T2S 0797 SYS “T2S should support cross-border settlement via alternative Security CSD Links”

Background information
CRG Meeting 2022 December 12

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▪ Internal

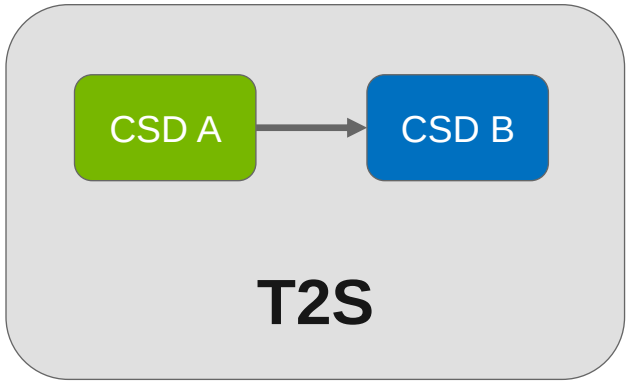
Cross-CSD settlement in T2S:
Which securities can be settled across a link between CSD A and CSD B?

- Assume CSD A is Investor CSD into CSD B

- Does this mean we can now have cross-CSD settlement
  - between participants in CSD A and CSD B
  - for all securities which are eligible in both CSD A and CSD B?

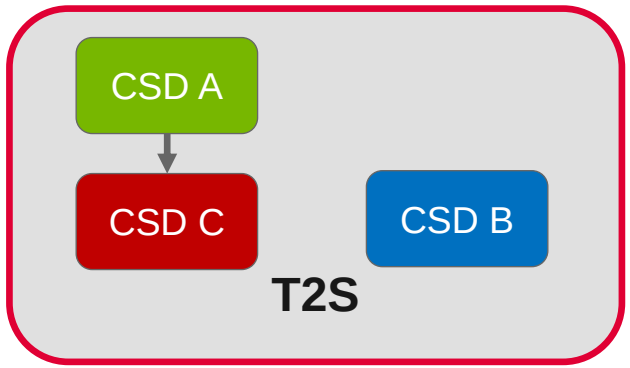
- Cross-CSD settlement between participants in CSD A and CSD B is possible for all securities where
  - Either CSD A has defined CSD B as technical Issuer CSD in a security CSD link
  - Or CSD B has defined CSD A as technical Issuer CSD in a security CSD link
  - In such cases, Cross-CSD settlement takes place between CSD Participant A@CSD A and CSD Participant B@CSD B

- And what about other securities that might be eligible for settlement in both CSD A and CSD B?
  - Well, this depends on the setup…

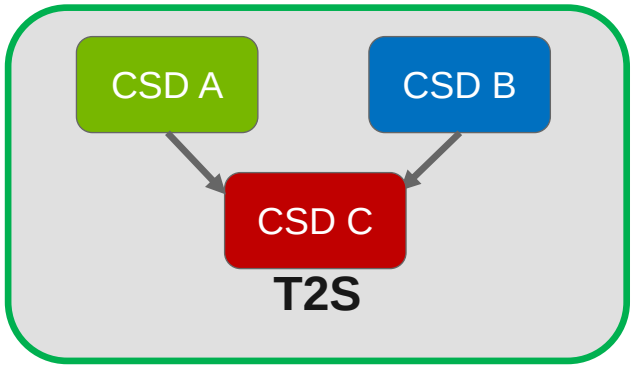


Internal

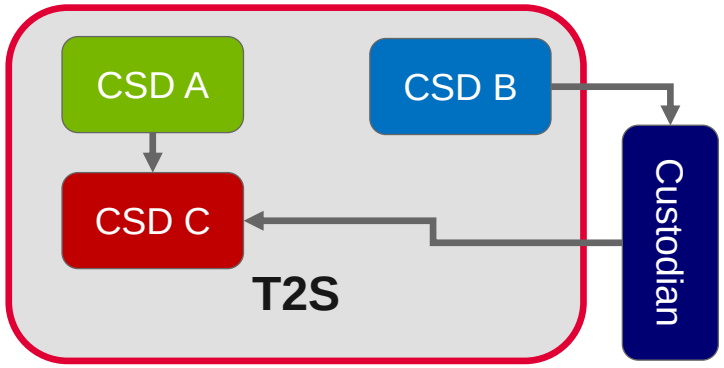
For other securities which are eligible in both CSD A and CSD B, Cross-CSD settlement between CSD Participant A@CSD A and CSD Participant B@CSD B is only possible if both CSDs have a common Technical Issuer CSD



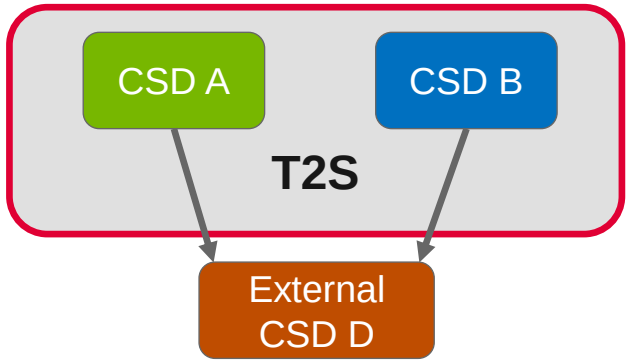
Multi-issued securities: issue with automated mark up / mark down

