



EUROPEAN CENTRAL BANK

EUROSYSTEM

| T2S CHANGE REQUEST FORM | | |
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| General Information (Origin of Request) <input checked="" type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS) | | |
| Request raised by: Clearstream | Institute: CSD | Date raised: 25/03/2024 |
| Request title: T2S should no longer release cash restrictions related to COSD blocking at real-time closure | | Request No.: T2S 0828 URD |
| 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:

T2S COSD logic provides an efficient mechanism to manage settlement flows extending across different settlement systems such as External Settlement where External CSDs are configured as Technical Issuer CSDs.

For such flows, T2S COSD process is used to block securities or cash on a T2S SAC or DCA, which is normally the condition that must be fulfilled to trigger the external settlement activities. Once the external settlement is confirmed, the blocked positions are used to conclude the corresponding settlement in T2S.

For the cash blocking process, one additional element needs to be considered: during Real-Time Settlement Closure phase, T2S releases all cash settlement restrictions for COSD blocked cash and attempts to re-generate them on the next Business Day only. This process was needed to prepare the originally implemented "mandatory cash sweep" to put the cash balance on a DCA to zero prior to T2S EOD.

Until the COSD related cash blocking is re-generated on the next BD, it is no longer ensured that settlement on T2S can be concluded in case external settlement is confirmed. To avoid processing issues, CSDs must implement a complex and cumbersome deadline management process to avoid that any External Settlement is executed during such phases.

With T2S CR-0709 "Make the mandatory automated cash sweep at 17:45 optional, produce general ledger file and automatically rebook failed liquidity transfers to original DCA", it is now possible to keep cash balances on T2S DCAs during T2S EOD.

This new option shall be used to deactivate the process to release all cash settlement restrictions for COSD blocked cash during Real-Time Closure phase, and instead to keep such COSD blocked cash on the DCA during T2S EOD.

If T2S will then block cash via the T2S COSD process, it is continuously ensured that this cash can be used to conclude the settlement on T2S after the external settlement was confirmed. This streamlines external settlement processes at CSD level, and it will have a positive impact on settlement efficiency and penalties.

¹ Legal/business importance parameter was set to "HIGH" as the change has a positive impact onto settlement efficiency for external settlement flows.

² Market implementation effort parameter was set to "LOW" as the change does not require implementation efforts on the T2S Actor's side.

³ Operational/technical risk parameter was set to "LOW" as the change does not introduce new features or processes. Instead, it streamlines existing processes.

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

Description of requested change:

COSD blocked cash balances shall no longer be automatically released by T2S. Instead, they shall be kept on the DCA at EOD at T2S, so that they remain available to secure settlement of the instructions subject to COSD.

The change should be applicable both for euro and non-euro T2S currencies⁵, in a configurable way. A new attribute domain or another configuration tool, configured by the T2S Operator, should be implemented to allow for non-euro NCBs, providing their currency for CeBM settlement on T2S, to decide whether COSD blocked cash restrictions shall remain on the DCA during T2S EOD, until they are eventually released by the COSD Administering Party via the COSD Release process.

This configurable functionality will make possible that if a non-euro currency is not migrated to T2 and needs to mandatorily sweep the cash at EOD back to their RTGS system, the CoSD blocking balances are still released at EOD. With this approach, any new NCB migrating a currency to T2S will be able to take full benefit of this functionality without any software change in T2S.

EOD Cash Management

T2S EOD Cash Management Process shall be adjusted to exclude COSD blocked cash balances from the process "Release of un-used cash Settlement Restriction" that is executed during real-time settlement closure.

- During Real-Time Settlement Closure, T2S shall no longer release cash restrictions for COSD blocked cash balances.
- Instead, the COSD blocked cash restrictions shall remain on the DCA during T2S EOD, until they are eventually released by the COSD Administering Party via the COSD Release process.
- COSD blocked cash restrictions shall also be excluded from the optional cash sweep. If such end-of-day Liquidity Transfer is configured, the LT shall not consider any COSD blocked cash restriction.
- The process where T2S regenerates the equivalent COSD blocked cash Settlement Restrictions for the next settlement day is no longer needed and shall be dropped as well.

