AFME Recommendations for TARGET2-Securities Settlement

AFME Post Trade Transaction, Clearing & Settlement Committee, April 2017

Introduction

To support the T2S migration waves and settlement performance thereafter, AFME members have agreed a number of T2S settlement principles and recommendations for consideration by all industry participants in the settlement chain. This includes, but is not limited to, buy-side clients, brokers and service providers such as intermediaries, central counterparties, custodians, banks, and local agents. The purpose of this document is to help maximise settlement efficiency, reduce risk and result in smooth migrations as each T2S wave is implemented.

AFME Member T2S Settlement Principles

- Industry participants are advised to share their T2S Standard Settlement Instructions (SSIs) as early as possible to enable reference data changes. This should take place no later than one month before migration date.

- Service providers are advised to notify their clients of any requirements with relation to T2S settlement functionality no later than one month before migration date, provided that the respective CSD has published this information.

- Industry participants are advised to send settlement instructions as early as possible, ideally on trade date, to enable matching and the resolution of matching issues with their settlement counterpart.

- Industry participants are advised to monitor their T2S settlement activity and proactively resolve matching and failed trade issues as early as possible.

AFME Member Recommendations

The information provided is for illustrative purposes only. This is subject to change and may not be applicable to all markets or service providers. For further details, please contact your T2S service provider or refer to the T2S website.[1]

Feature	Description	T2S Processing Requirement	AFME Recommendation
Standard Settlement Instructions	T2S Standard Settlement Instructions (SSIs) may include new Party 1 BIC11 codes (CSD participant), Party 2 BIC11 codes (client of CSD participant), Place of Safekeeping (PSAF) BIC11 codes and Securities Account (SAC) numbers (up to 35 characters).	Mandatory	All changes to participants' SSIs should be published at least one month in advance. This includes updating any SSI vendor utilities in a timely manner so that new SSIs are available at start of day on the effective date. All parties in the settlement chain must ensure that the updated SSIs are communicated properly and in a timely fashion to their clients. Recipients of the updated SSIs must ensure they instruct with the new details. In accordance with SMPG guidelines, CSDs should provide all the relevant information to allow their direct participants to define and communicate the SSIs to their clients. SSI information should include: Party 1: mandatory field for T2S, must be communicated and agreed between the settlement parties or it will lead to unmatched instructions. Party 2: the use of Party 2, including content and format, should be communicated and agreed between the settlement parties or it will lead to unmatched instructions. SAC: the use of SAC, including content and format, should be communicated and agreed between the settlement parties or it will lead to unmatched instructions. PSAF: must be communicated and agreed between the settlement parties or it will lead to unmatched instructions.
Settlement Instruction Format	Settlement instruction sent to T2S must contain the relevant SSI information to ensure efficient matching and settlement. T2S introduced the Investor CSD model which allows for simplified cross-CSD settlement. Therefore, when an instruction is sent to T2S to settle a trade between two T2S CSDs, the settlement instruction must include both the participant's own Place of Safekeeping (PSAF) and its counterparty's Place of Settlement (PSET).	Mandatory	The Place of Safekeeping (PSAF) of the participant and the Place of Settlement (PSET) of the participant's counterparty need to be instructed to T2S according to the following scenarios: Settlement within the same T2S CSD: Only the PSET BIC11 needs to be populated in the settlement instruction, this reflects the Place of Safekeeping of the counterparty. T2S will assume the participant's own Place of Safekeeping is the same. Settlement across the two T2S CSDs (i.e. cross-CSD): The PSET BIC11 needs to be populated in the settlement instruction. This reflects the Place of Safekeeping of the counterparty. In addition to this the PSAF BIC11 needs to be populated in the settlement instruction, this reflects the Place of Safekeeping of the participant.

