**Change Request**

**for the update of ISO 20022 financial repository items**

1. **Origin of the request:**

*A.1 Submitter*:

- Deutsche Bundesbank, on behalf of the Eurosystem

- TARGET2-Securities Project

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*A.3 Sponsors*:

- Euroclear

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- TARGET2-Securities Community

1. **Related messages:**

- semt.019.001.05 - SecuritiesSettlementTransactionAllegementReportV05

- sese.028.001.05 - SecuritiesSettlementTransactionAllegementNotificationV05

1. **Description of the change request:**

Some of the ISO 20022 transaction codes used in an incoming Settlement Instruction are not included in the two above mentioned ISO 20022 messages.

Hence, the “SecuritiesTransactionType7Code” data type used for the sese.023 message (Securities Settlement Transaction Instruction) is not aligned with the data types used for the subsequent related outbound/inbound ISO 20022 messages and reports.

Certain ISO 20022 transaction codes of the sese.023 are not included in the allegement-related messages.

The following ISO 20022 transaction codes which are included in the set of valid transaction codes in the incoming Settlement Instruction are not in the scope of the ‘sese.028’ message (Securities Settlement Transaction Allegement Notification) and ‘semt.019’ message (Securities Settlement Transaction Allegement Report).

The “SecuritiesTransactionType10Code” (used in semt.019 & sese.028) should be enriched with the following codes.

The relevant business cases for the codes listed below can be found under section F.

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| **Securities Transaction type codes** | **Definition** |
| Depository Receipt Conversion [CONV] | Relates to a depository receipt conversion. |
| Depository Receipt Release Cancellation [RELE] | Relates to a release (into/from local) of depository receipt operation. |
| Issuance [ISSU] | Relates to the issuance of a security such as equity or a depositary receipt. |
| Mark Down [MKDW] | Relates to the decrease of positions held by an ICSD at the common depository due to custody operations (repurchase, pre-release, proceed of corp. event realigned). |
| Mark Up [MKUP] | Relates to the increase of positions held by an ICSD at the common depository due to custody operations (repurchase, pre-release, proceed of corporate event realigned). |
| Non Syndicated [NSYN] | Relates to the issue of medium and short term paper (CP, CD, MTN, notes ...) under a program and without syndication arrangement |
| Sell Buy Back [SBBK] | Relates to a sell buy back transaction. |
| Syndicate Underwriters [SYND] | Relates to the issue of financial instruments through a syndicate of underwriters and a lead manager |
| Withdrawal [REDI] | Relates to the withdrawal of specified amounts from specified subaccounts |

For the codes listed in the following table, we don’t see a specific business case at the moment. Hence, we see the addition of those codes as optional request.

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| **Securities Transaction type codes** | **Definition** |
| Borrowing Reallocation [SBRE] | Internal reallocation of a borrowed holding from one safekeeping account to another |
| Factor Update [FCTA] | Relates to a factor update |
| Lending Reallocation [SLRE] | Internal reallocation of a holding on loan from one safekeeping account to another. |
| Move Of Stock [INSP] | Relates to a movement of shares into or out of a pooled account |
| Return Delivery Without Matching [RODE] | Relates to the return of financial instruments resulting from a rejected delivery without matching operation. |
| TBA Closing [TBAC] | Relates to a To Be Announced (TBA) closing trade |

When an unmatched Settlement Instruction is sent with one of the above transaction codes, the corresponding allegement ‘sese.028’ message (Securities Settlement Transaction Allegement Notification) cannot be sent to the counterparty. As a result, the Settlement Instruction may remain pending and unmatched without the counterparty being informed.

It is also worth mentioning that the exclusion of these transaction codes in the allegement message was based on the assumption that the above codes will always be used in pre-matched Settlement Instruction. This however, seems to be an incorrect assumption in the new context of T2S (where bilateral matching is now required as a standard market practice) and therefore a correction is needed to include the missing transaction codes for the data type ‘SecuritiesTransactionType10Code’ used in ‘sese.028’ allegement message and ‘semt.019’ allegement report messages.

1. **Purpose of the change:**

The purpose of this change is the inclusion of several transaction codes across two allegement messages. This update would allow the different market participants to use the dedicated transaction codes harmonised across the different messages. Especially the cross border business requires several reason codes currently not present in the transaction code list.

