Possibility of introducing continuous partial settlement in T2S

AMI-SeCo meeting

ECB - DG-MIP

Background

- During CRG discussions on partial settlement and future adaptations that may support the transition to T+1, a proposal was made to assess the potential benefits to have a continuous partial settlement, instead of partial settlement windows during specific parts of the T2S settlement day.

- In its November meeting, the CSG highlighted that multiple aspects must be factored in to assess the need for such change, i.e., business need / transaction costs, impact on settlement efficiency, operational impacts, and of course functional implications including effects on T2S capacity.

- The CSG agreed on the need to bring the discussion to other fora, such as the Ami-SeCo Securities Experts Group (SEG) and Market Settlement Efficiency workshops.

The purpose of this presentation is to raise awareness of AMI-SeCo SEG members and collect any preliminary feedback to support future discussions in other fora
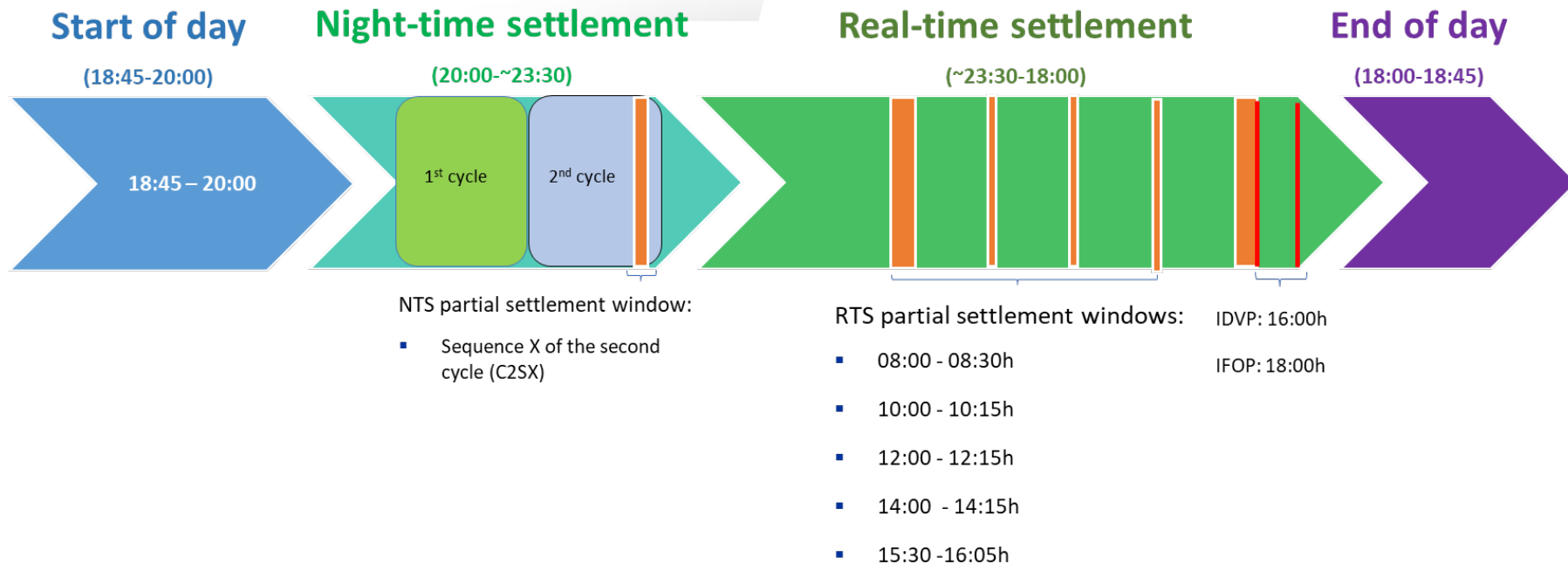
Reminder – High-level functionality
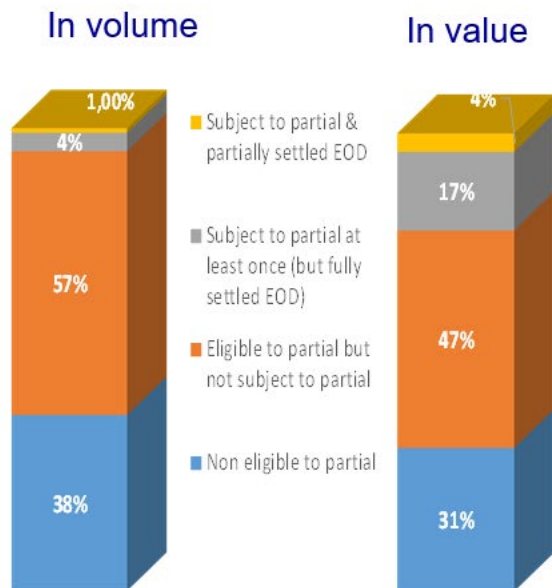
Partial settlement in T2S

