General Information (Origin of Request)			
☐ User Requirements (URD)			
☒ Other User Functional or Technical Documentation (SYS)			
Request raised by: Euroclear	**Institute:** CSD		**Date raised:** 09-03-2015
Request title: Exclude settlement instructions from technical netting			**Request ref. no:** T2S 0514 SYS
Request type: Specific		**Urgency:** Normal	
1. Legal/business importance parameter: High		**2. Market implementation efforts parameter:** TBD	
3. Operational/Technical risk parameter: TBD		**4. Financial impact parameter:**	
Requestor Category: CSD		**Status:** Withdrawn by initiator	

Reason for change / expected benefits / business case:

Current in T2S:

Technical Netting

Concept
In order to limit the resources needed for the settlement; T2S applies the technical netting during the provision check process and the auto-collateralisation process by calculating the net quantities and amounts to be settled.

Overview
During the provision check T2S calculates the net quantities and amounts to be settled for all Settlement Instructions, Settlement Restrictions and liquidity transfers submitted together for a settlement on all-or-none basis.
These net quantities and amounts are the basis for the check against the available resources and if needed for the assessment of intraday credit to be provided.
The technical netting for the provision check process does not question the booking on a gross basis. The postings on accounts are achieved on the basis of actual amounts and quantities in the Settlement Instructions and not for the calculated net amounts or quantities.

Technical netting in the provision check process
During the provision check process, T2S calculates the provision net flows according to the Settlement Instructions, Settlement Restrictions or liquidity transfers submitted together for a settlement on an all-or-none basis due to:
- *Their common links set by the T2S Actors or added by T2S ;*
- *Their joint selection by optimisation algorithms.*

The provision net flows are calculated per involved securities position, cash balance and credit memorandum balance taken into accounts all debits and credits.
The provision check is then processed comparing the calculated provision net flows to the availabilities in the involved securities positions, cash balances and credit memorandum balances.

The ESES CSD, for its corporate action income payment processing, uses the following process to generate the payment instructed by the paying agent.

When the paying agent sends its instruction to release the income payment, this generates two types of instructions
- 1 PFOD between its standard SAC securities and its Pivot SAC (the two SACs are linked to the same DCA)
- Several PFODs between its Pivot SAC and the SAC of the account holders

For this specific process, the ESES CSD needs to send a settlement instruction **which by-passes the technical netting** in the provision check process. This settlement instruction which debits and credits the same DCA must not settled if the amount of cash in the settlement instruction is not available in the DCA. Without this functionality, T2S settles the first transaction without any provision check and only considers the second types of transactions. If the paying agent has only part of the cash available, T2S will pay only part of the account holders.

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Description of Request:

This request has an impact on the technical netting in the provision check process.
Before the provision check, ESES requires that T2S checks the eligibility to netting applies for settlement instructions, settlement restrictions or liquidity transfers
One of the possibility is to check in the settlement instruction message (sese.023), in Settlement parameters, the tag labelled 'Netting eligibility' which specifies whether the settlement transaction is eligible for netting, may be used to exclude the settlement instruction from netting.

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Submitted annexes / related documents:

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Proposed wording for the SYS Change request:

1.6.1.8 Posting
The posting application process includes the following steps:
The eligibility check, which performs an ultimate validation at the Intended Settlement Date considering the criteria related to intraday restrictions, hold process indicator, linkages and potential applicable settlement cut-off.
An additional criteria has to be considered to check the eligibility to technical netting.
No netting will then apply on the instructions which are not eligible to the technical netting.

1.6.1.8.4 Provision check process
This process checks, prior to the booking, that the resources or headroom available on the securities positions, cash balances and credit memorandum balances involved in the settlement under process, are sufficient.
If the settlement instruction, Settlement Restriction or Liquidity Transfer is eligible to the netting. The provision net flows calculation is processed for this flow and computes, a net flow per involved securities position, cash balance, credit memorandum balance using technical netting. If the settlement instruction, Settlement Restriction or Liquidity Transfer is not eligible to the netting. The provision net flows calculation is not processed for this flow, the process don't take into account this settlement instruction, Settlement Restriction or Liquidity Transfer.

<u>The provision check execution checks if the provision net flows calculated upfront and the flows excluded from the netting allow the settlement considering resources or headroom available on the securities position, cash balance and external guarantee headroom;</u>

Provision net flows calculation
For each Settlement Instruction, Settlement Restriction, Liquidity Transfer or set of Settlement Instruction(s) and/or Settlement Restriction(s) and/or liquidity transfer(s) <u>eligible to the netting</u>, T2S calculates three types of provision net flow:
- The securities provision net flow;

- The cash provision net flow;

- The credit memorandum balance (CMB) provision net flow, only when a client of a payment/settlement bank is involved in a Settlement Instruction.

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Outcome/Decisions:

* CRG meeting of 12 March 2015: The CRG agreed to put the Change Request on hold.

* e-mail from the CR initiator on 17 April 2015 : The Change Request is withdrawn by the CR initiator