

Taken everything into account, the T2S set-up provides the technical infrastructure that allows for efficient processing of cross-border CCP transactions and which – from a technical perspective – might facilitate CCP interoperability and lead to the disappearance of the current silo structures.

Finally, the TFAX would like to point out that in the context of the TFAX mini-consultation another issue was raised by the market: missing harmonisation with respect to default handling. This applies to the question – when a default is pronounced and published – of how pending transactions should subsequently be handled with respect to the procedures to be adopted by CSDs and CCPs.

9. Issuance practices

Issuance of securities is a procedure wherein an entity (e.g. governments, corporations or investment funds), known as the “issuer”, sells securities to raise funds³⁵. A typical issuance process consists of activities which may include a number of actors: CSDs, issuers, issuer’s agents (investment banks acting as underwriters, dealers, transfer/payment/settlement agents etc.) registrars, national numbering agencies, custodians, etc.

9.1 Implementing issuance with T2S

9.1.1 Account set-up in T2S

There are several possibilities regarding the account set-up for the purpose of issuance. The most important ones are described below. Additional variations might be possible.

9.1.1.1. Option 1: Distribution directly from issuance account

In many cases, the distribution of securities takes place directly from the issuance account i.e. a securities accounts defined with account type ‘Issuance Account’. The CSD has the choice to use either the same issuance account for multiple securities to be issued, or to maintain separate accounts. In addition it might be necessary to maintain separate accounts for operational or regulatory purposes.

The issuance activities can also be conducted by the issuer or issuer’s agent. Please note that in the context of this section the term “issuer’s agent” is used as a generic term to describe any agents supporting the issuance or distribution process for the issuer.

9.1.1.2. Option 2: Issuance account and distribution account

Some issuers/issuer’s agents require the set-up of an additional distribution account for parking the issued securities until final distribution orders are available for crediting the securities accounts of initial owners. This distribution account is a normal securities account in T2S. It could be in the name of the issuer or the issuer’s agent.

In the post-T2S environment, issuers and issuer agents involved in the settlement aspects of issuance will be able to choose the CSDs in which they want to hold their distribution accounts, irrespective of the CSD in which the actual issuance is settled. As a result, it is possible that the distribution account is with a CSD different from the issuer CSD such that all distributions of a given issuer or issuer’s agent take place via one CSD. This gives issuers and issuer agents the chance to pool their distribution activities with one CSD, while issuing securities in different markets.

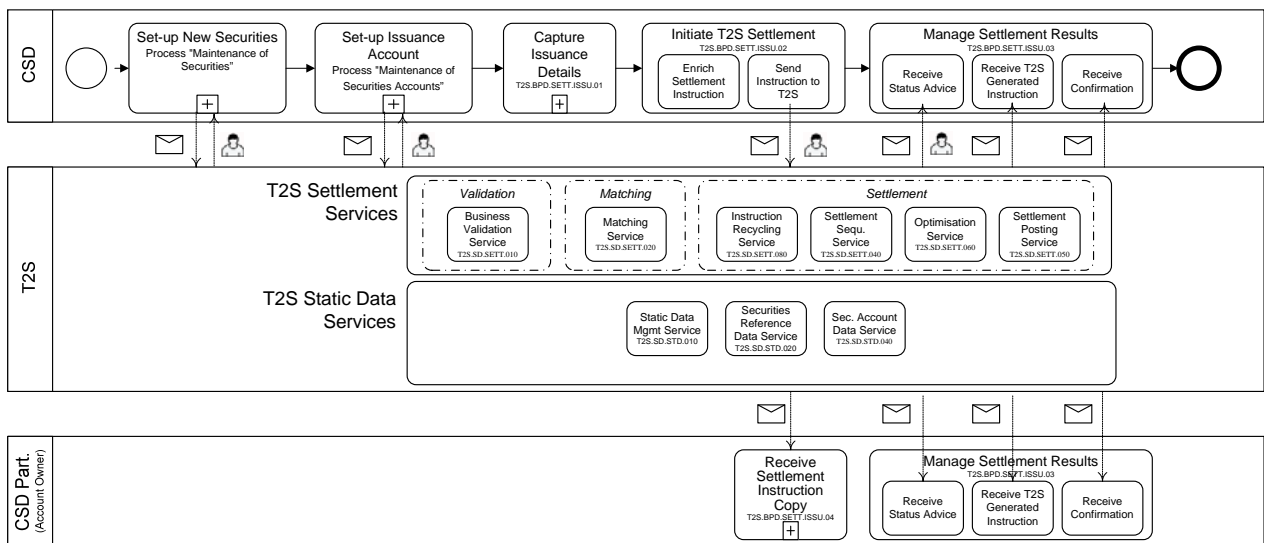
³⁵ Adapted from AFME glossary of financial terms: <http://www.afme.eu/Glossary-of-Financial-Terms.aspx#>.

9.1.2 Issuance processing with T2S

In the Business Process Description (BPD) the generic issuance process in the post-T2S environment is described. It depicts those steps of the issuance process related to settlement in T2S. For the purpose of clarity it is assumed that the issuer or issuer's agent always instruct via the CSD, however, scenarios of direct instruction by an issuer or issuer's agent are also possible and will be highlighted in the text.

For details, refer to process "Issuance of Securities [T2S.BPD.SETT.ISSU]" in the BPD, available online: <http://www.ecb.int/paym/t2s/about/keydocs/html/index.en.html>.

Figure 30: Business Process Diagram for Issuance in T2S (source: BPD v1.0)



The following steps need to be carried out:

1. Maintenance of Securities: The CSD needs to set-up the new securities in the CSD systems and T2S. For details on the creation of a security, refer to the process "Maintenance of securities [T2S.BPD.STDA.MSEC]" in the BPD.
2. Maintenance of Securities Account: The CSD might need to set-up a new issuance accounts in the CSD systems and T2S. The issuance account in T2S must have the capability to store negative (i.e. debit) values for securities positions. For details on the creation of a securities account, refer to process "Maintenance of Securities Account [T2S.BPD.STDA.MSAC]". The issuer/issuer's agent that already holds an issuance securities account with the CSD (and in T2S) can use the same issuance securities account for all the securities it issues, unless it needs to segregate issuance accounts based on ISINs for tax, regulatory or operational purposes.

The set-up of securities reference data and issuance accounts is a precondition for CSDs to process issuance information regarding the initial owners of the securities.

3. Capture Issuance Details: The CSD receives the issuance information from the issuer/issuer's agent and validates it. The issuance information contains details such as the securities account to be credited (e.g. account of investors or intermediaries), the quantity of securities, etc. The CSD validates the issuance information against its securities and securities account reference data.

4. **Initiate T2S Settlement:** The CSD creates and enriches the settlement instructions with T2S specific information such as T2S securities account numbers corresponding to the issuance and participant account numbers in the CSD and delivery and receipt securities position types. While in some markets, the respective CSD may send an already matched instruction for delivering securities from issuance account to CSD Participant account, there are other markets wherein the CSD Participant has to send a matching settlement instruction.

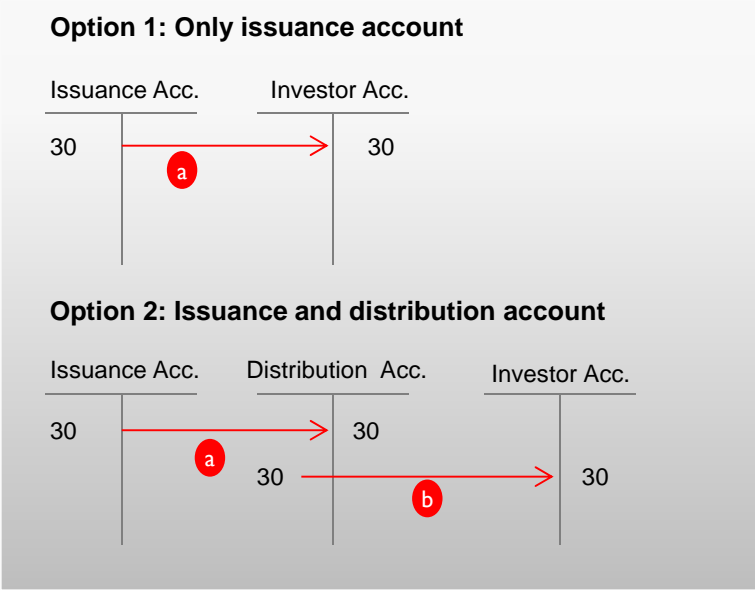
For option 1 (only issuance account):

- a) Settlement instructions to debit the issuance account and directly credit the initial holders' securities accounts are sent by the CSD to T2S. Usually this is done as a FoP transaction. If there is a requirement to use DvP instructions for the purpose of issuance, the issuance account needs to be linked to a Dedicated Cash Account (DCA). Otherwise the issuance would be instructed as FoP. There is no limitation regarding the set-up of links between securities accounts and DCAs i.e. one issuance account can be linked to several DCAs (and vice versa).

For option 2 (issuance and distribution account):

- b) For the actual issuance step, settlement instructions are sent (by the CSD to T2S) to debit the issuance account and credit the distribution account, usually as FoP.
 - c) For the distribution step, settlement instructions are sent (by the CSD to T2S) to debit the distribution account and credit the initial holders' securities accounts, usually as DvP. Settlement instructions in the distribution step may be instructed to settle individually or on an "All-or-none" basis.
5. **Manage Settlement Results:** The CSD receives status advice messages for every change of status or update of reason code to the settlement instruction within T2S.
 6. The CSD receives and validates settlement confirmation messages for the settlement instructions sent earlier to T2S and also receives the T2S generated settlement instructions.

Figure 31: Bookings for options 1 and 2



9.1.3 Set-up of privileges and restrictions for issuance processing

9.1.3.1. Limiting access to the issuance account using privileges

The issuance accounts in T2S can only be held in the name of the CSD. However, the CSD has the possibility to grant access to the issuance account, e.g. to issuer agents. In T2S this can be achieved by implementing privileges on the issuance account. Object privileges can be used to grant access on the issuance accounts to specific user groups only e.g. Issuer Agents. The CSD must authorise the issuer’s agent to use the issuance account. In this case the privileges check “Send New Settlement Instruction on a Securities Account” shall be used. For details refer to UDFS Chapter 1.3.2.

9.1.3.2. Restricting issuer’s agents to specific ISINs using settlement restrictions

In general, an ISIN can be issued by one or more specified issuer agents only. In case the issuer agents are indirectly connected via the CSD, the CSD can validate if an issuer’s agent is allowed to issue certain ISIN. If the issuer’s agent is directly connected to T2S the CSD must set up settlement restrictions in T2S in order to validate that the issuer’s agent is allowed to instruct on the ISIN.³⁶

In T2S this can be achieved by setting up settlement restrictions on the settlement instructions such as to permit instructions from issuer agents on specific ISINs only (to prevent that the Issuer Agents do not issue securities that are not assigned to them).

For details refer to UDFS Chapter 1.2.1.8.

³⁶ In addition CSD can also specify the issuance accounts related to an ISIN when configuring the securities CSD link. This set-up ensures that issuance of an ISIN can only be done from the identified issuance account.

9.1.3.3. Freezing of an ISIN using intraday restrictions

Intra-Day Restrictions: to block settlement on specific parties, securities and securities accounts, external RTGS accounts and T2S dedicated cash accounts; e.g. to block settlement on the issuance account after a certain period of time (in some markets called “initial placement period”).

In addition, it might be necessary to temporarily “freeze” the ISIN being issued in order to prevent settlement of the ISIN before the issuance process is completed.

In T2S, this will usually be achieved by specifying issuance date upon creation of the security (Security Creation Request). In this case, settlement by Investor CSDs or CSD participants cannot occur before the issuance date is reached.

In cases where the Issuer CSD has not completed the issuance process by the start of the issue date, the Issuer CSD may intend to stop settlement on that ISIN. An intraday restriction, which aims at blocking settlement on static data objects (such as parties, securities, securities accounts) can be applied to “freeze” the ISIN: either through the Security Creation Request upon creation of the security, or through the Security Maintenance Request, if the security has already been created in T2S.

The intraday restriction only applies to instructions in the purview of the CSD which has set it up. In the cases where settlement results in realignments in the Issuer CSD, blocking of ISIN in the Issuer CSD (i.e. intraday restriction) would indeed prevent settlement of these instructions. However, whenever an intra-CSD settlement takes place within an Investor CSD, there is no realignment instruction; therefore the intraday restriction set-up by the issuer CSD does not apply. As a result, it is recommended that Investor CSDs where the ISIN is eligible for settlement should as well block the ISIN using an intraday restriction in order to make sure that there is no settlement on the specific ISIN before issuance.

9.1.4 Specificities of funds issuance

9.1.4.1. Option A: Use of TA’s issuance account

In the particular case of funds, another three-tiered account structure is currently frequently used: in addition to the issuance account there is a transfer agent’s issuance account (i.e. a T2S issuance account which can have a negative/debit balance) in the name of the transfer agent (TA), and possibly another distribution account (normal securities account). This approach allows for the CSD to hand the funds issuance settlement over to the TA and giving the TA the freedom to conduct the issuance out of its account. The TA can then conduct mark up and mark down operations in order to increase or decrease the issue amount based on subscriptions and redemption orders received. Keeping issuance accounts for every TA gives CSDs also the possibility to use the services of multiple TAs.

In T2S it is possible to implement this account structure as well. However, it needs to be noted that the T2S issuance accounts need to – from a technical perspective – belong to the CSD. For setting up the TA’s issuance accounts this implies that the CSD will create the issuance accounts and need to grant the respective privileges to the TAs. There is no limitation on the number of issuance accounts per ISIN, only

if the CSD wants to use the Security CSD links to manage the issuance for a respective ISIN; the current limitation of 10 issuance accounts per ISIN applies.

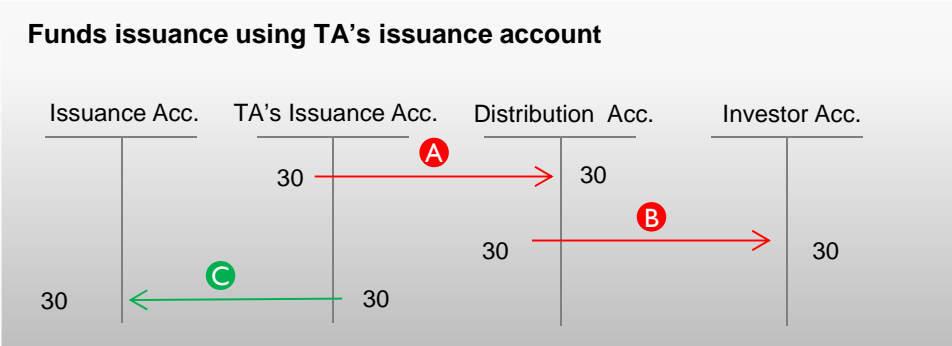
The particularities in the process are the following:

- a) For the issuance step, the TA sends settlement instructions to debit the TA’s issuance account and credit the distribution account. Settlement instructions may be instructed to settle individually or on an “All-or-none” basis. In addition, the TA has the possibility to conduct mark up and mark down operations (on TA’s issuance account against issuance account) prior to the transfer to the distribution account. Analogously to option 1 it is also possible to distribute directly from the TA’s issuance account to the Investor account. In this case distribution can take place as FoP or DvP, provided the issuance account is linked to a DCA. If more than one issuer agent has access to a single issuance account, more than one DCA need to be linked for the issuance account (unless the issuer agents use the same payment bank).
- b) For the distribution step, the TA sends settlement instructions to debit the distribution account and credit the initial holders’ securities accounts. Settlement instructions may be instructed to settle individually or on an “All-or-none” basis.

The TA could link the settlement instructions related to the funds issuance (movement a) with the settlement instructions related to distribution of fund shares to the investors (movement b) in order to ensure that the funds are distributed along with the issuance. There are two options for linking these instructions in T2S: either by specifying a “WITH” link between them or by specifying the same pool reference in all instructions.

- c) Periodically (e.g. daily, monthly or annually), the TA’s issuance account needs to be aligned with the issuance account. The TA sends a settlement instruction to credit/debit the TA’s issuance account and the CSD instructs the debit/credit the issuance account, such that the balance in TA’s issuance account is back to 0.

Figure 32: Funds issuance using TA’s issuance accounts



9.1.4.2. Option B: Use of T2S privileges without use of TA's issuance account

In the context of T2S it could be possible to avoid the use of an additional TA's Issuance Account. By granting privileges to a TA for instructing on the (CSD's) issuance account for specific ISINs only, the use of additional TA issuance accounts is no longer necessary. In this case the bookings would be the same as in Option 1 or 2 above, the only difference being that the TA instructs the issuance account. There is no limitation on the number of issuance accounts per ISIN, only if the CSD wants to use the Security CSD links to manage the issuance for a respective ISIN; the current limitation of 10 issuance accounts per ISIN applies.

For more details on funds in the context of T2S, refer to the result of the T2S funds workshops <http://www.ecb.int/paym/t2s/governance/extmtg/html/mtg24.en.html>.

9.1.5 Issuance and T2S auto-collateralisation

Securities may be used for auto-collateralisation transactions on their issue date. For this purpose, T2S will always take the collateral price of the previous day.

Securities which are issued intra-day³⁷ cannot be used for auto-collateralisation transactions "same-day" but only as from next day i.e. the collateral price of the day before the issue date will not exist for intra-day issued securities.

However, it is possible to create a security before its issue date and for the Central Banks to send in the securities valuations also before the issue date (as long as they are sent after the securities have been created in T2S i.e. within a timeframe of 15 minutes). In this case, the securities will be used for auto-collateralisation transactions on their issue date.

9.1.6 Issuance and cross-CSD settlement

Cross-CSD settlements, i.e. settlements between securities accounts of participants belonging to two different CSDs, are in the context of issuance treated like any other cross-CSD settlement. The TFAX is not aware of any additional requirements in a cross-CSD context.

An impact in a cross-CSD context is therefore not apparent. The settlement will take place according to the normal cross-CSD processing.

9.2 TFAX findings

The TFAX analysis showed that there are multiple ways of handling issuance in T2S: 1) Distribution can take place directly from the issuance account or 2) in addition a distribution account is used. The set-up of T2S restrictions and privileges allows for flexibility in handling additional limitations such as freezing of an ISIN or limiting access to issuance accounts. For funds issuance specifically the T2S privilege model

³⁷ A security issued intra-day relates to a security whose issuance process described in this section is performed on the issue date of the security (i.e. those securities having current settlement day equal to the issue date when the security is created in T2S).

allows for a set-up of issuance accounts that is less complex than most models currently in use. In the context of the mini-consultation, no additional issues were raised.

The TFAX comes to the conclusion that from a T2S and cross-CSD perspective no issues are apparent in the context of issuance.

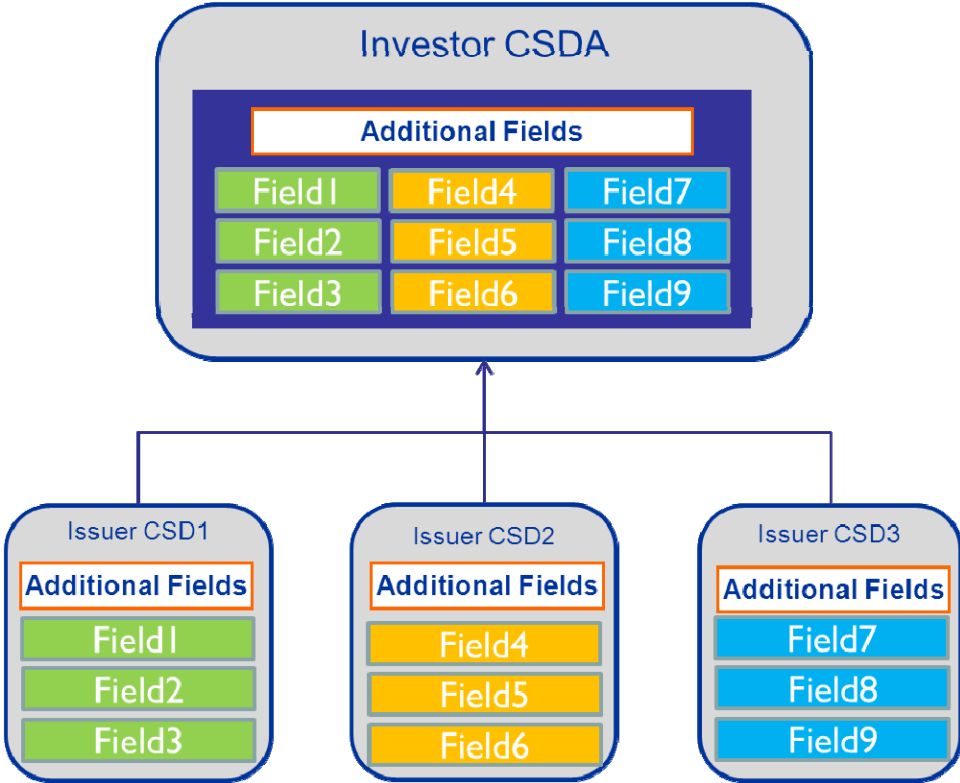
10. Message fields

Even though some fields have been removed from the message schemas due to the customisation for T2S, in the particular case of settlement instruction message, there are a lot of fields that T2S will not use for processing (e.g. neither for validation, nor for matching). These additional fields can be used by the T2S actors to pass on additional information they deem required to perform their settlement activities, or to support other adjacent processes (tax related, regulatory or others).

10.1 Impacts of requiring additional message fields

In the case where each CSD requires, its participants and Investor CSDs to populate a certain number of these additional fields, this could lead to substantial complexities for all investor (CSDs) involved, potentially hampering cross-CSD settlement. A CSD participant could have several different ways of instructing settlement depending on where the security is issued, thus needing to distinguish between markets for the population of each field. This would also require participants to collect and maintain the necessary details from their participants, which might in many cases, be highly difficult to achieve. For instance, in the picture below, there is a situation where Investor CSDA is required by three Issuer CSDs to input additional information into the settlement instructions. This will force Investor CSDA (or a DCP) to implement different ways of filling the settlement instruction depending on the security to be settled. This will turn more complex the T2S adaptation for the CSDs and their participants even though the additional information is not relevant for T2S settlement.

Figure 10: Complexities for Investor CSDs



It is important to highlight that the additional fields we are referring to here cannot be used as parameter types for the definition of additional CSD validations in T2S. For instance, Issuer CSD2 cannot set up a restriction rule in order to ensure that a particular value is populated into Field4 for settlement instruction involving a given security. This implies that, should a CSD impose on its market the presence of a given field, this could not be checked STP by the T2S application. The CSD would have to hold the instruction(s) and check it before releasing for settlement; or in case of failure, cancel the instruction of its participant. This would impose a break into the settlement process and potentially cause a delay of the settlement after intended settlement date. In contrast to this, CSD Validation Hold or rejection restrictions can only be placed on certain predefined message fields.

Also it is important to highlight that most fields not used by T2S in the settlement instruction will also not be populated into the realignment messages. As a result, it will not be possible for those fields to be used in a cross-CSD and external-CSD settlement scenario e.g. to pass information to the issuer CSD³⁸. To a certain extent, statuses, confirmations and allegement messages do not return all additional fields that are present into the settlement instruction, thus limiting the propagation of the additional information. For more details refer to the [guide](#) to the Excel Spreadsheet attached.

³⁸ See section “Tax processing (Issue 2)” for more information on the limitations of using T2S messages to pass information to Issuer CSD via the realignment messages.

10.2 TFAX findings and recommendation

In order to estimate the complexities which might occur as a result of message field population it is necessary to analyse the usage of message fields as foreseen by CSDs and other market participants. The results can be used to detect potential new issues which might hamper cross-CSD settlement in the T2S environment.

At the time of the second TFAX mini-consultation, only 6 markets were able to conduct the field assessment, i.e. the fields they plan to use in T2S or those which they think might be required in the future. All other markets were not progressed enough in their analysis or refrained from sending in preliminary results. The answers received show that only few fields were highlighted by markets as missing and none of them constitutes a showstopper based on the status quo. However, the impact of a missing field could not be gauged in all cases, thus the impact is not yet clear.

The TFAX invites the HSG to re-conduct the survey on message fields with the markets in order to be able to fully gauge the impact in the second quarter of 2013.

Annexes

11. Annex 1: Registration processing

This annex provides additional information on how to handle selected specificities related to registration in the context of T2S.

11.1 Implementing on-demand registration

It is to be questioned whether an exception to the overall recommendation should be made for the particular case of on-demand registration. In this case, as mentioned in the process description above, the ISIN as a unique criterion (to determine for which securities (de)registration details are to be forwarded, refer to step 4 above) seems to be insufficient for securities with on-demand registration. There is a need to consider the investor's individual decision to trigger registration. There are theoretically two options for materialising the investor's choice:

Option 1) Account segregation: account would need to be segregated (similarly to the “nature de compte” practice in the French market) to determine whether or not a security requires (de)registration. Account segregation in this respect consists in having an account for bearer securities and an account for registered securities. Whether or not a security requires registration can be derived from the account which is being instructed. If this segregation was implemented not only in the intermediary system, but also in the settlement system, this would require all investor CSDs to implement a dedicated account to settle registered securities in their account structures. This approach would raise the complexity of account structures for all investor CSDs and involved intermediaries.

For more details refer to section “Transmission and maintenance of information in a cross-CSD context”.

Option 2) Additional message field: An additional message field could be used to pass on the information whether or not registration is desired. If this information is not only provided to the intermediary but also implemented in the T2S settlement instructions with the aim of using T2S as a vehicle for transmitting the information through the chain of CSDs, it would have the major drawback of being insufficient in some settlement scenarios analogous to the analysis under 2.2.3.

For more details refer to section “Transmission and maintenance of information in a cross-CSD context”.

In all cases, it has to be questioned whether information needed for registration, but not relevant for settlement, should to be sent to T2S by the intermediary and extracted again from T2S by the same intermediary. As established above, the intermediary should receive all details required for registration in step 1) from the investor (or another intermediary). This information should include the details whether registration is wanted by the Investor or not. In this case the information does not need to be transmitted

via T2S just to be extracted again one step later. The only information required from T2S is the confirmation of settlement.

As a result, registration details should be passed on completely outside T2S. T2S should not contain information serving the registration process that is not relevant for settlement.

11.2 Implementing registration as a condition for the transfer of ownership

In the cases where the issuer aims at controlling the transfer securities outside a certain type of shareholders, the issuer needs to verify and authorise (or reject) the transfer of ownership on its securities prior to settlement. In the post T2S environment, for these securities requiring the confirmation by the issuer, T2S Hold and Release mechanisms³⁹ should be used in order to defer settlement until the authorisation by the issuer is received.

11.3 Nationality declaration

Some companies require the transferees to declare the nationality of beneficial owner(s) or persons having an interest in the securities being transferred, to the registrar. This information is used for monitoring the levels of ownership of the company by foreign nationals. E.g. some companies' securities cannot be held by foreign nationals beyond a certain percentage. The CSD validates that the nationality information is specified in the transactions that are related to the specific companies. Without the nationality declaration, these share transfers cannot be registered. In cases where the company finds that the percentage of securities held by a foreign national are beyond the allowed percentage, the company sells or repurchases the securities from the foreign investor.

The nature of the nationality declaration shows similar traits as that of registration. Just like any other registration, the Nationality Declaration:

- 1) provides issuer with information about shareholders (difference being that merely the nationality is to be disclosed and not the entire identity of the investor);
- 2) serves as a means for issuers to control the ownership of their securities;
- 3) is applicable only for a limited number of ISINs, depending on the issuers' choice;
- 4) requires the passing of information about end-investors up the intermediary chain to the registrar and finally the issuer (in a national and cross-border context).

For this reason the processing of information required for the nationality declaration is to be treated analogously to the registration, in particularly the model of handling registration and settlement as distinct processes. The task force therefore recommends that information required for the nationality declaration should be passed outside T2S to the issuer.

³⁹ CSD Validation Hold or Conditional Securities Delivery (CoSD)

11.4 Registration as a general condition for settlement

In some direct holding markets, registration is not understood as an issuer service but is attributed a different meaning. Here, the execution of registration by the CSD is tantamount to (1) the finalisation of settlement **and** (2) the completion of the transfer of the security to the end investor. In these countries, omnibus accounts held by the CSD in T2S do not have sufficient legal value to fulfil also the function of a legally valid register (record) for the transfer of ownership [above (2)]. The T2S Framework Agreement requires CSDs to ensure the “irrevocability, enforceability and un-conditional of securities and cash transfers” in securities and cash accounts in T2S (settlement finality III, SF III)⁴⁰. From this follows that a CSD may not define SF III to be reached after settlement in T2S, but at the time of settlement in T2S.

In adapting to T2S, these markets might conceive that settlement in T2S should be preceded by the “registration” of the settlement transaction on a legal record in the CSD (e.g. the end-investor accounts kept in the local CSD system) that is distinct from the securities accounts in T2S.

In order to implement this mechanism, settlement in T2S would need to be deferred until the “registration” outside T2S has taken place. This would require the systematic use of Hold and Release mechanisms, which will lead do a delay for every single settlement instruction on the accounts of the respective CSDs.⁴¹

The purpose of this set-up would be to allow for the completion of the transfer of ownership in compliance with the local legislation by means of deferring T2S settlement. Such a solution would lead to a delay of settlement for every settlement instruction of the respective CSDs’ accounts.

CSDs in T2S need to implement a settlement process that complies with the contractual requirement stated in Article 20(4)(b) FA, i.e. that the settlement on securities accounts in T2S is the only relevant reference point for SF III. As a result, implementing a “registration” process prior to settlement would not be necessary and therefore impractical systematic use of Hold and Release mechanisms for all settlement instructions on the accounts of the respective CSDs could be avoided.

12. Annex 2: Tax processing

This annex details the potential message fields for tax processing. In addition, the use of Market Specific Attributes and restriction rules is explained.

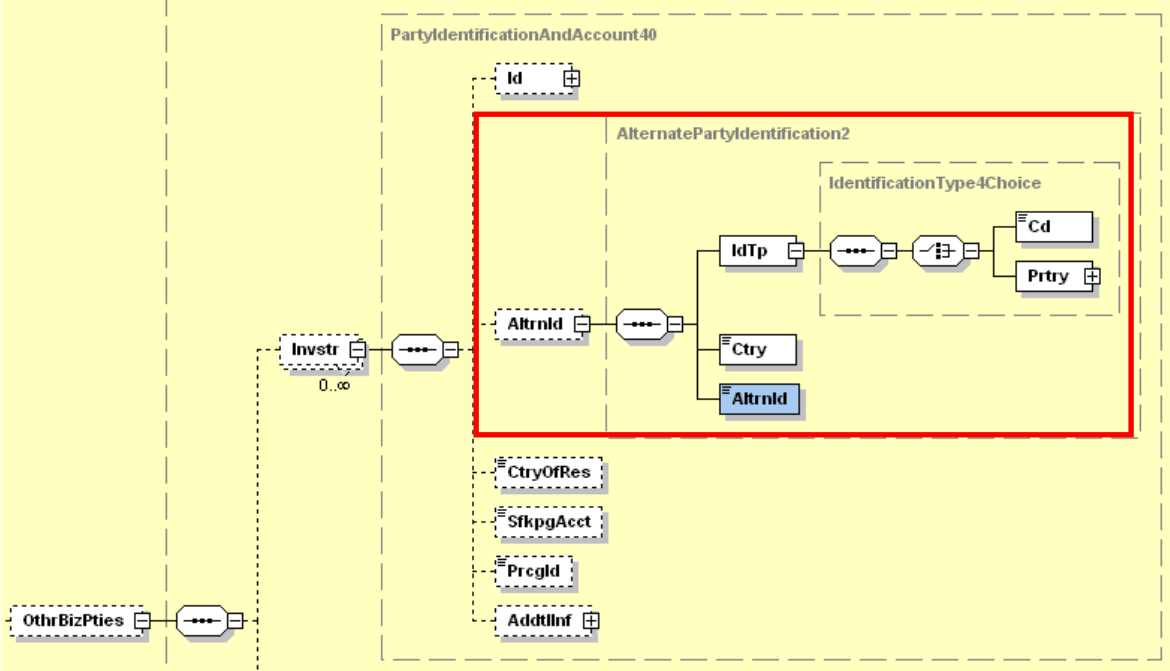
⁴⁰ T2S Framework Agreement, art. 21, par. 4.

⁴¹ The Conditional Securities Delivery (CoSD) functionality could, in principle, provide for this set-up.

12.1 Tax related fields in ISO20022 settlement instruction message⁴²

12.1.1 Potential candidates

The <AltrnId> element within the Investor block of the settlement instruction (hereunder circled in red) could be used as per the ISO definition to pass on tax related information such as a Tax Identification number or a Tax exempt Identification number.



⁴² sese.023.001.02

12.7.15 IdentificationType <IdTp>

Synonym(s): :95S::ALTE/[4!c[4c]]/4!c (ISO 15022)

Presence: [1..1]

Definition: Specifies the type of alternate identification of the party identified.

Type: This message item is composed of one of the following *IdentificationType4Choice* element(s):

Ref	Or	Message Item	<XML Tag>	Mult.	Represent./ Type
12.7.16	{Or	Code	<Cd>	[1..1]	Code
12.7.17	Or}	Proprietary	<Prtry>	[1..1]	

12.7.16 Code <Cd>

Presence: [1..1]

This message item is part of choice 12.7.15 *IdentificationType*.

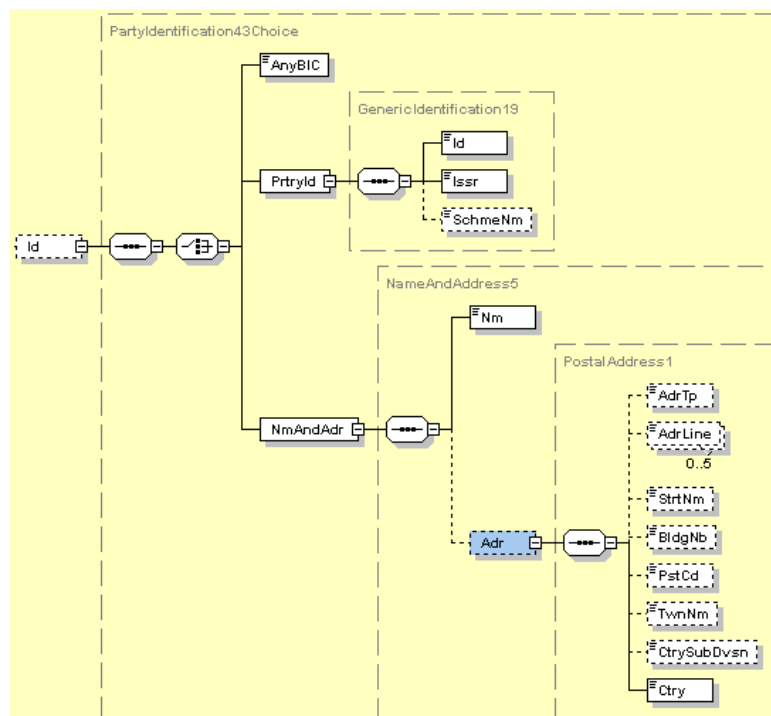
Definition: Type of identification is defined using a code.

Data Type: Code

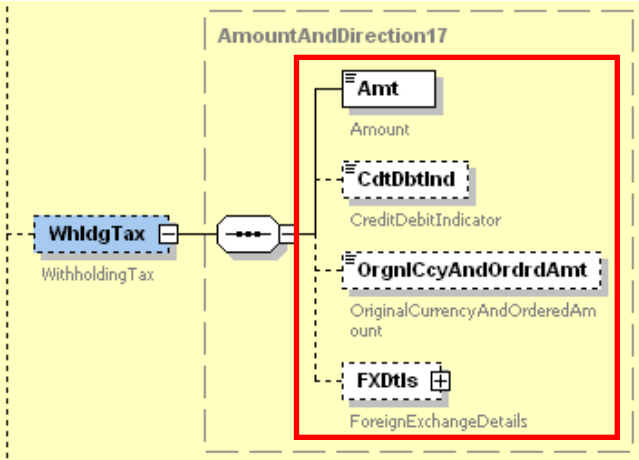
One of the following *TypeOfIdentification1Code* values must be used:

Code	Name	Definition
ARNU	AlienRegistrationNumber	Number assigned by a government agency to identify foreign nationals.
CCPT	PassportNumber	Number assigned by a passport authority.
CHTY	TaxExemptIdentificationNumber	Number assigned to a tax exempt entity.
CORP	CorporateIdentification	Number assigned to a corporate entity.
DRLC	DriverLicenseNumber	Number assigned to a driver's license.
FIIN	ForeignInvestmentIdentityNumber	Number assigned to a foreign investor (other than the alien number).
TXID	TaxIdentificationNumber	Number assigned by a tax authority to an entity.

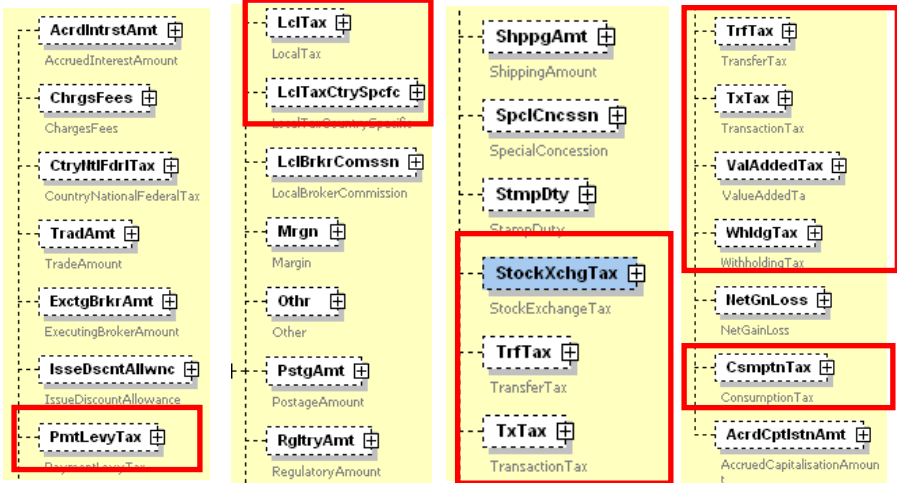
In addition, in the same Investor block, it is possible to specify the Identification of the Investor. The ISO20022 structure allows identifying the Investor either via BIC, proprietary ID, or using Name and address of the Investor.



Finally, other fields can be used to pass on information regarding a particular transaction tax type specifying the amount, a debit/credit indicator, currency and other details.



Different types of tax can be covered by these fields, e.g. Payment Levy tax, Local tax, Transfer tax, Transaction tax, Withholding tax.



12.1.2 Availability of fields in T2S messages

As per the description in the section “Transmission and maintenance of information in a cross-CSD context” passing additional details via settlement messages would require having the fields available into the settlement instruction, the realignment message⁴³ and the confirmation⁴⁴. The availability of the fields in the current T2S customised schema files is the following:

⁴³ sese.032.001.02

⁴⁴ sese.025.001.02

	ISO	T2S
Settlement instruction	YES	YES
Realignment	YES	NO
Settlement confirmation	YES	NO

12.2 Use of Market Specific Attributes and restriction rules

As stated earlier, at a technical level in T2S, there are possibilities for any CSD to “flag” its own securities accounts using “Market Specific Attributes”, e.g. for instance the following values are defined for all CSDs:

Name	Values
Tax Type	1,2

The CSD could keep this information internal and maintain a mapping in its system so that it knows which accounts are of type 1 and which accounts are of type 2. Defining these “Market Specific Attributes” in T2S has the advantage to allow afterwards using these flags and their value as parameters for the set-up of restriction rules in T2S. In T2S there is a possibility for the CSDs to define additional validations based on a set of parameter such as account number, ISIN, account owner etc... These additional validations result in either:

- Acceptance of an instruction
- Hold of an instruction for further checks by the CSD (CSD Validation Hold)
- Rejection of an instruction

A CSD could as well define restriction rules not using the Market Specific Attribute of the securities accounts, but using the account itself as a parameter. This would result of course in increasing the total number of rules the CSD has to set-up in static data as rules have to be set-up for each account.

In some cases, the account segregation is not sufficient to define whether a particular instruction is subject to tax or not; therefore other differentiating criteria can be used. For instance, there are in some markets securities for which a certain tax status is applied, independently of the securities’ account tax type.

Here again, a pan European agreement on the possible harmonised tax classification for securities would be required. The security “tax type” could be maintained in T2S using the MSA at Security level. The CSDs would be able to use these market-specific attributes values as parameter types for the set-up of restriction rules (possibly in combination of the ones used for securities account). It is also possible to define MSA to the Party object in T2S, therefore it would also be possible to flag each T2S Party as having a given tax type.

13. Annex 3: Portfolio Transfers

This annex details how portfolio transfers are handled in various markets as of today and lists the ISO transaction codes applicable for portfolio transfers.

13.1 ISO Transaction codes for portfolio transfers

Type of transfer	ISO20022 Code (SctiesTxTp)	ISO15022 Code
Internal transfer	OWNI	:22F::SETR//OWNI
External transfer	OWNE	:22F::SETR//OWNE

13.2 ISO Transaction flag for transfer of beneficial ownership

Change of beneficial ownership	ISO20022 flag	ISO15022 flag
No change of beneficial ownership	SctiesStlmTxInstr/ StlmParams/ BnfclOwnrsh/Ind (Value No)	22F::BENE//NBEN
Change of beneficial ownership	SctiesStlmTxInstr/ StlmParams/ BnfclOwnrsh/Ind (Value Yes)	22F::BENE//YBEN

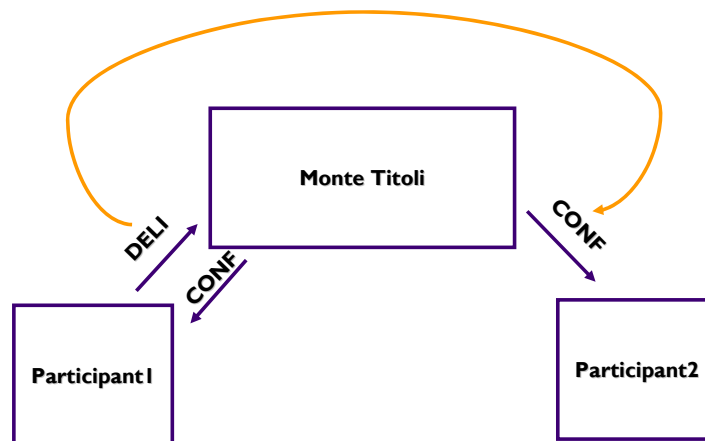
13.3 Italian example

13.3.1 Current process

Today, the custodian (CSD participant) delivering the portfolio instructs Monte Titoli with an FOP instruction that do not require matching at the CSD. Upon receipt of this instruction, the CSD settles the instruction and credits the receiving custodian’s [CSD participant (new custodian)] securities account. Both CSD participants receive a settlement confirmation from the CSD.

The settlement confirmation received by the receiving custodian contains details that have been provided by the delivering custodian into its instruction.

Figure 1 – Italy portfolio transfer current process



13.3.2 Information requirements

When instructing the CSD, the delivering custodian provides the following information into the settlement instruction. The information is extracted from the delivering FOP and transmitted into the confirmation that flows to the receiving custodian.

Table 1 – Italy portfolio transfer information requirements

Field ⁴⁵	Information	Sample data
R717	References fiscal data of the beneficiary	11417076911MT
R77A1	Buying clear price	13.865408
R77A2	Clear price exchange rate	1
R177	Currency of buying clear price	EUR
R77A5	Regime type indicator	A
R77B	Delivery to a different holder	S
R77A3	Net Asset Value	13.909777
R77A4	Net Asset Value exchange rate	1
R032	Value date	20110320
R779	Data of beneficiary	BELLETTI DANILO

13.4 French example

13.4.1 Current process

Today, a similar procedure is used in France, e.g. the delivering custodian instructs the CSD with an instruction that does not require matching. Once settled, the CSD sends confirmations to the two participants similarly to the Italian process.

13.4.2 Information requirements

The information transmitted is the following:

⁴⁵ Monte Titoli proprietary message

Information ⁴⁶	Sample Data
First Name	Alexandre
Last Name	Dupont
French part of the IBAN of the beneficiary	XXX
Cost price for each line of transferred securities	XXX
Date of purchase of securities	XXX

13.5 Dutch example

13.5.1 Current process

The participants of the Dutch market have agreed in 2009⁴⁷ to abolish the “dump” practice for portfolio transfers, e.g. not to use anymore unilateral FOPs. Matching is required up to 3 levels in the Dutch market except for portfolio transfers where ING Bank receives the securities in a specific account⁴⁸.

13.5.2 Information requirement

The Dutch portfolio transfer practice requires matching up to 3rd level (e.g. CSD, CSD participant, Intermediary Bank (including safekeeping account held by the beneficiary at the intermediary bank). In some cases, the CSD participant might be the institution in which the beneficiary holds its account.

It is also possible for the Dutch participants to make use of a free text field in the settlement instruction to provide the additional information.

13.6 Belgian example

13.6.1 Current process

In Belgium the current process makes use of a standardised Fax between the two institutions holding the client’s accounts. Matching is recommended by the market practice; however for some exceptions dumping is allowed (e.g. no matching). It is also allowed that the receiving institution uses proxy (Power of Attorney) to initiate the transfer from the receiving side.

This has to be noted that this market practice was put in place on a temporary basis, e.g. the Belgian market participants agreed that on the long run a STP solution should be put in place.

13.6.2 Information requirement

Information	Sample data
<i>Sender Information</i>	
Name	KBC Bank NV

⁴⁶ Euroclear Proprietary messages

⁴⁷ Decision of the DACSI (Dutch Advisory Committee Securities Industry)

⁴⁸ Account #29111

Address	Havenlaan 12-1080 Brussels
BIC/SWIFT	KREDBEBB
<i>Sender's contact</i>	
Name	Sidonie Peeters
Telephone Number	+32 2 429 89 00
Fax Number	+ 32 2429 00 00
e-mail address	Sidonie.peters@kbc.be
<i>Client information</i>	
Name of instructing client	Jan Janssens
Account number of the client with addressee	056-8242332-36
<i>Transaction details</i>	
Transaction reference	165300
Quantity of security	500
ISIN code	NL0000009538
Name of Security	Philips Electronics NV
Name of delivering Custodian	KBC Securities
BIC of delivering Custodian	KBSEBE22
A/C with delivering custodian	103001000
Name of Subcustodian (if any)	Kasbank Amsterdam
BIC of Subcustodian	KASANL2A
A/C with Sub-Custodian	223667048
External participant code	NECIGEF 300

Other information is required in the particular case of savings certificates.

13.7 German example

13.7.1 Current process

In Germany, there are currently portfolio transfers for both retail and institutional investors. For retail investors the process is quiet similar to the above mentioned Italian case, e.g. delivery FOP is instructed by the delivering custodian, upon matching and settlement, confirmations are sent out to the delivering and receiving custodians.

In addition, upon the settlement of the transfer, the delivering custodian will provide to the receiving custodian the relevant tax details through a specific application in the CSD mentioning a settlement instruction reference allowing reconciliation of the tax details with the relevant settled instruction; the provision of tax details is only relevant in case of retail portfolio transfers, these details will not be provided to the receiving custodian in case of institutional clients. Since the introduction of the flat-rate

withholding tax (Abgeltungssteuer) in 2009, German banks and capital investment companies are obliged to provide tax-relevant data to the receiving institution in the case of a portfolio transfer of retail clients..

Regarding the matching, the German market gives the choice to either require counter instruction from participant for matching (“active matching participants”) of the delivery FOP or not (“passive matching participants”). Passive matching actually means that the CSD will generate the matching instruction itself on behalf of the custodian receiving the portfolio. In the retail business passive matching is usually used. For the institutional portfolio transfers however, usually the custodian banks require “active” matching.

13.8 Information requirement

The tax details are to be exchanged between delivering and receiving custodians in the case of retail portfolio transfers. The following type of information is exchanged:

Information	Sample data
Beneficial owner	XXX
Receiving Bank	XXX
Receiving Bank BIC code	XXX
ISIN	XXX
Name of the security	XXX
Quantity	XXX
Purchase price	XXX
Purchase date	XXX
Accrued interests (FIFO principle)	XXX
Type of transfer	XXX
Change of creditor	XXX

14. Annex 4: Bond stripping

This annex details how bond stripping is handled in various markets as of today.

14.1 Bond stripping/ reconstitution types

Two different types of bond stripping exist in the markets.

1) Stripping of all outstanding coupons: In some markets case, the stripping request from the participant will always result in one zero coupon Bond (stripped bond), and a number of all outstanding coupons. The participant need not instruct for receipt of the resulting coupons and stripped Bond.

2) Stripping of certain outstanding coupons: In some markets (e.g. Greece), stripping of only a certain number of unpaid coupons from the bond is also allowed. I.e. The stripped bond could still have the remaining set of coupons attached. In such markets the participants send a stripping request to the CSD

along with the details of which stripped bond and coupons it intends to receive. The participant sends a set of FOP instructions to the CSD, to effect stripping of bonds. There will be at least three FOP instructions; 1) Deliver Bonds ISIN to the issuer 2) Receive a certain stripped bond from the issuer 3) Receive certain coupons from the issuer (as one FOP per coupon). The issuer CSD validates if the amount of bonds requested for stripping is consistent with the amount of stripped bonds and coupons, and processes the instructions.

14.2 Belgian Example

In Belgium, Bond stripping/reconstitution instructions are allowed only from a party who is a PD or a RD. NBB could allow direct connectivity for its participants to instruct stripping/reconstitution.

In this case, NBB can create an MSA at the level of party or at the level of a securities account (if this account has been segregated by the party) to identify a PD or RD. NBB could create rejection restriction rules based on this MSA. Bond stripping instruction could be implemented as a FOP instruction delivering into the Belgian state securities account.

Figure 33: Intra-CSD scenario – current

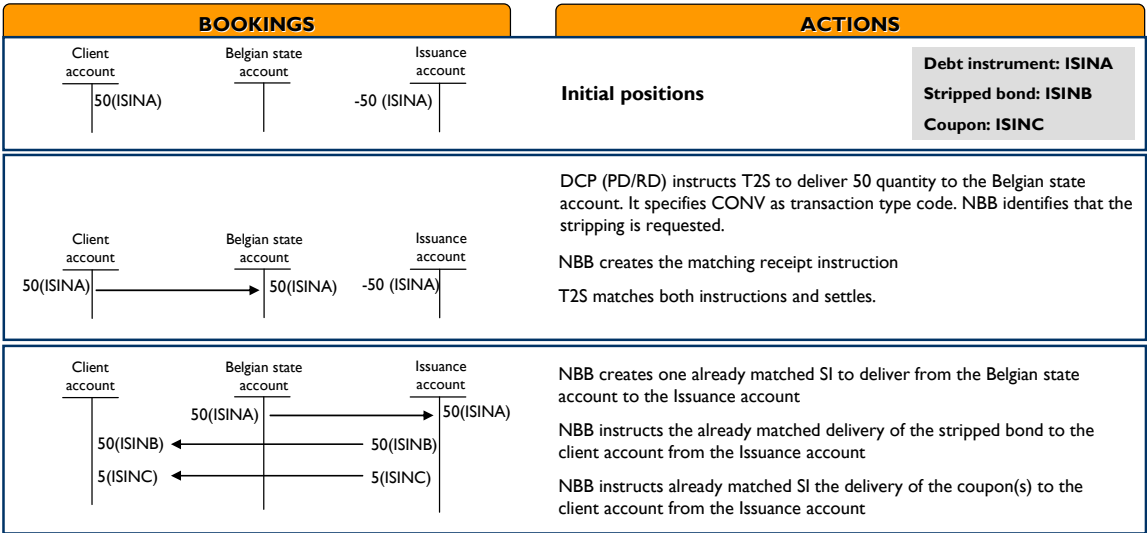


Figure 34: Cross-CSD scenario – foreseen

BOOKINGS		ACTIONS
	<p>Initial positions</p> <p>Debt instrument: ISINA Stripped bond: ISINB Coupon: ISINC</p>	
	<p>CSD or DCP (PD/RD) instructs T2S to deliver 50 quantity to the Belgian state account from participant account in Investor CSD.</p> <p>It specifies CONV as transaction type code. NBB identifies that the stripping is requested when receiving the allegation.</p> <p>NBB creates the matching receipt instruction</p> <p>T2S matches both instructions, generates the necessary realignments and settle all.</p>	
	<p>NBB creates one already matched SI to deliver from the Belgian state account to the Issuance account</p>	
	<p>NBB instructs 2 delivery instructions for ISINB and ISINC to client account in Investor CSD</p> <p>Counterpart (CSD/DCP) receives allegation and instructs the 2 receipt instructions</p> <p>T2S matches, create necessary realignments and settles.</p>	

14.3 French example

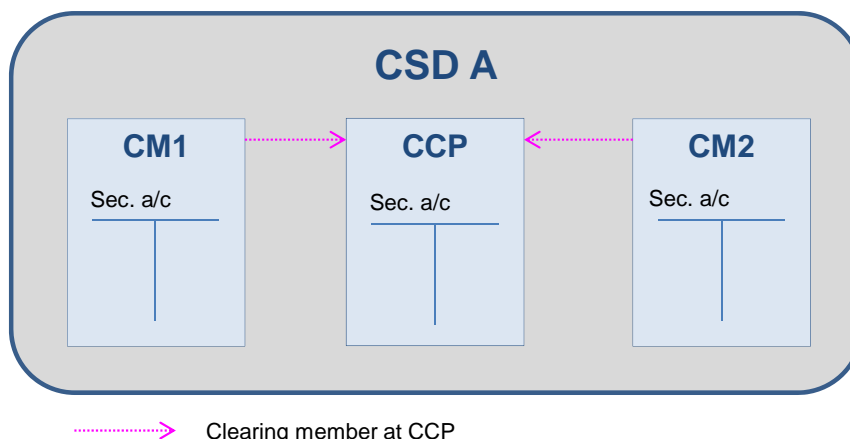
Similar to Belgium, France distinguishes primary dealers and recognised dealers from other market participants. Only the PD/RD can instruct bond stripping instructions to the CSD. France foresees to implement the stripping/reconstitution of bonds as a service provided only via indirect connectivity.

15. Annex 5: CCP Instructions

This annex illustrates examples of CCP settlement scenarios.

15.1 Intra-CSD CCP transaction (without interoperability)

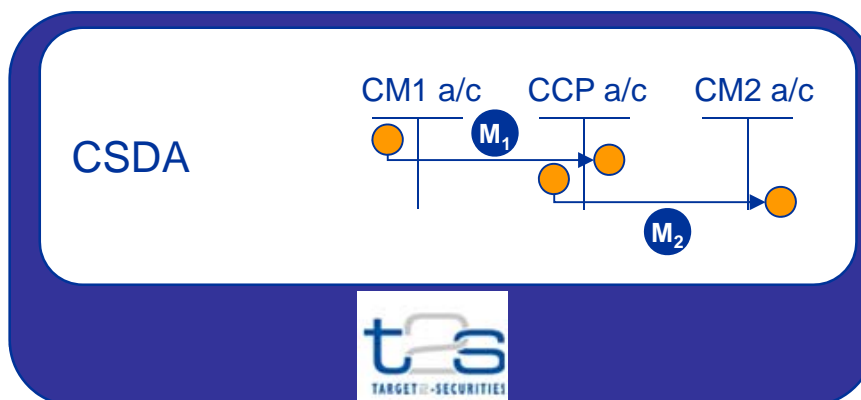
Figure 35: Scenario 1



In this scenario, both the CMs and the CCP maintain their securities accounts in a single CSD. Issuer CSD of the ISIN being settled can be different from CSD A. This scenario is supported currently by all CCPs e.g. EUREX Clearing AG.

In T2S this scenario can be achieved by creation of securities accounts in T2S for CMs, CCP by the CSD. Power of attorney on the securities accounts of the CM to CCP can be implemented using the ‘privileges’ in T2S i.e. CSD or CM can provide object privileges on CM’s securities accounts to the CCP.

Figure 36: Scenario 1 (movements)



After the conclusion of the trade (CM1 sells, CM2 buys) the CCP instructs two sets of settlement instructions to T2S.

Step 1: CCP instructs T2S for delivery of securities on behalf of CM1 against itself as counter party.

Step 2: CCP also instructs T2S for receipt instruction against CM1 as counter party.

The matching and settlement of these instructions (step 1 and 2) in T2S results in movement of securities from CM1 a/c to CCP a/c. (depicted as movement M₁ in the above figure)

Step 3: CCP instructs T2S for delivery of securities against CM2 as counter party.

Step 4: CCP also instructs T2S for receipt instruction on behalf of CM2 against itself as counter party.

The matching and settlement of these instructions (step 3 and 4) in T2S results in movement of securities from CCP a/c to CM1 a/c. (depicted as movement M₂ in the above figure)

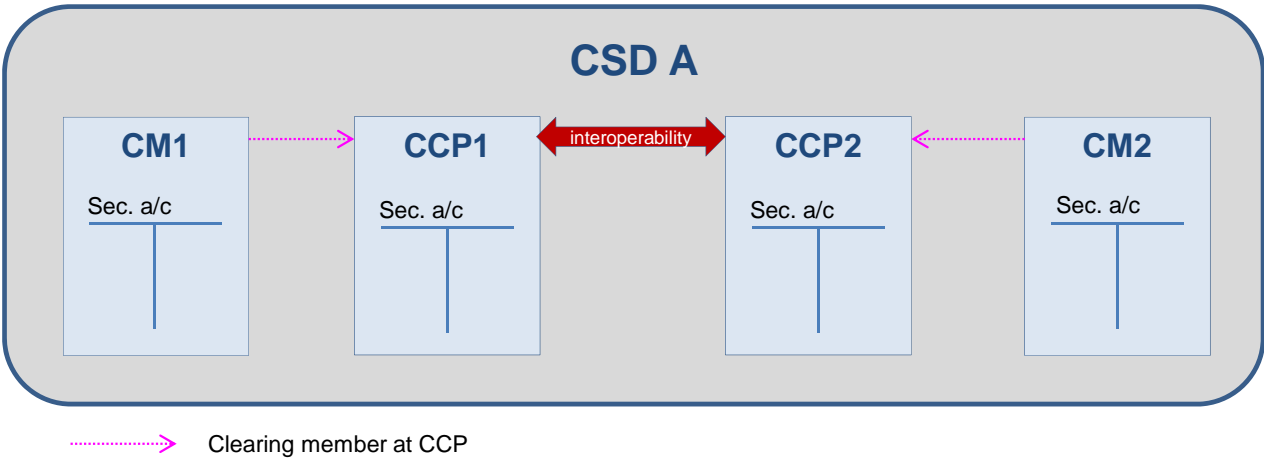
CCP can also instruct the settlement instructions in step 1 and 2 together as ‘already matched’. Same applies for instructions in step 3 and 4 as well.

15.2 Intra-CSD CCP transaction with interoperability

This scenario includes two CCPs interoperating. The objective of interoperability between CCPs is to provide the trading and clearing participants on various trading venues the possibility to choose which CCP clearing service provider they want to use for different markets. This enables the market participants to consolidate their flows and to better manage their settlement flows and risk exposure. E.g. Swiss market allows participants to clear trades using one of the CCPs SIX-x-clear, LCH Clearnet Ltd. Currently without interoperability the trading parties require to be members of different CCPs (to access clearing services related to certain ISINs) and manage their risk exposure at each CCP separately.

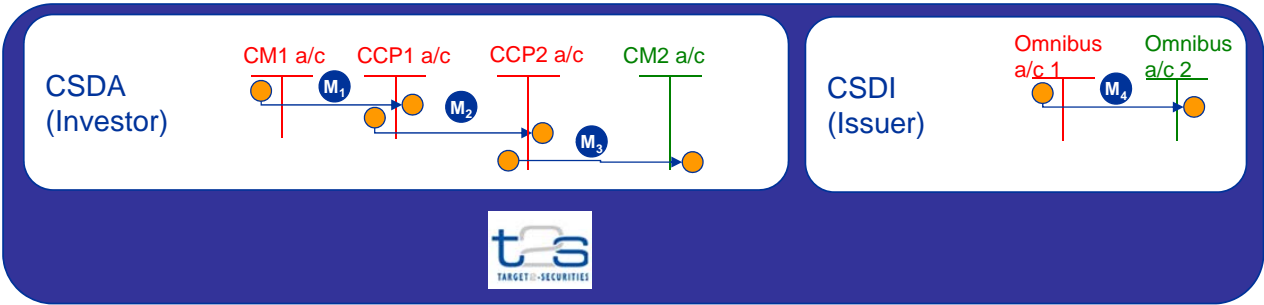
In the interoperability scenario, it is not required for a clearing member to be a member at a CCP, where its counter-part is already a member, in order to trade i.e. it is possible for clearing members to choose different CCPs.

Figure 37: Scenario 2



In this scenario the trading venues communicate the trade details to the relevant CCPs involved. E.g. in the above diagram, in case of a sell from CM1 to CM2, CCP1 will receive trade information with buyer as CCP2 (and seller as CM1). Similarly CCP2 will receive the trade information with seller as CCP1 (and buyer as CM2). For this scenario both CCPs must maintain their securities accounts in the same CSD (CSD A). However, CSD A does not need to be the issuer CSD, which can be a different CSD (see example below). Each CCP becomes a participant in other CCP with which it has an interoperability agreement. Considering the trade in the purview of the CCP1, the scenario resembles the one specified in section 5.1.1 (scenario 1)

Figure 38: Scenario 2 (movements)



In this scenario, both CMs (CM1, CM2) and CCPs (CCP1, CCP2) maintain securities accounts at the same CSD. CSD A does not need to be the issuer CSD, and for the example it is assumed that CSD I is the issuer CSD. It is assumed that the securities accounts of CM1, CCP1, and CCP2 are linked to omnibus a/c 1 in CSD I and securities account of CM2 in CSD A is linked to a different omnibus account (a/c 2) in CSD I.

The CCP1 has to instruct the transaction (i.e. sell by CM1 and buy by CCP2) as two sets of instructions. I.e. one for the movement of securities from the seller (CM1) to CCP1, second one for the movement of securities from CCP1 to CCP2.

Similarly the CCP2 has to instruct the transaction (i.e. sell by CCP1 and buy by CM2) as two sets of instructions: one for the movement of securities from CCP1 to CCP2, second for the movement of securities from CCP2 to CM2.

Step 1: CCP1 instructs T2S for delivery of securities on behalf of CM1 against itself as counter party. CCP1 also instructs T2S for receipt instruction against CM1 as counter party. The matching and settlement of these instructions in T2S results in movement of securities from CM1 a/c to CCP1 a/c. (depicted as movement 1 in the above figure)

Step 2: CCP1 instructs T2S for delivery of securities against CCP2 as counter party.

Step 3: CCP2 instructs T2S for receipt of securities against CCP1 as counter party.

T2S matches the instructions from Steps 2 and 3 and settlement of these instructions will result in movement of securities from CCP1 a/c to CCP2 a/c. (depicted as movement 2 in the above figure)

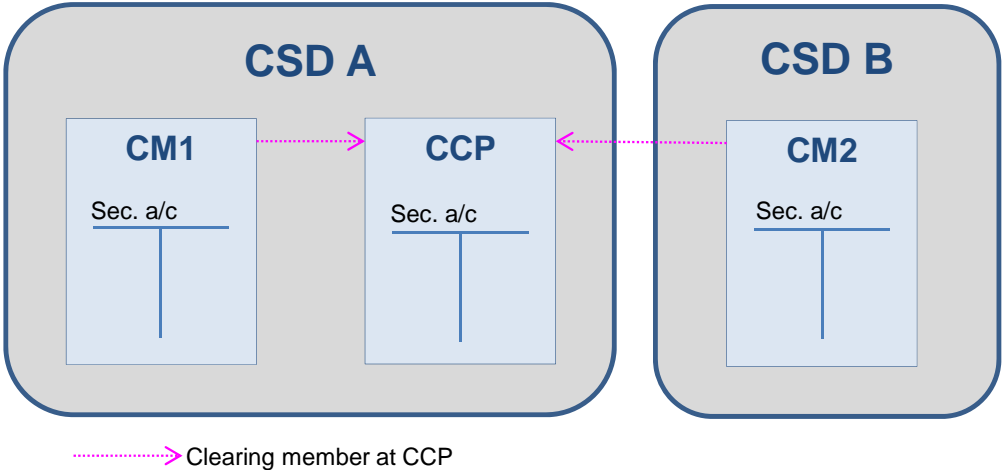
Step 4: CCP2 instructs T2S for delivery of securities against CM2 as counter party. CCP2 also instructs T2S for receipt instruction on behalf of CM2 against itself as counter party. The matching and settlement of these instructions in T2S results in movement of securities from CCP2 a/c to CM2 a/c. (depicted as movement 3 in the above figure). It will result in movement of positions between the omnibus accounts (from Omnibus a/c 1 to omnibus a/c 2) in issuer CSD I (depicted as movement 4 in the above picture) via T2S generated realignment instructions. Please note that since both CCPs and CMs have their accounts within the same Investor CSD, this scenario is considered an intra-CSD settlement scenario. Cross-CSD scenario

Currently, cross-CSD settlement of CCP transactions is handled by very few CCPs. The cost and complexity of realignment between CSDs, or the maintenance of accounts in several CSDs by the CCP

are some of the reasons for the rarity of the scenario. However, it is expected that in T2S context, cross CSDs settlement for CCP transactions will increase as any other cross-CSD transactions. Depending on whether only one or two CCPs are involved in the transaction and the location of CCP's securities account (i.e. which CSD), 4 scenarios are presented below. All scenarios are explained below considering an example of a sell trade from CM1 and a buy trade from CM2.

15.3 Cross-CSD CCP transaction: CCP in only one CSD

Figure 39: Scenario 3



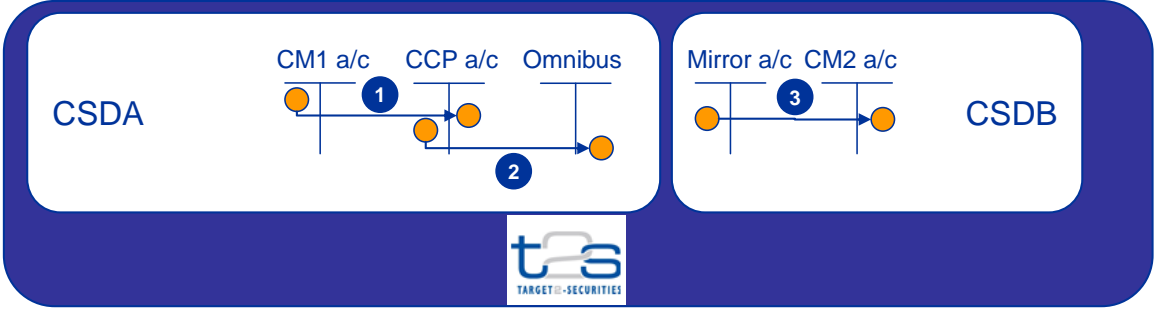
In this scenario CCP is a participant at both the CSDs where it's clearing members are participants, but hold a securities account in only one CSD. Currently, there is no actual example where one CCP offers settlement in 2 national CSDs. As of today, this scenario occurs between 2 ICSDs (bridge between EB⁴⁹ and CBL⁵⁰), the CCP (or its settlement agent) can instruct, via one ICSD, all its settlement instructions.

The CCP can instruct all the settlement instructions via one CSD (say CSDA) in order to move the securities from the CM1 securities account to the CM2 securities account with an intermediate booking of the securities on the CCP account in CSDA. In order for this, CCP should have PoA on the securities accounts of CM1 in CSD A and of CM2 in CSD B. Also CSD A should have required agreements with CSD B in order for CSD A to route instructions involving CSD B's accounts to CSD B i.e. when CCP instructs CSD A for a credit into CM2 (account maintained in CSD B), CSD A should be able to identify CM2 as an account held in CSDB and route the instruction to CSD B for crediting CM2.

⁴⁹ EB – Euroclear Bank

⁵⁰ CBL - Clearstream Banking Luxembourg

Figure 40: Scenario 3 (movements)



For the purpose of simplifying the bookings shown in securities accounts, it is assumed that CSD A is the issuer CSD; CCP holds account in CSD A. However in reality, the accounts of CMs, CCPs can be in any CSD, and need not be in issuer CSD; this may result in realignment of positions in issuer CSD, depending on how the omnibus accounts are organised in issuer CSD. The assumption is applicable for other cross-CSD scenarios as well.

In this scenario, one CM (CM1) and CCP maintain securities accounts at one CSD (CSD A). The other CM (CM2) maintains securities account at a different CSD (CSD B). CCP instructs settlement instructions as below:

Step 1: CCP instructs a delivery instruction on behalf of CM1 against itself as counter party and a receipt instruction against CM1 as counter party. The settlement of these instructions results in the movement of positions from CM1 a/c to CCP a/c (movement 1).

Step 2: CCP instructs a delivery instruction in CSD A against CM2 as counter party, and a receipt instruction on behalf of CM2 against itself as counter party in CSD B.

T2S, upon matching of these two instructions, will generate re-alignment instructions. The settlement of these instructions along with instructions in step 2 will result in

- i) movement of positions from CCP a/c to omnibus account in CSD A (movement 2)
- ii) movement of positions from mirror a/c to CM2 a/c in CSD B (movement 3)

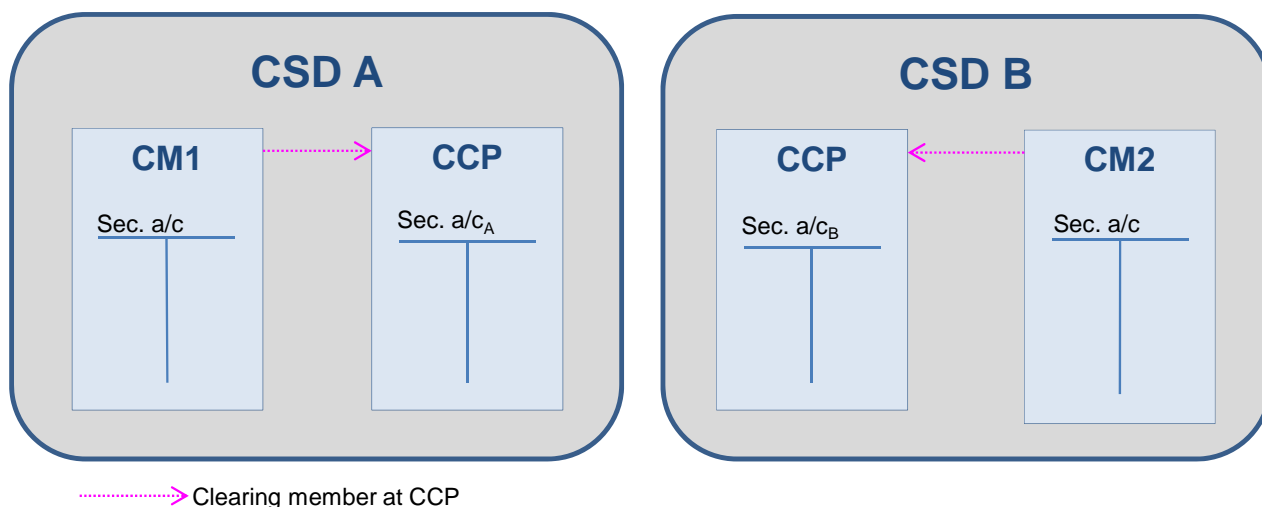
Remarks:

Instruction in step 1 can be instructed as “already matched” since the movement is Intra-CSD. Instructions in step 2 along with realignment instructions, will settle on an all-or-none basis.

In this scenario, CCP transactions will result in cross-CSD transactions i.e. between CSD A-CSD B

15.4 Cross-CSD CCP transaction: CCP in both CSDs

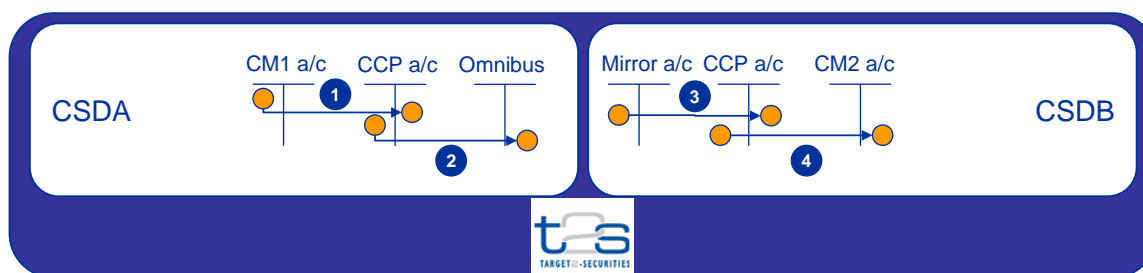
Figure 41: Scenario 4



Today, this scenario is in particular occurring between ESES⁵¹ and EB. The CCP (or its settlement agent) opens an account in each CSD (where its CMs have securities account). CCP instructs one part of the clearing members' transaction in CSDA i.e. for the movement of securities from the seller's securities account (CM1) to CCP's securities account (Sec. a/c_A) in CSDA; CCP also instructs in CSDB for the movement of securities from CCP securities account (Sec. a/c_B) to the buyer's account (CM2). CCP has PoA on the securities accounts of CM1 in CSD A and of CM2 in CSD B.

In this scenario, CCP transactions will result in cross-CSD transactions i.e. between CSD A and CSD B.

Figure 42: Scenario 4 (movements)



For the purpose of simplifying the bookings shown in securities accounts, it is assumed that CSD A is the issuer CSD.

CCP instructs settlement instructions as below:

Step 1: CCP instructs a delivery instruction on behalf of CM1 and a receipt instruction in CSD A. This will result in movement 1 as shown in the above picture.

Step 2: CCP instructs a delivery instruction in CSDA against itself as counter party and a receipt instruction in CSDB against itself as counter party. T2S upon matching of these two instructions will

⁵¹ Euroclear Settlement of Euronext-zone Securities

create two realignment instructions. The settlement of these instructions along with instructions in step 2 will result

- i) movement of positions from CCP a/c to omnibus account in CSD A (movement 2)
- ii) movement of positions from mirror a/c to CCP a/c in CSD B (movement 3)

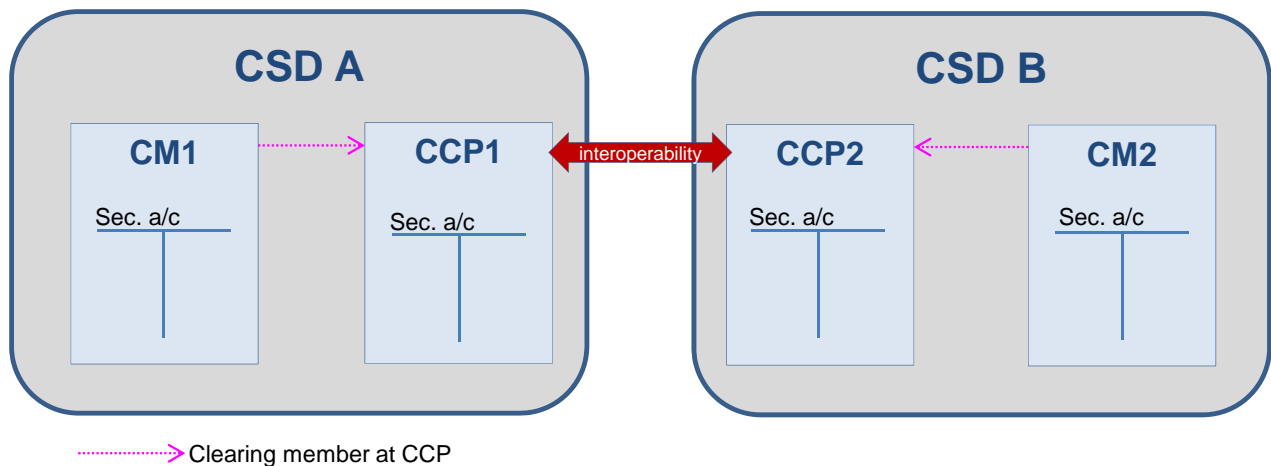
Step 3: CCP instructs a delivery instruction and a receipt instruction in CSD B. This will result in movement 4 as shown in above picture.