1. **Urgency of the request:**

We request the SEG to consider this change request for the next maintenance cycle.

1. **Business examples:**

The reasons behind are both from a general and specific business natures

* The choice to instruct with matching or without matching, with internal or external counterparts, should be left at the discretion of the user, regardless of the ISO 20022 transaction code. Current rule results in restrictions in the usage of related ISO 20022 codes. Some clients indicated that they use default ISO 20022 codes (such as TRAD) because of this rule, while they would have preferred to use the appropriate ISO 20022 code to ease reconciliation.
* This change becomes more critical in the context of T2S adaptation. T2S business rules make it mandatory to use matching with external counterparties. Existing scenarios where the user can transfer securities without matching to a counterpart using such ISO 20022 codes cannot continue with T2S.
* The European Regulation on settlement and Central Securities Depositories (CSDR) is requiring "tools" to speed-up the matching process. Those tools are relying on the allegement in T2S. If an ISO 20022 transaction is not enabling allegement, there is a risk that T2S will not inform the counterparty in due time.
* As far as specific business scenarios are concerned, hereafter some scenarios that imply the use of these ISO 20022 codes in to be matched instructions with external counterparties. Most of them relate to issuance situations e.g.

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| **Code** | **Business scenario** |
| Depository Receipt Conversion [CONV] | In the context of Depositary Receipts (DR), conversion instructions by the DR agent can be linked to the delivery of DRs to a holder |
| Depository Receipt Release Cancellation [RELE] | In the context of Depositary Receipts (DR), request of cancellation can be linked to the delivery of DRs to the DR agent (ISO code RELE) |
| Issuance [ISSU] | The issuer agent issues securities (by debiting a dedicated issuance account) and delivers them onward with matching to a counterpart through a single instruction |
| Mark Down [MKDW] | In case of cross-border stripping request, the strips to be distributed to the primary dealer (participant) holding an account in a foreign CSD have to be sent unmatched in T2S. The preferred way to inform the primary dealer about the instruction is via the allegement (sese.028),  The code is also used to convert REG S to REG 144 (United States Securities Act) or vice-versa. Cross-border in T2S is also requiring matching by a party of the other CSD. Here also an allegement is necessary. |
| Mark Up [MKUP] | The issuer agent issues securities (by debiting a dedicated issuance account) and delivers them onward with matching to a counterpart through a single instruction (MKUP).  In case of cross-border reconstitution request, the reconstructed securities to be distributed to the primary dealer (participant) holding an account in a foreign CSD have to be sent unmatched in T2S. The preferred way to inform the primary dealer about the instruction is via the allegement (sese.028)  The code is also used to convert REG S to REG 144 (United States Securities Act) or vice-versa. Cross-border in T2S is also requiring matching by a party of the other CSD. Here also an allegement is necessary. |
| Non Syndicated [NSYN] | The issuer agent issues securities via a Primary Market Distribution (by debiting dedicated issuance account) and delivers them onward with matching to a counterpart through a single instruction |
| Sell Buy Back [SBBK] | This code will be necessary in the context of cross-border (it is a REPO variant) |
| Syndicate Underwriters [SYND] | The issuer agent issues securities (by debiting dedicated issuance account) and delivers them onward with matching to a counterpart as outcome of a primary market. The same process may apply in the context of new issues / Primary market distribution |
| Withdrawal [REDI] | If there is a cross-border paying agent, they want use this code to tell that they want to remove some securities from their account. |

1. **SEG recommendation:**

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| **Consider** | | X | **Timing** |
|  | | - **Next yearly cycle: 2016/2017**  (the change will be considered for implementation in the yearly maintenance cycle which starts in 2016 and completes with the publication of new message versions in the spring of 2017) | | X |
|  | | - **At the occasion of the next maintenance of the messages**  (the change will be considered for implementation, but does not justify maintenance of the messages in its own right – will be pending until more critical change requests are received for the messages) | |  |
|  | | - **Urgent unscheduled**  (the change justifies an urgent implementation outside of the normal yearly cycle) | |  |  |
|  | | - **Other timing:** | | |  |

Comments:

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| **Reject** |  |

Reason for rejection: