

Practice reference: MS-SETTL-CESSIONSTEMP-02

Post-T2S management of securities financing transactions

Versioning	Version	1.1
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I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

Description of the existing practice	<p>Euroclear France today proposes a module ‘pension livrée’ to handle instructions on securities financing transactions, allowing its participants to instruct the contract, instead of instructing both legs of the transaction.</p> <p>This module notably allows:</p> <ul style="list-style-type: none"> • the generation of the far leg of securities financing transactions and the link with the near leg; • the setting of all required data on the far leg, notably the trade date; • for variable-rate repurchase agreements, the cristallisation on D-1 of the intended settlement date, by Euroclear instead of the participants. It should be noted that instructions cleared by LCH SA are also subject to a cristallisation on ISD-1 by LCH SA <p><i>NB : In variable-rate repurchase agreements, the calculation of the interest payment is based on an arithmetic average of the daily rates over the contract period. The determination of the last applicable rate for the calculation of the average at the maturity of the contract, is called ‘cristallisation’.</i></p>
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Description of the T2S impact	<p>Euroclear France’s module ‘Pension Livrée’ will be decommissioned, securities financing transactions in T2S being instructed in a buy/sell mode.</p> <p>As such:</p> <ul style="list-style-type: none"> • The far leg of the contract will no longer be automatically generated; • The trade date of the far leg will no longer be generated by Euroclear – trade date becoming a matching criterion in T2S; • Cristallisation will no longer be operated by Euroclear.
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Description of the major issue	<p>The target instruction mode of securities financing transactions in a buy/sell mode, post-migration to T2S, must be addressed, in order to specify:</p> <ul style="list-style-type: none"> • How to instruct; • The management of the cristallisation on variable-rate repurchase agreements.
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	<p>As regards the cristallisation on variable-rate repurchase agreements:</p> <ul style="list-style-type: none"> • Instructions on the far leg of the transactions are delivery versus payment instructions, with a cash amount on the instruction integrating the interest payment. • The cash amount on a delivery versus payment instruction being a mandatory matching criterion, not having a common market practice involves the risk of having different values given by both counterparties, resulting in a mismatch and a potential settlement fail.
Description of the roles and responsibilities of the actors involved (OPTIONAL)	
Workflows (OPTIONAL)	
Links with other market practices	MS-SETTL-CESSIONSTEMP-01

II. RECOMMENDED MARKET PRACTICE

Recommended practice	<p><i>NB1 : For ease of presentation, the notion of switch in this current sheet refers to the switch of the instruction mode of securities financing transactions into a Buy/Sell mode, and the notion of migration refers to the migration of Euroclear France to T2S</i></p> <p><i>NB2 : The present version of the market practice does not consider contracts negotiated in a Buy & Sell-Back mode, currently under review.</i></p> <p>Management of instructions negotiated from the migration to T2S (client and market side) :</p> <ul style="list-style-type: none"> • Both instructions, the near leg and the far leg, should be instructed as regular buy/sell instructions – no specificity, neither in terms of instruction type, nor in terms of field values. • As T2S imposes no restriction on the anteriority of the trade date compared to the intended settlement date, on the contrary to the rule in force at Euroclear France, it is desirable that the trade date of the far leg be set at the original trade date of the contract as initially negotiated.
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	<ul style="list-style-type: none"> • Management fo market claims and use of the OPT-OUT indicator : the field should beet set at 'Blank', notably as its use may influence the transfer of ownership in certain securities financing contracts. • In case instructions are not matched, not settled or cannot be reconciled, CSD participants should proceed as for regular buy/sell instructions, and contact trading parties to reach an agreement. • The far legs must be instructed as soon as possible in order to ensure matching as soon as possible. • The calculation of the interests must be made by trading parties <i>[design of the target market practice ongoing. NB : on cleared transactions, LCH SA will continue to operate a cristallisation on ISD-1 on behalf of its members]</i>. • These instructions will need to be reported to Banque de France for the Protide reporting, yet no specific processing is required by Banque de France, this reporting already integrating today transactions instructed in buy/sell mode, for instance for securities financing transactions instructed at ICSDs. • In case coupons are wrongfully allocated with regards to the actual property of the securities, institutions should internally manage compensations on the appropriate payment date, and ensure that no compensatory amount is automatically generated by Euroclear France at the end of the contract (NB: if those amounts were generated at the end of the contract by Euroclear France, they would have to be neutralized). This market practice is identical to that existing on international contracts. <p>Specific case of open-ended contracts The management of re-instructions of the far legs on open-ended contracts is identical to that of variable-rate repurchase agreements: as long as the maturity date is not known, participants cannot instruct the far legs. Once the 'Pensions Livrées' module will be deactivated, the far legs on open-ended contracts will not be visible by other participants.</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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**T2S Market Practice Adaptation Workgroup
Market Practice Sheet**



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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"/> Date: _____	<input checked="" type="checkbox"/> Date: 12/09/2016	<input type="checkbox"/> Date: _____