

DE AMI-SeCo NSG Workshop on T2S Settlement Efficiency

16 August 2018

1 – T2S Settlement Efficiency

A Clearstream representative presented an overview of the T2S Workshop on Market Settlement Efficiency held on CSG level in May, including statistical analysis provided by the 4CB, and invited the participants for discussion on settlement efficiency in the German market. The following aspects were discussed:

- Overall, settlement in the German market already provides for a comparable high level of settlement efficiency (running at pre-migration levels shortly after migration to T2S).
- The German market demonstrates an above average settlement efficiency on volume in T2S, with fails occurring mainly due to lack of securities.
- The German market makes extensive use of the Hold indicator. Use of the Hold indicator on the securities side is a valued functionality in T2S and an important risk management tool, both for omnibus accounts and segregated account structures.

The Hold indicator:

- is mainly used in relation to omnibus accounts in order to check whether sufficient holdings in securities are available for settlement (legal obligation),
 - is also used in relation to cash management purposes in order to release instructions only after the respective funds have been received, and
 - allows for timely submission of instructions leading to a good matching efficiency at an early stage
- The participants viewed a possible move from omnibus to segregated account structures to reduce the use of Hold functionality as damaging to business and counterproductive as use of Hold and Release would still be required in a segregated account model.
 - Some CSD participants provide Hold and Release functionality to their clients however in practice the clients do not make use of this functionality.
 - Aged fails that remain in T2S (unless they are cancelled or sufficient coverage is provided) were not perceived to be an issue. The implementation of the CSDR/Settlement Discipline Regime in T2S in November 2020 is seen as a significant driver to reduce volume of fails.
 - With regard to settlement efficiency in investor CSD models, participants highlighted SSI quality as the most significant reason for fails, as some counterparties and SSI market infrastructure not yet adapted to the required SSI format. Workshop participants agreed to introduce this issue where further harmonisation is warranted to the Harmonisation Steering Group.

- Late instructions occur rather seldom in the German market and were thus also not perceived as overall driver for settlement fails.
- Workshop participants agreed to further raise awareness in the discussion with market participants/associations regarding the upcoming introduction of CSDR/Settlement Discipline Regime and its implications – exchange of views in November NSG in preparation of subsequent AMI-SeCo meeting
- The Partial Release Functionality offered with implementation of CR 653 in November 2019 was assessed to be very beneficial due to its potential to reduce the fails rate considerably, thereby avoiding fines and buy-ins according to the upcoming CSDR implementation. However, there is a need to increase awareness of the functionality and its benefits within the industry to promote usage. According to the workshop participants, in particular the buy-side market is currently rather hesitant to accept partials and might benefit from usage of this functionality in the future. Workshop participants agreed to make more publicity in this regard, i.e. to invite the German asset managers to the NSG in autumn.
- The Clearstream representative outlined settlement day simulation activity and more detailed analysis (breakdown of fails reason, fails resolutions time and late matching) to be conducted by the 4CB which may be proposed for a further T2S Workshop on Settlement Efficiency in Q4.
- Regarding the schedule of a T2S Settlement Day:
 - Participants generally support implementation of additional opportunities for partial settlement.
 - During night-time settlement, the timing of the settlement cycles should be fixed and with sufficiently long intervals between the cycles to allow market participants to react to settlement results. In combination with additional night-time cycles, participants may increase activity during NTS.
 - Participants expressed interest in the outcome of a simulation with additional night-time settlement cycles but noted that an effective simulation would have to consider anticipated changes in market participant behaviour.
 - Participants took note that these enhancements would not only require T2S CRs, but also a CSLD CR regarding the positioning of the maintenance window.

2 – Future handling of coupon payments in triparty services

While stating that none of the options on the table would be optimal, the workshop participants assessed option 2 (i.e. the counterparties would have to accept that the coupon payments will in any case at first be paid to an NCB account) to be feasible. The workshop participants noted that they expect the ECMS to pay the proceeds to the relevant DCA and transfer respective notifications to the counterparty within the same day.