

<b>General Information (Origin of Request)</b>		
<input checked="" type="checkbox"/> User Requirements (URD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS) <i>(to be filled in by ECB)</i>		
<b>Request raised by:</b> Deutsche Bundesbank on behalf of the German NUG	<b>Institute:</b> Central Bank	<b>Date raised:</b> 24/07/2015
<b>Request title:</b> Retroactive Cash Restriction (Cash Blocking and Reservation)		<b>Request ref. no:</b> T2S 0544 URD
<b>Request type:</b> Common	<b>Urgency:</b> Normal	
<b>1. Legal/business importance parameter:</b> High	<b>2. Market implementation efforts parameter:</b> Medium	
<b>3. Operational/Technical risk parameter:</b> Low	<b>4. Financial impact parameter:</b> High	
<b>Requestor Category:</b> Central Bank	<b>Status:</b> Withdrawn	

**Reason for change and expected benefits/business motivation:**

The current cash restriction function only allows to set up cash blocking and reservation whilst or in advance of creating the settlement instruction. To use blocked or reserved cash for the settlement of a settlement instruction, the restriction references that have been created upfront have to be included in the settlement instruction.

Current Concept for Cash Blocking and Reservation (UDFS v2.0 chapter 1.6.2.5.1):

Blocking and reservation of cash allow a T2S Actor to move an amount of cash to a specific cash balance of a T2S Dedicated Cash Account, **and make it available for a specific purpose (e.g. reserved/blocked cash to be used by a Settlement Instruction for a specific aim).**

Blocking and reservation are referred together as cash restriction processing. Their settlement processes differ for the set-up of a new restricted cash balance, the increase or decrease of cash in an existing restricted cash balance and the way to use the restricted cash for a Settlement Instruction.

A T2S Actor instructs T2S:

- With a settlement restriction to set-up, increase and decrease a restricted cash balance (see section 2.5 "Send Settlement Restriction on Cash Balance");
- **With a settlement instruction to use a restricted cash balance (see section 2.3 "Send Settlement Instruction").**

**The current concept for cash blocking and reservation implies that the restriction is set up before the settlement instruction is sent to T2S.**

Within the current T2S functionality, it is not possible to create a cash reservation or cash blocking for an already existing settlement, i.e. it is not possible to amend an existing settlement instruction to input or change restriction references.

It is not possible for a participant to create a cash reservation or cash blocking for settlements instructed by a third party.

Due to this circumstance the current function is not sufficient for an efficient DCA/cash management.

The availability to reserve/block cash for a specific purpose is limited as this only works in case the purpose is known ahead of instructing the settlement.

The cash manager of a DCA account needs to be able to reserve or block cash for specific transactions to ensure that this settlement is done without having an impact on the rest of the settlement queue.

It is necessary to ensure that a prioritisation of settlement instructions is enabled by reservation/blocking on the cash side.

**This CR would enable a more efficient cash management of sensitive settlements.**

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**Description of requested change:**

The existing cash blocking and reservation function should be enhanced. In addition to the current functionality, which requires that a settlement instruction needs to know the restriction reference(s) by creation of this instruction, an amendment to this function has to be implemented.

As described in the current function the restriction reference(s) are linked to the settlement.

In the majority of important cases the restriction reference(s):

- Are not available prior instructing the settlement because the settlement is instructed by a third party.
- Even if available, cannot be included in the settlement instruction because the need of an urgent settlement arises after the instruction is already in the system without a restriction reference.

**Therefore this function should be enhanced as follows:**

The Amend Settlement Instruction function should be updated to enable the user to change, add or delete for an existing Settlement Instruction the linked Cash Restriction References. In detail:

- After the Settlement Instructions are instructed into T2S, the DCA cash manager gets the information to take care of one or more Settlement Instructions.
- To ensure the special treatment of these Settlement Instructions the cash manager creates a cash restriction (reservation or blocking) and adds the respective Cash Restriction Reference into the Settlement Instruction via Amendment Instruction.
- In this case there is no need to know the restriction reference(s) ahead of instructing the Settlement Instruction.