Cancellations

In case of cancellations, same logic applies as currently:

- In case the instructions subject to COSD are cancelled, T2S decreases the blocked position/balance automatically.
- Only in case a COSD rule applies on a T2S generated realignment, then T2S does not automatically decrease the blocked position/balance. Decreases of the COSD blocking are handled later by the CSD or the NCB managing the accounts where resources are blocked. CSD and NCB gather the agreement of all involved administering parties before instructing the decrease with Settlement Restrictions.

This logic is not affected by the change of EOD Cash Management logic requested above.

However, if cancellations of instructions with a COSD rule on a T2S generated realignment occur between DVP cutoff and start of NTS on the next business day, then there is no need for the NCB to manage the decrease of the blocked balance, since by design, at the time of the cancellation, the blocked cash balance is zero anyway. In the future this is no longer the case, since COSD blocked cash balances are no longer released after DVP cutoff, and NCBs would need to manage the decrease of the blocked cash balance in such (rare) cases.

Revalidation logic

In case the revalidation of one of the settlement instructions subject to COSD fails (e.g., in case of change of default DCA due to business rule SPRC008 "*Business Instruction is cancelled because the Default Cash Account has changed, and the business instruction is under CoSD process*"), then T2S cancels all instructions of the COSD group.

- The decrease of COSD blocking related to cancelled Settlement Instructions is handled later by the CSD and the NCB managing the accounts where resources are blocked after the agreement of all involved administering parties.

Today, this case can occur for ad hoc revalidations, but it cannot occur for revalidation at change of business day, as today all blocked balances are released prior to change of business day.

In the future, COSD blocked cash balances are kept at change of business day, and in case T2S cancels the underlying settlement instructions during revalidation, then NCBs would need to manage the decrease of the blocked cash balances in such additional cases.

Impact of T2S Change Requests CR-0813

This change request was raised to sweep any remaining cash from a DCA at EOD if the DCA was closed. It is

⁵ It should be noted that for DKK, the change should also be implemented but only after the implementation of T2S-0794-SYS 'T2S settlement day processes for DKK'.

assumed that this would also apply to COSD blocked cash balances, should they still exist on such a DCA.

In such very rare and exceptional cases, the COSD blocked cash balances shall be transferred to the NCB without change of position type, and the NCB would need to manage the decrease of the blocked cash balances in agreement with the COSD administering parties.

It is assumed that such scenarios should be extremely rare, as the NCBs would normally align with the COSD Administering Parties well in advance when the closure of a DCA is planned and there are still COSD blocked cash balances on the DCA.

Impact on Monetary policy operations.

Due to the fact that CoSD blocked balances will not be freely available for the NCBs and PBs at Real Time Closure Period anymore, an impact on the monetary policy processes has been identified since these balances should be excluded from the calculation of Minimum Reserves and from Automatic Marginal Lending processes.

For this purpose, all the CoSD blocked balances should be reported within the general ledger file sent to T2-CLM at EOD.

In order to cope with this impact, the T2-CR-153 has been raised and will need to be implemented together with T2S-0828-URD.

Out of the scope of this change request.

The release of other unused cash restrictions, such as blocking, and reservation are outside of the scope of this change request.

Submitted annexes / related documents:

[T2S-0813-SYS Cash Sweep for closed accounts with remaining Liquidity \(europa.eu\)](https://europa.eu)

Outcome/Decisions:

*CRG on 28 November 2024: the CRG agreed to launch the preliminary assessment of CR-0828

Documentation to be updated:

URD for R202X.XXX

CoSD recycling

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| Reference ID | T2S.09.240 |
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If at the end of the day, T2S does not receive any release or cancellation instruction, the original settlement instruction shall be recycled for the following settlement day based on the T2S recycling rules (i.e. securities should remain blocked and the delivery instruction should remain on hold) ~~and the blocking of cash will be reattempted for the next T2S settlement day).~~

Preliminary assessment:

Detailed assessment: