

Practice reference: MS-SETTL-FRANCO-01

## Management of Corporate Actions using Euroclear’s « Free Of Payment Without Matching” service

<b>Versioning</b>	Version	4.5
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### I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

<b>Description of the existing practice</b>	<p>Today the management of corporate actions on the French market is mostly made using ‘unilateral free of payment’ instructions, without matching, allowing custodians to present rights or securities to the paying agent based on the positions safekept, and allowing paying agents to ensure the proper delivery of the proceeds of the operation to the market.</p> <p>Yet some operations are still managed through the use of Euroclear’s ‘SLAB’ module.</p> <p>It should be noted that free of payment instructions resulting from corporate actions can be distinguished from other free of payment instructions resulting from portfolio transfers taking into consideration the account nature used.</p>
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<b>Description of the T2S impact</b>	<p>In T2S, all settlement instructions will require matching. Instructions known as ‘unilateral free of payment’ can be replaced by ‘free of payment’ instructions as known in T2S.</p> <p>These instructions can be distinguished using account natures.</p> <p><b>Securities delivered in ESES resulting from a corporate action:</b> securities distributed by a paying agent or presented by a custodian in the context of a corporate action (during the intermediate period between the launch of T2S on the French market and Euroclear France’s stream 6, and also after the Stream 6 for corporate action types ‘ONGO’) come from a Corporate action account nature and are delivered to the following account natures of custodians: ‘000’, ‘045’ or possibly ‘001’.</p> <p>In order to identify flows resulting from corporate actions, it was confirmed that ‘Issuer’ account natures will systematically be used, including for corporate actions centralized by Euronext.</p> <p>The proper identification of the corporate actions nonetheless requires the input of the code ‘COAF’ in instructions from participants (see recommendation).</p> <p>As a reminder, the following account natures are used in the case of other free of payment instructions in T2S:</p>
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	<ul style="list-style-type: none"> <li>• Securities transferred as a result of a conversion: securities movements between account natures '000' or '001' and '009', as well account natures '008' and '004'.</li> <li>• Portfolio transfers: securities movements from account nature '000' to account nature '000', or from account nature '001' to '001'.</li> </ul>
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<b>Description of the major issue</b>	<p>Before the implementation of functionalities considered in Euroclear's Stream 6, French institutions look for a level of automation equivalent to that observed with the use of 'unilateral free of payment' instructions for the management of corporate actions.</p> <p>A market practice is required to precisely define the procedure as from the launch of T2S on ESES and until Euroclear's Stream 6, and also after the Stream 6 for corporate action types 'ONGO'.</p>
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<b>Description of the roles and responsibilities of the actors involved (OPTIONAL)</b>	
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<b>Workflows (OPTIONAL)</b>	The functioning and exhaustive data to be used are described in Euroclear's ' <i>ESES matching and settlement</i> ' Detailed Service Description.
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<b>Links with other market practices</b>	<ul style="list-style-type: none"> <li>• MS-SETTL-FRANCO-02</li> <li>• MS-SETTL-FRANCO-03</li> <li>• MS-SETTL-FRANCO-04</li> <li>• MS-MATCH-CRITE-01</li> <li>• MS-MATCH-CRITE-02</li> </ul>
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## II. RECOMMENDED MARKET PRACTICE

<b>Recommended practice</b>	<p><b>Scope:</b> The object of this recommendation is to allow institutions to maintain the current high level of automation. Yet it does not force other market players to:</p> <ul style="list-style-type: none"> <li>• use a practice based on instructions without matching (based on the service provided by Euroclear France)</li> <li>• process the same information in the same fields, in case of instructions without matching.</li> </ul>
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**Recommended market practice:**

- Use Euroclear's 'Free of Payment without matching' service which will be available using ISO 15022, ISO 20022 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.
- Input the 'COAF' code of the corporate action in the 'COAF' field (either in STP instructions, or on screens used for 'Free of Payment without matching')
  - For the delivery by the custodian and registrar of securities or rights,
  - For the delivery of proceeds from the corporate action by the paying agent to the custodian.

**Prerequisites:**

- The paying agent will automatically be provided with a L1 0 sub-account for all account natures, in order to allow custodians to mention it in their instructions.
- Similarly, custodians will need to open a L1 0 sub-account to receive securities delivered by the paying agent as a result of the corporate action.

**General principles:**

- The 'Hold' functionality should not be used,
- The 'partial settlement' functionality should not be used,
- Use of 'Free Of Payment without Matching' instructions
  - Using the 'transaction type' OWNE (in ISO 20022 or on the GUI), or DLWM (in ISO 15022), allowing for the unequivocal identification of 'Free Of Payment Without Matching' instructions,
  - Restricted to an Indirect Connectivity use via ESES (no possibility to send these instruction types directly to T2S),
  - These instructions not being eligible to the automatic detection of market claims and transformations (awaiting correction of defect #27092), to avoid generating market claims, the trade date must be equal to the settlement date.

