

Practice reference: OF-FLUX-CESSIONSTEMPORAIRES-01

## Management of Market Claims in the context of the switch of securities financing transactions in a buy/sell mode – Operations not cleared by LCH SA

<b>Versioning</b>	Version	1.0
	Publication date	August 30th, 2016

### I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

<b>Description of the existing practice</b>	<p>This market practice only concerns the following securities financing transactions: 'pensions livrées' (REPO) and securities lending and borrowing not cleared by LCH SA and outside of Euronext's centralized trading venue for securities lending. Euroclear has today in place a module for 'pensions livrées' (REPO) and securities lending and borrowing.</p> <p>At the time of the creation of the securities financing transaction, this module automatically generates the far leg with a fixed or variable rate (EONIA) and a trade date equal to the intended settlement date of the near leg.</p> <p>It ensures the retrocession of the coupon to the lender during the term of the transactions without further intervention of the parties.</p> <ul style="list-style-type: none"> <li>▪ The module only presents detection rules for CA in cash, whatever the type of securities.</li> <li>▪ Outside of Euroclear's module, instructions are input in Buy/Sell mode or 'cash trades', and detection of market claims on these instructions are that of the module 'SLAB', with rules depending on the type of securities traded.</li> </ul> <p>To be noted that on securities lending and borrowing, most of the volumes on the market is already in a buy/sell mode and is handled outside of Euroclear's module. Nonetheless, the question remains of the transition to T2S for residual volumes handled through this module.</p>
<b>Description of the T2S impact</b>	<p>Impact of T2S:</p> <ul style="list-style-type: none"> <li>• Euroclear's module will be decommissioned, with a target instruction mode in Buy/Sell or 'cash trade' that will take place in T2S.</li> </ul>

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	<ul style="list-style-type: none"> <li>• T2S has no limitation on the anteriority of the Trade Date (TD), as in Euroclear (35 days ahead of the intended settlement date).</li> <li>• After the Record Date (RD), detection rules in T2S will only last for 20 days instead of 45 jours in ESES.</li> <li>• Detection rules for market claims are different and must be considered in the case of operations initiated before the migration to T2S and ending after.</li> </ul> <p>The management of securities financing transactions in Euroclear France spanning over the migration will be particularly sensible.</p>
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<p><b>Description of the major issue</b></p>	<p>Institutions present on the French market have recommended that securities financing transactions are instructed, from May 9<sup>th</sup>, 2016 onwards, that is ahead of the migration to T2S, in a Buy/Sell mode through 2 instructions, in order to reduce the number of contracts outstanding at the time of the migration to T2S on September 12<sup>th</sup>, 2016 (see MS-SETTL-CESSIONSTEMP-01 - <i>Switch of the instruction mode of securities financing transactions into a Buy/Sell mode and management of the transition to T2S</i>).</p> <p>The present market practice analyses the impact of this recommendation on the management of market claims.</p> <p>It must be noted that some institutions have chosen to continue instructing in Euroclear's module until the migration to T2S.</p> <p>During the period from May 9<sup>th</sup> to September 12<sup>th</sup>, 2016, two situations can occur:</p> <ol style="list-style-type: none"> <li>1. Transactions input outside of Euroclear's module, in a Buy/Sell mode according to the new procedure, the maturity of which being anterior or posterior to the migration to T2S;</li> <li>2. Transactions initiated with the module for which, if the maturity expires after the launch of T2S, instructions will have to be re-issued in a buy/sell mode.</li> </ol> <p>The applicable rules for market claims on securities financing transactions will differ according to the way the instruction was input and the type of security, but also the IT environment (ESES or T2S).</p> <p>Rules corresponding to the period until September 12<sup>th</sup>, 2016 are presented in appendix of the present market practice, as well in the market practice OF-FLUX-CESSIONSTEMPORAIRE-02 for the period after the migration to T2S.</p> <p>The analysis of the various cases arising from the application of the recommendation of MS-SETTL-CESSIONSTEMP-01 shows that some market claims could be generated depending on the filling of the field trade date, on the nature of the operation and the type of security (see appendix of the present market practice).</p> <p>It appeared necessary to implement a market practice allowing for the understanding of the eligibility to market claims depending on the way the trade date is filled.</p>
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	The regularization of market claims will be carried out in all cases by bilateral agreement between both parties, with a bilateral settlement.
<b>Description of the roles and responsibilities of the actors involved (OPTIONAL)</b>	
<b>Workflows (OPTIONAL)</b>	
<b>Links with other market practices</b>	<ul style="list-style-type: none"> <li>• MS-SETTL-CESSIONTEMP-01</li> <li>• MS-SETTL-CESSIONTEMP-02</li> <li>• OF-FLUX-CESSIONSTEMPORAIRES-02</li> <li>• MS-MATCH-CRITE-03</li> </ul>

