General Information (Origin of Request)		
☐ User Requirements (URD)		
☒ Other User Functional or Technical Documentation (SYS)		
☐ Other T2S Documentation (OTD)		

Request raised by: SIX SIS	Institute: CSD	Date raised: 19/10/2015
Request title: Skip validations on minimum settlement unit (MSU) and settlement unit multiple (SUM) for settlement instructions related to Market Claims and Transformations		**Request ref. no:** T2S 0557 SYS
Request type: Common		**Urgency:** Fast-track
1. Legal/business importance parameter[1]: High		**2. Market implementation efforts parameter[2]:** Low
3. Operational/Technical risk parameter[3]: Low		**4. Financial impact parameter[4]:** Low-medium
Requestor Category: CSD		**Status:** Implemented

Reason for change and expected benefits/business motivation:

T2S skips the validation on settlement unit multiple (SUM) for the Settlement Instructions related to Corporate Actions on stock (i.e. Settlement Instructions with ISO Transaction code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled).

In addition, Change Request T2S 0497 SYS namely to have "No check on minimum settlement unit when settling Corporate Action instructions" has been approved which will skip validation on minimum settlement unit (MSU) for settlement instructions related to Corporate Actions on stock instructed with ISO transaction type code CORP and this will solve one major issue faced by migrating CSDs. However this may not be sufficient.

As settlement instructions with ISO transaction code "CLAI" are nothing but Corporate Actions on Flow and same validations should apply/be skipped as are applied or skipped for settlement instructions with ISO transaction code "CORP". Similar treatment should exist for new transformed settlement instructions with ISO transaction code settlement transaction condition code "TRAN".

This is also validated by CASG recommendation E in the attached document (2nd best solution as per CASG with opinion that best solution may not be feasible. Refer annexure to the document).

DCPG also recommends the same.

This may become an issue to all migrated CSDs when such situations arise in T2S production situation especially when claims related instruction generation is automated by CSDs and currently CSDs applications handle these situations smoothly. It may become very expensive activity to settle claims and considerable manual efforts will be required from CSDs clients and CSDs.

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Description of requested change:

T2S should skip the check related to the minimum settlement unit(MSU) and settlement unit multiple(SUM) in case of claims and transformations related instructions (i.e. Settlement instructions with ISO Transaction code "CLAI" or settlement transaction condition code "TRAN"). Therefore the settlement quantity of Claims and transformation related instructions can be equal, greater or lower than the minimum settlement unit of the security specified in the instruction and may not be in the multiples of settlement unit multiple of the security. The partial settlement process is not in the scope of the CR.

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Submitted annexes / related documents:
T2S CASG note on "Minimum Settlement Unit and Settlement Unit Multiples in T2S"

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[1] The legal/business importance parameter was set to High because the CR would offer an operationally efficient

For an idea of impact analysis please refer CR 0497 as attached.
http://www.ecb.europa.eu/paym/t2s/progress/pdf/suburd/cr/t2s-0497-sys.pdf

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Outcome/Decisions:

*CRG meeting of 28 October 2015: The CRG decided to put the Change Request on hold and agreed that the Change Request T2S-0557-SYS could be a potential candidate for Release 2.0. The CRG also agreed to check with the CASG on how to deal with the odd quantities for Market Claims and Transformation which are not compliant with the SUM or MSU for the security.

* CRG meeting on 8-9 February 2016: The CRG identified the Change Request as a candidate for the Release 1.3. The CR could be included in Release 1.3 depending on the CASG feedback. In case there is no CASG feedback, then the CR will be moved to Release 2.0. The CRG agreed to re-discuss the Change Request in the next CRG teleconference on 24 February 2016 when deciding on the list of Change Requests for Release 1.3.

* CRG meeting of 6/7 July 2016: The CRG recommended the Change Request for preliminary assessment

* CRG meeting of 06 September 2016: The CRG took note of the T2S functionalities/modules impacted by the Change Request following the 4CB preliminary assessment.

* CRG on 18 November 2020: the CRG agreed to recommend CR-557 for authorisation by the T2S Steering Level.