**Identification of Free Of Payment Without Matching using the 'COAF' code:**

Participants will process in their instructions the 'COAF' code as provided by the issuer CSD, ensuring the identification of the corporate action:

- By using this 'COAF' code (example : 'EF123456789') in the appropriate field on EuroclearConnect For screens, or
- Via the use of the field 'COAF' in ISO 20022 messages, or
- Via the use of the field 'CORP' in ISO 15022 messages,

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	ISO 15022	ISO 20022 via Euroclear	ISO 20022 via T2S	EuroclearConnect
Instruction	MT 542	Sese.023	N/A	CA reference
	:20C::CORP//	\Document\SctiesSttlmTxInstr\SttlmTpAndAddtlParams\CorpActnEvtId	N/A	
Settlement confirmation	MT544 / MT546	Sese.025	Sese.025	CA reference
	:20C::CORP//	\Document\SctiesSttlmTxConf\TxldDtIs\CorpActnEvtId	\Document\SctiesSttlmTxConf\TxldDtIs\CorpActnEvtId	

**Notes:**

- The 'COAF' code of the corporate action is available in the following messages (when the corporate action is generated by ESES):

	15022 Custody	15022 settlement	20022 custody
Advice	MT564 :20C::COAF//		
Confirmation	MT566 :20C::COAF//	MT54x :20C::CORP//	Sese.025 \Document\SctiesSttlmTxConf\TxldDtIs\CorpActnEvtId

- The 'COAF' code of the corporate action can also be visualized on Euroclear Connect for screens in the screen 'Details of the corporate action'.

**Identification of Free Of Payment Without Matching using account natures:**

Participants will proceed to the necessary account nature in their Free of payment without matching instructions.

- In the specific case of corporate actions, the sub-account will need to be input, L1 0 in the field 'Party' for the paying agent as well as for the custodian (instead of the 'RIB' as for other T2S instructions).
- As a reminder, the account structure can be either in ESES format or T2S format.

	ISO 15022	ISO 20022 via Euroclear	EuroclearConnect
Instruction	MT 542	Sese.023	Counterparty's account / account nature
	:97A::SAFE	Pty1/SfcpgAcct	
Status	MT548	Sese.024	Account nature
	:97A::SAFE	Pty1/SfcpgAcct	
Settlement confirmation	MT544 / MT546	Sese.025	Account nature
	:97A::SAFE	Pty1/SfcpgAcct	

Example using account nature '056':

	ISO 15022	ISO 20022 via Euroclear	EuroclearConnect
Instruction (ESES format)	MT 542	Sese.023	Counterparty's account / Account nature
	:97A::SAFE//056/L10/0	Pty1/SfcpgAcct <Id>056/L10/0</Id>	
Instruction (T2S format)	MT 542	Sese.023	Counterparty's account / Account nature
	:97A::SAFE//SICVSOGEFRPPTIT056L10	Pty1/SfcpgAcct <Id>SICVSOGEFRPPTIT056L10</ID>	

**Alternative:**

As an exception, the custodian or registrar can, if such is their will:

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	<ul style="list-style-type: none"> <li>• send an instruction in T2S with the instruction type 'OWNI' when both counterparties (the custodian or registrar, and the paying agent) use the same institution code, or</li> <li>• send an instruction with the instruction type 'TRAD' (with matching) if the institution codes are different but the custodian or registrar has a privilege on the institution code of the paying agent.</li> </ul> <p>In this case, the transfer of securities will be operated using standard 'already matched' instructions.</p> <p>For all other question on the management and reporting of these instructions, please refer to Euroclear's 'ESES matching and settlement' Detailed Service Description.</p> <p><b><u>Additional information or references:</u></b></p> <ul style="list-style-type: none"> <li>• The list of instruction types not subject to market claims or transformations is available in Euroclear's 'Corporate Actions, Market claims and transformations' Detailed Service Description, in chapters 10 and 11.</li> <li>• The list of account natures used for corporate actions, as well as their meaning is available in Euroclear's 'Account structure and subscription' Detailed Service Description, in appendix 1.</li> <li>• A specific screen will allow the mass-input of Free of Payment without Matching instructions on multiple ISIN codes, and can possibly be used for corporate actions.</li> <li>• During the intermediate period between the launch of T2S on ESES and Euroclear's Stream 6, all paraticipants will benefit from the service 'Free of Payment Without Matching' already matched.</li> <li>• The subscription to this service will be implemented with the Stream 6, as well the control by Euroclear of the existence of a subscription.             <ul style="list-style-type: none"> <li>○ In case the counterparty has not subscribed to the service, it is scheduled at the moment that the instruction be rejected, with a mention that the counterparty has not subscribed to the service.</li> <li>○ The market has asked Euroclear not to reject the instruction, but to transform it in a 'to be matched' instruction. This request is being analyzed by Euroclear and will be subject to more details in the context of the implementation of the stream 6.</li> </ul> </li> </ul>
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<b>Description of the roles and responsibilities of the actors involved (OPTIONAL)</b>	
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<b>Workflows (OPTIONAL)</b>	
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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: 02/02/2016	<input checked="" type="checkbox"/> Date: 12/09/2016	<input type="checkbox"/> Date: _____