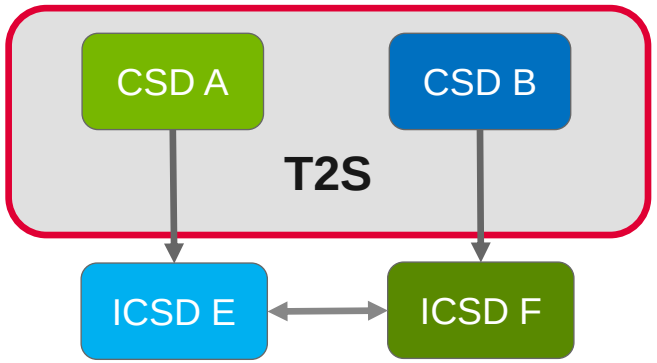


Via common Technical Issuer CSD

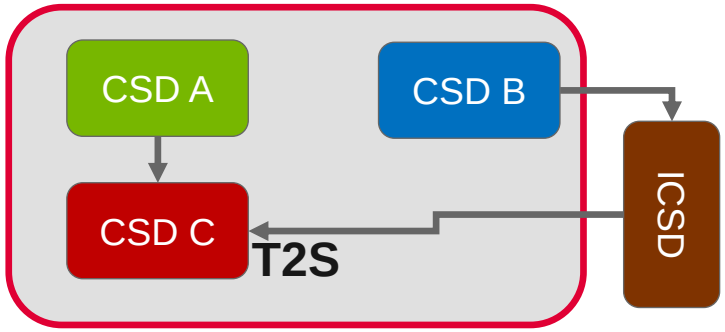


Via custodian: counterparty issue – C/P <> CSD Part B@CSD B





Securities issued outside T2S: issue with the nature and ownership of the Inter-CSD account – mix of omnibus and mirror account



Via ICSD: counterparty issue – C/P <> CSD Part B@CSD B

▪ Internal

Alternative security CSD links – the idea

- Cross-CSD settlement works without problems
  - If CSD A defines CSD B as Technical Issuer CSD, or vice versa
  - If both CSD A and CSD B use the same Technical Issuer CSD

- Issues arise in cases where such agreement on a common jointly use Technical Issuer CSD is not possible, e.g. because
  - The security is multi-issued
  - The security is made available via different links to external CSDs / ICSDs
  - The security is made available via external intermediaries such as custodians or ICSDs

- But issues arise also because each CSD can only define one and only one Technical Issuer CSD for a given ISIN – namely if the counterparty CSD has defined a different one
  - Couldn‘t this be solved by enabling a setup with more than one Technical Issuer CSD for a given CSD?
    - Default Security CSD link for „normal“ cases
    - “Alternative” Security CSD link for cases where counterparty CSD has a different setup?
  - Then participants of CSD A could settle cross-border
    - Via default link whenever the setup allows
    - Via alternative link when the default link is not possible

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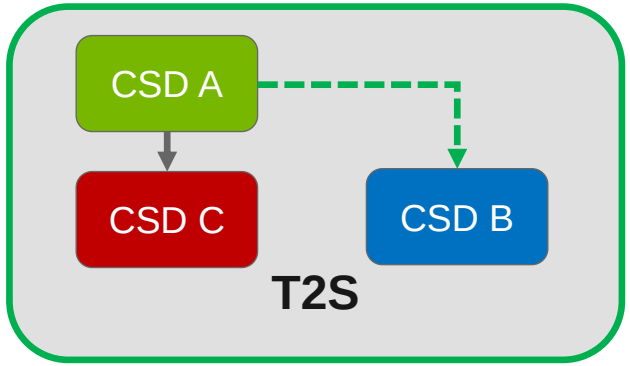
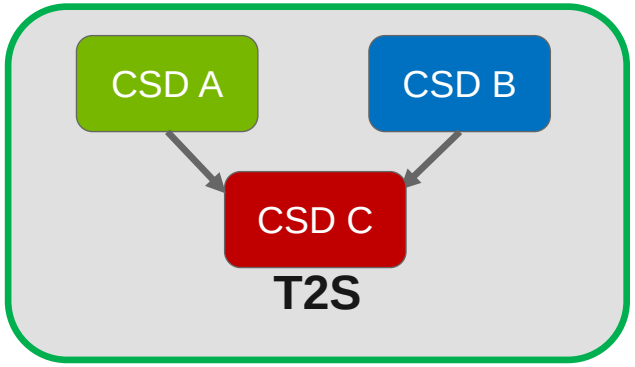
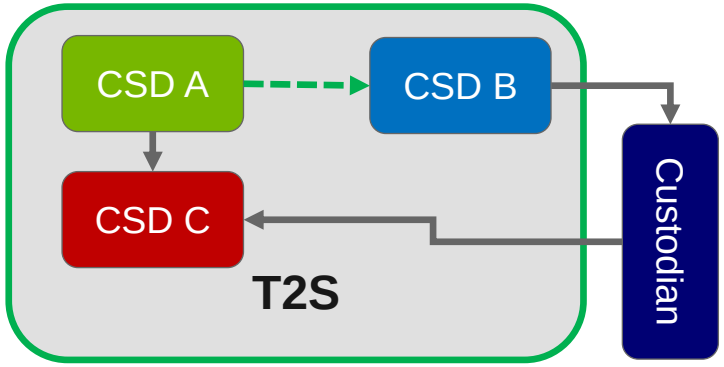
Cross-CSD settlement between CSD Participant A@CSD A and CSD Participant B@CSD B could be enabled in all those cases via „alternative security CSD links“



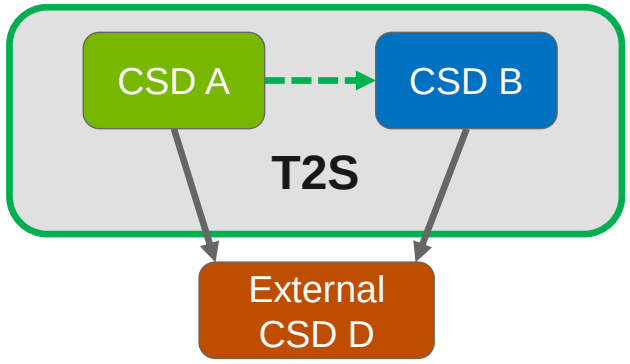
Multi-issued securities: CSD A uses alternative security CSD links into CSD B

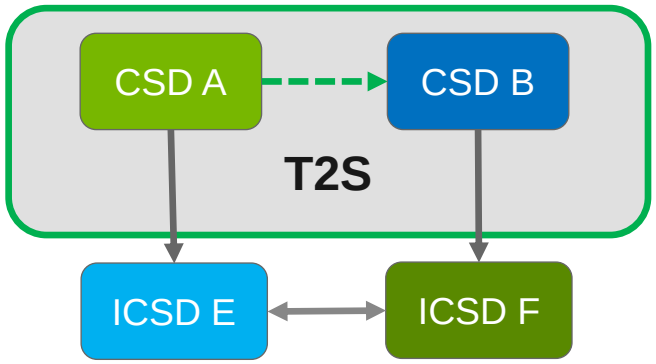


Via common Technical Issuer CSD

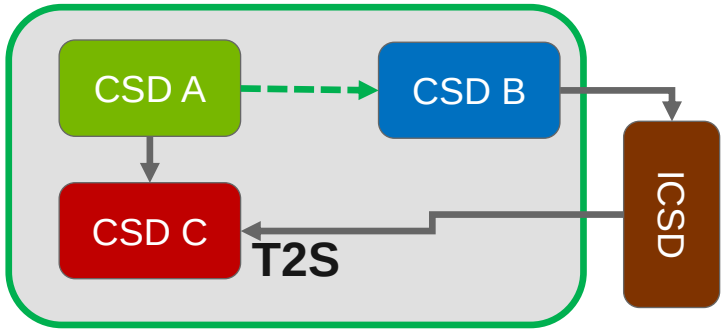


Securities made available via custodian: CSD A uses alternative security CSD link for settlement vs. CSD B





Securities issued outside T2S: CSD A uses alternative security CSD links for settlement vs. CSD B



Securities made available via ICSD: CSD A uses alternative security CSD link for settlement vs. CSD B

▪ Internal

Alternative security CSD links – CR797

- Investor CSDs can configure alternative Security CSD Links
  - At each point in time, one of those “Investor” type Security CSD Links must be configured as “default link”.
  - Additional Security CSD Links can be configured, but those must not be flagged as “default link”.

- T2S Actors can define via “Place of Safekeeping” in settlement instructions / sese.023 whether they would like to settle via an alternative Security CSD link
  - If this field is not filled, the default link will be used
  - If this field is filled, and an alternative Security CSD link is in place, this alternative link will be used
  - If this field is filled, and no alternative Security CSD link is in place, the default link will be used

- T2S Realignment logic should be updated to generate realignments for the alternative link if cross-CSD settlement via the alternative link is requested
  - Realignment on omnibus account of CSD A in CSD B
  - Realignment on corresponding mirror account in CSD A

- Additional remarks
  - This logic is optional for Investor CSDs. They can decide not to use it.
  - If a CSD is using it, it might have positions in a given ISIN which are held on more than one omnibus account in different (Technical) Issuer CSDs
  - Moreover, such CSDs might need to realign positions between such omnibus accounts
  - No additional action is required by the (Technical) Issuer CSD(s)

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Examples for booking logic
CRG Meeting 2023 January 18

