T2S Partial Release Functionality (CR-653)

Frequently Asked Questions

What is Partial Release?

T2S currently offers a ‘Party Hold’ functionality, allowing the owner of any settlement instruction to prevent its settlement even if all other conditions for settlement are met – such as sufficient securities on the T2S delivering account. T2S also offers a Release functionality, allowing the owner of an instruction to remove a Party Hold.

Unlike the current Release functionality, which applies at instruction level for the full quantity, the new Partial Release functionality will allow to release instead only part of the instruction. A detailed functional presentation about Partial Release is available on the ECB website.[1]

What could prevent the successful execution of a Partial Release request?

To be successfully executed, a Partial Release request needs to fulfil a number of criteria detailed in the functional presentation about Partial Release, some of them being derived from the existing criteria for a transaction to be eligible to Partial Settlement. Among these conditions, a crucial one is that a Partial Release request will only be executed by T2S if both the delivering and the receiving party allow Partial Settlement, i.e. none of the instructions includes the flag NPAR. This, in turn, depends on the business needs of the underlying clients: while some of them, for example brokers, may usually wish to resort to partial settlement, to increase the overall volume of settled transactions, other clients, like asset managers, could prefer to settle on an “all-or-nothing” basis and, therefore, include the flag NPAR in their own instructions.

What use cases can Partial Release support?

CSD participants segregating the securities positions of their clients have no interest in using the Partial release functionality, as they are already able to control that settlement takes place only after the underlying client has created the securities provision, without running any risk of using assets of other clients. Today, the ‘Party Hold’ functionality is typically used by entities operating omnibus accounts in T2S, to manage cases where the

[1] https://www.ecb.europa.eu/paym/target/t2s/governance/pdf/xmap/ecb.targetsecxmap180927_partial_release_workshop_detailed_functional_presentation.en.pdf.pdf

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underlying client's position is insufficient – in this case, the Hold prevents that assets from other clients, also held on the omnibus account, are used to settle the instruction of the client with an insufficient position. The current Release functionality can be used for instance once the holdings of their client have become sufficient to settle the instruction. The entire instruction is then released.

By allowing to release only part of the instruction, Partial Release is a tool for entities with omnibus accounts in T2S to manage cases where their clients hold some, but not all of the securities to be delivered. This situation appears to be common, one typical example being some CCPs expecting to receive securities from their participants representing several underlying clients.

How are such use cases handled today?

Workshop participants reported that when such situations occur today, they can be handled following a cancel and reinstruct approach: the transaction lacking securities is bilaterally cancelled, and two new transactions are created: one for the quantity actually available for delivery and the other with the remaining quantity not available set on 'Party Hold". This process requires communication between the final delivering and receiving parties to agree on the cancellation and the parameters of the instructions to be reinstructed (quantity, amount). Being inherently manual, the cancel and reinstruct solution cannot be easily industrialised and is therefore attempted only on a limited number of instructions (typically the higher value ones).

How does Partial Release compare with the Cancel & Reinstruct procedure?

Partial Release on the other hand does not require a preliminary agreement between T2S parties: once the delivering party sends a Partial Release request, T2S will assess whether the request can be executed and inform on the outcome.

While a Partial Release can always be *requested* by the delivering party in any case, whether it can be *executed* or not (i.e. whether the specified quantity can be made available for settlement) may depend on settlement parameters set by the counterpart. Therefore some participants may prefer to agree bilaterally with their receiving counterparty before sending a Partial Release request to T2S to maximise the success rate of Partial Release requests (e.g. avoiding the sending of Partial Release requests if the receiving counterparty refuses Partial Settlement anyway). While also possible in U2A mode, the interaction between T2S and the T2S parties is fully covered by A2A messages and therefore automatable. By requiring less operational effort to make the delivery of "partly available" quantities of securities possible, Partial Release could be key to dealing with these situations systematically, rather than on a case-by-case basis. Besides the immediate advantage of possibly lower processing costs vs the cancel/reinstruct procedure, this could in turn contribute to reducing the overall quantities kept on hold and thus increasing the settlement efficiency in T2S.

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Which effect could CSDR have on the use of Partial Release?

As higher settlement efficiency is an objective in itself, but also a particularly relevant one in the context of the introduction of the CSDR Settlement Discipline regime, some workshop participants were of the view that the entry into force of CSDR in 2020 might represent an incentive for T2S participants to make use of partial release in the business scenarios identified above.

However, the CSDR impulse will not be systematic, and CSDR will not mechanically result in a higher use of Partial Release by T2S Actors. Indeed, from the delivering party's side, there may be an expectation that usage of Partial Release will result in a lower overall value of settlement fails, and therefore lower penalties. However, this expectation can only be fulfilled if in the first place, Partial Settlement of the transaction is possible.

In this respect, the effect of CSDR penalties may be limited, as the CSDR does not foresee that penalties are waived for quantities that the delivering party attempted (unsuccessfully) to partially release – even if the Partial Release request failed because of a settlement parameter set by the receiving party, such as the refusal of Partial Settlement (NPAR flag set on the receiving instruction). What matters for the allocation of cash penalties is the immediate reason for the non-settlement of instructions, and in this case, the reason would be the hold on the delivery instruction (which the Delivering Party could not remove partially).

On the other hand, in some buy-in scenarios, CSDR not only requires the trading parties to put their instructions on hold but also mandates to attempt a partial settlement of the transaction. These provisions of CSDR constitute an incentive for end-investors to acquire the ability to hold/release instructions and to accept partial settlement, and to potentially expect these services from intermediaries in the custody chain to T2S.

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