General Information (Origin of Request)		
☐ User Requirements (URD) or GUI Business Functionality Document (BFD) ☒ Other User Functional or Technical Documentation (SYS)		
Request raised by: Clearstream	**Institute:** CSD	**Date raised:** 8/4/2016
Request title: T2S generated instructions should inherit priority from the underlying settlement instructions		**Request ref. no:** T2S 0604 SYS
Request type: Common	**Urgency:** Normal	
1. Legal/business importance parameter: High	**2. Market implementation efforts parameter:** Low	
3. Operational/Technical risk parameter: Low	**4. Financial impact parameter:** Medium	
Requestor Category: CSD	**Status:** Withdrawn	

Reason for change and expected benefits/business motivation:

T2S currently applies normal priority to T2S generated settlement instructions (T2SgSI) and T2S generated settlement restrictions (T2SgSR). This implies that, e.g., the CoSD blocking related to a high priority instruction is performed with normal priority only. As a consequence, in the recycling process the CoSD blocking might settle later than other instructions which have lower priority than the underlying settlement instruction. This can create a situation where resources required to settle high priority instructions are used by instructions with lower priority.

This should be adjusted, so that T2SgSIs and T2SgSRs inherit the priority from the underlying settlement instructions. In this way, it should be ensured that the priority is considered across the entire process.
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Description of requested change:

T2S should assign the priority of the underlying instructions to the T2SgSIs and T2SgSRs in the following cases:

- T2S generated settlement restriction for use of blocked or reserved positions in indirect debit
- T2S generated settlement restriction for use of blocked or reserved cash in indirect debit
- T2S generated settlement restriction for COSD blocking of securities
- T2S generated settlement restriction for COSD blocking of cash
- T2S generated settlement instruction for COSD blocking of direct debit positions
- T2S generated settlement restriction for COSD blocking of indirect debit positions
- T2S generated settlement restriction for COSD blocking of indirect debit balances
- T2S generated settlement restriction for regeneration of CoSD blocking of cash

It should be noted that for the following T2SgSIs and T2SgSRs, the T2S behaviour should not be changed, because the inheritance of priority is not required from a business perspective:

- T2S generated settlement restriction for release of COSD blocked positions
- T2S generated settlement restriction for release of COSD blocked balances
- T2S generated settlement instructionfor realignments
- T2S generated settlement instruction and settlement restrictions for auto-coll collateral instructions and reimbursements
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T2S will assign to the T2SgSIs and T2SgSRs the priority of the underlying settlement instruction at the time of creation of the corresponding T2SgSI or T2SgSR. Any modification of the priority of the underlying instruction occurring after the creation of the T2SgSI/T2SgSR will not be considered.

Please note that no outgoing messages (camt.066, semt.013) are generated at the creation of T2SgSRs. Only the corresponding status (camt.067, semt.014) and confirmation (camt.068, semt.015) messages are generated.

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Submitted annexes / related documents:

http://www.ecb.europa.eu/paym/t2s/progress/pdf/tg/crg/crg69/03.ut-pbr-071.pdf

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Proposed wording for the Change request:

Section *1.6.1.12.3 Conditional settlement process, UDFSv2.1, page 472:*

T2S generated settlement restriction for COSD blocking of securities / cash:

Creation and settlement of the CoSD blocking Settlement Restriction
Unless the matched Settlement Instructions are already on hold for another purpose (i.e. by the T2S Party, its CSD or the business validation process, see section Business Validation [} 258]), T2S creates a T2S generated CoSD blocking Settlement Restriction to block the securities and/or a T2S generated CoSD blocking Settlement Restriction to block the cash as defined within the relevant CoSD rules. If any of the matched Settlement Instructions are already on hold for another purpose, the CoSD blocking is generated only after the release of such hold.
The T2S generated CoSD blocking Settlement Restriction on securities contains the following information:

ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR1	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Securities position impacted in the delivering Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[1]	Upon settlement, generation of a restriction reference (RRF11111)

The T2S generated CoSD blocking Settlement Restriction on cash contains the following information:

ID	T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR3	T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	Deliverable restriction type configured by the T2S Operator	CoSD blocking restriction type configured by the T2S Operator	Amount necessary for the settlement of the receiving Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[2]	Upon settlement, generation of a restriction reference (RRF12121)

Section *1.6.1.12.3 Conditional settlement process, UDFSv2.1, page 476:*

T2S generated settlement restrictionfor release of blocked COSD positions/balances

Settlement of the matched Settlement Instructions
When the Settlement Instruction is released, the matched Settlement Instructions are submitted to posting application process in order to use the CoSD blocking that has been set-up at the CoSD activation step. For this aim, the posting application process applies the standard process as for the use of a restriction (See section Provision check process [} 330]), i.e.:
In case of CoSD blocking on securities, creates a T2S generated use of blocking Settlement Restriction containing the following information:

ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR2	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Securities position impacted in the delivering Settlement Instruction	~~Remaining quantity in the restriction reference~~ Quantity necessary for the settlement of the delivering Settlement Instruction	Default value "normal"	Restriction reference Generated at the CoSD activation Step (RRF11111)

In case of CoSD blocking on cash, creates a T2S generated use of blocking Settlement Restriction containing the following information:

ID	T2S DEDICATED	BALANCE	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION

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[1] In case both legs of the underlying instructions have different priority, the higher one will be taken
[2] In case both legs of the underlying instructions have different priority, the higher one will be taken

	CASH ACCOUNT	FROM				REFERENCE(S)
T2SgSR4	T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Deliverable restriction type configured by the T2S Operator	~~Remaining amount in the restriction reference~~ Amount necessary for the settlement of the receiving Settlement Instruction	Default value "normal"	Restriction reference generated at the CoSD activation step (RRF12121)

Section *1.6.1.12.3 Conditional settlement process, UDFSv2.1, page 481:*

T2S generated settlement instruction for COSD in combination with direct debit

In case of direct debit T2S generates two matched Settlement Instructions in addition to the CoSD blocking Settlement Restriction.

The additional Settlement Instructions generated to move the securities from the blocked/reserved position to the deliverable position contain following information:

ID	SECURITIES ACCOUNT	ISIN CODE	IMPACTED BALANCE	SECURITIES MOVEMENT TYPE	QUANTITY	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSI1	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Restriction type of the blocked (reserved) securities position where the restriction reference(s) of the delivering Settlement Instruction are attached	DELI	Quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[3]	Restriction reference(s) of the delivering Settlement Instruction (RRF33333)
T2SgSI2	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Deliverable or earmarked securities position of the instructed securities account in the delivering Settlement Instruction	RECE	Quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[4]	n/a

The CoSD blocking Settlement Restriction contains following information:

ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR2	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Deliverable or earmarked restriction type of the instructed securities account in the delivering Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[5]	Upon settlement, generation of a Restriction Reference (RRF22222)

Section *1.6.1.12.3 Conditional settlement process, UDFSv2.1, page 483-484:*

T2S generated settlement restriction for COSD in combination with indirect debit

In case of indirect debit (i.e. the restriction reference(s) can be complemented with the deliverable position for the settlement of the Settlement Instruction), T2S generates:
- One Settlement Restriction to the deliverable, per used restriction reference
- One Settlement Restriction from the deliverable to the CoSD blocking

The generated Settlement Restrictions contain following information:

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[3] In case both legs of the underlying instructions have different priority, the higher one will be taken

[4] In case both legs of the underlying instructions have different priority, the higher one will be taken

[5] In case both legs of the underlying instructions have different priority, the higher one will be taken

ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR1	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Restriction type of the blocked (reserved) securities position where the restrictions references of the delivering Settlement Instructions are attached	Deliverable position of the instructed securities account in the delivering Settlement Instruction	Part of the quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[6]	Restriction reference(s) of the delivering Settlement Instruction (RRF56789)
T2SgSR2	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Restriction type of the blocked (reserved) securities position where the restrictions references of the delivering Settlement Instructions are attached	Deliverable position of the instructed securities account in the delivering Settlement Instruction	Part of the quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[7]	Restriction reference(s) of the delivering Settlement Instruction (RRF33333)
T2SgSR3	Instructed securities Account in the delivering Settlement Instruction	Instructed Security in the delivering Settlement Instruction	Deliverable position of the instructed securities account in the delivering Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Quantity necessary for the settlement of the delivering Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[8]	Upon settlement, generation of a Restriction Reference (RRF22222)

For CoSD on cash, the use of cash blocked or reserved is always done with indirect debit, so when a conditional cash debit is activated on a Settlement Instruction which uses blocked or reserved cash, T2S generates:

- One Settlement Restriction to the deliverable, per used restriction reference
- One Settlement Restriction from the deliverable to the CoSD blocking

ID	T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE(S)
T2SgSR1	T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	Restriction type of the blocked (reserved) cash balance where the restriction reference(s) of the receiving Settlement Instruction are attached	Deliverable restriction type configured by the T2S Operator	Part of the amount necessary for the settlement of the receiving Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[9]	Restriction reference(s) of the receiving Settlement Instruction (RRF56789)
T2SgSR2	T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	Restriction type of the blocked (reserved) cash balance where the restriction reference(s) of the receiving Settlement Instruction are attached	Deliverable restriction type configured by the T2S Operator	Part of the amount necessary for the settlement of the receiving Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[10]	Restriction reference(s) of the receiving Settlement Instruction (RRF33333)
T2SgSR3	T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	Deliverable restriction type configured by the T2S Operator	CoSD blocking restriction type configured by the T2S Operator	Amount necessary for the settlement of the receiving Settlement Instruction	Priority of the underlying Settlement Instructions subject to CoSD[11]	Upon settlement, generation of a Restriction Reference (RRF22222)

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[6] In case both legs of the underlying instructions have different priority, the higher one will be taken

[7] In case both legs of the underlying instructions have different priority, the higher one will be taken

[8] In case both legs of the underlying instructions have different priority, the higher one will be taken

[9] In case both legs of the underlying instructions have different priority, the higher one will be taken

[10] In case both legs of the underlying instructions have different priority, the higher one will be taken

[11] In case both legs of the underlying instructions have different priority, the higher one will be taken

Section *1.6.1.12.3 Conditional settlement process, UDFSv2.1, page 490:*

T2S generated settlement restriction for regeneration of CoSD blocked cash

Real-time closure period / impact on Conditional Settlement

During the real-time closure period, before triggering the automatic reimbursement of any pending intraday credit provided by central bank, T2S releases all unused cash restrictions (See section End of Day Cash Management [} 541]). This process includes the release of cash blocked through CoSD blocking on cash balance (See section Execution of Standing and Predefined Liquidity Transfer Orders from T2S to RTGS [} 851]).

To that purpose, a new T2S generated end of day cash release Settlement Restriction is created for each CoSD blocking on cash balance. It transfers the amount back to the deliverable cash balance as a decrease of the restriction reference created during CoSD activation:

T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE(S)
T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	CoSD blocking restriction type configured by the T2S Operator	Deliverable restriction type configured by the T2S Operator	Remaining amount in the restriction reference	Default priority "normal"	Restriction reference generated at the CoSD activation step to be decreased

This new T2S generated end of day cash release Settlement Restriction is settled in the current settlement day. This settlement results in the update of the settlement status for the related Settlement Instruction on which a CoSD rule applies. The reason code "CoSD release awaiting from Administering Party" is removed. It avoids any CoSD release until the Settlement Restriction increasing again the cash CoSD blocking (see below) is settled.

Simultaneously, a new T2S generated CoSD blocking regeneration Settlement Restriction is created, for each CoSD blocking cash balance released, in order to transfer this amount back to the CoSD blocking cash at the next settlement day:

T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE(S)
T2S dedicated cash account debited for the settlement of the receiving Settlement Instruction	Deliverable restriction type configured by the T2S Operator	CoSD blocking restriction type configured by the T2S Operator	Released amount during the end of day process	Priority of the underlying Settlement Instructions subject to CoSD[12]	Restriction reference generated at the CoSD activation step to be increased

Section 1.6.1.13.3 Securities blocking process, page 513

T2S generated settlement restriction for indirect debit using blocked securities

In case of success, T2S generates the Settlement Restrictions needed to rebalance the blocked securities used for the settlement to the impacted securities position:

OPE ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE
T2SgSRa	SA1	ISIN X	BLO1	AWAS	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[13]	RRF12345
T2SgSRb	SA1	ISIN X	BLO6	AWAS	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[14]	RRF44444

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[12] In case both legs of the underlying instructions have different priority, the higher one will be taken

[13] In case both legs of the underlying instructions have different priority, the higher one will be taken

[14] In case both legs of the underlying instructions have different priority, the higher one will be taken

Section 1.6.1.13.4 Securities reservation process, page 529

T2S generated settlement restriction for indirect debit using reserved securities

In case of success, T2S generates the Settlement Restrictions needed to rebalance the reserved securities used for the settlement to the impacted securities position:

OPE ID	SECURITIES ACCOUNT	ISIN CODE	BALANCE FROM	BALANCE TO	QUANTITY	PRIORITY	RESTRICTION REFERENCE
T2SgSRc	SA1	ISIN X	RES4	EAR7	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[15]	RRF54321
T2SgSRd	SA1	ISIN X	BLO6	EAR7	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[16]	RRF44444

Section 1.6.2.5.3 Cash blocking process, page 594

T2S generated settlement restriction for indirect debit using blocked cash

In case of success, T2S generates the Settlement Restrictions needed to rebalance the blocked cash used for the settlement to the deliverable cash balance:

OPE ID	T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE
T2SgSRa	DCA1	BLO1	DLVR	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[17]	RRF12345
T2SgSRb	DCA1	BLO6	DLVR	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[18]	RRF98765

Section 1.6.2.5.4 Cash reservation process, page 607

T2S generated settlement restriction for indirect debit using reserved cash

In case of success, T2S generates the Settlement Restrictions needed to rebalance the blocked cash used for the settlement to the deliverable cash balance:

OPE ID	T2S DEDICATED CASH ACCOUNT	BALANCE FROM	BALANCE TO	AMOUNT	PRIORITY	RESTRICTION REFERENCE
T2SgSRc	DCA1	RES6	DLVR	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[19]	RRF54321
T2SgSRd	DCA1	BLO6	DLVR	15	Priority of the underlying Settlement Instructions of the indirect debit transaction[20]	RRF98765

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[15] In case both legs of the underlying instructions have different priority, the higher one will be taken

[16] In case both legs of the underlying instructions have different priority, the higher one will be taken

[17] In case both legs of the underlying instructions have different priority, the higher one will be taken

[18] In case both legs of the underlying instructions have different priority, the higher one will be taken

[19] In case both legs of the underlying instructions have different priority, the higher one will be taken

[20] In case both legs of the underlying instructions have different priority, the higher one will be taken

High level description of Impact:

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Outcome/Decisions:

* CRG meeting of 24 May 2016: The CRG decided to put the Change Request on hold and identified as potential candidate for Release 2.0.

* CRG meeting on 6 September 2016: The CRG recommended to launch the preliminary assessment on the Change Request from 26 September 2016 to 17 October 2016 (batch 1).

* OMG on 05 October 2016: During a written procedure from 14 September 2016 to 06 October 2016, the Operations Managers Group did not identify any blocking operational impact of the Change Request.

* CRG meeting on 26 October 2016: The CRG took note of the T2S functionalities/modules impacted by the Change Request following the 4CB preliminary assessment.

* CRG on 1 October 2020: The CR was withdrawn by the initiator.

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Preliminary assessment:

- Impacted functionality/module: SETT, LCMM

- **Findings:**
  o The CR as drafted is not in line with current T2S behavior. No messages are sent for T2SgSR creation. The only message existing in case of creation is the sese.32 for T2SgSI. Therefore semt.013 or camt.066 do not exist in case of use of blocked or reserved positions neither for CoSD blocking. Nevertheless the priority of the underlying instructions could be taken into account and be visible in GUI.

  o If the objective of the CR is only to give T2S generated instructions the same priority than their underlying instructions when being created, this has no impact on LCMM. Nevertheless, if the objective is extensive to those amendments which change the priority after the creation of the T2S generated instructions so that T2S generated instructions have always the same priority than their underlying instructions, the impact on LCMM is high. We have to take into consideration that there is a business rule which avoid modifying a realignment instruction, so the scope of this CR needs to be discussed.

- **Following issues have to be clarified before the start of detailed assessment:**
  o CRG to confirm that no new message is required for T2SgSR creation.