* PMG on 19 November 2020: the PMG proposed to allocate CR-557 to R6.0, and launched its detailed assessment.

* AMI-SeCo on 27 November 2020: the AMI-SeCo agreed to the recommendation of the CRG to authorise CR-557.

* CSG on 27 November 2020: the CSG agreed to authorise CR-557.

* NECSG on 27 November 2020: the NECSG agreed to authorise CR-557.

* MIB on 21 December 2020: the MIB agreed to authorise CR-557.

* CRG on 14 May 2021: the CRG agreed to recommend to the PMG the inclusion of CR-577 in the scope of R6.0

* OMG on 14 May 2021: the OMG identified no additional operational impact due to the inclusion of CR-557 in R6.0

* PMG on 17 May 2021: the PMG agreed to include CR-577 in the scope of R6.0

* CSG on 28 May 2021: the CSG approved the inclusion of CR-557 in the scope of R6.0.

* NECSG on 28 May 2021: the NECSG approved the inclusion of CR-557 in the scope of R6.0.

*MIB on 1 July 2021: the MIB approved the inclusion of CR-557 in the scope of R6.0

Preliminary assessment:

• Impacted functionality/module: LCMM.

• No further functional, technical and risk related issues have been identified beyond the elements already described in the Change Request.

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Proposed wording for the Change request:

UDFS

The following **UDFS v5.2.** sections should be modified:

1.6.1.1.3 Validation process

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and harmonised solution for cases where existing SUM and MSU rules don't fit the market claims/transformations business scenarios.
[2] The market implementation efforts parameter was set to low because no adaptation is needed for users
[3] The operational/technical risk parameter was set to low as the CR only requires the adjusting existing business rules to apply to 2 additional transaction codes
[4] The financial impact parameter was set to Low-Medium based on the following scale: Low < 100kEUR < Low-Medium < 200kEUR < Medium < 400kEUR < High < 700kEUR < Very High

[…]
ISIN Code Check for the Maturity date:

[…]
I 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" (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. <u>There are two exceptions for which the Minimum Settlement Unit does not apply:</u>

- Settlement Instructions or Settlement Restrictions related to Corporate Actions [183] (i.e. Settlement Instructions with ISO Transaction type code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled);

- <u>Settlement Instructions related to Market Claims and Transformations [xxx] (i.e. Settlement Instructions with ISO Transaction type code "CLAI" or Settlement Instructions with Settlement Transaction Condition code "TRAN");</u>

– 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 type 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. <u>There are the hereunder exceptions for which the Settlement Unit Multiple does not apply:</u>
- Settlement Instructions or Settlement Restrictions related to "Corporate Actions" [184] (i.e. Settlement Instructions with ISO Transaction type code "CORP" or Settlement Restrictions with the field "Corp Action Event ID" filled);

- <u>Settlement Instructions related to "Market Claims" or "Transformation" [xxx] (i.e. Settlement Instructions with ISO Transaction type code "CLAI" or Settlement Instructions with Settlement Transaction Condition code "TRAN");</u>

<u>In addition, a check</u> ensures that non-related "Corporate Actions"<u>, "Market Claims" or "Transformation"</u> Instructions containing a multiple settlement quantity have the correct number of decimals. In order to achieve the same result for all instructions, Settlement Instructions and Settlement Restrictions either containing a deviating settlement unit or related to "Corporate Actions"<u>, "Market Claims" or "Transformation"</u>, are also checked against the decimals of the Settlement Unit Multiple.

Footnotes:

183   Including T2S internally generated instructions created as a consequence of a CORP instruction, i.e. realignment instructions and CoSD generated intra-position movements.
<u>xxx   Including T2S internally generated instructions created as a consequence of a CLAI or TRAN instruction, i.e. realignment instructions and CoSD generated intra-position movements.</u>
184   Including T2S internally generated instructions created as a consequence of a CORP instruction, i.e. realignment instructions and CoSD generated intra-position movements.
<u>xxx   Including T2S internally generated instructions created as a consequence of a CLAI or TRAN instruction, i.e. realignment instructions and CoSD generated intra-position movements.</u>

[…]

