



Insights on Conditional Securities Delivery (COSD) in T2S

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ECB T2S Programme Office
European Central Bank





T2S COSD Framework – An Introduction

- T2S COSD framework is based on rules defined and maintained by CSDs, which identifies the external conditions and triggers the final booking in T2S only when these external conditions are fulfilled.
- The presentation explains the concept of COSD Framework in T2S and describes principles and rules of the Framework.
- The presentation gives details about process components of the Framework which includes COSD Detection, COSD Blocking, COSD Release and COSD Cancellation
- The presentation also provide setup and process details for the scenarios when COSD framework will be applied in case of intra-CSD, cross-CSD and external CSD settlements.



T2S COSD Framework – Key Questions

The presentation aims to address following key questions on T2S COSD Framework

- What are the guiding principles of COSD?
- What are the components of the T2S COSD Framework?
- What does T2S communicate to the process stakeholders and How can the process stakeholders monitor and control the COSD process?



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- **Introduction to COSD**
 - What is COSD? Why is COSD useful in the T2S world?

- **T2S COSD Framework**
 - What are the guiding principles of COSD?
 - What are the components of the T2S COSD Framework?
 - What are the business rules driving the COSD processing?
 - What are the processing rules underlying the COSD functionality?
 - What does T2S communicate to the process stakeholders?
 - How can the process stakeholders monitor and control the COSD process? (synopsis of A2A and U2A tools within each process step)

- **Application of the T2S COSD Framework**
 - Analyse intra-CSD, cross CSD and external CSD scenarios



Introduction to COSD

What , Why and How of COSD?

- **What is COSD?**

Abbreviation for **Conditional Securities Delivery**. Special functionality to settle instructions that require fulfilment of a **settlement condition outside T2S** before securities settlement can take place in T2S. This functionality is expected to be used for a small number of instructions only.

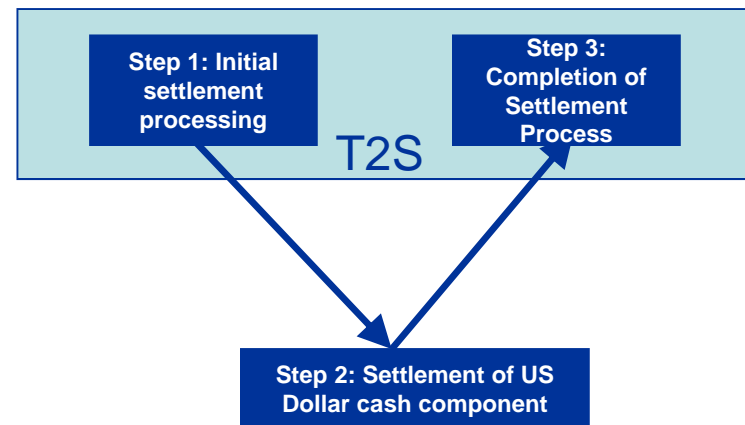
- **Why is COSD useful in T2S world?**

Enables fulfilment of all settlement conditions (internal and external to T2S) in a **coordinated** manner. For example, cash leg in currency ineligible in T2S or mandatory completion of registration prior to settlement in T2S.

- How does COSD facilitate the coordination between settlement in T2S and the conditions external to T2S?

Example: Settlement in T2S with cash component in USD

- ✓ **Step 1: Initial settlement processing in T2S; process in T2S is held**
- ✓ **Step 2: Completion of external condition (Settlement in USD)**
- ✓ **Step 3: Completion of settlement process in T2S**





Terminology

- **Business Settlement Instructions (BSI)** is a settlement instruction sent by a T2S Actor
- **Realignment Instructions (RI)** is a settlement instruction that is generated by T2S in a cross CSD or external CSD settlement scenario
- **COSD Group of Settlement Instructions (SI)** is a group of SI(s) that contains the business settlement instructions (BSI) and their related realignment instructions if any (RI)



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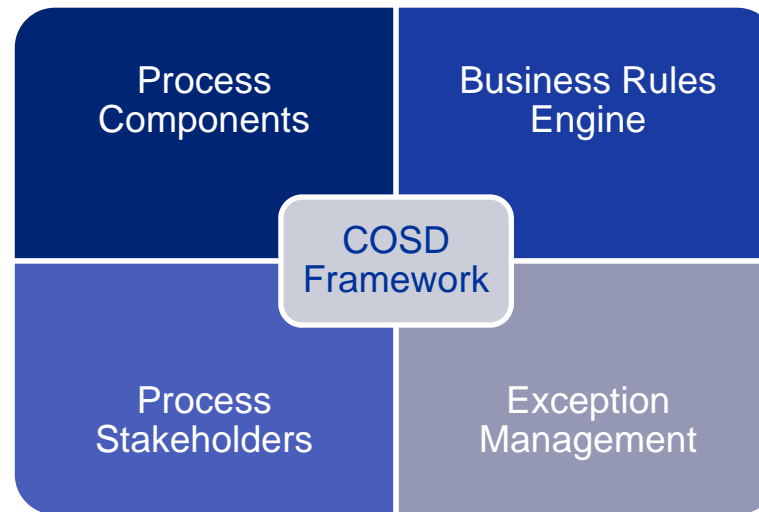
2 T2S COSD Framework – Concept, Principles and Rules

3 Application of T2S COSD Framework – Scenario Analysis

GUIDING PRINCIPLES FOR T2S COSD FRAMEWORK

- ✓ COSD Detection
- ✓ COSD Blocking
- ✓ COSD Release
- ✓ COSD Cancellation

- ✓ CSD
- ✓ CSD Participant
- ✓ Payment Bank
- ✓ Central Bank
- ✓ Administering Party



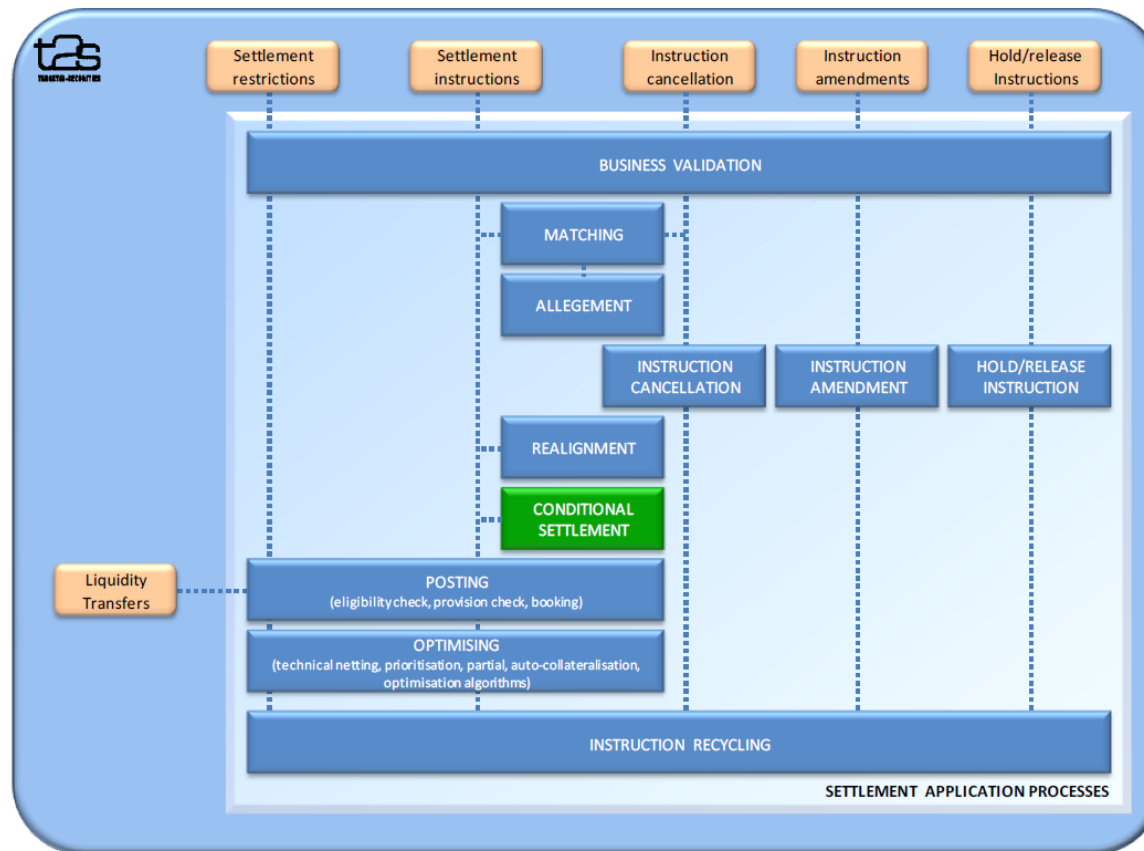
- ✓ COSD Rule Set
- ✓ COSD Rule

T2S response in exceptional situations and procedures for handling errors by leveraging T2S toolkit (e.g. failure to block resources for COSD, resources remain unblocked despite the cancellation of COSD Group SI, etc)

Rules driven framework enriched with **automated** features of COSD detection and blocking of resources to enable the **coordination** of external settlement conditions with settlement in T2S and ensuring **timely** communication of information to the **impacted** stakeholders

T2S COSD Framework

Integration with T2S Settlement Engine



COSD Framework is embedded within the T2S settlement engine and leverages the standard T2S functionalities



T2S COSD Framework

Process Stakeholders – Owners of the COSD Process

- CSD(s)
- CSD Participant(s)
- Central Bank(s)
- Payment Bank(s)
- **Administering Party(ies)**
- Any other interested parties (includes third parties)

While all the stakeholders described above can be identified using a specific party type in T2S, there is no specific attribute in the Party reference data identifying an Administering Party (AP)



Process Stakeholders

Concept of Administering Party

- **What is the role of an Administering Party in COSD?**

AP ensures the coordination between settlement conditions external to T2S and settlement in T2S

- **Who defines the Administering Party ?**

CSD by specifying it in the relevant rule set

- **Who can be set-up as an Administering Party?**

Any CSD Participant may be set-up as AP

- **How can the Administering Party be identified in T2S?**

AP is defined for every COSD rule set (i.e. not a specific party type)



T2S COSD Framework

Business Rules Engine – Bedrock of COSD Framework

- COSD rule is mono-CSD and defined at the level of system entity (i.e. CSD)
- Central Banks cannot set-up COSD rules. They have to liaise with the respective CSDs for set-up of COSD rules
- Settlement instructions sent by T2S actor or generated by T2S (e.g. realignments) are subjected to COSD rules set by the CSD that owns the securities account specified in the settlement instruction



T2S COSD Framework

Business Rules Engine

- For use of COSD application process, CSDs have first to define in static data the COSD rules according to which a settlement instruction is subject to a conditional settlement. In particular it defines:
 - COSD Rule Set
 - COSD Rule(s)
- A COSD Rule Set may contain one or more COSD Rules
- A COSD Rule is defined to specify the triggering conditions that have to be met for having a conditional settlement



Business Rules Engine

COSD Rule Set

- The COSD Rule Set configuration can be done via U2A only
- The CSD defines
 - COSD Rule Set Validity Dates
 - Administering Party
 - COSD Processing Condition
 - Securities Blocking (“Yes” or “No”)
 - Cash Blocking (“Yes” or “No”)
- Any change to the COSD Rule Set and COSD Rule can be applied only as of a future business date



Business Rules Engine

CoSD Positive and Negative Rules set up

- T2S applies the conditional settlement according to the "CoSD processing condition" of the CoSD rule:
 - If Positive, i.e. the rule expresses the aim of the CoSD, the conditional settlement is activated on the Securities and/or Cash part of the SI based on the administration type.

Rule Set	Administration type	CoSD rule_seq	CoSD Processing	CoSD rule parameter	
				grp	value
RS_1	Securities & cash	1	Y	1	ISO transaction code = "CORP"
		2	Y	1	Security = "ISIN Y" and place of settlement = "CSD B"
		3	Y	1	Place of settlement = "CSD B"

- If Negative, i.e. the rule expresses the exception to the CoSD, the conditional settlement is not activated on the Settlement instruction for this rule set

Rule Set	Administration type	CoSD rule_seq	CoSD Processing	CoSD rule parameter	
				grp	value
RS_5	Cash	1	N	1	ISO transaction code = "CORP"
				1	Security = "ISIN A"
		2	Y	2	Security = "ISIN B"
				3	Security = "ISIN C"
				4	Security = "ISIN D"



Business Rules Engine

COSD Rule

- The COSD Rule configuration can be done via U2A only
- The CSD defines:
 - Rule Sequence (i.e. order of validating the rules)
 - COSD Processing (i.e. rule should trigger conditional settlement (inclusion), or not (exclusion))
 - Values of the COSD rule parameters
- COSD Rule has a technical identifier assigned by T2S. This technical identifier is used to refer to the rule in the messages



Business Rules Engine

COSD Rule - Parameters available for defining a COSD Rule

- The following parameters are available in the CoSD Rule parameter set (p60 UDFS v2.0)

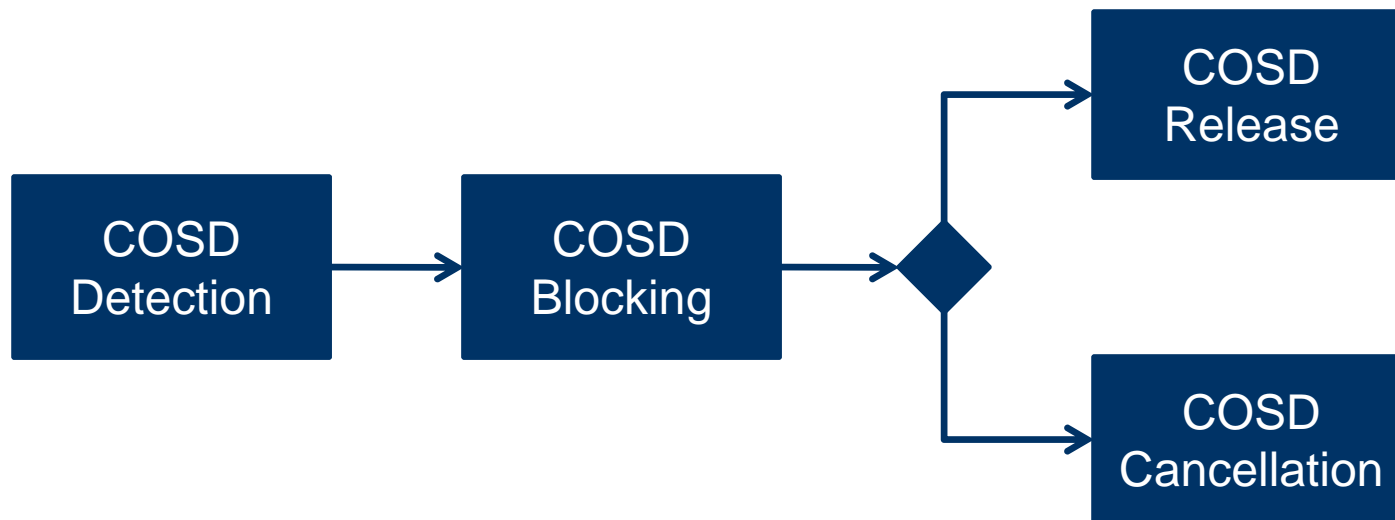
PARAMETER TYPE	DESCRIPTION
ISIN	It specifies the ISIN of the security defined in the settlement instruction.
Settlement currency	It specifies the currency code defined in the settlement instruction.
CSD	It specifies the CSD owning the delivering or receiving securities account defined in the settlement instruction.
Securities account	It specifies the delivering or receiving securities account defined in the settlement instruction.
Country of issuance	It specifies the country of issuance linked to the securities code defined in the settlement instruction.
Place of settlement	It specifies the CSD of the counterparty defined in the settlement instruction.
ISO transaction code	It specifies the ISO transaction code of the settlement instruction.
Securities movement type	It specifies the type of securities movement. The exhaustive list of possible values is as follows: DELI (deliver) RECE (receive) ZERO (settlement quantity is null)
Payment Type Code	It specifies the type of cash movement. The exhaustive list of possible values is as follows: APMT (against payment) FREE (free of payment / separate payment)
Credit Debit indicator	It specifies the credit/debit indicator of the instruction.
Settlement Transaction condition code	It specifies the condition code referenced in the settlement transaction.
Issuer CSD in T2S	It specifies whether the issuer CSD for the security referenced in the settlement instruction should be external to T2S or not.
Delivering CSD in T2S	It specifies whether the delivering CSD referenced in the settlement instruction should be external to T2S or not.
Receiving CSD in T2S	It specifies whether the receiving CSD referenced in the settlement instruction should be external to T2S or not.
BIC of issuer CSD	It specifies the BIC of the issuer CSD linked to the security referenced in the settlement instruction.
BIC of delivering CSD	It specifies the BIC of the delivering CSD referenced in the settlement instruction.
BIC of receiving CSD	It specifies the BIC of the receiving CSD referenced in the settlement instruction.

