Insights on prioritisation processes in T2S

T2S Knowledge Base
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T2S Programme Office

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Which factors are relevant when competing transactions are ready for settlement with the same priority?

What is the behavior for competing settlement instructions and settlement restrictions?

Scope and Definitions
Prioritisation in the settlement process

The following elements are considered by settlement in the prioritisation of settlement instructions and settlement restrictions:

- Settlement period
- Priority defined at instruction level or default set-up
- Intended Settlement date (ISD) of a transaction
- Settlement optimisation process
- Arrival time of a transaction (only for real-time settlement)

Settlement period	Prioritisation
Night-time settlement	• Prioritisation is used for transactions within a NTS sequence
Real-time settlement	• No prioritisation is considered for the first settlement attempt of a transaction • Prioritisation is only considered for subsequent settlement attempts during the recycling and optimisation process

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Highest to lowest priority of instructions

Priority	Applicable to	Who can assign it?	How is it assigned?
1 – Reserved priority	➢ Settlement Instruction ➢ Intra-position movement ➢ Intra-balance movement	➢ CSDs ➢ NCBs	➢ At instruction level ➢ Via priority default rules*
2 – Top Priority	➢ Settlement Instruction	➢ CSDs	➢ Via priority default rules
3 – High priority	➢ Settlement Instruction ➢ Intra-position movement ➢ Intra-balance movement	➢ All T2S Actors	➢ At instruction level
4 – Normal priority	➢ Settlement Instruction ➢ Intra-position movement ➢ Intra-balance movement	➢ All T2S Actors	➢ At instruction level

* Only applicable for settlement instructions

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Applicable rules

- T2S will check whether a priority default is applicable to a settlement instruction only if there is no priority defined at instruction level

- If an instruction does not include a priority and no priority default applies, T2S considers that the priority of the instruction is the same as an instruction with 'Normal' priority

- Modification of the priority in a partially settled instruction only applies to the pending part

- In a pair of matched instructions, T2S takes the highest priority of the instructions for settlement purposes

- In a set of linked instructions* T2S takes the highest priority of the linked instructions for settlement purposes

* T2S-generated instructions always carry "normal" priority

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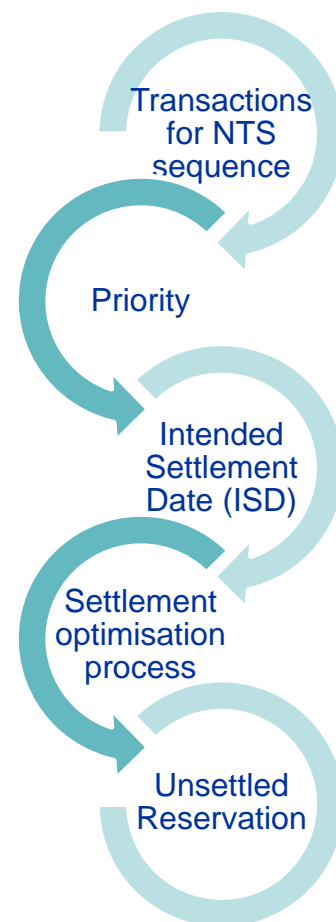
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Settlement Order
Prioritisation levels during night-time settlement (NTS)

Prioritisation levels during night-time settlement (NTS)

1. **Transactions for a NTS sequence:** transactions are taken depending on the NTS sequence
   - NTS sequence 0: Liquidity transfers and Intra-balance movements
   - NTS sequence 1: Corporate Action transactions, liquidity transfers and Intra-balance movements
   - NTS sequence …
2. **Priority:** transactions (excl. reservations) with highest priority are taken for settlement first
3. **Intended Settlement Date (ISD):** transactions (excl. reservations) with an earlier ISD are taken first
4. **Settlement optimisation process:** favouring transactions (excl. reservations) in a way that maximises settlement (i.e. an optimal balance of the volume and value of settled instructions)
5. **Unsettled reservation:** unsettled cash or securities reservations* are only treated last

* Intra-balance or intra-position movements where the Balance From is a Deliverable/Earmarked position and Balance To is a Reserved position

Transactions for NTS sequence

Priority

Intended Settlement Date (ISD)