- Triggered in case of partial availability of securities to deliver the quantity defined in the settlement instruction (SI), after the first settlement attempt for the full quantity

- Applicable by default if the partial settlement indicator is not filled in the SI; Not applicable if at least one party opts out (NPAR);

- Subject to certain minimum settlement thresholds for securities and cash and certain conditions[*]

- Applicable during certain periods of the T2S Settlement day (see next slide)

- For further details, please see insights on partial settlement and UDFS dedicated section "1.6.1.9.3 Partial Settlement"

- Multiple change requests linked to partial settlement are under assessment/allocated to a release, which should further facilitate the usage of partial settlement in T2S (see Annex)

(*) SI not linked to other SI or under CoSD blocking

Reminder - T2S partial settlement windows

Start of day
(18:45-20:00)

18:45 – 20:00

Night-time settlement
(20:00-~23:30)

1st cycle

2nd cycle

NTS partial settlement window:
- Sequence X of the second cycle (C2SX)

Real-time settlement
(~23:30-18:00)

RTS partial settlement windows:
- 08:00 - 08:30h
- 10:00 - 10:15h
- 12:00 - 12:15h
- 14:00 - 14:15h
- 15:30 -16:05h

IDVP: 16:00h

IFOP: 18:00h

End of day
(18:00-18:45)

Usage of T2S partial settlement

In volume

- 1,00% Subject to partial & partially settled EOD
- 4%
- 57%
- 38%

In value

- 4%
- 17% Subject to partial at least once (but fully settled EOD)
- 47% Eligible to partial but not subject to partial
- 31% Non eligible to partial

- Subject to partial & partially settled EOD
- Subject to partial at least once (but fully settled EOD)
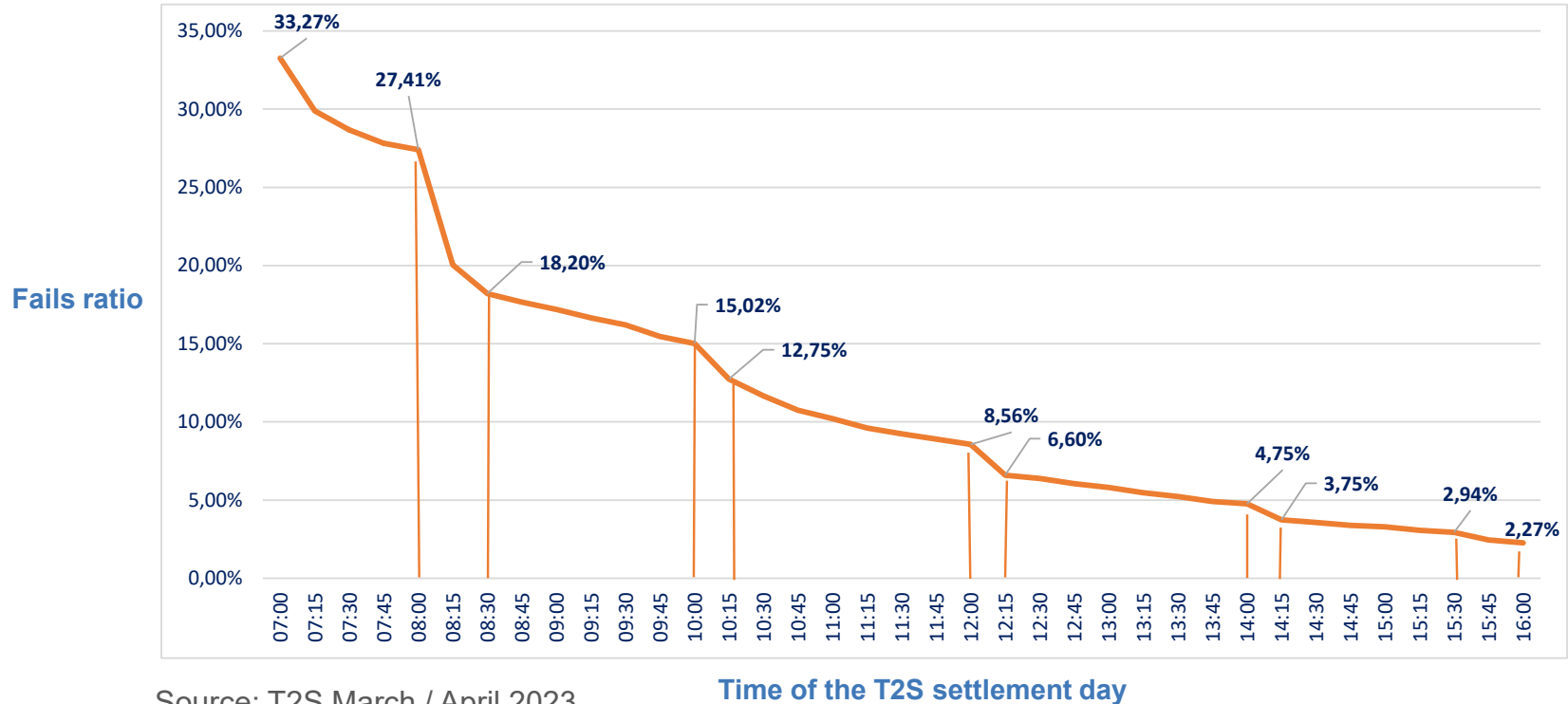- Eligible to partial but not subject to partial
- Non eligible to partial