- See p62 UDFS v2.0

TABLE 12 – APPLICABLE CoSD RULE PARAMETER AND MESSAGE FIELDS

APPLICABLE CoSD RULE PARAMETER	TYPE OF CHECK	MESSAGE	MESSAGE FIELD
Security	Direct	sese.023	\FinInstrmId\ISIN
Settlement Currency	Direct	sese.023	\SttlmAmt\Amt\Ccy
CSD owning the securities account	Indirect	sese.023	\QtyAndAcctDtIs\SfkpgAcct\Id
Securities Account	Direct	sese.023	\QtyAndAcctDtIs\SfkpgAcct\Id
Country of Issuance	Indirect	sese.023	\FinInstrmId\ISIN
Place of settlement (CSD of the counterparty)	Indirect	sese.023	\DlvrSttlmPtIs\Dpstry\Id\AnyBIC ³¹ \RcvgSttlmPtIs\Dpstry\Id\AnyBIC ³²
ISO Transaction code	Direct	sese.023	\SttlmParams\SctiesTxTp\Cd
Securities Movement Code	Direct	sese.023	\SttlmTpAndAddtlParams\SctiesMvmntTp
Payment Type Code	Direct	sese.023	\SttlmTpAndAddtlParams\Pmt
Credit Debit Indicator	Direct	sese.023	\SttlmAmt\CdtDbtInd
Settlement Transaction Code	Direct	sese.023	\SttlmParams\SttlmTxCond\Cd
Issuer CSD in or out T2S (Boolean)	Indirect	sese.023	\FinInstrmId\ISIN
Delivering CSD in or out T2S (Boolean)	Indirect	sese.023	\DlvrSttlmPtIs\Dpstry\Id\AnyBIC ³³
Receiving CSD in or out T2S (Boolean)	Indirect	sese.023	\RcvgSttlmPtIs\Dpstry\Id\AnyBIC ³⁴
BIC of Issuer CSD	Indirect	sese.023	\FinInstrmId\ISIN
BIC of delivering CSD	Direct	sese.023	\DlvrSttlmPtIs\Dpstry\Id\AnyBIC ³⁵
BIC of receiving CSD	Direct	sese.023	\RcvgSttlmPtIs\Dpstry\Id\AnyBIC ³⁶

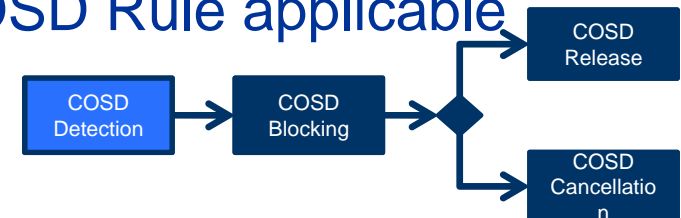
The same fields are applicable for sese.032 (e.g. T2S generated settlement instructions such as realignments)

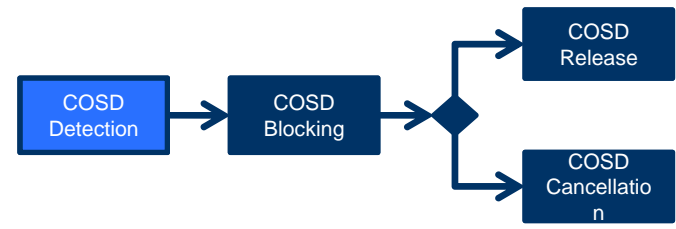
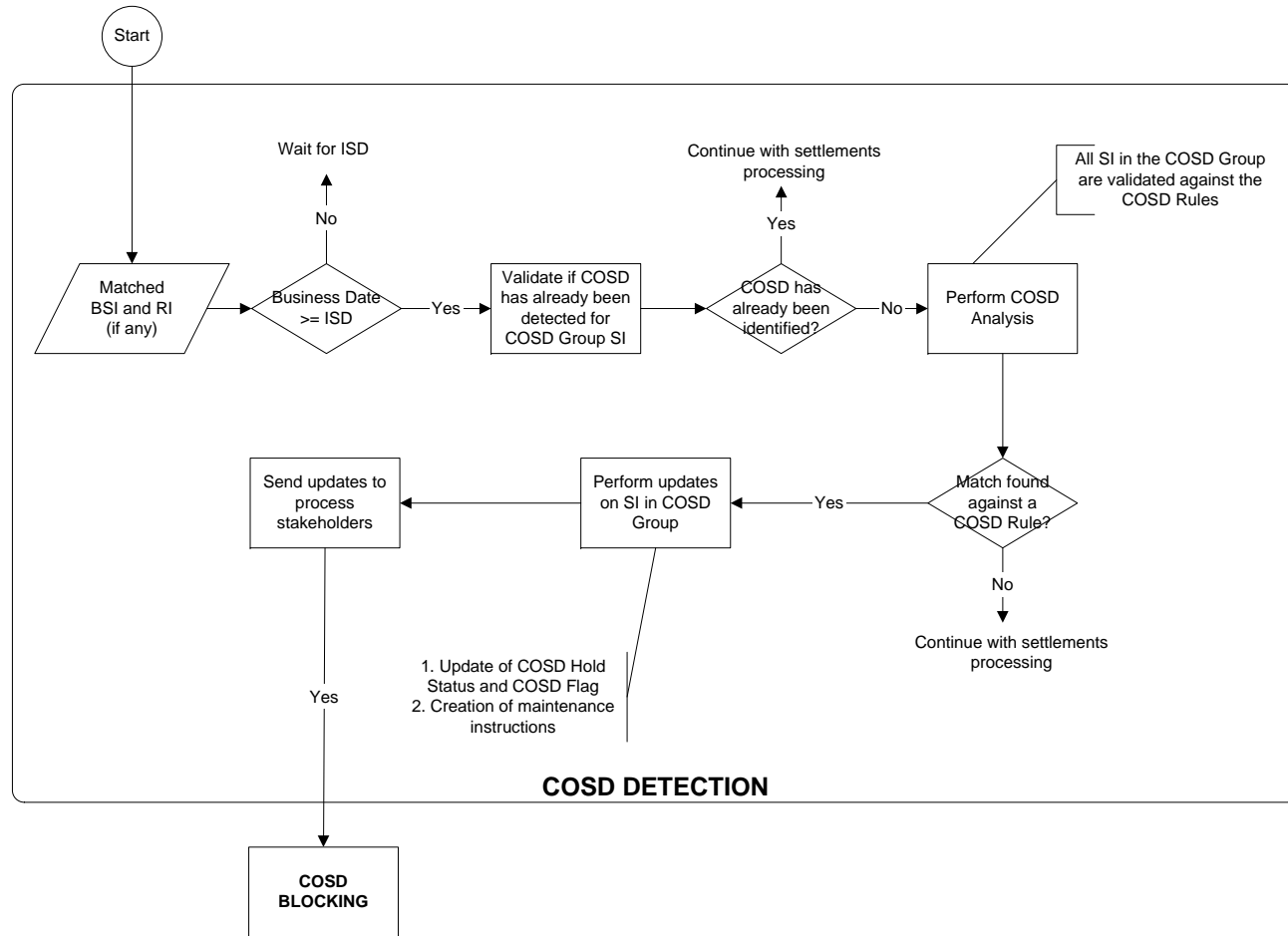


Logical sequence of execution of the process components of the COSD Framework

- COSD analysis performed for all SI in COSD Group on ISD
- COSD Rule Parameters are matched against the SI attributes and reference data related to the SI attributes*
 - ✓ Match found against a COSD Rule in a COSD Rule Set
No further rules are validated in the same COSD Rule Set and process continues to check other COSD Rule Set(s)
 - ✓ No match found against a COSD Rule in a COSD Rule Set
Process continues to check other COSD Rule Set(s)
- Multiple COSD Rules may be applicable on the same SI. A Hold instruction is created for each COSD Rule applicable

* See indirect checks on slide 17





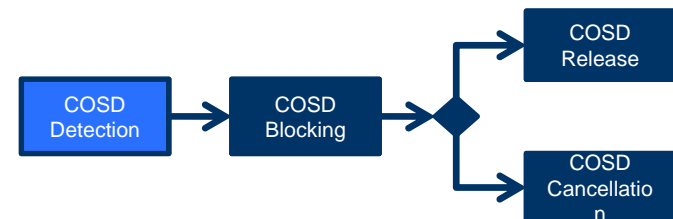


CoSD Detection

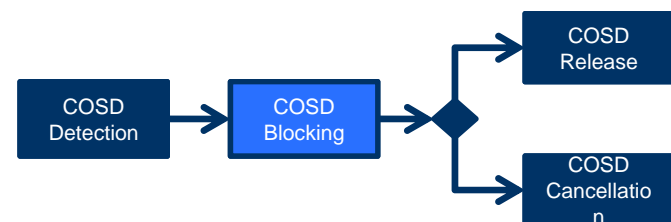
Information Flow to Process Stakeholders

- At ISD, when T2S detects the CoSD, it sends*:
 - "Executed"
SecuritiesSettlementConditionModificationStatusAdvice
Notifies execution of maintenance instruction initiated by T2S to put the relevant SI on CoSD Hold (one message per rule)
 - "CoSD Hold"
SecuritiesSettlementTransactionStatusAdvice
Notifies the instruction is on CoSD Hold. Only one message with all the rules applying for the given instruction
 - "Counterparty's Settlement Instruction on Hold"
SecuritiesSettlementTransactionStatusAdvice.
Notifies the counterparty via status advice
- AP and the interested parties receive the messages based on their message subscription
- See section 2.3.4.2 in UDFS v2.0

• *Additional status advice messages are created for "linked instructions on hold" when realignments are involved in COSD group of SI*



- T2S generates intra-position and/or intra-balance movements to block resources as defined in the COSD rule set. No partial settlement for COSD blocking
- Blocking of resources not initiated until release of any other hold (i.e. Party Hold, CSD Hold or CSD Validation Hold) already existing on SI identified for COSD processing
- T2S blocks the resources only once even if multiple COSD rules are applicable on the same SI
- T2S blocks the securities and/or cash in the securities and/or cash delivering account irrespective of the SI to which the COSD rule applies





CoSD Blocking Processing Rules (II)

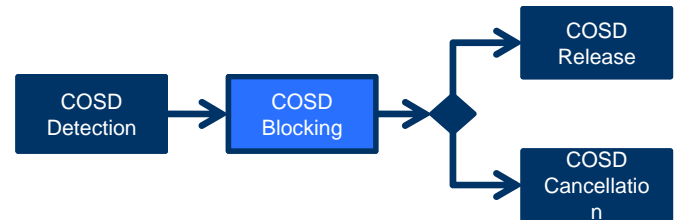
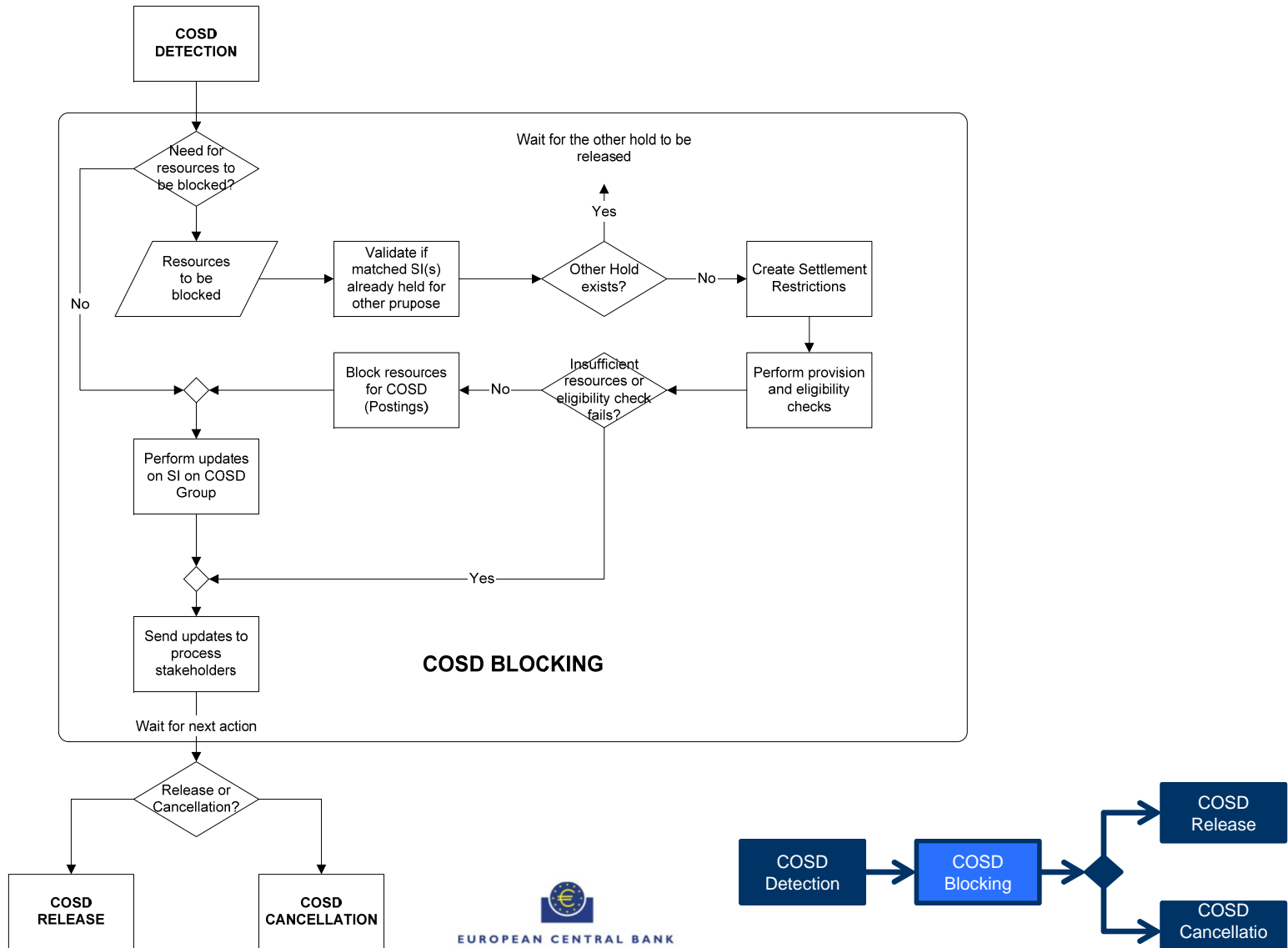
In case of **external scenario** with a CoSD rule on the DELI realignment instruction created by the CSD in T2S, the DELI realignment instruction on the **inter-CSD account** will be on "**CoSD hold**" and a **Settlement Restriction** of CoSD blocking will be generated in order to **block** the securities on the dedicated position of the inter-CSD account.*

- For an external CSD scenario, involving delivery of securities outside T2S,
 - Securities Blocking: T2S will create realignment instruction on the inter-CSD securities account. Since this instruction will represent the receipt leg, COSD blocking of securities will always happen on the participant securities account delivering securities even though the CoSD rule might be detected for the realignment instruction.
 - Cash Blocking: T2S will block the cash on the DCA mentioned in the receiving business instruction or the default DCA defined for the receiving securities account if a DCA is not mentioned in the receiving business instruction.

- For an external CSD scenario, involving receipt of securities in T2S,
 - Securities Blocking: T2S will create realignment instruction on the inter-CSD securities account. This realignment instruction will represent the delivery leg and therefore COSD blocking of securities will be done on the inter-CSD account.
 - Cash Blocking: T2S will block the cash on the DCA mentioned in the receiving business instruction or the default DCA defined for the receiving securities account if a DCA is not mentioned in the receiving business instruction.

* In case a Settlement Instruction meets the CoSD rule and there is no securities (or no cash) to be blocked due to a PFOD (or due to a FOP), then no CoSD blocking occurs

COSD Blocking Process Flow Chart

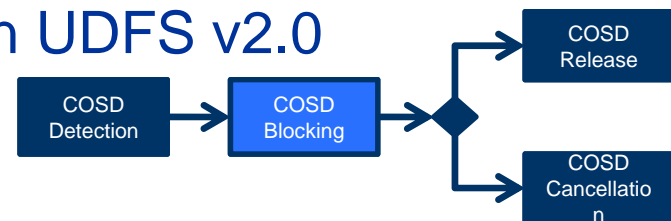




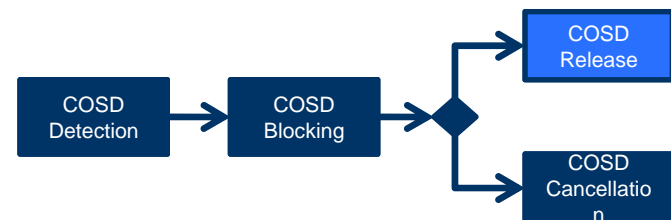
CoSD Blocking

Information Flow to Process Stakeholders

- After successful blocking of resources, T2S informs the interested parties:
 - “Full settlement” IntraPositionMovementConfirmation and/or
 - “Full Settlement” IntraBalanceMovementConfirmation
- To identify the Settlement Instruction to which this Settlement Restriction relates, the corresponding confirmations will contain the T2S Reference of the related Settlement Instruction in supplementary data
- Settlement instruction status advice sent to the interested parties and the AP
 - “Waiting CoSD release”
SecuritiesSettlementTransactionStatusAdvice
- See sections 2.3.4.2.1 and 2.3.4.2.2 in UDFS v2.0

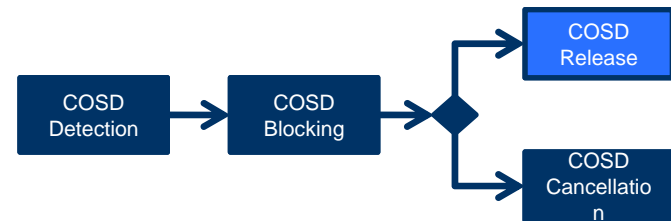
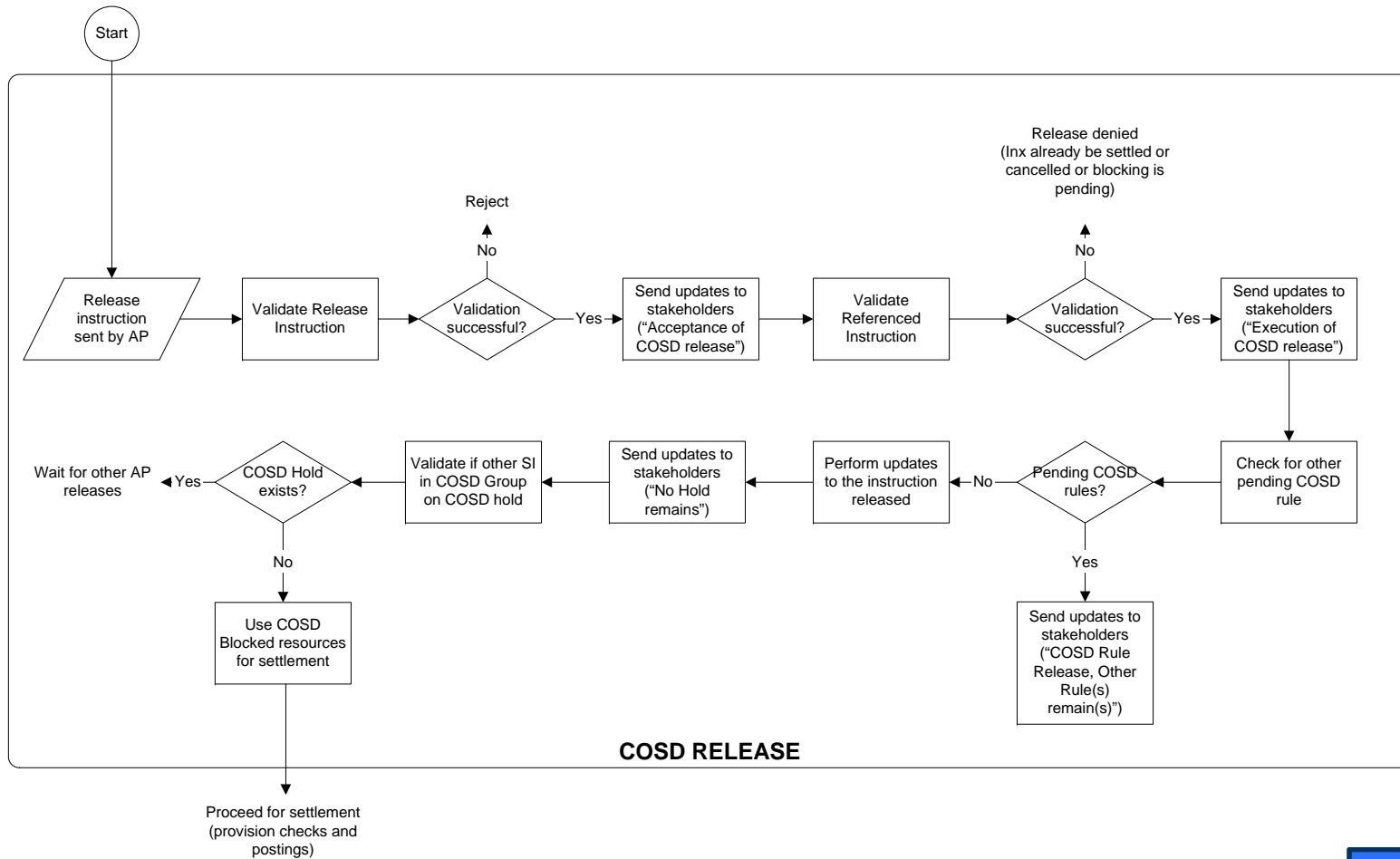


- AP or parties having sufficient privileges to instruct on behalf of the AP can release an instruction in “Waiting COSD Release”.
- Each AP must release each of its COSD rule that applies to each SI individually (i.e. one release per COSD rule per SI) specifying the CoSD rule.
- All APs managing the COSD rules applicable on a SI must send the release instructions for the SI to be released
- All SI in the COSD Group on which one or more COSD rules apply must be released for the settlement to commence

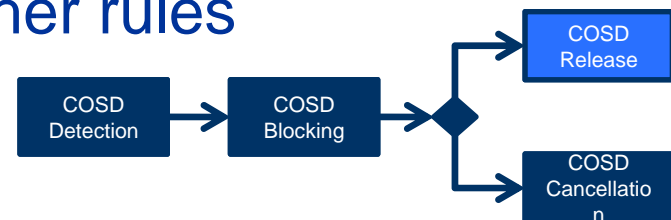




COSD Release Process Flow Chart



- Privileges required for sending the release “Release COSD Hold settlement instruction on behalf of an Administering Party”. Message to be used for releasing instruction on COSD Hold “sese.030 (section 3.3.8.10, UDFS v2.0)”
- T2S reference (Market Infrastructure Transaction Identification) of the SI and COSD rule identifier must be specified in the release instruction. AP should be specified as the Instructing Party in the BAH of the release instruction (same as in the COSD Rule Set)
- See annex 4.1 of UDFS v2.0 for other rules



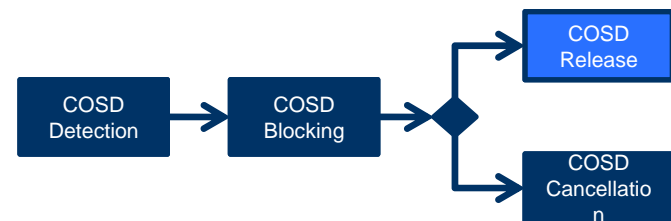


COSD Release

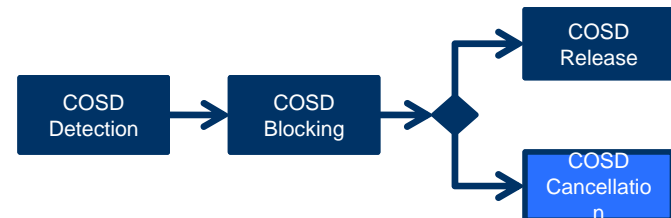
Information Flow to Process Stakeholders

- In case the release can be processed, T2S will send the following messages* per release executed:
 - “Accepted” SecuritiesSettlementConditionModificationStatusAdvice
 - “Executed” SecuritiesSettlementConditionModificationStatusAdvice“
- For each release executed, T2S will send a status advice* of the settlement instruction on COSD Hold:
 - Either notifying there are no more COSD rules to be released
 - “No Hold remain(s)” SecuritiesSettlementTransactionStatusAdvice
 - Or notifying that there are still some rules to be released
 - “COSD Rule Release, Other rule(s) remain(s)” SecuritiesSettlementTransactionStatusAdvice

* Refer UDFS v2.0, Section 2.6.3 -CoSD release lifecycle processing for information on the messages received by the involved parties.



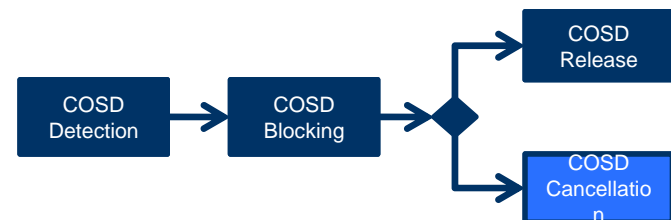
- Instruction on COSD can be requested for cancellation either by the AP administering the COSD rules applicable on the instruction or the CSD owning the instruction
- Each AP must send one cancellation per instruction only irrespective of the number of COSD rule(s) it monitors on the instruction (e.g. not one cancellation per rule)
- All APs administering an instruction must send cancellations for the COSD cancellation to take effect





COSD Cancellation Processing Rules

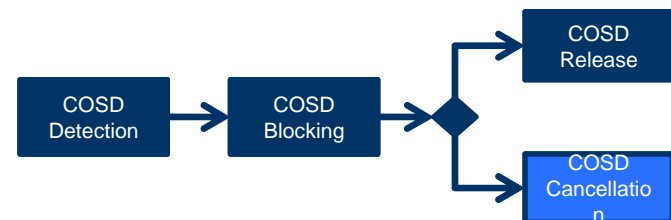
- COSD cancellation also follows the principles of bilateral matching of cancellations
- Counterparty will be notified (i.e. allegation of a cancellation) once all cancellations are received from AP(s)
- AP will not be allowed to send cancellation of BSI, if at least one COSD rule applies on at least one realignment instruction
- AP of the CoSD rule will be notified about the cancellation initiated by the counter party.

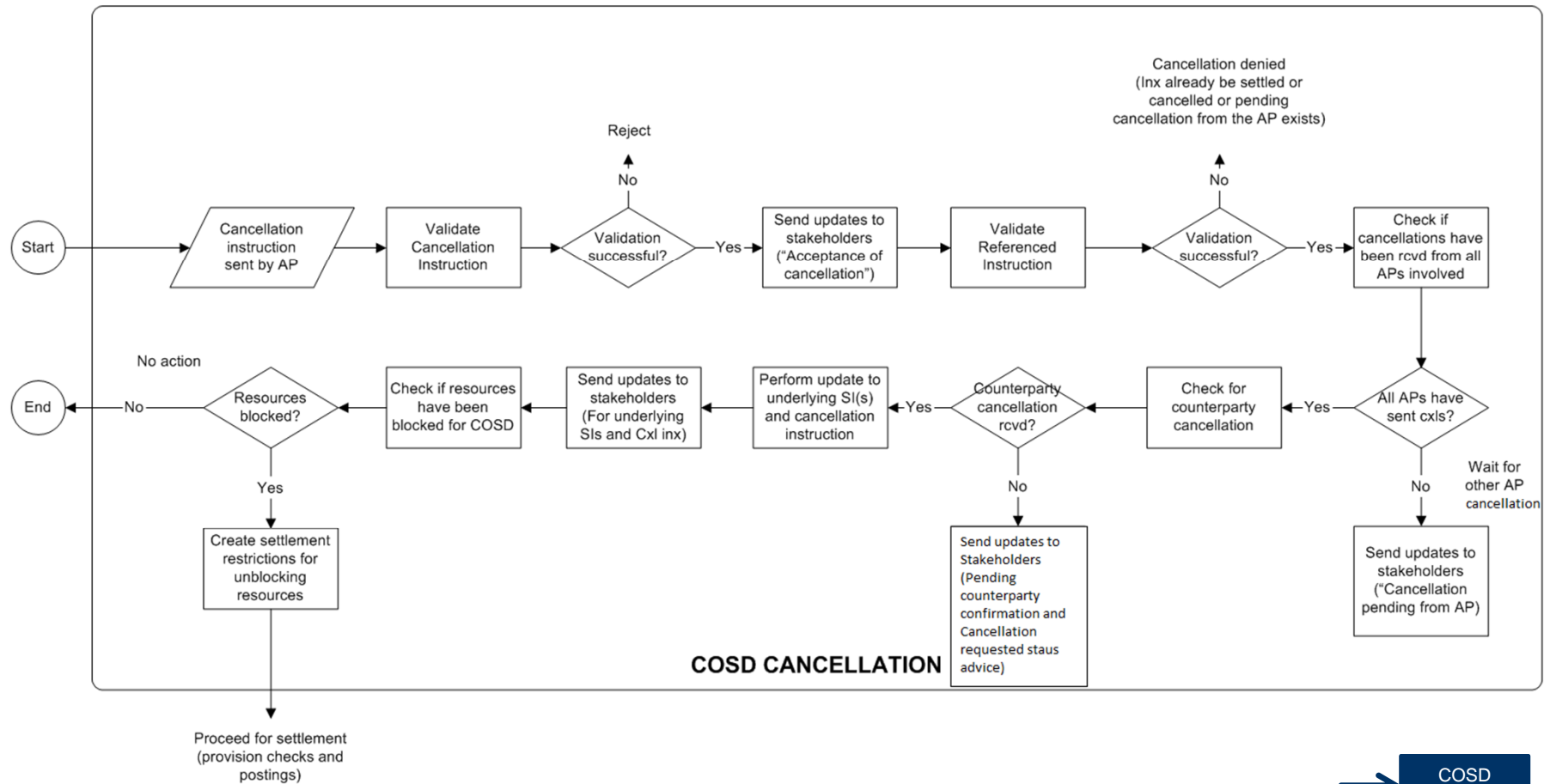




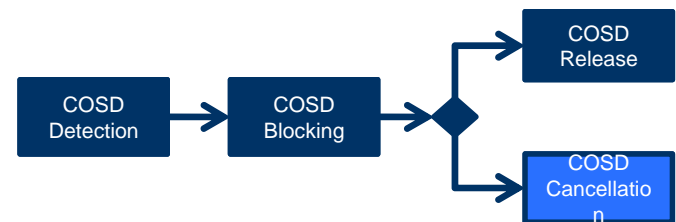
COSD Cancellation Processing Rules

- Only CSD and APs will be allowed to send cancellation requests for a BSI on COSD Hold
- CSD will be allowed to request cancellation of a business settlement instruction on COSD Hold irrespective of the number of APs administering the instruction. Only one cancellation instruction is required





COSD CANCELLATION

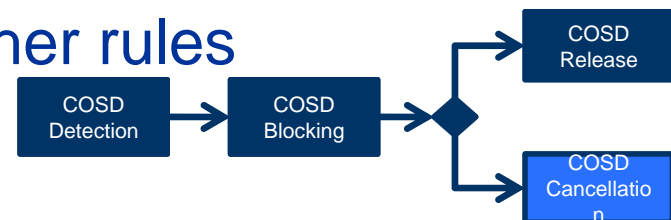




COSD Cancellation

Information Flow from AP to T2S

- Privileges are required for sending the COSD cancellation
- Message to be used for cancelling the instruction on COSD Hold “sese.020 (section 3.3.8.1, UDFS v2.0)”
- T2S reference (Market Infrastructure Transaction Identification) of the SI must be specified in the cancellation instruction. AP should be specified as the Instructing Party in the BAH of the cancellation instruction (same as in the COSD Rule Set).
- See annex 4.1 of UDFS v2.0 for other rules



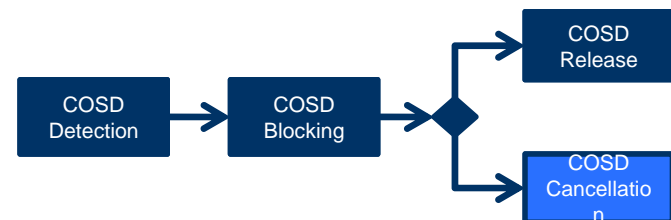


COSD Cancellation

Information Flow to Process Stakeholders

- In case the cancellation instruction can be processed, the process stakeholders will receive the following message usages:
 - “Accepted” SecuritiesTransactionCancellationRequestStatusAdvice
 - “Cancellation pending from Administering Party”
SecuritiesTransactionCancellationRequestStatusAdvice (This message usage is sent when T2S is expecting cancellation(s) from other AP(s))
 - “Executed” SecuritiesTransactionCancellationRequestStatusAdvice
 - “Pending Cancellation, awaiting confirmation from the Counterparty “
SecuritiesTransactionCancellationRequestStatusAdvice
 - "Cancellation Requested" SecuritiesSettlementTransactionStatusAdvice

*Refer UDFS v2.0, Section 2.7.3 CoSD Cancellation Instruction
Lifecycle processing for information on the messages received by
the involved parties*





T2S COSD Framework

Guiding Principles – Dos and Don'ts

- T2S identifies AP based on the party BIC. If the CSD fulfils the role of an AP, it is mandatory to use a different party
- COSD detection is not done for SI already on COSD process (i.e. later changes to the rules will not impact existing COSD processes)
- All settlement instructions in the COSD Group will be identifiable to be on COSD process (COSD Flag “Yes”)



T2S COSD Framework

Guiding Principles (continued)

- Cash or Securities resources will only be blocked on the securities accounts (and/or linked cash accounts) in the CSD owning the BSI and not on the securities accounts in the realignment instructions
- COSD Blocked resources will not be allowed to unblocked / used for any other purpose while the related SI exists
- Cancellation of T2S generated instructions will not be allowed by AP / CSD / T2S Parties (except for auto-collateralisation reimbursements)



T2S COSD Framework

Guiding Principles (continued)

- Cancellation of BSI on COSD follows the principles of bilateral cancellation
- All instructions in the COSD Group will be cancelled by T2S in case of (a) Failure during revalidation and (b) Change in realignment chain. Blocked COSD resources will not be released in such scenarios. T2S Operator will be informed about COSD blocking without underlying SI on hold



T2S COSD Framework

Guiding Principles (continued)

- AP will be informed in the following circumstances (subject to message subscription)
 - ✓ Instruction identified on COSD process
 - ✓ COSD release pending from AP
 - ✓ Cancellation pending from Administering Party
 - ✓ Cancellation pending awaiting cancellation from counterparty
 - ✓ Cancellation requested from counterparty
 - ✓ Cancellation accepted/executed/rejected/denied
 - ✓ Release accepted/executed/rejected/denied



T2S COSD Framework

Exception Management

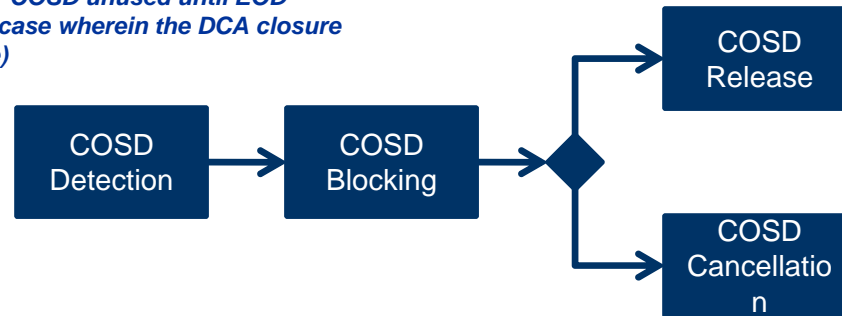
Blocking resources for COSD

Exception 1: Instruction identified on COSD also on Party Hold / CSD Hold / CSD Validation Hold

Exception 2: Resources cannot be blocked because intraday restriction applies on securities / cash accounts

Exception 3: Securities / Cash is insufficient for COSD Blocking

Exception 4: Cash blocked for COSD unused until EOD settlement (also consider the case wherein the DCA closure date is the next business date)



Cancellation of instructions on COSD process

Exception 6: AP has sent COSD cancellation but
(a) instruction is already settled / cancelled, or
(b) AP cancellation instruction already exists in T2S or
(c) COSD Realignment instruction related to instruction is on COSD Hold

Exception 7: CSD cancels an instruction wherein the realignment instruction related to instruction is on COSD

Release of COSD identified instructions

Exception 5: AP has sent COSD release but
(a) instruction is already settled / cancelled, or
(b) AP release instruction already exists in T2S, or
(c) COSD Blockings are still pending

Other scenarios involving recycling of COSD identified instructions

Exception 8: Instruction identified on COSD fails revalidation

Exception 9: Change in realignment chain for instructions on COSD

Exception 10: Mix of COSD release and COSD cancellations sent by different Administering parties.

* Non-exhaustive list of exceptions



Exception Management

Blocking Resources for COSD

Identifier	Exception Description	T2S Action / Response
Exception 1	Instruction identified on COSD also on Party Hold / CSD Hold / CSD Validation Hold	COSD Blockings not generated until the hold is released by the CSD / Party
Exception 2	Resources cannot be blocked because intraday restriction applies on securities / cash accounts	Intraday restriction for intra-position / intra-balance movement communicated
Exception 3	Securities / Cash is insufficient for COSD Blocking	Provision check failure for intra-position / intra-balance movement communicated
Exception 4	Cash blocked for COSD unused until EOD settlement * The DCA closure date is the next business date	All unused cash blocked for COSD is released at EOD and settlement restrictions generated for blocking cash on the next business date * No cash blockings generated if DCA closes on the next business date



Blocking Resources for COSD

Exception 4 - EOD Release of blocked cash restrictions (1/2)

- See 1.4.3.2, UDFS v2.0(Night time settlement period) and
- At the end of the day, during the closure of real time period, T2S releases the blocked and reserved cash balances for the retransfer of cash to RTGS.
 - T2S therefore decreases the COSD blocked cash positions (See 1.4.4.4.7, UDFS v2.0) and
 - regenerate new COSD blocking instructions that will be attempted to settlement at the start of next day (Sequence 0 of the Night Time settlement – See 1.4.4.2.4, UDFS v2.0)



Blocking Resources for COSD

Exception 4 - EOD Release of blocked cash restrictions (2/2)

- T2S sends:
 - “Full settlement” IntraBalanceMovementConfirmation for the decrease of the already blocked COSD balance
 - “Full settlement” IntraBalanceMovementConfirmation upon settlement of the COSD blocking at the end of sequence 0 if successful
- T2S will update the status of the COSD settlement instruction from “Waiting COSD release” to “COSD Hold” and notify the relevant actor(s) with the a sese.024.
- Upon re-blocking of the resources, the “Waiting COSD release” will be provided again



Release of COSD Identified Instructions

Exception 5 - Failure of the release

- **Exception 5 : AP has sent COSD release but instruction is already settled / cancelled, or AP release instruction already exists in T2S , or COSD Blockings are still pending**
- In case the release instruction cannot be processed, the AP will receive the following message usages:
 - “Rejected”
SecuritiesSettlementConditionModificationStatusAdvice
 - “Denied” SecuritiesSettlementConditionModificationStatusAdvice
 - This usage occurs after positive validation of the release
- See 2.6.3 in UDFS v2.0



Cancellation of Instructions on COSD Process

Exception 6 - Failure of the cancellation

- **Exception 6 : AP has sent COSD cancellation but instruction is already settled / cancelled, or AP cancellation instruction already exists in T2S or COSD Realignment instruction related to instruction is on COSD Hold**
- AP will receive the following message usages:
 - “Rejected”
SecuritiesTransactionCancellationRequestStatusAdvice
 - “Denied”
SecuritiesTransactionCancellationRequestStatusAdvice
 - This usage occurs after positive validation of the cancellation
- See 2.7.3 in UDFS v2.0

- ***Exception 7: CSD cancels an instruction wherein the realignment instruction related to instruction is on COSD***
- In this scenario, T2S cancels all the settlement instructions in the COSD Group(after bilateral cancellation). However, the blocked resources for COSD are not released. The CSD (or NCB) should check with the APs before unblocking the resources in T2S
- CSD (or NCB) requires special privilege to unblock the COSD blocked resources. An additional validation ensures that only those COSD blockings are unblocked wherein the COSD settlement instructions are already cancelled



Exception Management

Recycling of COSD Identified Instructions

Identifier	Exception Description	T2S Action / Response
Exception 8	Instruction identified on COSD fails revalidation	<ul style="list-style-type: none">• All the instructions in the COSD Group are automatically canceled• Resources (cash / securities) blocked for COSD are not released automatically• CSD and/or NCB may unblock the resources after agreement with all the involved Administering Parties
Exception 9	Change in realignment chain for instructions on COSD	Same as above
Exception 10	Instruction is identified on COSD involving multiple Administering Parties(AP). AP1 sends release while AP2 sends cancellation for their rules or vice versa.	COSD cancellation can be initiated even after COSD release by other AP. Similarly COSD release can be initiated even after COSD cancellation by other AP. T2S will initiate release of SI when all release are received or initiate cancellation when all cancellations are received from involved APs.



Exception Management

Exception 10: Mix of COSD release and COSD cancellations sent by different APs (1/3)

Case 1 : COSD release by AP1 but COSD cancellation initiated by AP2, finally both APs agree to release the instruction

Step	Action by Party	T2S Processing
1	AP1 sends release for rule	AP1 is informed of the release of its rule with the message confirming the execution of its CoSD release. SI remains pending as AP2 is yet to release the hold. Interested parties are informed regarding the status <i>“CoSD rule release, other rule remains”</i> <i>Note: The Interested Parties of the “CoSD rule release, other rule remains” do not include the Administering Parties (see UDFS v2.0 page 773)</i>
2	AP2 sends cancellation (may be due to a mistake or a fail in the external condition outside T2S).	T2S processes the cancellation request but does not execute it since AP1 has not yet sent its cancellation. AP2 is informed about the not execution of its cancellation with a <i>“Cancellation pending from Administering Party”</i> <i>Note: See UDFS v2.0 § 2.7.3.3 CoSD Cancellation Instructions received Check (page 778)</i>
3	AP2 realises the mistake/ solves the failure outside T2S, and sends release for its rule.	Since CoSD release request for each rule are received, T2S will continue with process of settlement

The above behaviour implies that CoSD release by AP can be executed by T2S even after receiving CoSD cancellation for the instruction by the same AP. T2S doesn't release the instruction until all CoSD releases received from all the APs.



Exception Management

Exception 10: Mix of COSD release and COSD cancellations sent by different APs (2/3)

Case 2 : COSD release by AP1 but cancellation initiated by AP2, finally both APs agree to cancel the instruction.

Step	Action by Party	T2S Processing
1	AP1 sends release for its rule from first rule set (because the external condition outside T2S has been fulfilled or may be due to a mistake).	AP1 is informed of the release of its rule with the message confirming the execution of its CoSD release. SI remains pending as AP2 is yet to release the hold. Interested parties are informed regarding the status <i>“CoSD rule release, other rule remains”</i> <i>Note: The Interested Parties of the “CoSD rule release, other rule remains” do not include the Administering Parties (see UDFS v2.0 page 773)</i>
2	AP2 sends cancellation	T2S processes the cancellation request but does not execute it since AP1 has not yet sent its cancellation. AP2 is informed about the not execution of its cancellation with a <i>“Cancellation pending from Administering Party”</i>
3	AP1 realises the mistake / is contacted by AP2 which informs that the instruction must be cancelled, and sends cancellation.	T2S processes the cancellation from second AP. Since all APs have requested cancellation, T2S will wait for counterparty cancellation. T2S informs the counterparty and the interested parties of its SI regarding the status <i>“Cancellation requested”</i> AP1 and AP2 are informed with a <i>“Cancellation Pending awaiting for confirmation from the Counterparty”</i> <i>Note: UDFS v2.0 § 2.7.3.4 Counterparty’s Cancellation Instruction check (page 779)</i>



Exception Management

Exception 10: Mix of COSD release and COSD cancellations sent by different APs (3/3)

Case 2 : COSD release by AP1 but cancellation initiated by AP2. Finally both AP agree to cancel instruction – continued

Step	Action by Party	T2S Processing
4	CSD of the counterparty sends cancellation for its leg	T2S processes the request and cancels the SI as all cancellations are received.

If CSD sends cancellation in previous step 3, it will initiate cancellation process irrespective of previous release by one AP and cancellation by another AP.

The above behaviour implies that CoSD cancellation can be initiated even after CoSD release instructed by the same Administering Party. T2S does not cancel underlying until cancellation request from either all involved Administering Parties or CSD itself sends the cancellation, along with counterparty cancellation.



Table of contents

1 Scope of the presentation

2 T2S COSD Framework – Concept, Principles and Rules

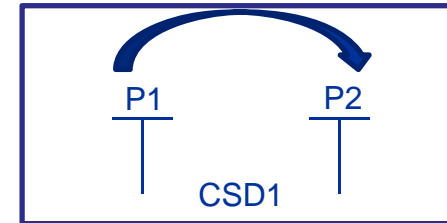
3 Application of T2S COSD Framework – Scenario Analysis

Intra-CSD scenario

P1 delivers to P2 – cash settlement outside T2S

- Business scenario

- Participant 1 (P1) delivers securities to Participant 2 (P2)
- Both participant have securities accounts in the CSD1
- P1 and P2 are both direct participants



- Set-up

- CSD1 has defined CoSD rule set 1, with CoSD rule 123 for blocking of securities in case the currency of a delivery settlement instruction is USD. The administering party is AP1 (e.g. T2S Party of CSD1)

Parameters

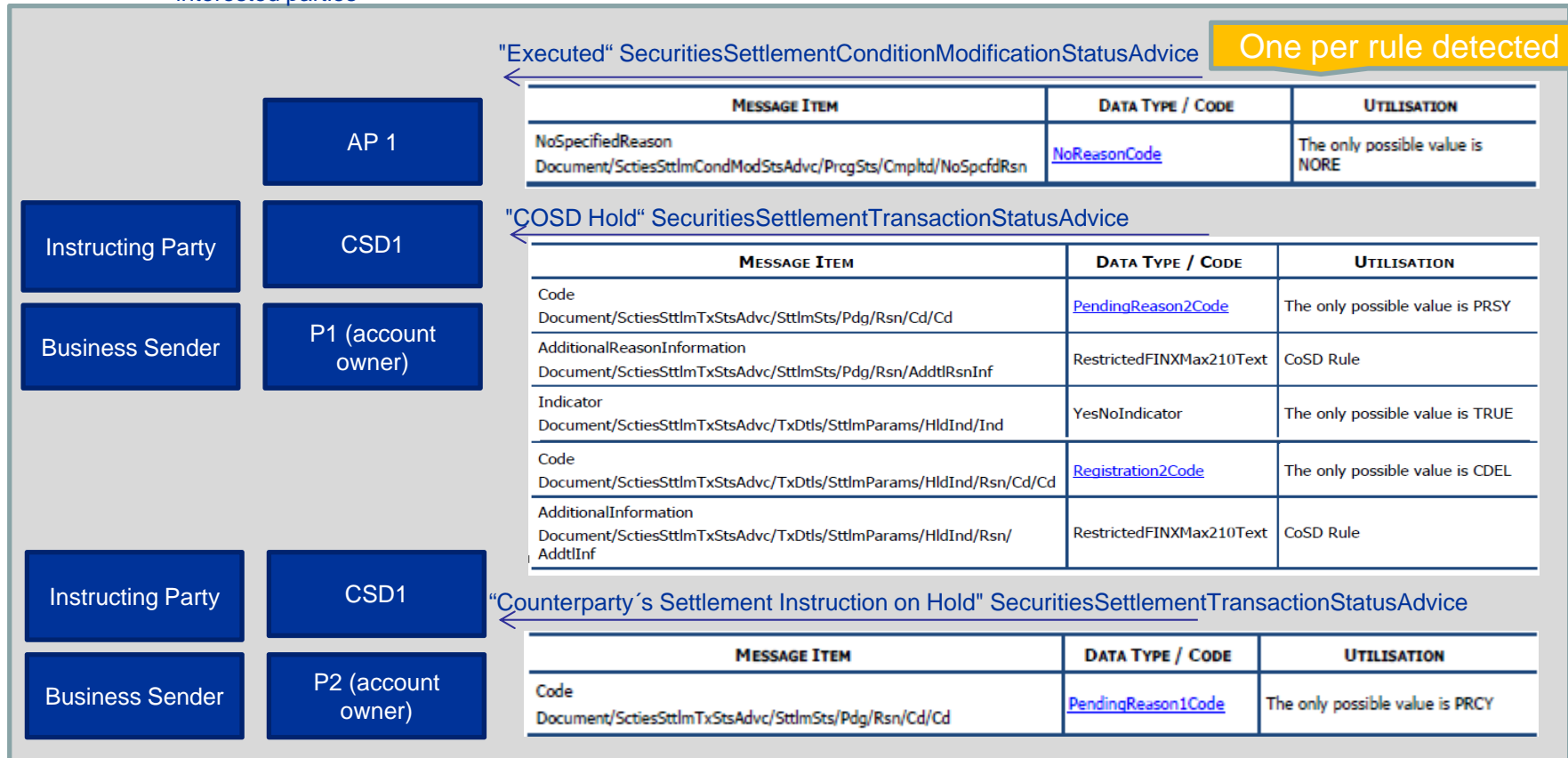
Rule set Id	CoSD rule set validity date (from)	Administering party	Processing condition	CoSD Rule	CoSD processing	Securities movement type	Settlement currency
1	01/01/14	AP1	Securities	123	Yes	DELI	USD



Intra-CSD scenario

COSD Detection

- On ISD, T2S detects that instruction from P1 is subject to COSD
 - The interested parties of the settlement instruction of P1 can receive the below messages upon subscription
 - The "COSD Hold" will contain the rule identification (e.g. 123)
 - T2S updates the COSD flag of both P1 and P2 instruction to "Yes"
 - T2S sends a status advice notifying P2 that the counterparty is on Hold
 - Please note that since there is no cash settlement in T2S, in this scenario the Payment Bank and NCB are not in the list of interested parties

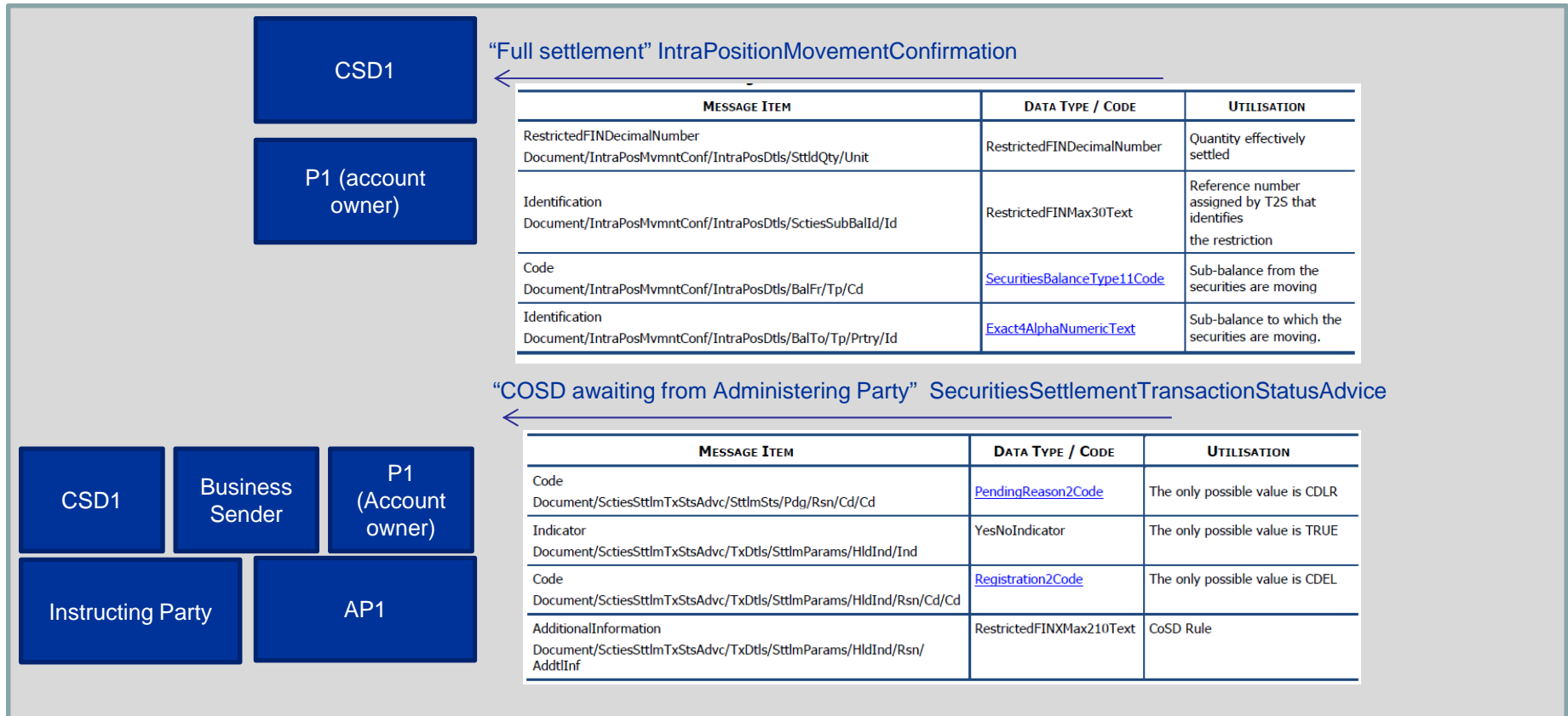




Intra-CSD scenario

COSD Blocking

- T2S attempts to block the resources (e.g. securities in this scenario)
 - T2S sends the blocking confirmation to the interested parties that have subscribed to the message
 - T2S sends a status advice to the AP notifying that the settlement instruction is ready for release

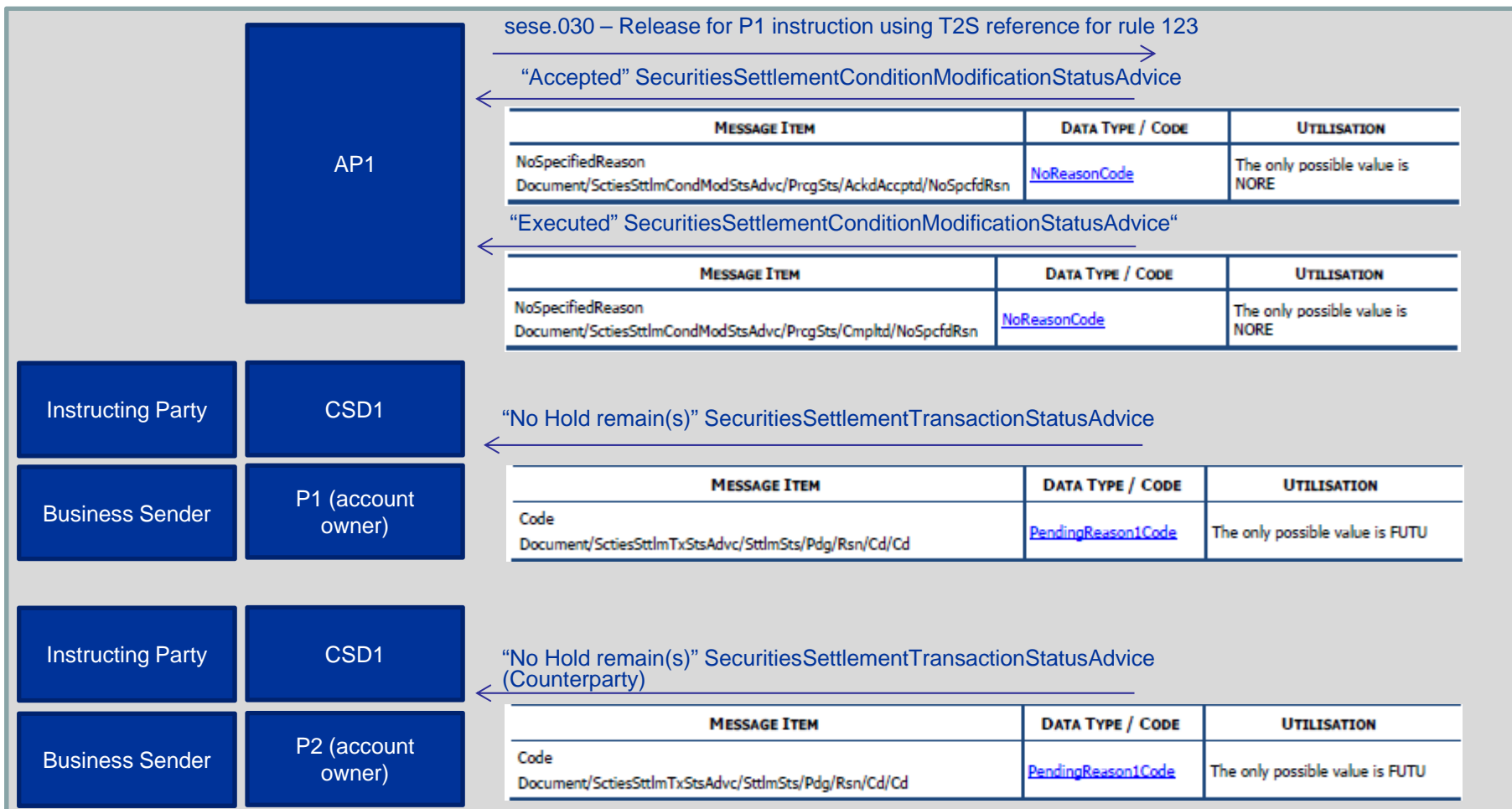




Intra-CSD scenario

COSD Release by AP1

- AP1 sends the release instruction to T2S mentioning the rule 123
 - T2S sends acceptance and execution notification of the release instruction to the AP1
 - T2S sends a status advice to the interested parties notifying that the settlement instruction of P1 is no longer on CoSD hold
 - T2S sends a status advice to the interested parties notifying that the settlement instruction of P2 is no longer on Counterparty Hold