Settlement optimisation process

Unsettled Reservation

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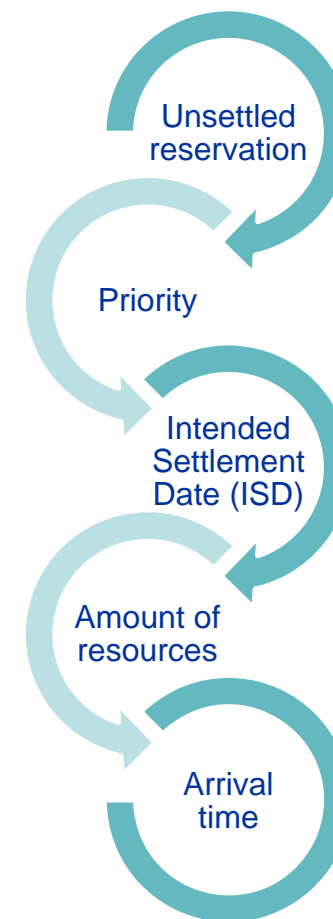EUROSYSTEM

Settlement Order
Prioritisation levels during real-time settlement

Prioritisation levels during real-time settlement during recycling and optimisation* (there is no prioritisation for the first settlement attempt of a transaction)

1. **Unsettled reservation:** unsettled cash or securities reservations** are taken before any other transaction (i.e. they are automatically pre-empted until the reservation is filled)
2. **Priority:** transactions with highest priority are taken for settlement first
3. **Intended Settlement Date (ISD):** if the priority is the same, transactions with an earlier ISD are taken first
4. **To-be-settled-amount of resources:** if the priority and ISD are the same, instructions with the highest to-be-settled-amount are taken first
5. **Arrival time:** if the priority, ISD and optimisation process lead to different transactions, the ones with an earlier arrival time are taken first

* The settlement of transactions according to a predicted ordering is not guaranteed in T2S in real time due to parallel processing of settlement transactions.
** Intra-balance or intra-position movements where the Balance From is a Deliverable/Earmarked position and Balance To is a Reserved position

Unsettled reservation

Priority

Intended Settlement Date (ISD)

Amount of resources

Arrival time

Settlement Order
Unsettled reservations while real-time settlement

- During real-time settlement, pre-empting of unsettled cash/securities reservations are always before any blocking, earmarking or settlement instructions independently of their priority

- If several reservations are not fully filled, the pre-emption mechanism fills firstly the oldest one, based on their arrival within T2S and without taking into consideration the priority

Example:
Reservation   SR 1 for 200 securities | Timestamp: *2014-11-10 11:15:00*
Blocking   SR 2 for 100 securities | Timestamp: *2014-11-10 11:50:00*
Instruction   SI 1 for 100 securities | Timestamp: *2014-11-10 11:45:00*
Reservation   SR 3 for 200 securities | Timestamp: *2014-11-10 12:00:00*

On *2014-11-10 13:00:00* (current position is 0) 300 securities are credited to the account.
The sequence of settlement is: **SR 1 → SR 3 → SI 1 → SR 2**

Therefore the following settlement will take place:
→ Pre-emption of SR 1 for 200 securities and
→ Pre-emption of SR 3 for 100 securities

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Examples of Competing Orders
Derive transaction values from settlement instructions

Settlement Instruction	Sec Mvmt Type	Priority Level	Instruction arrival Date/Time
SI 1	DELI	High	13.11.2015 at 3 pm
SI 2	RECE	Top	13.11.2015 at 2 pm
Transaction for SI 1 and SI 2		Top	13.11.2015 at 3 pm

Settlement Instruction	Sec Mvmt Type	Priority Level	Instruction arrival Date/Time
SI 3	DELI	High	13.11.2015 at 2 pm
SI 4	RECE	Normal	13.11.2015 at 3 pm
Transaction for SI 3 and SI 4		High	13.11.2015 at 3 pm

Rules:
Priority Level → Always higher priority
Instruction arrival Date/Time → Always later arrival

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Examples of Competing Orders
Competing transactions eligible to settle

Priority order for transactions on a recycling event or a sequence during RTS

Transaction	Level of Priority	ISD	Quantity	To-be-settled quantity	Instruction arrival Date/Time
Transaction 1	High	13.11.2015	100	100	13.11.2015 at 4 pm
Transaction 2	High	14.11.2015	100	100	13.11.2015 at 3 pm
Transaction 3	Normal	14.11.2015	100	100	13.11.2015 at 3 pm
Transaction 4	Normal	15.11.2015	200	200	13.11.2015 at 3 pm
Transaction 5	Normal	15.11.2015	100	100	13.11.2015 at 3 pm
Transaction 6	Normal	15.11.2015	100	75*	13.11.2015 at 5 pm
Transaction 7	Normal	15.11.2015	200	50*	13.11.2015 at 3 pm
Transaction 8	Normal	15.11.2015	50	50	13.11.2015 at 4 pm

* Already partially settled

Note: To ease the optimisation process each security is settled for the same amount

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