



EUROPEAN CENTRAL BANK

EUROSYSTEM

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# **T2S Partial Release – Outcome of the Ami- SeCo NSGs / XMAP survey**

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# Overview

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Business scenarios in which partial release is intended to be used

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## Objectives of the survey on Partial release

- The objective to ensure an optimal implementation of Partial Release in T2S requires a clear understanding of how the T2S community sees Partial Release, one year from its availability in production.
- For this purpose, the ECB team gathered data on the intended use of partial release and the factors at play to reap the expected benefits. This information was collected via a survey administered to XMAP members and AMI-SeCo via the NSGs from 20 July to 7 September 2018.
- The main results of the survey are presented in the following slides, so as to allow workshop participants to analyse the key elements which may favour an optimal implementation of partial release, or on the contrary, the obstacles to an optimal implementation that can be identified at this point.

## Overview of the survey - methodology

- The survey on partial release included 4 questions
  - Questions were initially drafted by the ECB team, and enhanced thanks to XMAP comments
  - 1. Typical uses of partial release 2. Typical uses of the NPAR flag 3. Adaptation effort 4. Factors favouring or preventing a broad adoption of partial release
- Responses were received from 15 NSGs and 5 XMAP members
  - The responses as a whole can be considered to be representative of the current views and expectations of the T2S community.
  - Responding NSGs: AT, BE, CH, DE, DK, ES, FI, FR, GR, IT, LT, LU, PT, SK, SI
  - Responses can be broken down per institution type as follows: 11 custodians, 8 CSDs and ICSDs, 3 CCPs, 2 asset owners, 1 broker-dealer, 9 general (covering more than 1 institution type)
- Processing of the data collected
  - Identical responses coming through different channels are recorded only once
  - If an institution type was specified, the response was allocated to one of the following categories: custodians (both local and global), CSDs and ICSDs, CCPs, Asset owners (incl. retail and own account), Broker-dealers. Otherwise the response was allocated to a 'General' category.
  - Where NSGs differentiated feedback per institution type or per responding local institution, each response was considered an individual response and classified accordingly

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## Typical uses of partial release

*Q1. After implementation of CR-653 in T2S, in which business scenarios does your institution intend to send partial release instructions to T2S? Conversely, if you use the party hold functionality, but are not planning to use the partial release functionality, please explain what would stop you from using partial release.*

- Q1 aims at capturing market intention to adopt partial release
- There is a wide variety of responses, from no intention to use or support partial release, to near-systematic use of partial release

### Business scenarios in which partial release could be used

- Partial release is confirmed to be relevant to omnibus account scenarios to avoid cross-use of securities between clients while maximising settled volumes and value.
- Several custodians point at the fact that they would partially release in T2S only upon a client instruction (which may imply a longer custody chain to the end-client)
- Use cases cited include high value transactions, deliveries to CCPs, OTC trades, proprietary account trades, brokerage activity
- CCPs do not plan to partially release themselves but support its use by CCP members
- Some applications of partial release relate to local market practices (contractual settlement date booking, delivery of on-exchange trades)

## Reasons cited for not using partial release

- Respondents stress the fact that many of their clients (typically buy-side) refuse partial settlement and therefore would also not use partial release
- Some custodians, and banks with segregated CSD accounts, do not use the hold functionality, therefore won't use partial release. Likewise one NSG indicates that on-exchange trades cannot be on-hold and therefore also partial release won't apply.
- A limited number of NSGs and CSDs report no intention to support PR / use PR in their community as a whole. **Note (Eurosystem):** there is no setting to disable partial release at system entity level.
- Lack of visibility on the receiving counterparty's instruction details (in particular acceptance of partial settlement) is also quoted.
- Existing internal mechanisms to automate provision-based hold and release

## Typical uses of the NPAR flag

*Q2. After implementation of CR-653 in T2S, in which scenarios would your institution flag some of its instructions with the NPAR flag (no partial settlement), and why?*

- During the CR-653 approval process, it was identified that a receiving party could avoid any impact of CR-653 by forbidding partial settlement on its receipt instructions.
- Q2 aimed at assessing if a significant part of the market would follow this approach
- The survey shows no intention to use NPAR specifically to prevent Partial release (one exception in one NSG, where a participant mentions that usage of NPAR may increase to avoid PR). However, numerous answers seem to suggest a frequent use of the NPAR flag today.
- Considering the possibility that a widespread refusal of partial settlement is a significant obstacle to realising the benefits expected from partial release, further details about the current use of NPAR are provided on the next slide.

## Typical uses of the NPAR flag currently

- Specific cases: some institutions generally accept partial settlement and will only flag their instructions as NPAR because of a specific business reason (for instance back-to-back transactions where an institution would not risk to receive partially without the certainty to be also able to on-deliver partially; distributions; issuance activities; stock lending recalls..).
- Default setting: Clients of custodians setup their securities accounts to not accept partial settlement by default: instructions to T2S are enriched with NPAR unless the intermediary is specifically instructed otherwise. An NSG reports NPAR to be the default market option, and a small number of CSDs report systematic NPAR flagging.
- In addition to the risks previously mentioned, partial settlement is also described as increasing the complexity of reconciliation processes.

## Adaptation effort of T2S Actors

*Q3. In the case where your institution is the counterpart of a delivering party having partially released its instruction, T2S would inform you of your counterpart's partial release through an existing field of a status update message as described in the CR. How would you qualify the adaptation effort for your institution to be able to process the information related to partial releases instructed by a delivering counterpart?*

- The functional impact of partial release for the receiving party is limited. Q3 aimed at assessing if as a result, adaptation efforts would be low for T2S (receiving) actors.
- Participants were invited to estimate their effort as High/Medium/Low/None
- Some respondents explicitly distinguished between adaptation costs to handle partial release as the receiving party and adaptation costs to initiate a partial release. When such distinction was made, the effort for the receiving side was confirmed to be lower than for the delivering side.
- Respondents not distinguishing between the receiving and the delivering scenarios provided a wide range of estimates, from None to High effort. This may reflect the fact that participants are considering the implementation of Partial release as a whole, incl. receipt and delivery.

## Adaptation effort of T2S Actors (continued)

- Respondents indicated that the costs they would face would be mostly technical, although legal and operational costs are also quoted, much less frequently.
- When further detailed, the technical costs appear to be driven by the need to mirror in internal systems the possible statuses resulting from the partial release process and the automation of partial release requests where applicable.
- One respondent pointed at the fact that adaptation costs should be considered at every level of the custody chain. The need to adapt ISO15022 messaging (ICP communication) is also mentioned.
- While not strictly speaking adaptation costs, several responses refer to increased messaging/settlement costs that would result from a higher number of partial settlements made possible by a partial release.
- The adaptation costs would be even higher for Actors that would need to adopt partial settlement at the same time as partial release

## Factors favouring or preventing a broad adoption of partial release

*Q4. Which factors would you consider to be the key influencing factors favouring or preventing a broad adoption of partial release on T2S markets?*

- To ensure an optimal implementation of Partial Release, the T2S community should have a common understanding of the factors favouring or preventing a broad adoption of CR-653, and consider whether/how to reinforce the former and contain the latter. Q4 aimed at supporting this process by identifying such favouring/preventing factors.
- The most frequently mentioned factor that would increase usage of partial release is the entry into force of the CSDR settlement discipline regime, as partial release is seen as a tool that could contribute to higher settlement efficiency and lower fail rates.
- The most frequently mentioned factor that would prevent a high usage of partial release is the increased use of segregated accounts per client, as this would eliminate one of the business configurations (omnibus accounts) in which Partial release brings benefits.
- The interplay and respective importance of these two contradictory trends is unclear.

# Factors favouring or preventing a broad adoption of partial release

- Respondents cited the following as additional factors favouring the usage of partial release:
  - Reduced operational costs
  - Increased liquidity in securities and cash
  - Reduced market risk exposure
  - ‘Critical mass’ effect, i.e. when a significant number of T2S actors use partial release, the rest of the market would follow, i.e. de facto market practice
  
- Respondents cited the following as additional disincentives to the usage of partial release:
  - Significant market segments refusing partial settlement by default
  - High implementation effort and increased messaging costs
  - Concurrence with other changes with significant impacts on systems
  - Potential impact on primary market operations
  - Diverging market practices/rules on Hold/Release for OTC and on-exchange trades

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## Discussion objectives

- Agreement on the results to be highlighted to HSG and AMI-SeCo
  - Intention to use partial release varies across and within institution types
  - Responses suggest that there is already a frequent use of NPAR (specially by clients of custodians)
  - The survey shows no evidence that usage of NPAR will increase to avoid partial release
- Expected evolution of favouring factors / obstacles
- Conclusion of the workshop on the keys to achieving the expected benefits of partial release in the medium-long run



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Thank you for your attention

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