I In addition the following checks are done during the revalidation process for Settlement Quantity Validation:
– 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",~~ [185], the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S. [185] <u>There are two exceptions for which the Minimum Settlement Unit does not apply for partially settled instructions:</u>

- Settlement Instructions or Settlement Restrictions related to "Corporate Actions"[186]

- <u>Settlement Instructions related to "Market Claims" or "Transformation" [xxx]</u>

– 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",~~[187], the remaining Settlement Quantity must be a multiple unit of the Settlement Unit Multiple or a Deviating Settlement Unit. <u>There are two exceptions for which the Settlement Unit Multiple does not apply for partially settled instructions:</u>

- Settlement Instructions or Settlement Restrictions related to "Corporate Actions"[187]

- <u>Settlement Instructions related to "Market Claims" or "Transformation" xxx</u>

Footnote:

185   In case the partial settlement of a Settlement Instruction took place leaving a pending quantity to be settled lower than the Minimum Settlement Unit, the partially settled Settlement Instruction will be cancelled at revalidation.

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

xxx   <u>Including T2S internally generated instructions created as a consequence of a CLAI or TRAN instruction, i.e. realignment instructions and CoSD generated intra-position movements.</u>

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

xxx   <u>Including T2S internally generated instructions created as a consequence of a CLAI or TRAN instruction, i.e. realignment instructions and CoSD generated intra-position movements.</u>

4.1 Index of 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 and not related to a 'Corporate Action'<u>, 'Market Claim' or 'Transformation',</u> 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 and not related to a 'Corporate Action'<u>, 'Market Claim' or 'Transformation',</u> 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
MVSQ606	The Settlement Quantity of a Settlement Instruction with exchange of securities and not related to a 'Corporate Action', 'Market Claim' or '<u>Transformation', must</u> be a	sese.023	sese.024	\<Rjctd>	MUNO	The Settlement Quantity of the Settlement Instruction is neither a multiple of Settlement Unit Multiple nor a Devi-ating Settlement Unit.

	multiple of the Settlement Unit Multiple or a Deviating Settlement Unit.					
MVSQ606	The Settlement Quantity of a Settlement Instruction with exchange of securities and not related to a 'Corporate Action', 'Market Claim' or 'Transformation', must be a multiple of the Settlement Unit Multiple or a Deviating Settlement Unit.	sese.023	sese.024	<Canc>	CANS	The Settlement Quantity of the Settlement Instruction is neither a multiple of Settlement Unit Multiple nor a Devi-ating Settlement Unit.
MVSQ608	In case of a partially settled Settlement Instruction with exchange of securities and not related to a 'Corporate Action', 'Market Claim' or 'Transformation', the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S.	sese.023	sese.024	<Canc>	CANS	The remaining Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit
MVSQ610	In case of a partially settled Settlement Instruction with exchange of securities and not related to a 'Corporate Action', 'Market Claim' or 'Transformation', the remaining Settlement Quantity must be a multiple unit of the Settlement Unit Multiple or a Deviating Settlement Unit.	sese.023	sese.024	<Canc>	CANS	The remaining Settlement Quantity of the Settlement Instruction is neither a multiple of Settlement Unit Multiple nor a Deviating Settlement Unit.

GFS

The following **GFS v8.2.** sections should be modified:

3.4.3 Instruction Validation
(…)
3.4.3.3 Description of the functions of the module
(…)

Settlement Quantity Validation

Reference Id	**LCMM.IVA.SMIV.3.4**

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, *market claims or transformations* **{T2S.05.090}**,
- The Original Settlement Quantity is multiple of the securities Settlement Unit Multiple (in units or nominal) or a Deviating Settlement Unit (in units or nominal), unless the instruction is related to corporate actions, *market claims or transformation* **{T2S.05.100}**,

- The number of decimals of the Original <u>Settlement Quantity</u> is equal or lower than the number of decimals defined in the <u>Settlement Unit Multiple</u> **{T2S.05.100}**.

I The Settlement Type stated in the <u>Settlement Quantity</u> of a Settlement Instruction with exchange of Securities or a Settlement Restriction on Securities must be the same as the Settlement Type specified T2S Reference Data for the ISIN Code of the Instruction.

