

Practice reference: MS-SETTL-FRANCO-04

Management of deliveries without payment

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I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

Description of the existing practice	<p>Two possibilities existed in Euroclear France in order to instruct deliveries without payment:</p> <ul style="list-style-type: none"> • Using the 'Franco' functionalities of Euroclear France, which led to instructions without matching, also known as 'unilateral' free of payment instructions; • Using delivery vs payment instructions with a 0-amount in the 'SLAB' module of Euroclear France.
Description of the T2S impact	<p>With the implementation of T2S, there are 3 possibilities for instructing deliveries without payment:</p> <ul style="list-style-type: none"> • In ICP mode, using Euroclear's 'Free of Payment Without Matching' service, equivalent to instructing 'unilateral' free of payment instructions, giving rise in T2S to 'already matched' instructions issues by the CSD upon instruction from its participants; • In DCP mode, using deliveries free of payment : 'DELI FREE' / 'RECE FREE' ; • In DCP mode, using delivery vs payment instructions with a 0-amount ('APMT').
Description of the major issue	<p>In order to facilitate the use by participants of the various types of instruction without payment, the French market has decided to specify and synthetize in one market practices the use cases identified for these instructions, and the recommandations of market participants.</p> <p>6 use cases were identified:</p> <ul style="list-style-type: none"> • Instructions on securities lending and borrowing ; • Corporate action proceeds ; • Portfolio transfers ; • Conversions ; • Instructions on registered shares ; • Instructions on investment funds with separate settlement of securities and cash, such as orders with cash settlement, or orders on funds with pre-funding.

Practice reference: MS-SETTL-FRANCO-04

Description of the roles and responsibilities of the actors involved (OPTIONAL)	
Workflows (OPTIONAL)	
Links with other market practices	<ul style="list-style-type: none"> • MS-SETTL-FRANCO 01 • MS-SETTL-FRANCO 02 • MS-SETTL-FRANCO 03 • NE-NOMIN-SETTL-01 • OP-SETTL-RLDISSOCIE-01

II. RECOMMENDED MARKET PRACTICE

Recommended practice	<p>Management of instructions of securities lending and borrowing <u>Recommendation</u> For the management of delivery instructions of securities in the case of securities lending and borrowing, market participants recommend the use of instructions free of payment in T2S: 'DELI FREE' / 'RECE FREE'.</p> <p>Management of Corporate action proceeds – Excerpt from the Market Practice Sheet MS-SETTL-FRANCO 01 <u>Recommendation</u></p> <ul style="list-style-type: none"> • Use Euroclear's 'Free of Payment without matching' service which will be available using ISO 15022 messages, ISO 20022 messages as well as using EuroclearConnect for Screens. • From a custodian point of view, systematically proceed to the delivery of securities or rights on the L1 0 sub-account of the paying agent, using the appropriate account nature corresponding to the chosen option (as indicated on the form at the time the corporate actions was advised). • From a paying agent point of view, proceed to the delivery of new securities on the L1 0 sub-account of the custodian. <p>Management of portfolio transfers – Excerpt from the Market Practice Sheet MS-SETTL-FRANCO-02 <u>Recommendation</u></p> <ul style="list-style-type: none"> • Use Euroclear's 'Free of Payment without matching' service which will be available using ISO 15022 messages, ISO 20022 messages as well as using EuroclearConnect for Screens.
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Practice reference: MS-SETTL-FRANCO-04

- Using the appropriate fields to mention account structures of the delivering/receiving parties. By default, the L1 0 sub-account must be used if no account is mentioned by the counterparty.
- Fill the client name in the field 'Recipient name'
- Fill the French bank account number in the field 'RIB'
- Fill the date of purchase in the field 'external comment'

Management of conversions – *Excerpt from the Market Practice Sheet MS-SETTL-FRANCO 03*

Recommendation

The procedure will rely on Euroclear France's 'Free of payment without matching' service, which will be provided in ISO 15022 messages and ISO 20022 messages and will also be available on EuroclearConnect for Screens.

General principles:

- The 'Hold' functionality should not be used,
- The 'partial settlement' functionality should not be used,
- The 'Transaction type' must be 'OWNE', who is reserved to 'Free of Payment Without Matching' instructions.
- These instructions being eligible to the detection of market claims and transformations (awaiting correction of defect n° 27092), to avoid generating market claims, the trade date must be equal to the settlement date.

Management of instructions on registered shares – *Excerpt from the Market Practice Sheet NE-NOMIN-SETTL-01*

Recommendation

The choice between both types of settlement instructions will depend on the nature of the operation:

- Business flows related to buy/sell operations without cash will be operated through DVP instructions with a 0-amount (cut-off at 4pm CET). These instructions relate to operations with title transfer.
- On the contrary, all other operations currently managed through 'unilateral' free of payments without matching will need to be handled through Euroclear's Free of Payment Without Matching service ('already matched'), or to be matched (cut-off at 6pm CET), who do not result in a title transfer.

List of CTO codes used for the instructions, depending on the type of operation: Free of Payment instructions (already matched or to be matched) can be used for the following CTOs:

- Portfolio transfers (TO)
- Transformations with transfers (TM)
- Direct sale (TT)
- Regularizations on buy/sell cash transactions outside of the 'SBI' system of Euroclear (BO)

Practice reference: MS-SETTL-FRANCO-04

	<ul style="list-style-type: none"> ○ Regularizations on buy/sell SRD transactions outside of the 'SBI' system of Euroclear (MO) ○ Buy/sell transactions settled by free of payment without cash (GO). This use case exists but is not used to date; it remains available as a back-up (when DVP is not possible). <p>Management of instructions on investment funds with separate settlement of securities and cash – Excerpt from the Market Practice Sheet OP-SETTL-RLDISSOCIE-01</p> <p><u>Recommendation</u></p> <p>The French market wishes to implement a market practice on orders with separate settlement of securities and cash (ex: orders with cash settlement, orders on funds with pre-funding), recommending a settlement with a matched free of payment (T2S instructions DELI/RECE free).</p> <p>This type of instruction is recommended by the market as it allows to settle fund shares up to the 18:00 cut-off, while ensuring the prior receipt of cash, as well as a matching of the delivery of securities.</p> <p>This practice would allow to settle securities and cash on the same date.</p>
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Description of the roles and responsibilities of the actors involved (OPTIONAL)	
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Workflows (OPTIONAL)	
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III. IMPLEMENTATION

Implementation timeline	Before the migration to T2S	Upon go live on T2S	After the migration to T2S
	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Date: _____	Date: 12/09/2016	Date: _____