- Most of T2S transactions are eligible to partial settlement

- Only a minority of eligible transactions are actually subject to partial settlement

- The value of transactions that are subject to partial settlement represents a significant portion of T2S activity in value

  - *partial settlement mostly applies to large size transactions*

- Most of partial settlements remain intraday and end up with settlement of the full quantity at end of day

  72% in volume

  80% in value

Source: Market Settlement Efficiency workshop Jun 2024 – Partial settlement analysis

Positive impact of partial settlement windows in RTS on settlement efficiency

Fails ratio

35,00%
30,00%
25,00%
20,00%
15,00%
10,00%
5,00%
0,00%

33,27%
27,41%
18,20%
15,02%
12,75%
8,56%
6,60%
4,75%
3,75%
2,94%
2,27%

07:00 07:15 07:30 07:45 08:00 08:15 08:30 08:45 09:00 09:15 09:30 09:45 10:00 10:15 10:30 10:45 11:00 11:15 11:30 11:45 12:00 12:15 12:30 12:45 13:00 13:15 13:30 13:45 14:00 14:15 14:30 14:45 15:00 15:15 15:30 15:45 16:00

Time of the T2S settlement day

Source: T2S March / April 2023

Key aspects to be considered for a potential CR

Adoption of T2S partial settlement

- A T2S change request to increase the time window available for partial settlement should be considered in conjunction with fostering usage of T2S partial settlement by the T2S community.

- T2S CRs in the pipeline are expected to have a positive impact to support increased usage of T2S partial settlement, but other measures may be necessary.

Impact on settlement efficiency

- Continuous partial settlement may not result in a "mechanical" increase in settlement efficiency

- Further analysis may be beneficial to understand what redesign of partial settlement window suits best the business needs of the T2S community, alternatives such as extending or reshaping partial settlement windows timings could be equally meaningful

Key aspects to be considered for a potential CR

Design and implementation costs

- Implementation costs and impact on T2S performance are key aspects to consider when deciding on a redesign of partial settlement windows, to be assessed together with the business needs

Usage costs for T2S users

- Continuous partial settlement / increased partial settlement windows may result in additional costs to be borne by T2S users. Each partial settlement results in the following T2S charges:

  - Settlement fees, e.g. DvP settlement fees 23.5 cents per instruction

  - Messaging transmission fees: settlement confirmation (sese.025) and status advice messages (sese.024), 1.2 cents per transmitted message

Questions for AMI-Seco SEG members

- What are your thoughts on an: (i) increase or (ii) continuous partial settlement window in T2S in NTS and/or RTS to support settlement efficiency, especially considering the prospects of a T+1 environment?

- What other aspects should be taken into account, other than mentioned in the previous slide?

- Do you have any suggestion to support the analysis forward?

Thanks for your attention

Annex - Current T2S CRs related to partial settlement

Number	Title	Description	Status
CR-0807	Add new reason code in the sese.024 to identify that there is a mismatch in the partial settlement indicator	Whenever a transaction is pending or failing and that there is a discrepancy in the partial settlement indicator, a new reason code 'PATD' (Partial Differ) should be provided to advice (sese.024) about the discrepancy which does not allow partial settlement.	Allocated to R2026.JUN
CR-0823	Add Partial release new reason code "PREL" in sese.024 and semt.018	When a partial release request was successfully executed by T2S, then the reason code "PREL" shall be reported in the sese.024 (and semt.018) and provide information on the partially released quantity.	Allocated to R2026.JUN
CR-0827	T2S should submit partially released instruction to settlement independent from T2S partial settlement windows	When a partial release request was successfully executed by T2S, then the partially released instruction shall be immediately submitted to the settlement process and not wait for the next available partial settlement windows.	Allocated to R2025.NOV
CR-0798	T2S COSD logic should support partial release of instructions subject to COSD and partial COSD release	The CR foresees to enhance the CoSD functionality to support partial settlement and partial release. The purpose is to increase the settlement efficiency for settlement flows under an external CSD scenario (CoSD)	Preliminary assessed.