UHB

The following **UHB v5.2.** sections should be modified:

6.4.2.185 Settlement Instruction - New Screen

Reference for error message	Field or Button	Error text	Description
[...]			
MVSQ604	I ISIN field I Settlement Quantity field I Settlement Type field I Submit button	The Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit	The Settlement Quantity specified in a Settlement Instruction with exchange of securities <u>and not related to a 'Corporate Action', 'Market Claim' or 'Transformation',</u> must be equal or greater than the Minimum Settlement Unit specified in T2S.
MVSQ606	I ISIN field I Settlement Quantity field I Settlement Transaction Type field I Submit button I n/a	The Settlement Quantity of the Settlement Instruction is neither a multiple of Settlement Unit Multiple nor a Devi-ating Settlement Unit.	The Settlement Quantity of a Settlement Instruction with exchange of securities <u>and not related to a 'Corporate Action', 'Market Claim' or 'Transformation'</u>, must be a multiple of the Settlement Unit Multiple or a Deviating Settlement Unit.
MVSQ608	I Settlement Quantity field I Settlement Type field I Submit button	The remaining Settlement Quantity of the Settlement Instruction is lower than the Minimum Settlement Unit	In case of a partially settled Settlement Instruction with exchange of <u>securities and not related to a 'Corporate Action', 'Market Claim' or 'Transformation,'</u> the remaining Settlement Quantity must be equal to or greater than the Minimum Settlement Unit specified in T2S.
MVSQ610	I Settlement Quantity field I Settlement Transaction Type field I Submit button I n/a	The remaining Settlement Quantity of the Settlement Instruction is neither a multiple of Settlement Unit Multiple nor a Deviating Settlement Unit.	In case of a partially settled Settlement Instruction with exchange of securities <u>and not related to a 'Corporate Action', 'Market Claim' or 'Transformation'</u>, the remaining Settlement Quantity must be a multiple unit of the Settlement Unit Multiple or a Deviating

			Settlement Unit.

Detailed assessment

EUROSYSTEM ANALYSIS – GENERAL INFORMATION			
T2S Specific Components		**Common Components**	
LCMM			
X	Instructions validation		
	Status management		
	Instruction matching		
	Instructions maintenance		
	Penalty Mechanism		
Settlement			
X	Standardisation and preparation to settlement		
X	Night-time Settlement		
	Daytime Recycling and optimisation		
X	Daytime Validation, provisioning & booking		
	Auto-collateralisation		
Liquidity Management			
	Outbound Information Management		
	NCB Business Procedures		
	Liquidity Operations		
T2S Interface *(as of June 2022 without Static Data Management, Communication for SDMG, Scheduler, Billing)*			
	Communication		
	Outbound Processing		
	Inbound Processing		
Static Data Management *(until June 2022)*		**Common Reference Data Management** *(from R6.0 June 2022)*	
	Party data management		Party data management
	Securities data management		Securities data management
	Cash account data management		Cash account data management
	Securities account data management		Securities account data management
	Rules and parameters data management		Rules and parameters data management
Statistics and archive		**Statistics and archive**	
	Statistical information (until June 2022)		Short term statistical information
	Legal archiving (until June 2022)		Legal archiving (from R6.0)
			Data Warehouse (from R6.0)
Information *(until June 2022 containing reference data)*		**CRDM business interface** *(from R6.0 June 2022)*	
	Report management		Report management
	Query management		Query management
			Communication
			Outbound Processing
			Inbound Processing
Operational Services			
	Data Migration (T2S DMT)		Data Migration (CRDM DMT, from R6.0)
	Scheduling (until June 2022)		Business Day Management (from R6.0)
			Business Day Management business interface (from R6.0)
	Billing (until June 2022)		Billing (from R6.0)
			Billing business interface (from R6.0)
	Operational Monitoring		Operational and Business Monitoring
	MOP Contingency Templates		

Impact on major documentation

Document	Chapter	Change
Impacted GFS chapter	3.4.3.3 Description of the functions of the module	Update to reflect the exceptions in the validation and revalidation process of the minimum settlement unit (MSU) and settlement unit multiple (SUM) for market claims and transformation settlement instructions
Impacted UDFS chapter	1.6.1.1.3 Validation process	Update to reflect the exceptions in the validation and revalidation process of the minimum settlement unit (MSU) and settlement unit multiple (SUM) for market claims and transformation settlement instructions
	4.1 Index of Business Rules and Error Codes	Business rules are to be updated to reflect the new exceptions in the validation and revalidation process for market claims and transformation settlement instructions
Additional deliveries for Message Specification (UDFS, MyStandards, MOP contingency templates)		
UHB	6.4.2.185 Settlement Instruction - New Screen	Business rules are to be updated to reflect the new exceptions in the validation and revalidation process for market claim and transformation settlement instructions
External training materials		

Links with other requests

Links	Reference		Title	

Summary of functional, development, infrastructure and migration impacts

Functional Impact:

The impact of this change request on the T2S domains/modules is the following:

The instruction validation process needs to be changed to accept Settlement Instructions related to "Market Claims" and "Transformations" that do not comply with the Minimum Settlement Unit and/or with the Settlement Unit Multiple of the security.

The instruction revalidation process needs also to be changed to not cancel Settlement Instructions related to "Market Claims" and "Transformations" that do not comply with the Minimum Settlement Unit and/or with the Settlement Unit Multiple of the security.

The skip of the MSU and SUM validations during the revalidation, for settlement instructions related to "Market Claims" and "Transformation", will apply to all settlement instructions, regardless if the settlement instruction is fully unsettled or if the settlement instruction is partially settled (i.e. LCMM won´t check, during the revalidation process, if the remaining quantity complies with the MSU and/or the SUM). Refer to SETT assessment for further information about the impact on the rules for partial settlement.

LCMM has to be able to identify settlement instructions related to "Market Claims" and "Transformations" in order to avoid the validation or revalidation of the Minimum Settlement Unit (MSU) and Settlement Unit Multiple (SUM) of the quantity for that Settlement Instructions. For that purpose, LCMM will identify:

- Settlement instructions related to "Market Claims" through the securities transaction type code set in the instructions as 'CLAI'.
- Settlement instructions related to "Transformations" through the settlement transaction condition indicator 'TRAN'.

Validation and revalidation of the MSU and SUM for T2S internally generated instructions created as a consequence of CLAI or TRAN instructions will be skipped.

Since these codes are only present in settlement instructions, any other instruction type (i.e. settlement restriction on securities) is out of the scope of this CR.

These codes are already stored in LCMM database, so only the validation and revalidation processes need to be enhanced.

Business rule description of the following Business Rules needs to be updated to reflect the exceptions in the validation and revalidation processes for Settlement Instructions related to "Market Claims" and "Transformations":

- MVSQ604
- MVSQ606
- MVSQ608
- MVSQ610

Main Cost Drivers:

− Update the validation and revalidation processes to accept/not cancel Settlement Instructions related to "Market Claims" and "Transformations" that do not comply with the Minimum Settlement Unit (MSU) and/or the Settlement Unit Multiple (SUM)

Impact on other TARGET Services and projects
No impact on CSLD, ECMS, TIPS and TARGET2.
Summary of project risk
Security analysis
No potentially adverse effect has been identified during the detailed assessment.

DG - MARKET INFRASTRUCTURE & PAYMENTS   **ECB-PUBLIC**

target | **T2S**
services

26 April 2021

Cost assessment on Change Requests

T2S-557-SYS – Skip validations on minimum settlement unit (MSU) and settlement unit multiple (SUM) for settlement instructions related to Market Claims and Transformations			
One-off	Assessment costs* - Preliminary - Detailed	2,000.00 10,000.00	Euro Euro
One-off	Development costs	141,384.58	Euro
Annual	Operational costs - Maintenance costs	12,928.86	Euro
	- Running costs	0.00	Euro

*The relevant assessment costs will be charged regardless of whether the CR is implemented (Cf. T2S Framework Agreement, Schedule 7, par. 5.2.3).