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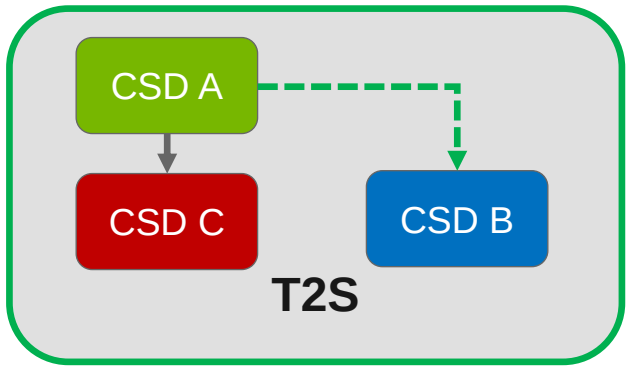
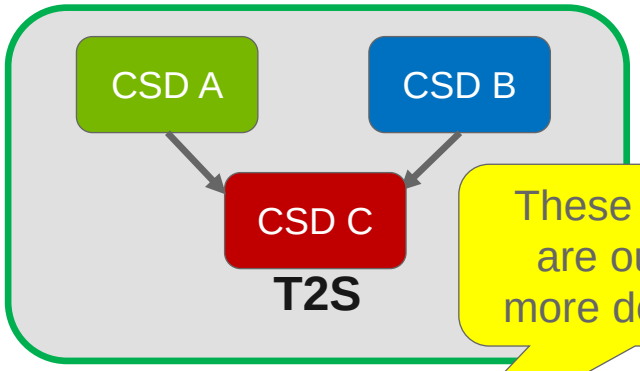
Cross-CSD settlement between CSD Participant A@CSD A and CSD Participant B@CSD B could be enabled in all those cases via „alternative security CSD links“

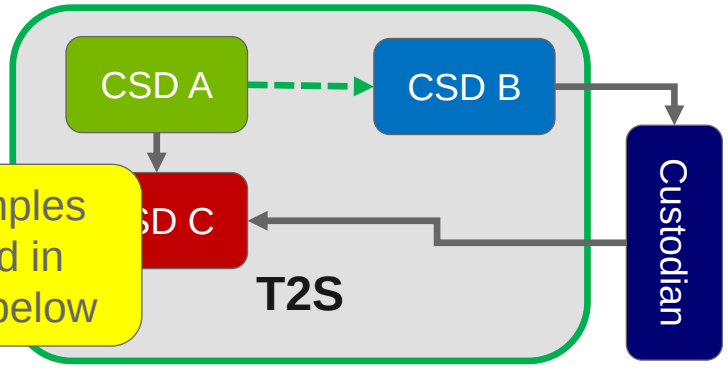


Multi-issued securities: CSD A uses alternative security CSD links into CSD B

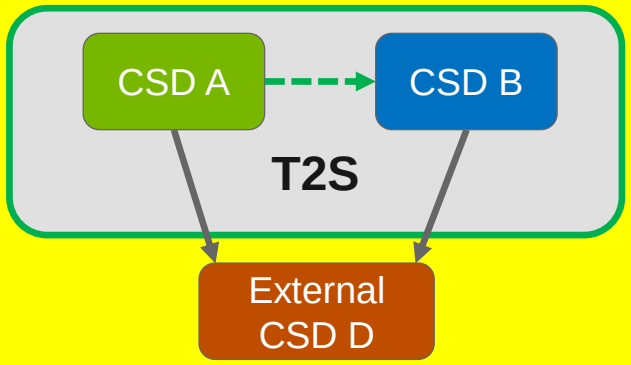


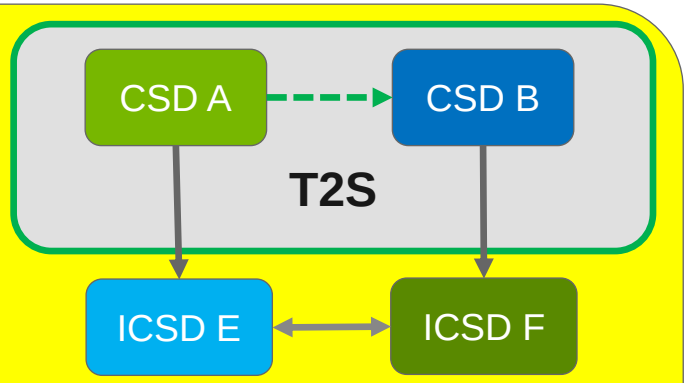
Via common Technical Issue CSD

These examples are outlined in more detail below

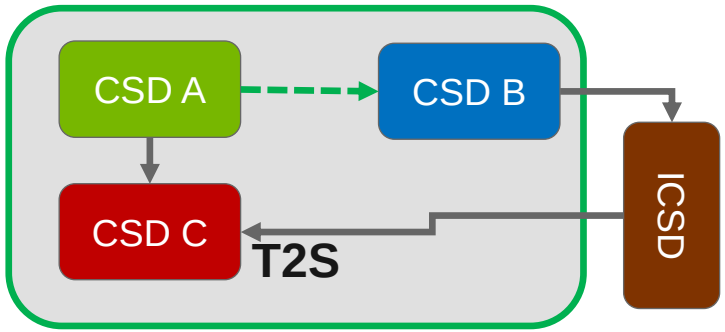


Securities made available via custodian: CSD A uses alternative security CSD link for settlement vs. CSD B