The amendment of the settlement instruction to add/remove/change a Cash Restriction Reference can be triggered

- in A2A mode through sese.030 Securities Settlement Condition Modification Request,
- in U2A mode via the T2S GUI.

The ability to invoke this new functionality is steered via a new privilege: **"Amend cash restriction reference of a Settlement Instruction either on a Securities Account or on Behalf of the CSD in T2S or on Behalf of an external CSD"**.

- This privilege is an object privilege. It applies on all Settlement Instructions on Securities Accounts within own System Entity (for CSD) or owned by own Party (for CSD Participant and External CSD)
- This privilege can be granted by CSDs.
- If granted, this privilege will enable the T2S Actor to add / remove a cash restriction reference to / from a Settlement Instruction in his data scope or to change an existing cash restriction reference in a Settlement Instruction. With each request, one cash restriction reference can be added / removed /changed. It will also be possible to add additional cash restriction references to Settlement Instruction which already contain cash restriction references.

In addition to the privilege check, further validations on the restriction reference and on the Settlement Instruction to be updated must be applied when adding / removing / changing a cash restriction reference to/from a Settlement instruction:

- The Restriction Reference must exist in T2S
- The Restriction Reference must apply on cash and must refer to a blocked or reserved cash balance
- The T2S Dedicated Cash Account associated with the Restriction Reference must be the same as the T2S dedicated Cash Account specified in the Settlement Instruction or the default T2S dedicated Cash Account if not present in the Settlement Instruction
- The Settlement Instructions must be debiting cash.

- In case of removal/change: the Restriction Reference must be present in the Settlement Instruction.

If the validations are not successful, the amendment request shall be rejected. If the validations are successful, the amendment shall be executed, i.e. the Restriction Reference shall be added to /removed from the Settlement Instruction or the Cash Restriction Reference in the Settlement Instruction shall be changed.

If the instruction is already eligible for settlement, this change shall trigger a recycling attempt.

**The following messages would be impacted:**

Sese.030                      SecuritiesSettlementConditionModificationRequest

The message must be upgraded to support also the amendment of cash restriction.

**The following U2A screens would be impacted:**

Amendment Security Instruction – New Screen

Amendment Security Instruction – Details Screen

A new amendment type must be supported, including the data required for this new type, i.e. Add/Remove/Change flag and restriction reference, and the corresponding validations.

**Setup for Payment Banks:**

In case the service is enabled for Payment Banks, the setup will be similar to the logic already implemented with T2S CR545, i.e. the access rights have to be provided to the Payment Bank via cross system entity privilege. (It is a precondition for this setup that the CSD is ready to grant privileges to cross system entities).

- First, the Payment Bank should be granted the existing amendment privilege **“Amend Process Indicator of a Settlement Instruction/Settlement Restriction on Securities either on a Securities Account or on Behalf of the CSD in T2S or on Behalf of an external CSD”**.
  - This privilege must be transferred at system level from the securities side to the cash side without adding any object. As the default data scope of the PMBK/NCB has no securities accounts, this privilege will have no objects in their data scope.
  - This privilege will be checked by INTF level at system level upon the receiving of a U2A / A2A amendment request over a SI.
- Then the Payment Bank should be granted the new object privilege: **“Amend cash restriction reference of a Settlement Instruction either on a Securities Account or on Behalf of the CSD in T2S or on Behalf of an external CSD”**.
  - This privilege has to be transferred from the securities side to the cash side for the relevant Securities Account objects (i.e. to be provided to the cash managers that provide cash settlement through CMB Account links on such Securities Accounts).
  - Privilege to be checked by LCMM at SAC object level.
- Additionally, to enable the amendment in U2A mode, the Payment Bank needs the “Settlement Instruction query” privilege on respective SAC (similar to CR 545).
- All three privileges need to be granted from by the NCB to the Payment Bank as system privileges (i.e. cannot be granted directly by the CSD to the PMBK). Only afterwards they can be granted by the CSD to the PMBK as object privilege on a specific SAC (this is needed only for “Amend Cash Restriction” and “Settlement Instruction Query”).

**Impact on reports:**

The report (Semt.031 SecuritiesSettlementConditionsModificationRequestReport) has to be updated in line with the queries, but it will not contain Amendment Instructions sent by CB or Payment Banks on behalf of the cross system entity privilege provided by the Securities Account Servicer in respective reports configured by CB or PB, since extension of the Data Scope is not taken into account by Report Management! On the other hand, the SAC owner/servicer will of course be able to see these Amendment Instructions in the respective report even if they were not instructed by them.

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**Submitted annexes / related documents:**

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**Proposed wording for the Change request:**

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**High level description of Impact:**

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**Outcome/Decisions:**

\*CRG meeting of 17-18 September 2015: The CRG agreed to put the Change Request on hold and indicated that the Change Request is a potential candidate for Release 2.

\* CRG teleconference on 10 October 2016: The CRG agreed to share the Change Request with the SGMS for advice on messaging aspects.

\* CRG meeting on 24 January 2017: The CRG agreed to keep the Change Request on hold.

\* CRG teleconference on 20 July 2017: The CRG recommended the Change Request for preliminary assessment.

\* CRG on 26 March 2018: The CRG members took note of the preliminary assessment of the CR.

\* Initiator on 7 January 2020: The initiator withdrew CR-544.

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**Preliminary assessment:**

- **Impacted functionality / module:** LCMM, SETT, LTSI/LEA, INTF, SDMG

- **Findings:**

- Messages impact: sese.030, sese.031, semt.031 have to be modified to include the new type of maintenance instructions. **ISO CR is needed for sese.030 and sese.031.** Until the design of the sese.030 message is not clear, it is not possible to define in detail how this new amendment will work.
- This new type of amendment instruction will be denied if the instruction is partially settled or identified as CoSD.
- Currently, when the debit cash account of a settlement instruction is the "Default Cash Account" and a restriction reference of cash is informed, if the "default cash account" changes after the approval, the settlement instruction is cancelled by T2S due to the BR: MVRR947 - The T2S dedicated cash account specified or default cash account of the Settlement Instruction is different than the cash account inferred from the Restriction Reference. This behaviour will not change with the new functionality. Therefore, when the debit cash account of the settlement instruction is the "Default Cash Account" and an amendment instruction adding a restriction reference is accepted and executed, if the "Default DCA" is changed afterwards, the settlement instruction will be cancelled in revalidation.
- The assessment is based on the assumption that the maximum number of restriction references for settlement transactions remains unchanged, i.e. 10 security restrictions and 10 cash restrictions per settlement transaction (see also page 781 of UDFS version 2.1).
- The Amendment Instructions for Intra-Position Movements and Settlement Instructions Query has to be updated in order to include the addition/change/removal of cash restriction to a Settlement Instruction (A2A semt.031 and U2A)
- 'Statement of executed amendment instructions for IPM and SI' Report (semt.031) has to be updated likewise.
- Accordingly this new information must also be shown on the respective "Available reports - Details" screen.
- Adaptation of the Settlement Instruction Query to be able to transport more than one use of cash restriction in U2A (A2A query does not report use of restrictions)

- **Open issues/ questions to be clarified by the originator:**

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- The amendment functionality does not allow amending any process indicator of a partially settled instruction except for the priority. We assume that T2S behaviour will remain unchanged (i.e. an amendment instruction to add/remove a restriction reference of a PSET instruction will be denied).
  
  - Following clarification to be added to the CR description: "Statement of Pending/Executed Amendment Instructions on IPM and Settlement Instructions" (semt.031) will NOT contain Amendment Instructions sent by CB or Payment Banks on behalf of the cross system entity privilege provided by the Securities Account Servicer in respective reports configured by CB or PB, since extension of the Data Scope is not taken into account by Report Management! On the other hand, the SAC owner/servicer will of course be able to see these Amendment Instructions in the respective report even if they were not instructed by them.