Remarks:

Instructions in step 1 and 3 can be instructed as “already matched”, since the resultant movements are Intra-CSD. Instructions related to the step 2 need to match in T2S.

15.5 Interoperability between CCPs: Two CSDs

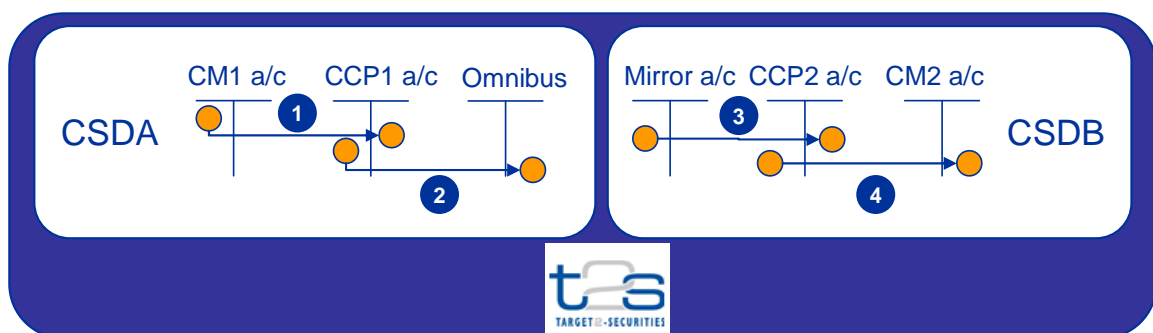
Figure 43: Scenario 5



This scenario involves 2 CCPs that have securities accounts in different CSDs. This scenario is not implemented as of today for complexity reason.

As T2S facilitates in making the cross-CSD settlement as efficient as an intra-CSD settlement, this scenario could be achieved in T2S.

Figure 44: Scenario 5 (movements)



In this scenario, two CCPs are involved in a trade, and each Clearing member and its CCP maintains securities accounts in one CSD (CSD A as issuer CSD), and the other clearing member and its CCP maintains securities account in a different CSDs. CCPs instruct settlement instructions as below:

CCP1 has to instruct two sets of instructions: one set in CSD A, a delivery from CM1 and a receipt into CCP1 a/c; second set in CSD A for delivery from CCP1 to CCP2 i.e.

Step 1: CCP1 instructs a delivery instruction on behalf of CM1 in CSD A against itself as counter party, CCP1 instructs receipt instruction in CSD A against CM1 as counter party. CCP1 could instruct these two instructions as 'already matched' to T2S. This will result in movement 1 shown in the above picture.

Step 2: CCP1 instructs a delivery instruction in CSD A, with counter party as CCP2, with matching requested in T2S.

CCP2 has to instruct two sets of instructions: one set in CSD B for receipt into CCP2 from CCP1; second set in CSD B, a delivery from CCP2 to CM2 i.e.

Step 3: CCP2 instructs a receipt instruction in CSD B, with counter party as CCP1, with matching requested in T2S.

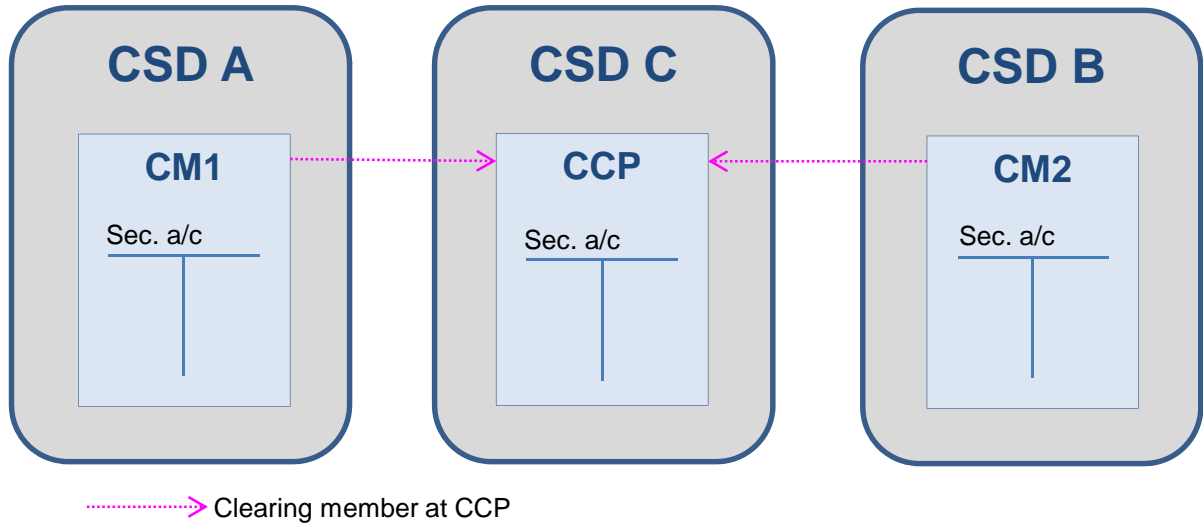
Step 4: CCP2 instructs a delivery instruction in CSD B against CM2 as counter party. CCP2 instructs a receipt instruction on behalf of CM2 in CSD B against itself as counter party. CCP2 could instruct these two instructions as 'already matched' to T2S. This will result in movement 4 shown in the above picture.

T2S matches the instructions from Steps 2 and 3 and creates two realignment instructions. The settlement of these instructions along with instructions in step 2 and 3 will result

- i) movement of positions from CCP1 a/c to omnibus account in CSD A (movement 2)
- ii) movement of positions from mirror a/c to CCP2 a/c in CSD B (movement 3)

15.6 Interoperability between CCPs: Three CSDs

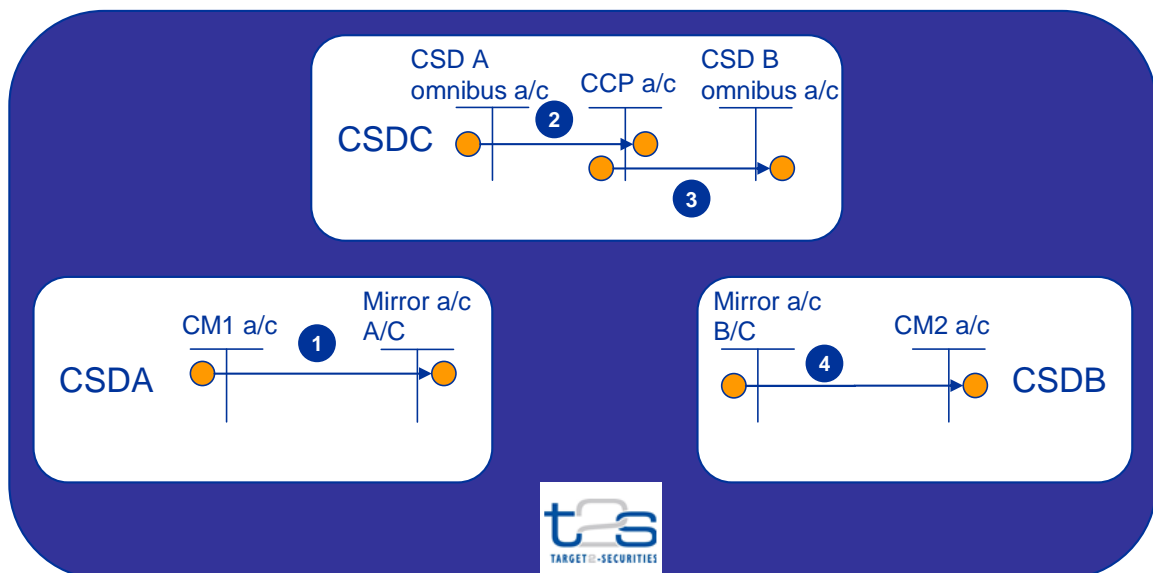
Figure 45: Scenario 6



In this scenario CCP maintains a securities account in one CSD and each CM maintains securities account in other CSDs (different from the CSD of the CCP). The CCP (or its settlement agent) has to instruct one part of the clearing members' transaction (i.e. sell by CM1) in two CSDs. i.e. CCP has to instruct a delivery from CM1 in CSD A, and receipt to CCP a/c in CSD C. Similarly for the second part of the transaction, CCP has to instruct delivery from CCP a/c in CSD C, and receipt to CM2 in CSD B.

In this scenario, each CCP transaction will result in two cross-CSD transactions i.e. between CSD A-CSD C, CSD C-CSD B. CCP maintains its centralised positions in one single CSD i.e. CSD C.

Figure 46: Scenario 6 (movements)



For the purpose of simplifying the bookings shown in securities accounts, it is assumed that CSD C is the issuer CSD.

CCPs instruct settlement instructions as below

CCP has to instruct a delivery from CM1 in CSD A, and receipt into CCP a/c in CSD C. Similarly for the second part of the transaction, CCP has to instruct delivery from CCP a/c in CSD C, and receipt to CM2 in CSD B. i.e.

Step 1: The CCP instructs delivery instruction on behalf of CM1 in CSD A

Step 2: The CCP instructs receipt instruction against CM1 in CSD C

Upon matching of instructions in steps 1 and 2, T2S will create two realignment instructions. This will result in

- i) movement of positions from CM1 to the 'mirror a/c A/C' in CSD A (movement 1)
- ii) movement of positions from the 'CSD A omnibus a/c' to the CCP a/c in CSD C (movement 2)

Step 3: The CCP instructs delivery instruction from in CSD C

Step 4: The CCP instructs receipt instruction on behalf of CM2 in CSD C

Upon matching of instructions in steps 3 and 4, T2S will create two realignment instructions. This will result in

- iii) movement of positions from the CCP a/c to the 'CSD B omnibus B/C' in CSD C (movement 3)
- iv) movement of positions from the 'mirror ac/c B/C to CM2 in CSD B (movement 4)

Remarks:

All instructions should be sent to T2S as unmatched instructions. They cannot be sent as already matched instructions as the securities accounts involved in each leg of the CCP trade are maintained in different CSDs.