Securities issued outside T2S: CSD A uses alternative security CSD links for settlement vs. CSD B



Securities made available via ICSD: CSD A uses alternative security CSD link for settlement vs. CSD B

▪ Internal

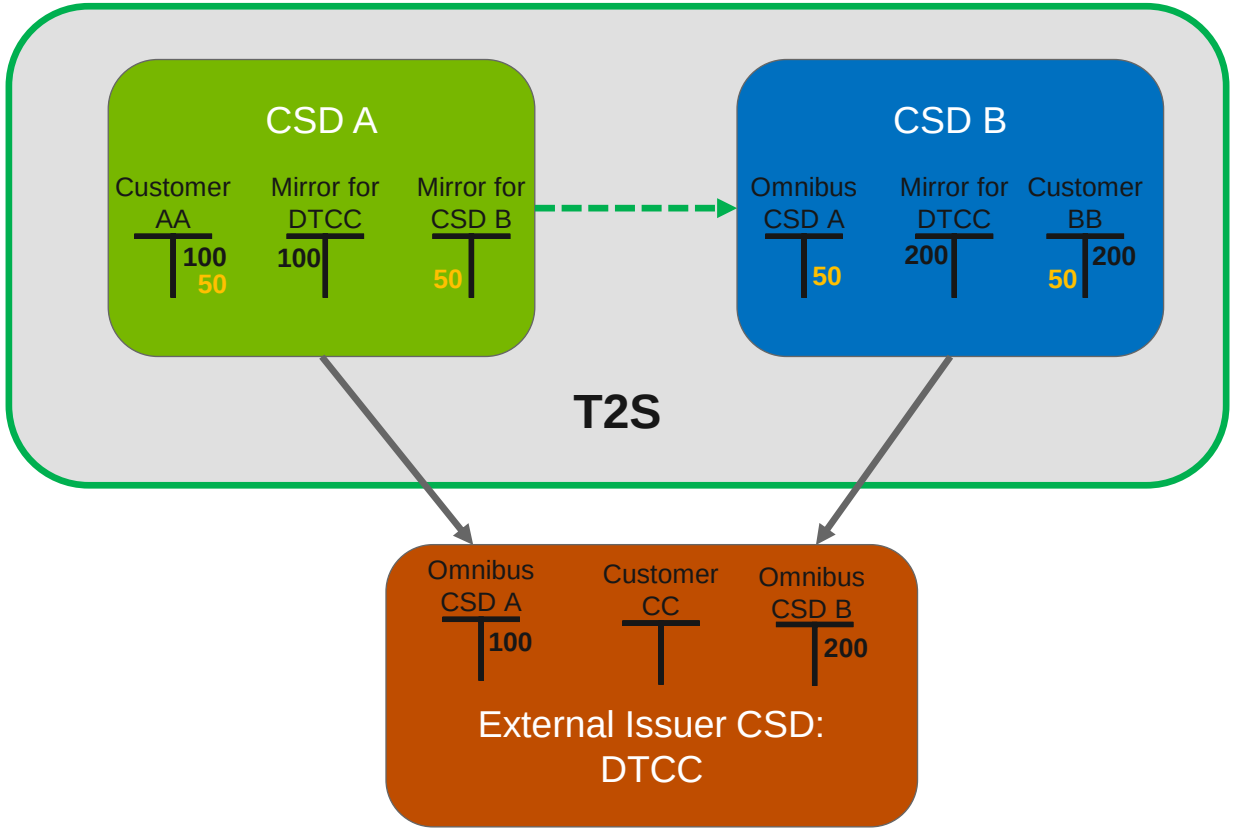
Scenario 1: Both CSD A and CSD B have links to an external CSD: Example: settlement of US Security via Alternative Security CSD links

Setup

- Both CSD A and CSD B are investor CSD into external CSD DTCC
- CSD A also has a T2S cross-border link into Technical Issuer CSD B
- For the US ISIN to be settled, CSD A has an alternative Security CSD link which points to CSD B as Technical Issuer CSD

Settlement of US ISIN via Alternative Security CSD Link

- Initial status: Customer AA has 100 securities; Customer BB has 200.
- Customer AA in CSD A receives **50 securities** from Customer BB in CSD B via the **Alternative Security CSD Link**
  - Due to the alternative security CSD link, T2S generates the realignment instructions on the **omnibus of CSD A in CSD B**, and on the **corresponding mirror account in CSD A**
- CSD A now holds positions in the ISIN via DTCC and also via CSD B
- CSD A has positions in the US security on the its omnibus in CSD B
- Positions on the omnibus accounts of A and B in DTCC remain unchanged.

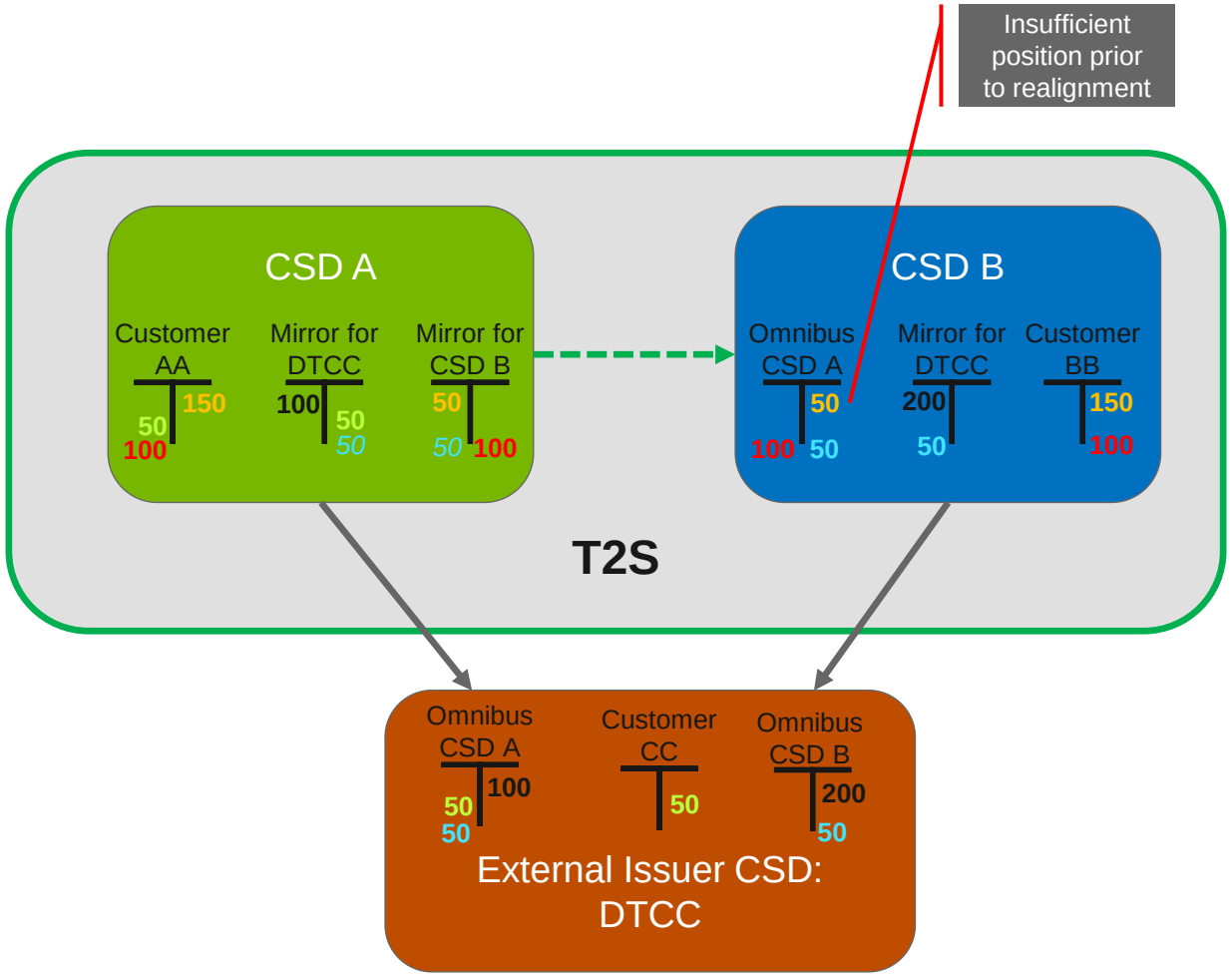


Internal

Scenario 1: Both CSD A and CSD B have links to an external CSD: When does CSD A need to generate additional “business realignments”?

Subsequent settlement in US ISIN:

- Initial situation after settlement from previous slide:
  - Customer AA has position of 150
  - CSD A holds those via two links, 100 via DTCC and 50 via CSD B
- Now Customer AA delivers **50 Securities** to Customer CC in DTCC
  - Those settle via the **standard Security CSD Link** without issues.
- Now Customer AA delivers **100 Securities** to Customer BB in CSD B
  - Now the **position on the omnibus account of CSD A in CSD B is insufficient for settlement**
  - A **business realignment** of **50 Securities** needs to be triggered by CSD A to **realign securities from the omnibus account of CSD A in DTCC to the omnibus account of CSD A in CSD B**
  - Such business realignments need to be managed by CSD A, i.e., CSD A must identify the need for such realignments, and it must instruct them
  - Once the **business realignment** is settled, the **original delivery instruction** from Customer AA to Customer BB can settle as well.