Feature	Description	T2S Processing Requirement	AFME Recommendation
BIC11	T2S mandates the use of 11-digit Bank Identifier Codes (BIC), also known as BIC11, for messaging directly with the platform, including Standard Settlement Instructions.[2]	Mandatory	AFME recommends that all participants in the settlement chain use the BIC11 SSI (where available) and messaging format.
Settlement Day Schedule	In T2S, transactions are settled in two windows. The T2S settlement day (SD) schedule is organised as follows: • Night-time: 20:00 (ISD-1) – 03:00 CET (SD) • Real-time: 05:00 – 16:00 CET (DVP)/18:00 CET (FOP) (SD)	Mandatory	AFME encourages maximum possible settlement in the night-time cycle. All participants in the settlement chain are encouraged to instruct, match and release as early as possible before the night-time cycle.
Hold & Release	Hold & Release in T2S has two behaviours: • Hold: A function which prevents a settlement instruction from being eligible for the settlement process. The instruction can be matched, amended or cancelled. • Release: A function to send a settlement instruction to T2S for matching and settlement.	Optional	AFME encourages the use of Hold & Release for its intended purpose (i.e. management of deliveries from an omnibus account). Receipts should not be put on 'hold' (except in the absence of cash provisions). In particular, AFME does not encourage holding receipt instructions, unless it is for valid reasons (i.e. execution of a buy-in or a pending cancelation). AFME recommends that any instructions that are in 'hold' status are released in a timely manner once ready for settlement to reduce the risk of failure.
Auto-partial	T2S allows participants to select their settlement auto-partial options: • Auto-partial not allowed • Auto-partial allowed, with cash threshold • Auto-partial allowed, with quantity threshold • Auto-partial allowed	Optional	AFME recommends the use of auto-partial where possible to maximise settlement rate efficiency.
Prioritisation	Four levels for prioritisation of settlement instructions: • Level 1: CSD/National Central Bank operations (defined by T2S only) • Level 2: Trading Platform/Central Counterparty activity (defined by T2S only) • Level 3: High priority (defined by participant) • Level 4: Default priority (defined by participant)	Optional	AFME supports the use of Level 4 as the default priority for settlement instructions in T2S, whilst Level 3 should be used on an exceptional basis for valid business reasons.

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[2] If BIC11 is unavailable, T2S best practice proposes LEI, and if no LEI available, contact counterparty or leave blank.

Feature	Description	T2S Processing Requirement	AFME Recommendation
Linking	Linking in T2S allows for interdependencies between two or more settlement instructions. This can based on: • Nature (i.e. sequencing) • Origin (i.e. type of instruction) • Multiplicity (i.e. pairing and grouping) • Other references (i.e. common identification)	Optional	AFME only recommends the use of settlement instruction linking for valid business use-cases. Linking settlement instructions may increase the risk of failure and prevent them from auto-partialling, therefore potentially adversely impacting settlement efficiency.
Mandatory Matching Fields	Trade date is now a mandatory matching field in T2S and is one of the key indicators for the 'corporate actions on flows' process in case of late settlement.	Mandatory	AFME recommends counterparties to agree on a trade date for all types of transactions (i.e. Free-of-Payment, open and return legs of repo transactions).
Bilateral Cancelation	T2S has the following cancellation rules: • <u>Matched instructions</u>: must be cancelled bilaterally by both counterparties. • <u>Unmatched instructions</u>: can be cancelled unilaterally by the party who placed the instruction at any time or until cancelled by T2S.	Mandatory	Cancellation requests to T2S should be sent as soon as possible for any instructions that are no longer required for settlement. Bilateral cancellations should be agreed and instructed by both parties in a timely manner.
Additional Matching Fields	Additional matching fields become mandatory for matching if one or both parties provide a value. The values entered must be identical in order for matching and settlement to take place in T2S. Where supported, the following additional matching fields may be used to indicate corporate action attributes on an instruction: • Opt-out ISO transaction condition indicator • CUM/EX indicator	Optional	AFME recommends that these fields are left blank unless otherwise required by the individual transaction. If these fields are to be used, AFME recommends counterparties to agree them prior to sending instructions to T2S.

Feature	Description	T2S Processing Requirement	AFME Recommendation
Optional Matching Fields	Optional matching fields only become mandatory if both parties provide a value. If one or both parties do not provide a value, matching can still occur. The following optional matching fields provide extended matching criteria when used: • Common trade reference • Client of delivering CSD participant • Client of receiving CSD participant • Securities account of delivering party • Securities account of receiving party	Optional	The 'Client of delivering/receiving CSD participant' (also known as Party 2) should be communicated and agreed between counterparties before use. The following approach was agreed at the T2S Advisory Group in February 2016 for completion of the "Client of delivering/receiving CSD participant": If a BIC11 is unavailable, T2S best practice will propose the use of a Legal Entity Identifier (LEI), and if no LEI is available, contact the counterparty or leave blank. AFME recommends compliance with T2S best market practice when sending settlement instructions. These were published in April 2016.
Cash Tolerance	In T2S, transactions may settle despite there being a difference in the cash counter value. T2S uses a two-tiered cash matching tolerance: • €25 for transactions with cash counter value > €100,000 • €2 for transactions with cash counter value ≤ €100,000 The cash counter value settled in T2S will be the amount entered by the deliverer of the securities.	Mandatory	AFME recommends trade confirmation and matching within the specified T2S cash tolerance levels.
Recycling	The T2S instruction recycling rules are: • <u>Matched instructions</u>: are automatically recycled indefinitely unless bilaterally cancelled. • <u>Unmatched instructions</u>: are cancelled after 20 T2S business days from the intended settlement date or last status change date. • <u>Cancellation requests</u>: are deleted after 20 T2S business days, if the counterparty fails to match the request.	Mandatory	For information only.