement of a partially released quantity”)

Successful partial release - for the receiving party (1/2)

- The receiving party is not informed of the processing of the PR request (steps 1-3). Instead the receiving party is informed only of impacts on the counterparty's instruction (steps 4 and 5)
- 4. Receive Status advice for the underlying instruction, reflecting its partial release
 - T2S sends a sese.024 “Pending” with the following info
 - Pending reason code = FUTU,
 - Quantity released by counterparty and Quantity on hold (by counterparty) specified in the newly unpruned field SttlmInstrPrcgAddtlDtIs (as PRQ/UNIT20UNIT80 in our example)
- 5. Receive Status advice for the underlying instruction after the released quantity has settled
 - Once the released quantity has settled (informed by sese.025), the full quantity remaining to deliver is on hold. The partial release process ends and accordingly T2S puts the DELI instruction back on ‘normal’ hold, and informs the receiver with two sese.024
 1. Unsettled part of the partial filling
 - Pending reason code: PART
 - SttlmInstrPrcgAddtlDtIs: Not used
 2. End of partial release process
 - Pending reason code: PRCY
 - SttlmInstrPrcgAddtlDtIs: Not used
 - BR SPSA004 is provided (“Cpty isx on hold after settlement of a partially released quantity”)

Successful partial release - for the receiving party (2/2)

- This table compares messages that could be sent by T2S today following actions of the delivering party with the messages sent in a partial release scenario

| | SCENARIO POSSIBLE TODAY 1. Full release 2. Partial Settlement due to lack of securities 3. Full hold (reset by deliverer) | PARTIAL RELEASE 1. Partial release 2. Partial Settlement up to released quantity 3. Full hold (reset by T2S) | Interpretation of the new message |
|---|--|---|--|
| 1 | Sese.024 FUTU SttlmInstrPrcgAddtlDtIs not present | Sese.024 FUTU SttlmInstrPrcgAddtlDtIs = PRQ/UNIT20UNIT80 | If receiving party wants to track that the cpty partially released, it would need to process the new field |
| 2 | Sese.025 (partial) + sese.024 PART | Sese.025 (partial) + sese.024 PART | Instruction partially settled (unchanged if entire released qty settles; otherwise SttlmInstrPrcgAddtlDtIs provided) |
| 3 | Sese.024 PRCY SttlmInstrPrcgAddtlDtIs not present | Sese.024 PRCY SttlmInstrPrcgAddtlDtIs not present, BR SPSA004 present | Counterparty instruction back on 'normal' hold after settlement of PR quantity (new BR) |

- From the receiving party's perspective, new field SttlmInstrPrcgAddtlDtIs and new BR SPSA004 can be interpreted, or ignored. If ignored, the partial settlement due to partial release looks like any other partial settlement, but the receiving party may miss information why a full settlement was not possible.

Possible approaches for the receiving party

- Accept partial settlement

| Today | From 3.2 |
|----------------------------|--|
| Instruct RECE without NPAR | Instruct RECE without NPAR, and accept field SttlmInstrPrcgAddtlDtls |

- Prevent partial settlement

| Today | From 3.2 |
|-------------------------|-------------------------|
| Instruct RECE with NPAR | Instruct RECE with NPAR |

- Prevent full hold/release by counterpart

| Today | From 3.2 |
|--------------|--------------|
| Not possible | Not possible |

- Prevent partial release by counterpart

| Today | From 3.2 |
|------------|---|
| Not needed | Must instruct RECE with NPAR (and accept that partial settlement is also prevented) |

Cancellation of partial release by the delivering party

- In the previous scenario, the partial release process came to an end with the settlement of the entire released quantity.
- The delivering party can also trigger the cancellation of the partial release process by sending a full hold instruction.
- Delivering party sends a sese.030 “Hold”, T2S sends a sese.031 “Completed”.
- Like today, T2S will send status updates to both the delivering party (sese.024 PREA) and the receiving party (sese.024 PRCY). The sese.024 contain references to business rules SPSA007 and SPSA008 (PR process stopped due to other hold)
- The delivering party could also cancel an ongoing partial release process by sending a full release instruction: T2S will send two status updates to the delivering party (1. sese.024 PREA notifying the end of the partial release process 2. sese.024 FUTU for the fully released status of the isx) and two to the receiving party (1. sese.024 PRCY notifying the end of the partial release process 2. sese.024 FUTU for the fully released status of the counterparty’s instruction)

Modifying the released quantity

- There is no specific message or message use to modify the released quantity for an instruction already under partial release.
- Instead, the delivering party has to follow a two-step process
 1. Cancel the ongoing partial release process (by sending a full hold instruction)
 2. Send another partial release request for the new quantity to be released.

Cancellation of a partial release - not initiated by the delivering party

- A partial release cannot be executed if the underlying instruction or its counterpart have links, other holds, are not eligible to partial settlement, etc. This does not prevent setting links, holds on an instruction under partial release.
- In such cases, when any rule to accept/execute partial release is no longer met, T2S will automatically cancel the partial release process and set the delivering instruction back on Party hold.
- The same applies also when the relevant cut-off is reached : all ongoing partial release processes are cancelled by the T2S and the instructions set back on Party Hold
- In practice, the delivering party will receive from T2S:
 - a sese.024 PREA informing of the re-instatement of the Party Hold on the instruction, quoting the business rule triggering the cancellation of the partial release process
- The receiving party will receive from T2S:
 - a sese.024 PRCY informing of the re-instatement of the Party Hold on the counterparty instruction, quoting the business rule triggering the cancellation of the partial release process



EUROPEAN CENTRAL BANK

EUROSYSTEM

Thank you for your attention

www.t2s.eu