Internal

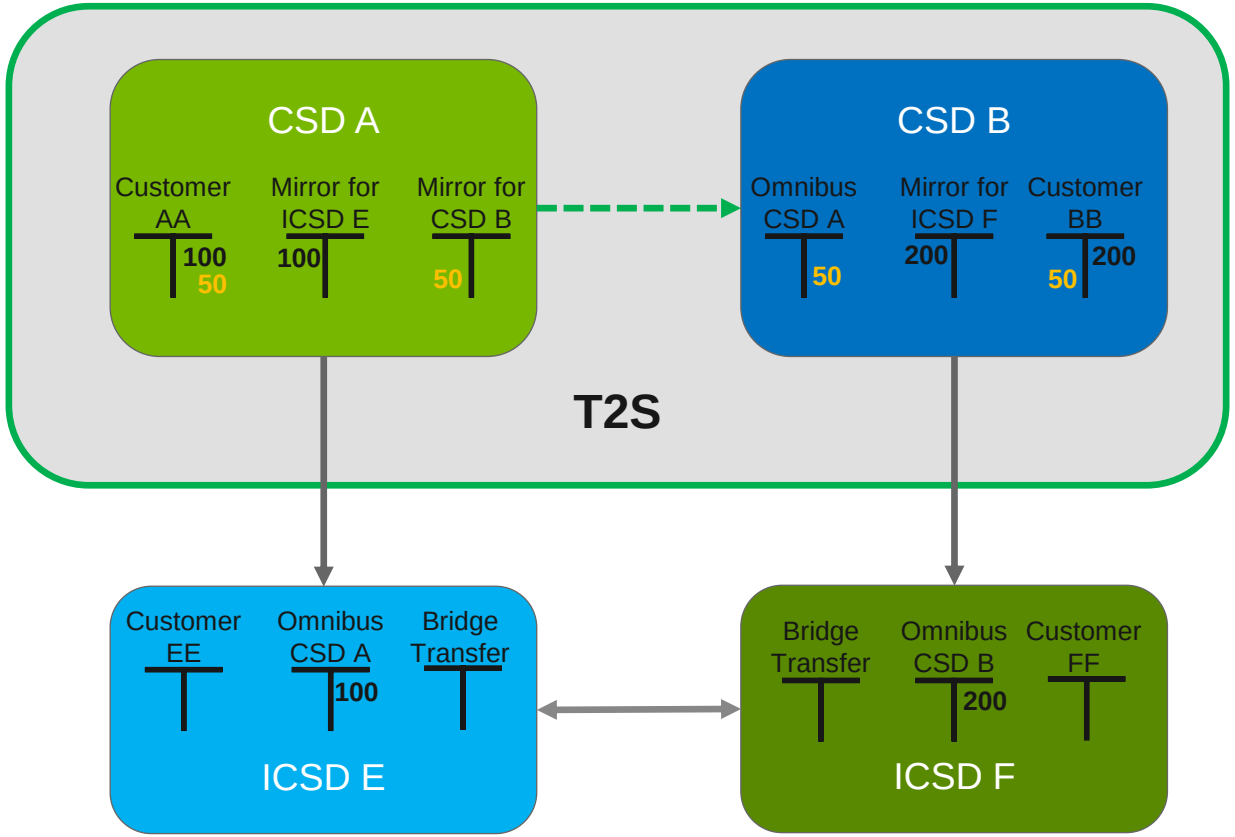
Scenario 2: Both CSD A and CSD B have links to ICSDs for Eurobonds: Example: settlement of a Eurobond via Alternative Security CSD links

Setup

- CSD A is Investor CSD into ICSD E
- CSD B is investor CSD into ICSD F
- CSD A also has a T2S cross-border link into Technical Issuer CSD B
- For the Eurobond to be settled, CSD A has an alternative Security CSD link which points to CSD B as Technical Issuer CSD

Settlement of a Eurobond via Alternative Security CSD Link

- Initial status: Customer AA has 100 securities; Customer BB has 200.
- Customer AA in CSD A receives **50 Securities** from Customer BB in CSD B via the Alternative Security CSD Link
  - Due to the alternative security CSD link, T2S generates the realignment instructions on the **omnibus of CSD A in CSD B**, and on the **corresponding mirror account in CSD A**
- CSD A now holds positions in the ISIN via ICSD E and also via CSD B
- CSD A has positions in the Eurobond on the its omnibus in CSD B
- Positions on the omnibus accounts in the ICSDs remain unchanged.

