

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: Clearstream	Institute: CSD	Date raised: 31/07/2012
Request title: Matching for DVP instructions in non-T2S currency		Request ref. no: T2S 0353 URD
Request type: Common		Urgency: Normal
1. Legal/business importance parameter: (C, H, M, L) High	2. Market implementation efforts parameter: (H, M, L) Low	
3. Operational/Technical risk parameter: (H, M, L) Low	4. Financial impact parameter: (H, M, L) (to be filled in by 4CB)	
Requestor Category: CSD		Status: Rejected by Change Review Group

Reason for change and expected benefits/business motivation:

T2S was designed and promoted as a system to support not only DVP settlement in EUR and other T2S-currencies but also the settlement in non-T2S-currencies, e.g. via the CoSD process.

However, in the validation process, T2S validation rules prevent that any non-T2S currency is used in a DVP settlement instruction (see UDFS, page 229, line 6: "To that purpose, the following checks are performed: - The Currency of a Settlement Instruction against payment or of a Settlement Restriction on cash is a T2S Settlement Currency."). It was therefore suggested by the ECB to submit DVP instructions in non-T2S currencies into T2S as FOP instructions (i.e. with Payment Flag FREE). The currency related information would be contained in the instruction but would not be validated in the validation process nor would it be considered in the provisioning or booking process.

This approach, however, implies that any such "masked DVP" instruction is subject to the matching rules of a FOP instruction. In particular this implies that neither currency nor amount nor credit/debit indicator is considered during the matching process. As a consequence, such Foreign Currency FOP instructions could be subject to strange matching results. E.g.:

- A Foreign Currency FOP Instruction could be matched to a "true" FOP instruction
- A Foreign Currency FOP Instruction in USD could be matched to a Foreign Currency Instruction in GBP
- The cash amounts of two Foreign Currency Instructions which are matched could be outside of the matching tolerance
- A Foreign Currency FOP which mimics a DVP could be matched to another one which mimics a DWP instruction.

As a result, it is effectively impossible to perform the settlement of DVP instructions with non-T2S-currencies in T2S. This is a clear conflict with principle 6 since it prevents CSDs from the continuation of their existing service on T2S.

An approach must be found to make sure that the matching process of such Foreign Currency FOP instructions provides meaningful results.

Description of requested change:

A proper matching process for DVP instructions in non-T2S currency must be ensured. Depending on which matching process is chosen for DVP instructions in non-T2S currency, two solutions are possible:

- **Option A: Match DVP instructions in non-T2S currency according to FOP rules:** The set of additional match fields for FOP instructions must be extended by the following three fields: "Currency", "Amount" and "Credit/Debit" Indicator. If such fields are present in a FOP instruction, T2S must ensure during the matching process that the corresponding attributes in the counter-leg match.
- **Option B: Match DVP instructions in non-T2S currency according to DVP rules:** T2S validation rules are changed to accept and process DVP instructions in non-T2S currencies so that the standard processing applies (in particular for DVP matching), except for the posting process where DVP instructions in non-T2S currencies are treated like FOP instructions. This approach would be preferable.

Submitted annexes / related documents:**Option A: Match DVP instructions in non-T2S currency according to FOP rules**

In case the approach is taken to match DVP instructions in non-T2S currencies according to FOP matching rules (in line with the approach suggested by the ECB), then the sections in the UDFS on matching have to be updated to describe the new additional match fields for Foreign Currency FOP instructions.

Proposed wording for the URD Change request:

The User Requirement Document shall be modified as follows:

5.5.3 Non-mandatory matching fields

[...]

DVP	FOP
Opt-out ISO transaction condition indicator	Opt-out ISO transaction condition indicator
Ex/cum ISO transaction condition indicator	Ex/cum ISO transaction condition indicator
<u>n/a</u>	<u>Currency</u>
<u>n/a</u>	<u>Settlement Amount</u>
<u>n/a</u>	<u>Credit/Debit</u>

Proposed wording for the SYS Change request (Provided by Clearstream):**UDFS section <1.6.1.2.3 Matching process>**

Table 98 with the additional match fields must be updated to include the additional match fields for FOP instructions:

DVP/DWP	FOP
Opt-out ISO transaction condition indicator	
CUM/EX Indicator *	
<u>n/a</u>	<u>Currency</u>
<u>n/a</u>	<u>Settlement Amount</u>
<u>n/a</u>	<u>Credit/Debit</u>

The corresponding pictures for table 98 must be updated as well. A footnote must be added to clarify why such attributes would be present in a FOP instruction, namely in case of DVP settlement in a non-T2S currency where the instructions are entered into T2S as FOP instructions with the DVP-related attributes are filled.

It is assumed that the statement on the tolerance amount (UDFS page 240, "If all the Matching fields on both instructions match, except for the Settlement Amount, T2S checks if the difference between both Settlement Amounts is compliant with the tolerance amount configured in T2S.") implicitly applies equally to the case where the amount is contained in a FOP instruction as an additional match field. If this is not the case, an explicit statement must be added to confirm that this applies also to this case.

Option B: Match DVP instructions in non-T2S currency according to DVP rules

In case the approach is chosen to match DVP instructions in non-T2S-currencies according to DVP rules, then it is required to drop the validation rule on the currency to enable that non-T2S-currencies can be used in "true" DVP instructions.

- Thus, DVP instructions in non-T2S-currencies would be accepted, validated and matched in the same way as

DVP instructions in T2S-currencies.

Only in the posting process a differentiation between DVPs in T2S-currencies and non-T2S-currencies will be made. In this process, T2S must treat the DVP instructions in non-T2S-currencies as FOP instructions, i.e. it must not consider any cash-related aspect of these instructions, to prevent an impact on the posting process (in particular on the provisioning and booking process).

- Therefore it should be clarified in posting section of the UDFS that the currency-related aspects of the posting processes are only considered in case of T2S-currencies, and that DVP instructions in non-T2S-currencies are technically treated as FOP instructions in the provisioning and booking process.

It should be noted that from a T2S User perspective, this approach would be preferable. It avoids the somewhat strange masking of DVP instructions in non-T2S currency as FOP instructions. This masking creates an inconsistency between the internal representation of an instruction on the T2S Actors side (as DVP) and the corresponding representation on the T2S side (as FOP with some currency fields filled).

Proposed wording for the URD Change request:

Currency check

Reference ID	T2S.05.070
--------------	------------

T2S shall check that the settlement currency is valid in accordance with the list of currencies defined by the standard ISO 4217 (codes for the representation of currencies and funds). ~~T2S shall check that the currency of the cash leg of an instruction is a T2S settlement currency.~~ T2S shall check that the currency of the cash leg is the same as the currency of the cash account if the currency is a T2S settlement currency. ~~T2S shall not perform both checks on FOP instructions, even where the field for the settlement amount contains a value.~~

Proposed wording for the SYS Change request:

UDFS section < 1.6.1.1.3 Validation process>, page 229

- Currency Validation: T2S checks that the Currency specified in the Instruction is a valid currency in T2S ~~and is the same currency as that of the T2S Dedicated Cash Account.~~ To that purpose, the following checks are performed:
 - For currencies which are eligible for DVP settlement in T2S, T2S checks that the Currency specified in the Instruction is a valid currency in T2S and is the same currency as that of the T2S Dedicated Cash Account.
 - ~~The Currency of a Settlement Instruction against payment or of a Settlement Restriction on cash is a T2S Settlement Currency.~~
 - The number of decimals of the Settlement Amount of a Settlement Instruction against payment or of a Settlement Restriction does not exceed the number of decimals defined in Static Data for the Currency.
 - In case the Settlement Quantity is zero the Settlement Amount must be greater than zero.

UDFS section <1.6.1.8 Posting>, e.g. in section < 1.6.1.8.2 Overview>

The posting application process includes the following steps:

- The eligibility check, which performs an ultimate validation at the Intended Settlement Date considering the criteria related to intraday restrictions, hold process indicator, linkages and potential applicable settlement cut-off;
- The provision check, which determines the relevant securities positions, cash balances and limits on the involved accounts and the associated credit memorandum balance. In case of lack of cash, lack of securities or insufficient external guarantee headroom, partial settlement (See section 1.6.1.9.3 "Partial Settlement") and auto-collateralisation (See section 1.6.1.9.4 "Auto-collateralisation") can be used under specific conditions;
 - The provision checks related to cash balances, limits and credit memorandum balances will only be applied for DVP instructions in T2S-eligible currencies. DVP instructions in other currencies will be treated as FOP instructions in the provisioning process
- The booking updates the securities positions, the cash balances, the limit headroom associated to credit memorandum balances and the statuses, making the settlement irrevocable.
 - The booking updates to cash balances, limit headroom and credit memorandum balances will only be applied for the booking related to DVP instructions in T2S-eligible currencies. DVP instructions in other currencies will be treated as FOP instructions in the booking process

High level description of Impact:

Outcome/Decisions:

CRG meeting of 1-2 October 2012: The Change Request is discarded.