General Information (Origin of Request)		
☒ User Requirements (URD)		
☒ Other User Functional or Technical Documentation (SYS)		

Request raised by: Clearstream	Institute: CSD	Date raised: 31/07/2012
Request title: New securities account flag "negative position only"		Request ref. no: T2S 0355 URD

Request type: Common	Urgency: Normal
1. Legal/business importance parameter: High	2. Market implementation efforts parameter: Low
3. Operational/Technical risk parameter: Low	4. Financial impact parameter: High
Requestor Category: CSD	Status: Withdrawn

Reason for change and expected benefits/business motivation:

Currently, via the "negative position indicator" (Yes-No-Flag) it is possible to configure two options which positions can be held on an account:

- Negative Position Indicator = NO => only positive securities positions can be held on this account
- Negative Position Indicator = YES => positive as well as negative positions can be held on this account.

It is not possible to configure accounts which can only hold negative positions. However, such accounts are in use today in the CSDs to support various business processes, e.g. issuance accounts for the issuance process or mirror accounts to support cross-border settlement.

On such accounts, it must be ensured that the deliverable (or earmarked) position is always negative (or zero). Any positive deliverable (or earmarked) position would imply that there is an inconsistency in the position keeping system, which would be in conflict with the notary function of the CSD.

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Description of requested change:

It is requested to enable a differentiation in T2S on account level whether a given securities accounts can:

- Hold only positive (or zero) positions
- Hold positive as well as negative positions
- Hold only negative (or zero) positions.

This should be achieved by introducing in the "negative position indicator" attribute, in addition to the existing values "YES" (i.e. positive as well as negative positions are allowed) and "NO" (i.e. only positive positions are allowed), a third new value "NEGATIVE ONLY". This value can be used to indicate that only negative positions should be possible on a given account. This configuration would be needed on issuance, inter-CSD or mirror accounts.

This new indicator must be taken into account in the provision checks to prevent that settlement on accounts flagged as "NEGATIVE ONLY" results in positive deliverable (or earmarked) positions on this account.

It should still be possible to hold positive blocked or reserved positions on accounts flagged as "NEGATIVE ONLY". In particular, it should be possible to have positive COSP positions on such accounts.[1]

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Submitted annexes / related documents:

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Proposed wording for the URD Change request:

The "negative position indicator" flag on account level must be extended by an additional indicator value "NEGATIVE ONLY" to allow a configuration of a securities account so that it can hold only negative (or zero) positions. This property of the account must be reflected in all provision checks and booking activities.

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[1] This is required to enable COSD blocking also on mirror or inter-CSD accounts. In such cases, the COSD process will debit the AWAS position (which is getting even more negative) and credit the COSP position (which can be positive only). It should be noted that this process leaves the total position on the affected account unchanged.

Impact on the User Requirements Document:

1. URD section <16.8.3 Securities Account Reference Data>

Securities Account

Reference ID	T2S.16.590

Securities account reference data specify all information required for defining and processing a securities account in T2S. In some direct holding markets, account operators open and close end-investor accounts directly in the systems of the CSD. Securities accounts in T2S must be opened and closed through the CSD to ensure the consistency and integrity of securities account reference data between the systems of the CSD and T2S. This can be an automated process. When the CSD system opens an account, it will immediately trigger the opening of the account in T2S. The same applies for the closing of an account. The CSDs shall define their account numbers themselves. T2S shall ensure that the account number is unique at the time of creation. It shall not be possible to modify the securities account number.

Table 16-15 – List of Attributes for the Securities Account Entity

Attribute	Description
Securities Account Identifier	This attribute shall define the unique technical identifier of a securities account in T2S.
System Entity Identifier	This attribute shall specify the entity identifier of the CSD with which the party of the securities account has its contractual relationship. This attribute shall qualify the code type in order to ensure uniqueness for cases where a financial institution has a relationship with more than one CSD.
Securities Account number	This attribute shall define the unique securities account number. It is provided by the CSD (or party authorised) at the time of the securities account creation and should be in line with ISO20022 specifications for securities accounts. T2S shall check uniqueness of the provided account number.
Open/Close Status	This attribute shall define the business status of the account. It shall determine the business processing allowed for the account in T2S. T2S shall not use this status field for temporarily restricting an account from settlement processing.
Opening Date	This attribute shall specify the date as of which a securities account is legally opened by the CSD.
Closing Date	This attribute shall specify the date as of which a securities account is legally closed by the CSD.
Market-Specific Restriction Identifier	This attribute shall specify the identifier for the market specific restriction, which determines the relevant rules for the processing the account in T2S.
Hold/Release Default	This attribute shall specify the default setting of specific securities settlement instructions received for the account (e.g. stock exchange trades from Frankfurt Stock Exchange).
Negative Position	This attribute shall define whether the securities account can hold <u>only positive positions, only</u> negative positions <u>or both positive and negative positions</u> in a security. Certain types of CSD technical accounts, such as issuer accounts, must have the capability to store negative values.

Attribute	Description
T2S Account Type	This attribute shall classify the account for the maintenance of CSD account links. It shall allow the following values: - CSD participant account - CSD mirror account - Inter-CSD account - T2S technical offset account (for direct holding markets) - CSD Omnibus account - Issuance account
Pricing Scheme	This attribute shall specify the pricing scheme to be applied to the Securities Account. It allow the following values: • Account (pricing scheme by account) • ISIN (pricing scheme by ISIN)
End Investor Account Flag	This attribute shall provide the user with an option to specify additional flags for the Securities Account (e.g. End Investor Account in direct holding market).

2. URD section <7.3.2 Validation and requirements for the provision check >

Provision check of available securities position on the securities account

Reference ID	T2S.07.272

T2S shall check for the securities leg of a settlement instruction to deliver securities that the position in the security in the balance type on the securities account, specified in the settlement transaction, is sufficient to settle the transaction. This step in this provision check is successful if the securities position in the relevant balance type on the securities account is equal to or greater than the quantity/nominal specified in the leg of settlement transaction to deliver. If this check determines that the securities account does not have sufficient securities, then T2S shall check for collateralised positions in the security for that same securities account to determine whether the execution of collateral substitution would result in a sufficient position to settle the transaction. If this is the case, then the provision check is successful and T2S shall execute the provision check for liquidity on T2S dedicated cash account for the settlement of cash leg(s). When the provision check is not successful, then T2S shall trigger the termination of the settlement process for the settlement transaction or set of settlement transactions.

T2S shall not perform this check for securities accounts, which allow negative <u>as well as positive</u> securities positions according to their static data configuration.

<u>T2S shall ensure that securities accounts, which allow only negative securities positions according to their static data configuration, cannot hold positive securities positions.</u>

Proposed wording for the SYS Change request:

The corresponding UDFS sections must be adjusted.

UDFS section <1.2.6.5 Securities accounts>
When opening a new securities account, the relevant CSD has to insert the following static data
- An alphanumeric user-defined identifier number (which should be unique within T2S);
- The type of account, as just specified;
- The opening date of the account;

- The hold/release default, i.e. the default setting for the hold/release status of Settlement Instructions related to the account (see section 1.6.1.6 "Hold & Release");
- The information specifying whether the account can hold only positive positions, only negative positions or both positive and negative positions in a financial instrument;
- The reference to the unique party (CSD or CSD participant) holding the account, based on a time-dependent relationship (see below).

UDFS section <1.6.1.8.4 Provision check process>

In the section "provision check execution", page 348, line 3:

The resources available on ~~a securities position or on~~ a cash balance are considered as sufficient if the corresponding provision check execution quantity or amount is positive or if the involved ~~securities account or~~ T2S dedicated cash account is authorised to be negative. The external guarantee remaining on the credit memorandum balance (ie the external guarantee headroom) is considered as sufficient if the corresponding provision check execution value is positive.

The resources available on a securities position are considered as sufficient

- for deliverable or earmarked positions:
  o if the securities account is authorized to hold both positive and negative positions
  o if the corresponding provision check quantity or amount is positive (or zero) and the securities account is configured to hold only positive positions
  o if the corresponding provision check quantity or amount is negative (or zero) and the securities account is configured to hold only negative positions
- for reserved or blocked positions (including COSP positions)
  o if the corresponding provision check quantity or amount is positive (or zero)

In the section "provision check failure", page 348, line 13:

The provision check is in failure when one of the provision check executions ~~execution quantity/amount~~ is negative.

In the section "Exemption of provision check execution", line 16:

For securities accounts or T2S dedicated cash accounts opened for specific purposes and allowed to have both positive and negative positions or balances (e.g. ~~issuance accounts for securities or~~ CB cash accounts or RTGS Dedicated transit accounts), there is no need to execute the provision check.

T2S identifies the securities accounts exempted of provision check through the following condition:

CONDITIONS	RULES
Existence of the parameter allowing both positive and negative securities positions	The securities account is flagged in the static data as allowed being positive or negative (See configuration in section 1.2.6 "Accounts structure and organisation").

In the subsequent section "Resolving lack of securities" it must be clarified how a case would be covered where a "negative position only" provision failure would occur (i.e. where an account configured for negative position only would run into positive positions). Preferably via partial settlement, but in this case the trigger would be a provision failure on the RECE side.

UDFS section < 3.3.6.12 SecuritiesAccountCreationRequestV01 (reda.018.001.01)>

The reda.018 message must be updated to support the additional value for the "Negative Position Indicator" attribute. Current data type "YesNoIndicator" must be replaced by a new data type allowing the additional value "NEGATIVE ONLY". This requires an XSD update.

SecuritiesAccount

This building block is mandatory and non-repetitive. It contains detailed information related to the securities account creation message. It includes the following elements:

- Account owner identification;
- Type of the account;
- Opening and closing date;

- Hold indicator default value;
- Negative position indicator, indicating whether the account can hold only positive, only negative or both positive and negative positions;
- Market specific attributes;
- Restriction information.

The XSD of the reda.018 message should be updated to replace the current data type "YesNoIndicator" of the "Negative Position Indicator" by an adjusted one that supports also the value "NEGATIVE ONLY".

Example:
```
<SctiesAcct>
    <AcctOwnr>
        <RltdPtyId>CSDPXXYYAAA</RltdPtyId>
        <RspnsblPtyId>CSDAXXYYAAA</RspnsblPtyId>
    </AcctOwnr><Id>SECACCCSDPXXYYAAA</Id>
    <Tp>CSDP</Tp>
    <OpngDt>2011-0101</OpngDt>
    <HldInd>true</HldInd>
    <NegPos>negative only</NegPos>
    <EndInvstrFlg>NONE</EndInvstrFlg>
    <PricgSchme>SACC</PricgSchme>
</SctiesAcct>
```

An example for this particular case should be added into MyStandards.

The same change must be applied to two other account related reference data messages:
- reda.023 "Securities Account Modification Request",
- reda.021 "Securities Account Report"

The corresponding screens in the UHB need to be updated as well.

UDFS section 3.3.8.5.3 The message in business context, page 1513/15144
Footnote should be added how to report provision check failure on accounts with "negative only" flag.

Message usage: Provision Check Failure
This message usage relates to the usage of status advice message, sent by T2S, to advice about a failure provisioning check.

Specific message requirements
To inform about a pending status due to provisioning check failure, the SecuritiesSettlement-TransactionStatusAdviceV03 includes the following information: 5
- Pending – status that corresponds to 'Pending' with one or more reason codes to inform about the unsuccessful provisioning check;
- Code – ISO code specifying the reason of the pending due to the provisioning check;
- AdditionalReasonInformation – text comprising a combination of the associated business rule not fulfilled 9 and a short description of the error;
- Settlement Quantity – the quantity of financial instrument remaining to be settled;
- SettlementAmount – the quantity of money remaining to be credited/debited;
- Supplementary Data – the T2S Matching Reference assigned by T2S to both Settlement Instructions.

MESSAGE ITEM	DATA TYPE/ CODE	UTILISATION
Code Docu- ment/SctiesSttlmTxStsAdvc/SttlmSts/ Pdg/Rsn/Cd/Cd	PendingReason2Code [▶ 1994]	ISO reason code for the provision check failure. The only possible values are: I CLAC I CMON I LACK[2] I LINK I MONY
AdditionalReasonInformation Docu- ment/SctiesSttlmTxStsAdvc/SttlmSts/ Pdg/Rsn/AddtlRsnInf	RestrictedFINXMax210Text	Business rule and error de-scription

Cutover:

As the change has been requested in a backward compatible way, no specific cutover activities are required. Accounts will keep the current "YES/NO" values for the "Negative Position Indicator" when the CR is deployed, i.e. no change of setup or behaviour. Then CSDs can start to adjust the values for those accounts where negative positions are not allowed, by requesting the corresponding parameter updates via reda.023 or T2S GUI.

It should be noted that they must also be able to deal with the new information in the reda.041 activity advice message as this point in time, and similarly with the corresponding feedback in the reda.037 audit trail report. In those messages, the new information will be transported within the existing XSD structure (as only "old value/new value" structures are being used).

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High level description of Impact:

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[2] In case of provision check failure on an account flagged for "negative position only", the reason LACK will be reported on the receipt leg, contrary the normal situation where this reason only occurs on the delivery leg..

Outcome/Decisions:

CRG meeting of 1-2 October 2012: The Change Request is discarded for release 1 and will potentially be considered for a future release of T2S.

* CRG meeting on 8-9 February 2016: The CRG identified the Change Request as a candidate for the Release 1.3. The CRG agreed to re-discuss the Change Request in the next CRG teleconference on 24 February 2016 when deciding on the list of Change Requests for Release 1.3. The CRG made an assumption that the CR is not in R1.3 if the OMG confirms that the operational risk of positive positions in mirror and issuance account which are typically under control of CSDs is acceptable. Also if OMG confirms that the CR is required for R1.3 then a simpler version of CR would be consider to perform provision check for mirror and issuance accounts.

* CRG teleconference 24 February 2016: The CRG included the Change Request as a candidate for Release 1.3, following the OMG feedback that the Change Request required for Release 1.3 from an operational point of view. The CRG acknowledged that the Change Request will be updated to include a simpler solution to allow only negative positions on issuance and mirror account keeping the existing flags.

* CRG meeting on 10 March 2016: The CRG put the Change Request on hold and the CRG members agreed to confirm within one week on whether the Change Request should be considered for Release 1.3

* CRG teleconference 24 March 2016: The CRG agreed that the CR is not mandatory for Release 1.3 and therefore included it as a candidate for Release 2.0. The CRG acknowledged that the Change Request will be updated to include also Securities Account audit trail queries/reports. The CRG will check with the SGMS on impact on messages due to the Change Request.

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

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

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

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

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Preliminary assessment:

- Impacted functionality/module: A2A, U2A, SETT, LTSI, SD

- **Following issues have to be clarified before the start of detailed assessment:**
  - o Will this negative only flag be dedicated to issuance and mirror account (with BR to ensure it) or will it be extendable to any CSD participant account as the negative allowed currently?
  - o What is the meaning of the statement *"It should be noted that this process leaves the total position on the affected account unchanged"*? Provision check in T2S is performed position per position and not at the level of the securities account.