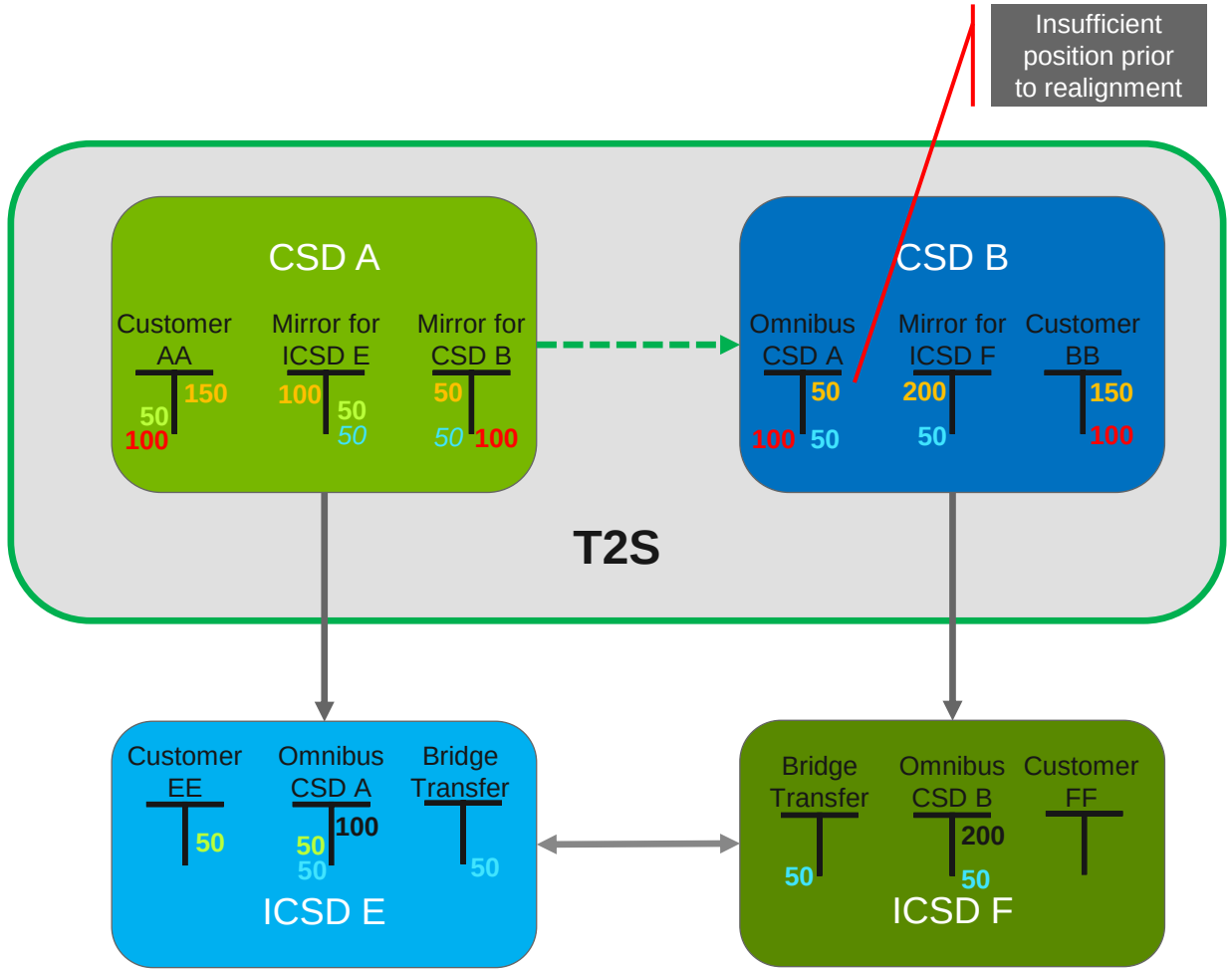


Internal

Scenario 1: Both CSD A and CSD B have links to ICSDs for Eurobonds: When does CSD A need to generate additional “business realignments”?

Subsequent settlements in Eurobond ISIN:

- Initial situation after settlement from previous slide:
  - Customer AA has position of 150
  - CSD A holds those via two links, 100 via DTCC and 50 via CSD B
- Now Customer AA delivers **50 Securities** to Customer EE in ICSD E
  - Those settle via the standard link without issues.
- Now Customer AA delivers **100 Securities** to Customer BB in CSD B
  - Now the **position on the omnibus account of CSD A in CSD B is insufficient for settlement**
  - A **business realignment** of **50 Securities** needs to be triggered by CSD A to **realign securities from the omnibus account of CSD A in ICSD E via the Bridge to the omnibus account of CSD A in CSD B**
  - Such business realignments need to be managed by CSD A, i.e., CSD A must identify the need for such realignments, and it must instruct them
  - Once those **business realignments** are settled, the **original delivery instruction** from Customer AA to Customer BB can settle as well.



▪ Internal

Alternative security CSD links – CR797
Bookings aspects and business realignments

- Two examples have been shown in more detail
- The other scenarios worked similar, i.e.
  - CSD A holds securities via two CSD links, via the original Issuer CSD and also via CSD B (via Alternative Security CSD links)
  - Settlement vs. counterparties in the Issuer CSD and in CSD B works without issues, as long as the positions on the respective omnibus account are sufficient for settlement.
- In case of insufficient positions on any of the two omnibus accounts, additional positions need to be realigned by CSD A from the second omnibus account to the omnibus account in LACK.
  - CSD A must manage those business realignments, i.e., it must identify the need for business realignments, and it must also instruct them. The way how to instruct such business realignment depends on the scenario.
  - No additional logic needed on Issuer CSD and CSD B side.
  - No additional logic needed on the client side. They are not involved into the management of business realignments.
  - No additional logic beyond the scope of CR-797 needed on T2S side.

▪ Internal

- Internal