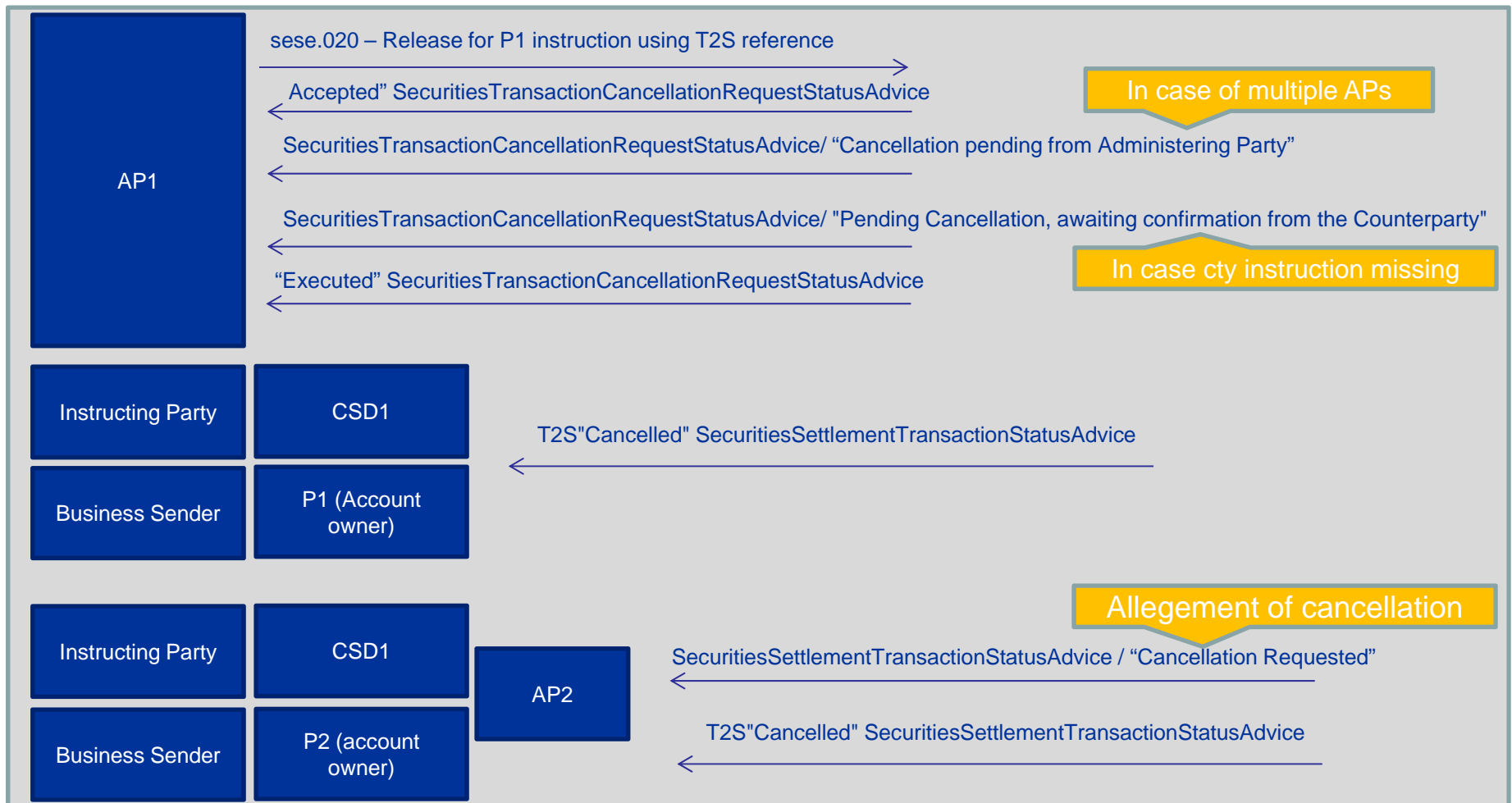


Intra-CSD scenario

COSD Cancellation by AP1

- AP1 sends the cancellation instruction to T2S

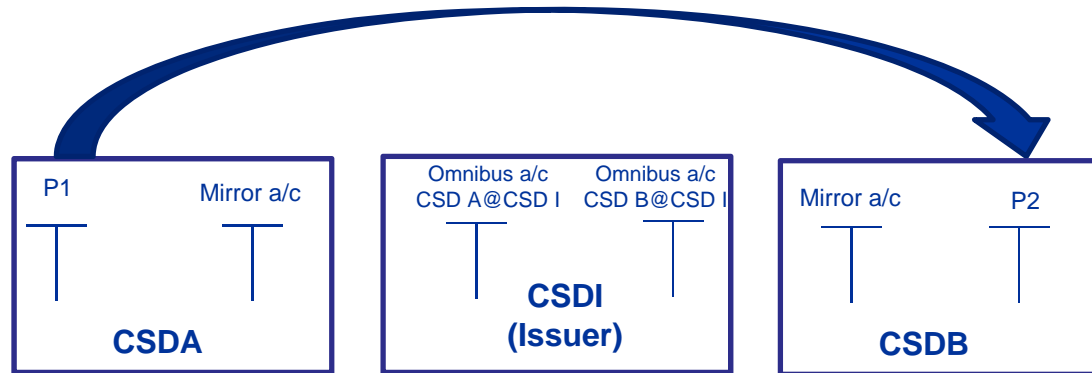
- T2S sends acceptance and execution notification of the cancellation instruction to the AP1 (one cancellation per AP managing a rule)
- T2S sends a status advice to the interested parties notifying that the settlement instruction of P1 is pending counterparty cancellation
- T2S sends a status advice to the interested parties notifying that the settlement instruction of P2 is requested to send a cancellation



Cross-CSD scenario

P1 delivers to P2 – cash settlement outside T2S

- Business scenario
 - P1 in CSD A is selling securities to P2 in CSD B
 - CSD I is the intermediary CSD Between CSD A and CSD B



- Set-up
 - CSDI has defined CoSD rule set 1, with CoSD rule 123 for blocking of securities in case the ISIN involved in a settlement instruction delivering ISIN ABC. The administering party is AP1 (e.g. T2S Party of CSDI)

Rule set Id	CoSD rule set validity date (from)	Administering party	Processing condition	CoSD Rule	CoSD processing	Parameters	
						Securities movement type	ISIN
1	01/01/14	AP1	Securities	123	Yes	DELI	ABC



Cross-CSD scenario

List of Stakeholders

- CSD A (Delivering CSD)
- P1 – CSD Participant of CSD A (Owner of Delivery BSI)
- CSD B (Receiving CSD)
- P2 – CSD Participant of CSD B (Owner of Receipt BSI)
- CSD I (Issuer CSD)
- CSDP A/I – CSD A as a CSD Participant of CSD I
- CSDP B/I – CSD B as a CSD Participant of CSD I
- AP 1 – Administering Party of the COSD rule in CSD I
- Instructing Party and Business Sender of the BSI(s)

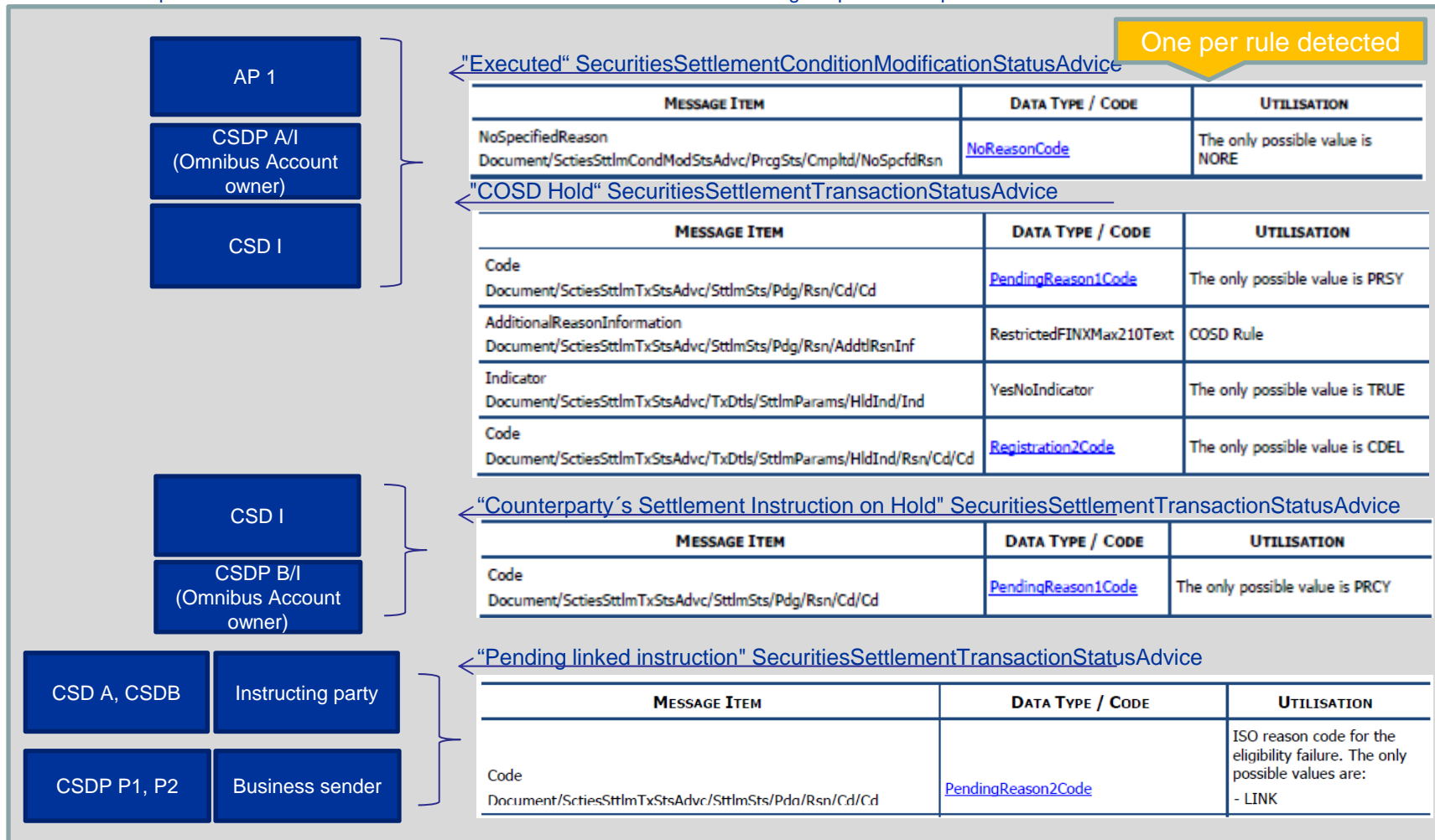


Cross-CSD scenario

COSD Detection

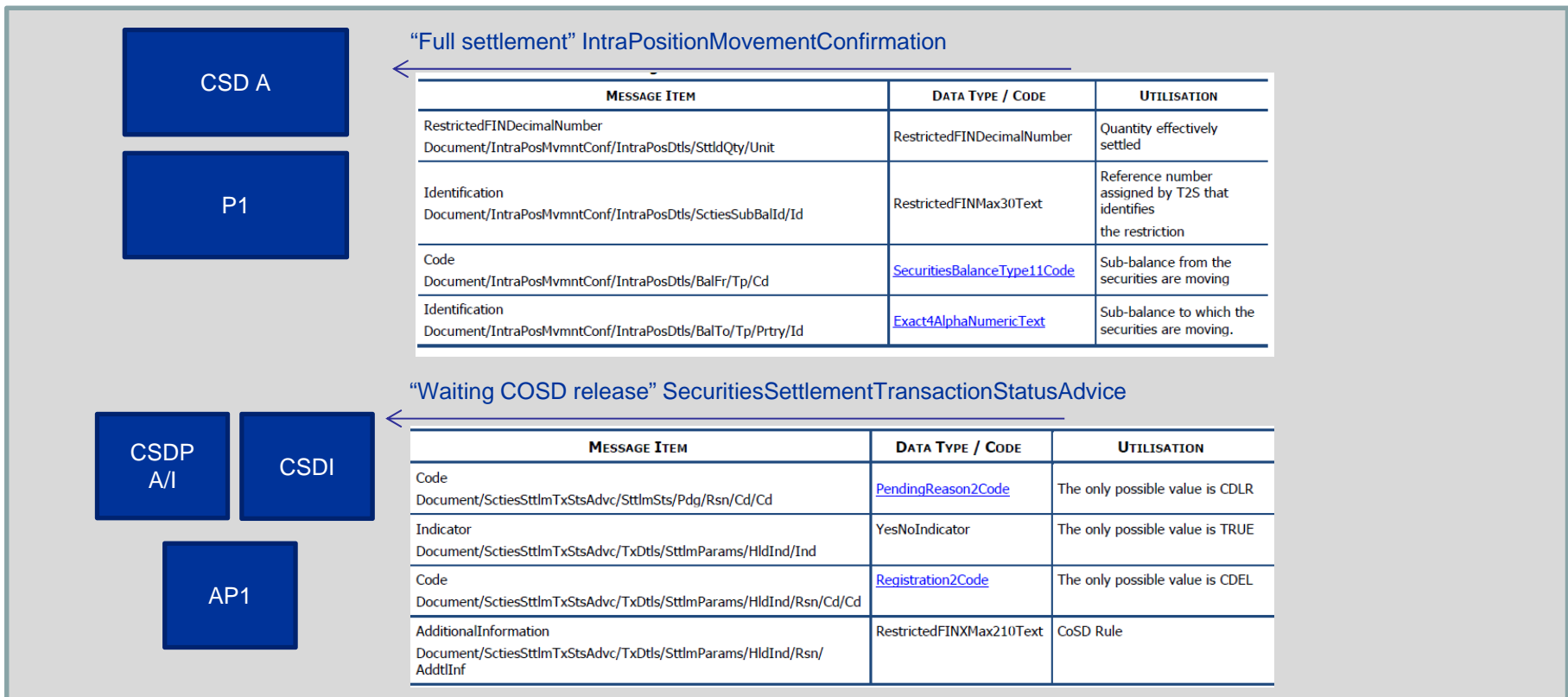
On ISD, T2S detects that realignment instruction in CSD I is subject to COSD

The interested parties of the settlement instruction of P1 can receive the below messages upon subscription



* Since there is no cash settlement in T2S, in this scenario the Payment Bank and NCB are not in the list of interested parties

- T2S attempts to block the resources (e.g. securities in this scenario)
 - T2S sends the blocking confirmation to the interested parties that have subscribed to the message
 - T2S sends a status advice to the AP1 notifying that the settlement instruction is ready for release

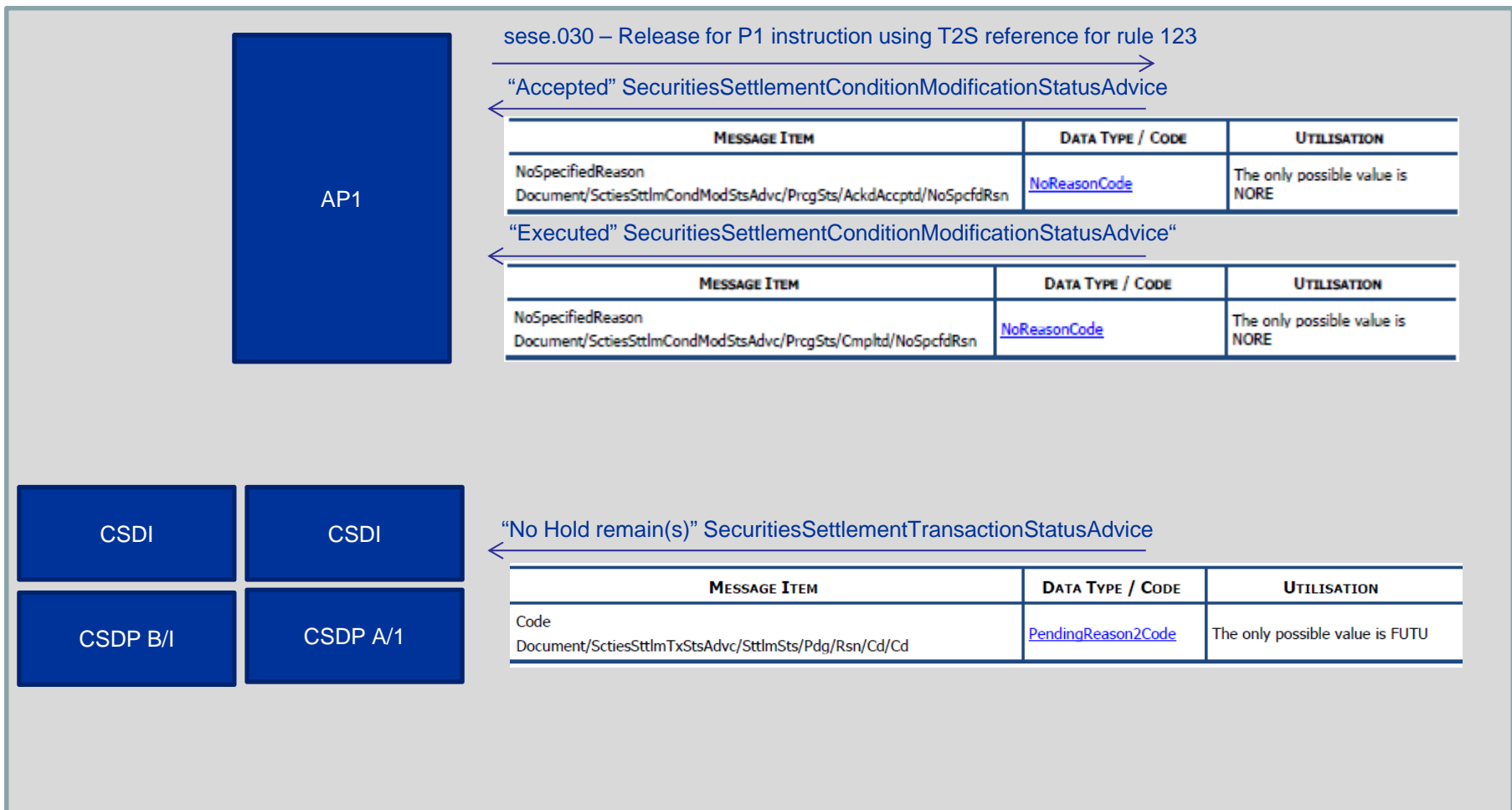




Cross-CSD scenario

COSD Release by AP1

- AP1 sends the release instruction to T2S mentioning the rule 123
 - T2S sends acceptance and execution notification of the release instruction to the AP1
 - T2S sends a status advice to the interested parties notifying that the realignment instruction on omnibus account of CSDP A/I is no longer on CoSD hold
 - T2S sends a status advice to the interested parties notifying that the realignment instruction on omnibus account of CSDP B/I is no longer on Counterparty Hold





Cross-CSD scenario COSD Cancellation

- AP will not be allowed to send cancellation of BSI, if at least one COSD rule applies on at least one realignment instruction
- Investor CSD A and CSD B request cancellation of the respective BSI (standard cancellation procedure)
- In this scenario, T2S cancels all the settlement instructions in the COSD Group. However, the blocked resources for COSD are not released. AP will be informed regarding the cancellation.
- The CSD (or NCB) should check with the APs before unblocking the resources in T2S. CSD (or NCB) requires special privilege to unblock the COSD blocked resources. An additional validation ensures that only those COSD blockings are unblocked wherein the COSD settlement instructions are already cancelled

External CSD scenario

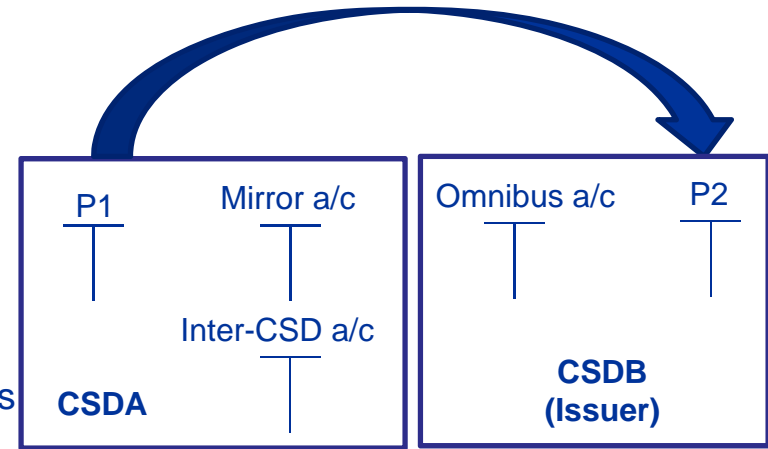
P1 (in T2S) delivers to P2 (Outside T2S) – FOP

Business scenario

- Participant 1 (P1) in Investor CSDA delivers securities to Participant 2 (P2) in Issuer CSDB (Out) (FOP instruction)

Special feature

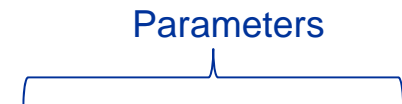
- In this scenario (e.g. delivery to out-CSD), bookings in Investor CSDA will occur on an Inter-CSD account
- In a second step, the Mirror account will be realigned by Investor CSDA



Set-up

- Investor CSDA has defined a CoSD rule to block securities using the parameters (DELI, Receiving depository = CSDB)

Rule set Id	CoSD rule set validity date (from)	Administering party	Processing condition	CoSD Rule	CoSD processing	Securities movement type	Receiving depository
1	01/01/14	AP1	Securities	123	Yes	DELI	CSDB





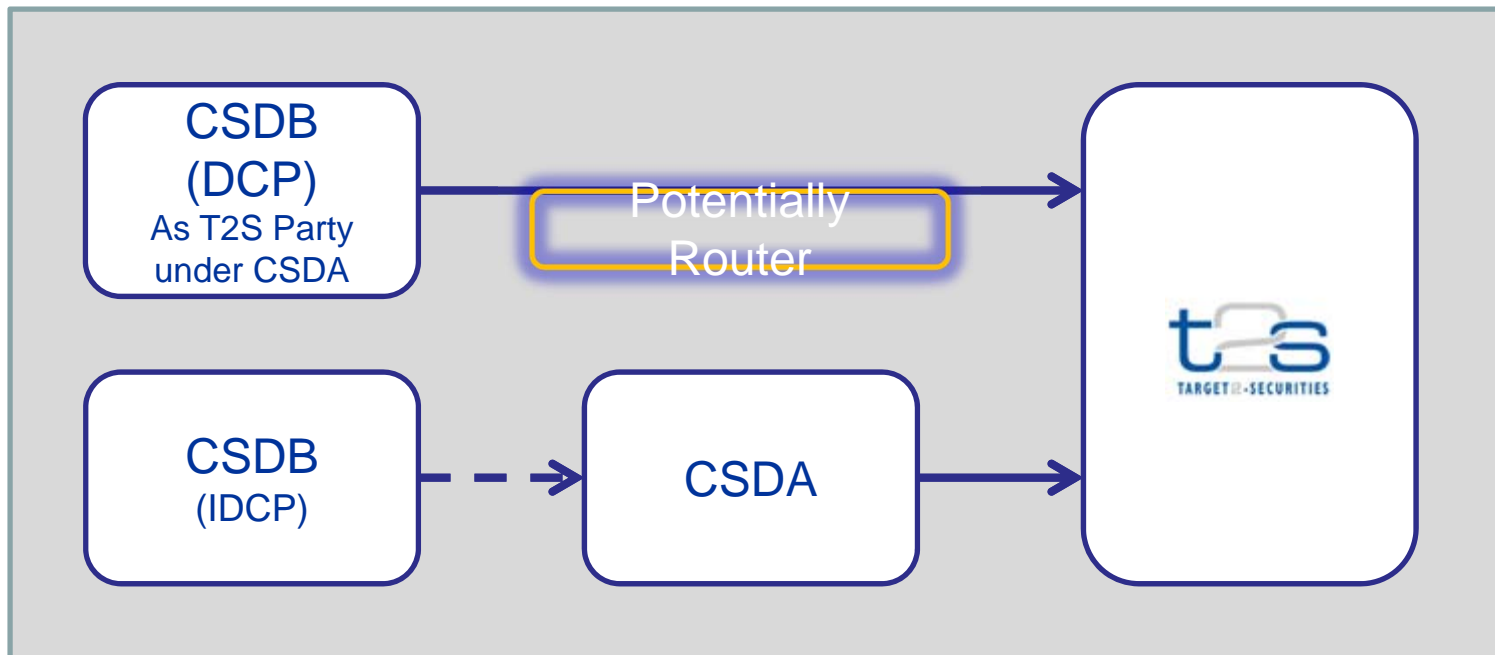
External CSD scenario

Focus on instructions received by T2S

- The instruction for the receiving side will mention an external account (not a T2S one). For matching to be performed, the receipt instruction need to mention the Receiving CSD and Receiving CSD participant as mentioned in the delivery instruction.

Fields	P1 Delivery instruction	P2 Receipt instruction
Movement Type	DELI	RECE
Payment	FREE	FREE
Safekeeping account	accountP1	accountP2 (unknown in T2S)
Delivering CSD	-	CSDA
Delivering CSD Participant	-	P1
Receiving CSD	CSDB	CSDB
Receiving CSD Participant	P2	P2

- There are two main options:
 - CSDB as DCP of Investor CSDA signs the receipt instruction (could use another entity for sending technically the message on T2S networks)
 - CSDA signs the receipt instruction based on message received from the out CSD



- The party that signs the message received by T2S has to have the relevant privileges to instruct on behalf of the external CSD
 - See also UDFS v2.0, Table 34

<p>MVCP011</p>	<p>If the relevant Depository is an external CSD, the sender of a Settlement Instruction must be authorised to send a Settlement Instruction on behalf of that external CSD.</p>	<p>sese.023</p>	<p>sese.024</p>
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- This means that either:
 - the external CSDB (as T2S Party under CSDA) user must have the privilege in DCP connectivity option,



- Or the user of CSDA signing the message must have it





External CSD scenario

Focus on allegement

- The external CSD is the T2S Party addressed for the sending of allegement
 - Routing will define which technical address to use



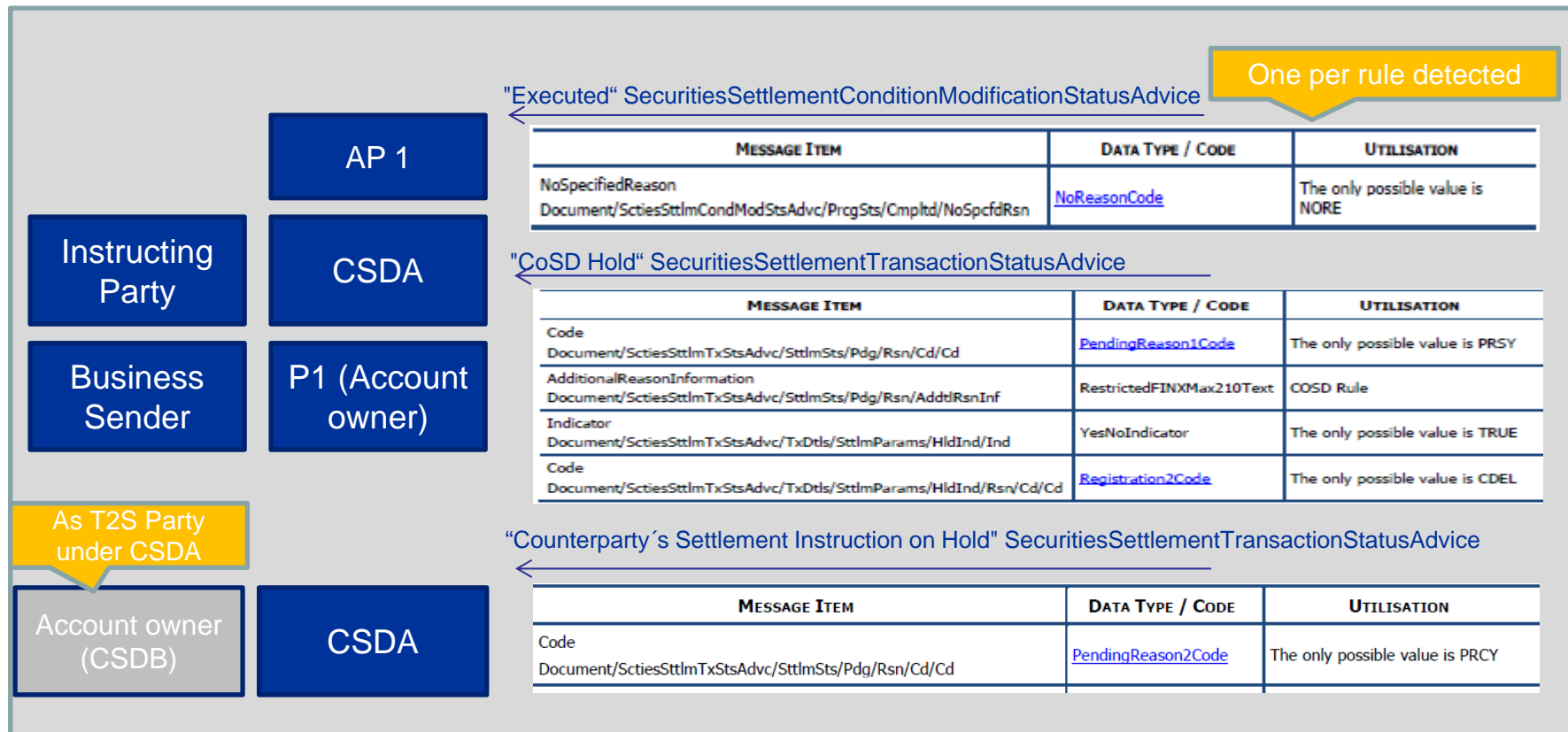
External-CSD scenario

COSD Detection (similar to domestic scenario)

- On ISD, T2S detects that instruction from P1 is subject to CoSD

The interested parties of the settlement instruction of P1 can receive the below messages upon subscription

- The "CoSD Hold" will contain the rule identification (e.g. 123)
- T2S updates the CoSD flag of both P1 and P2 instruction to "Yes"
- T2S sends a status advice notifying that the counterparty is on Hold



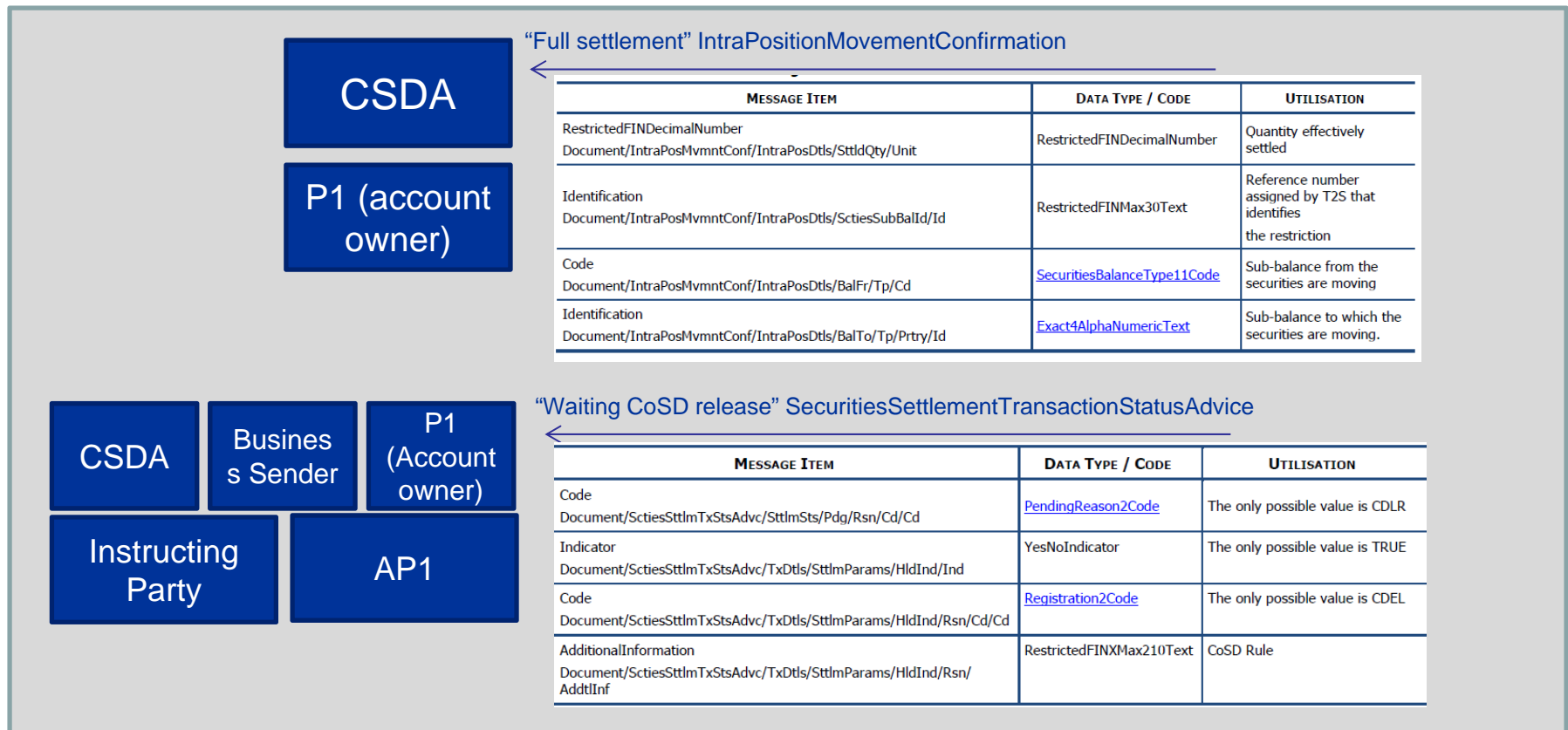
* Since there is no cash settlement in T2S, in this scenario the Payment Bank and NCB are not in the list of interested parties



External CSD scenario

COsD Blocking (Similar to domestic scenario)

- T2S attempts to block the resources (e.g. securities in this scenario)
 - T2S sends the blocking confirmation to the interested parties that have subscribed to the message
 - T2S sends a status advice to the AP notifying that the settlement instruction is ready for release

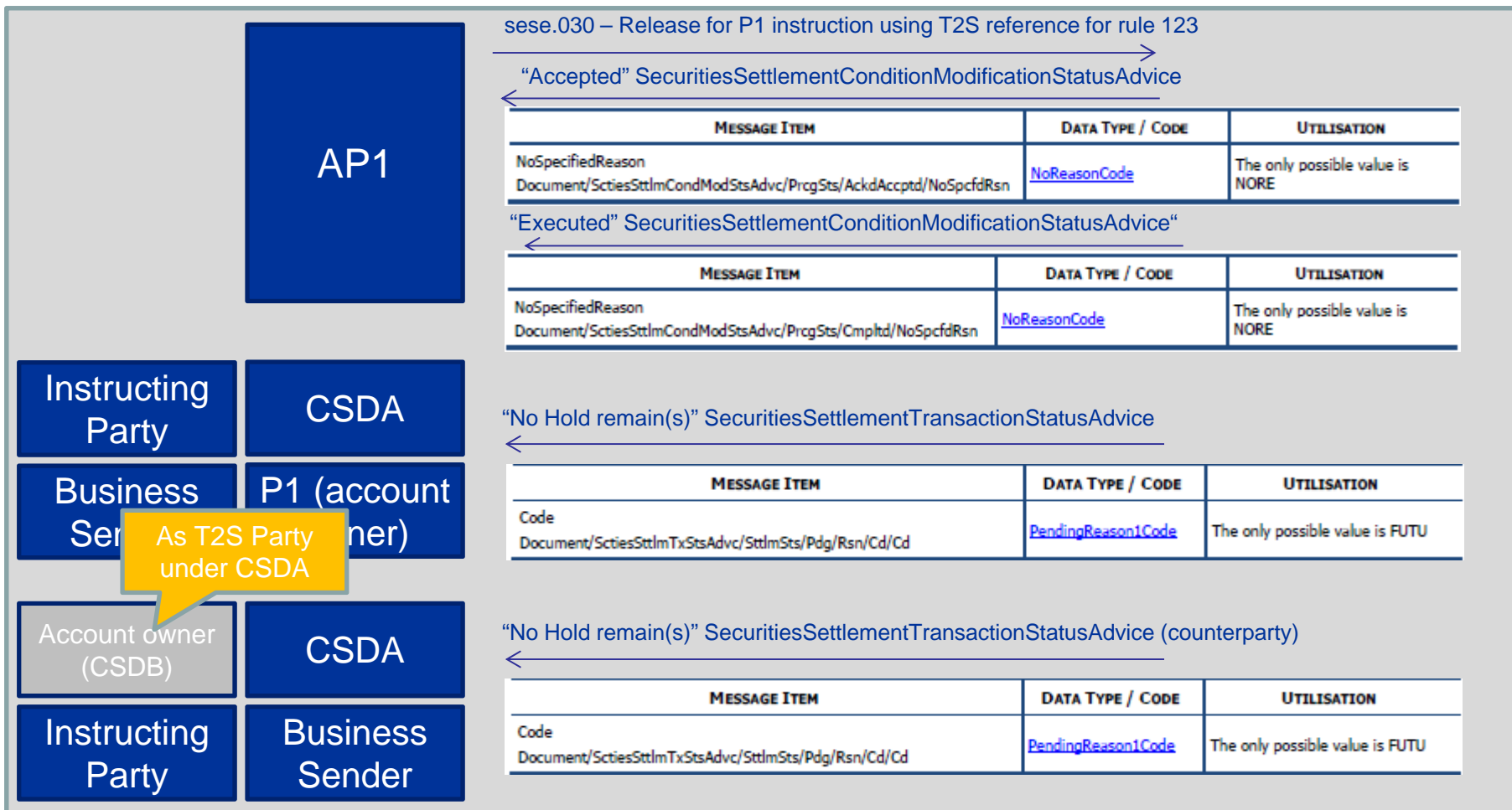




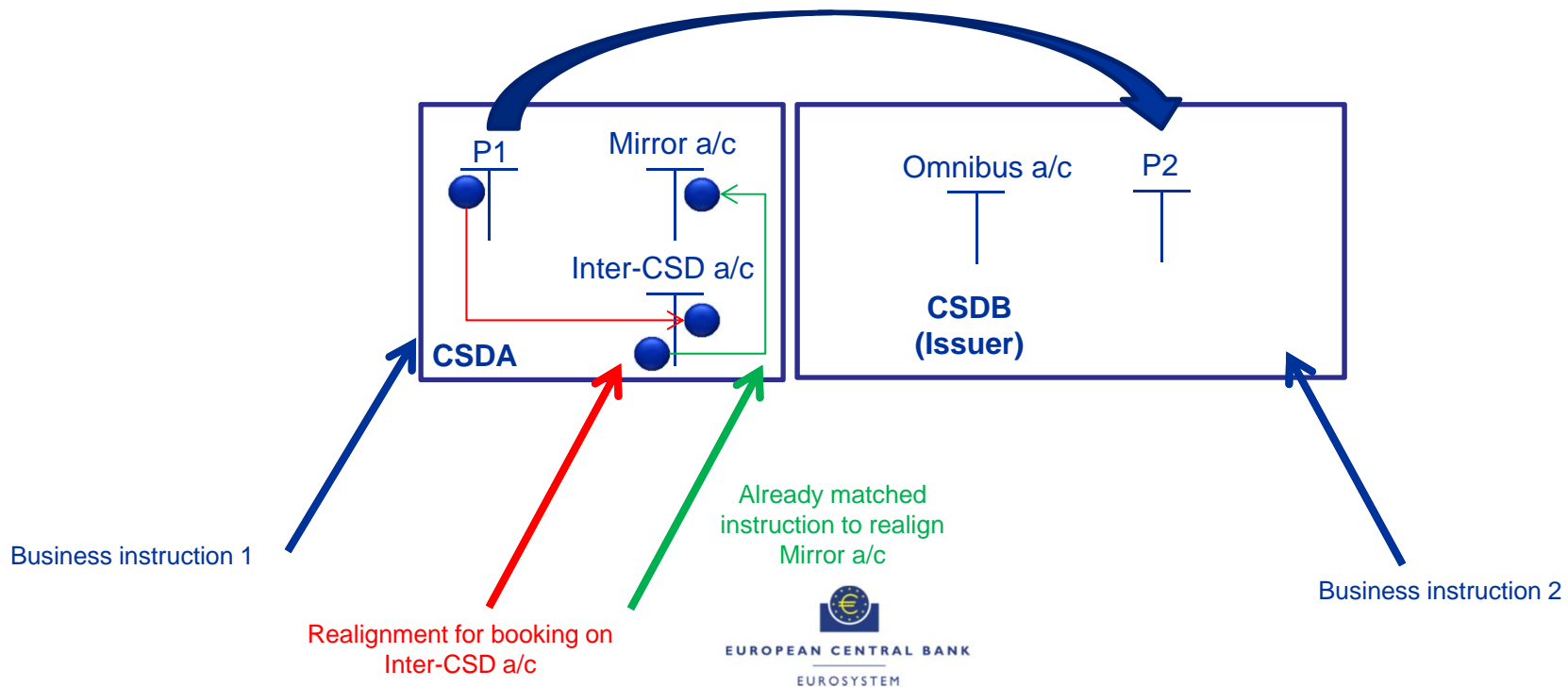
External CSD scenario

COSD Release by AP1 (Similar to domestic scenario)

- AP1 sends the release instruction to T2S mentioning the rule 123
 - T2S sends acceptance and execution notification of the release instruction to the AP1
 - T2S sends a status advice to the interested parties notifying that the settlement instruction of P1 is no longer on CoSD hold
 - T2S sends a status advice to the interested parties notifying that the settlement instruction of P2 is no longer on Counterparty Hold



- Upon matching, T2S will trigger the realignment from P1 securities account to Inter-CSD account
- Upon release by the AP(s), settlement occurs
 - Debit P1 a/c and credit Inter-CSD a/c
- In a second step, CSDA will realign the Mirror a/c (e.g. already matched instruction)



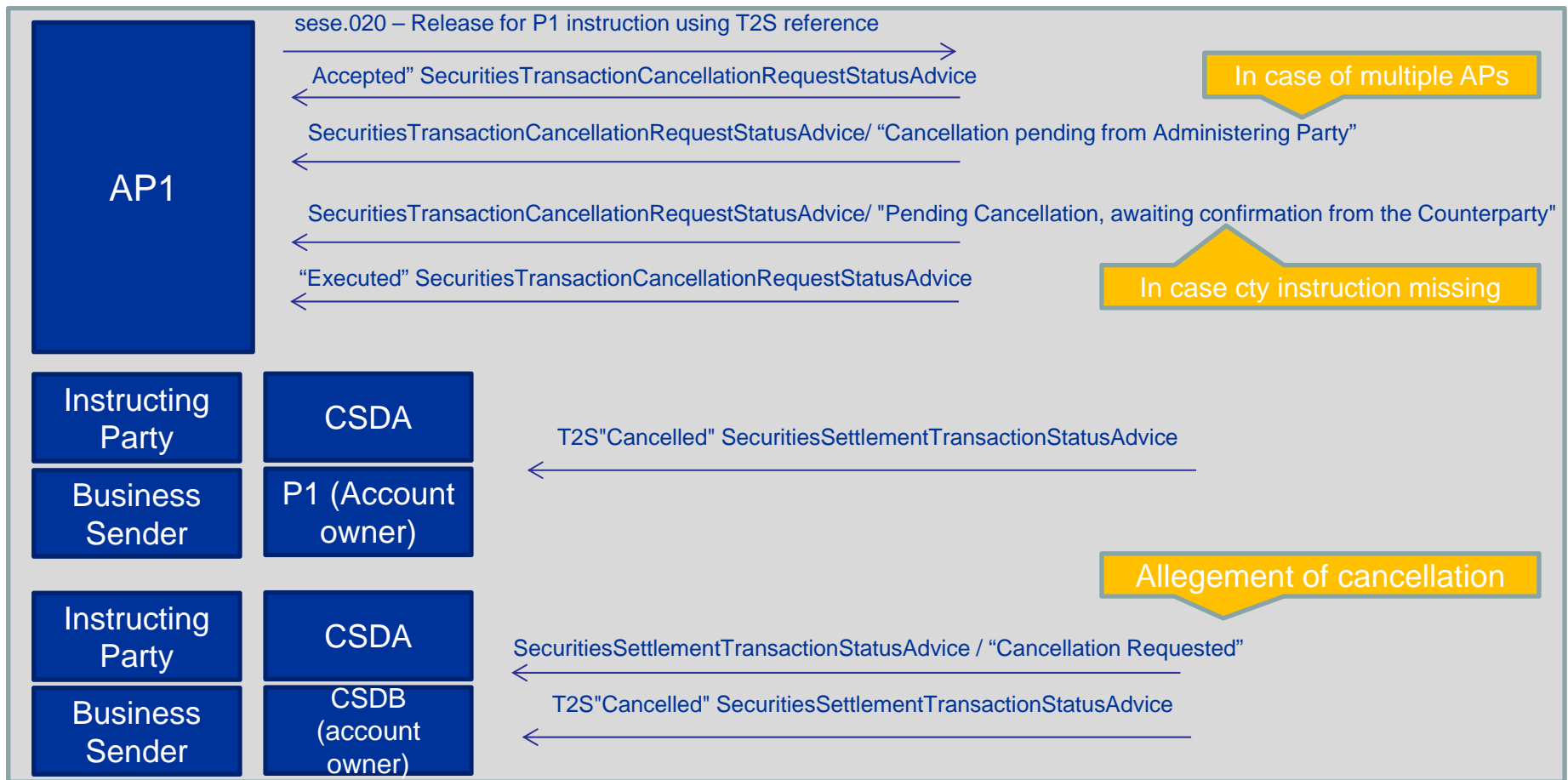


External CSD scenario

COSD Cancellation by AP1

- AP1 sends the cancellation instruction to T2S

- T2S sends acceptance and execution notification of the cancellation instruction to the AP1 (one cancellation per AP managing a rule)
- T2S sends a status advice to the interested parties notifying that the settlement instruction of P1 is pending counterparty cancellation
- T2S sends a status advice to the interested parties notifying that the settlement instruction of P2 is requested to send a cancellation





Thank you for your attention

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