## II. RECOMMENDED MARKET PRACTICE

<b>Recommended practice</b>	<p>This recommendation concerns the business rules for market claims applying to securities financing transactions instructed outside of Euroclear's module, or in the module, and requiring, for the latter, a re-issuance after the migration to T2S.</p> <ul style="list-style-type: none"> <li>• As regards 'pensions livrées' (REPO), the analysis will be carried out on the business rules to fill the field Trade Date, in a Buy/Sell mode or to be re-issued after the migration, as defined in MS-SETTL-CESSIONTEMP-01.</li> <li>• As regards securities lending and borrowing on Equities, it should be noted that most of the volumes are already in a Buy/Sell mode according to market practices. Business rules for filling of the trade date can differ from repo transactions. To be noted also that securities lending and borrowing transactions in Euroclear's module represent a residual volume and can also apply to debt securities.</li> </ul> <p><b><u>The following will be distinguished:</u></b></p> <ol style="list-style-type: none"> <li>1. Transactions input outside of Euroclear's module in a Buy/Sell mode, before the migration to T2S, the maturity of which is anterior to the migration to T2S (see rules defined in MS-SETTL-CESSIONTEMP-01)</li> </ol>
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	Repo	ISD of the far leg > Original Trade date + 35 days	ISD of the far leg < Original Trade date + 35 days	Contract negotiated less than 35 days before the migration to T2S
	Recommendation made	TD = ISD	TD = original TD of the transaction	
	Impact of market claims on REPO and securities lending and borrowing on debt securities	<p>Limited risk of market claims, in case of failed instruction *» (see appendix).  <i>(*) ie with an intended settlement date equal or before the RD but with an actual settlement occurring after the RD.</i></p>		
	<b>Securities lending &amp; Borrowing</b>			
Impact of market claims on repo and securities lending and borrowing transactions on capital securities (equities...)	<p>Risk of market claims (see appendix of this market practice).          Nonetheless, securities lending operations do not involve the realignment of the TD on the far leg to the TD on the near leg.          Both operations (the near leg, the far leg) are distinct and the trade dates are filled based on an agreement between the parties, on the terms of the master agreement and on the occurrence or not of a market claim over the term of the contrat.          A neutralization of the effects of the market claim would amount to positioning TD = ISD on each term of the negotiation in the eventuality of a market claim.</p>			
<p>The SLAB module does not accept instructions with a trade date posterior by more than 35 days to the date of its creation. This limits the cases where the near legs and the far legs are input simultaneously. For securities financing transactions created before September 12<sup>th</sup>, 2016, the far leg will have to be input separately from the near leg while also respecting this business rule.</p>				
<p>2. Contracts initiated with Euroclear’s module, the maturity of which will occur post-migration to T2S. In this case, instructions will have to be re-issued after their purge by Euroclear during the migration week-end. The re-issuance will have to be carried out after the switch in a buy/sell mode.</p>				

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	<ul style="list-style-type: none"> <li>T2S presents no limitation on the anteriority of the trade date ahead of the intended settlement date.</li> <li>The use of additional matching criteria is not recommended by market players on repo and securities lending and borrowing. The reasons of this choice are explained in OF-FLUX-CESSIONS TEMPORAIRES-02.</li> </ul>						
	<table border="1"> <thead> <tr> <th>Repo</th> <th>Issuance after the migration to T2S</th> </tr> </thead> <tbody> <tr> <td>Recommendation made</td> <td>TD = Original TD of the negotiation with an OPT-OUT indicator set at blank.</td> </tr> <tr> <td>Impact of market claims on repo and securities lending and borrowing on debt securities</td> <td>Limited risk of market claim, only in case of « failed (*)» (see Appendix). <i>(*) ie with an intended settlement date equal or before the RD but with an actual settlement occurring after the RD.</i></td> </tr> </tbody> </table>	Repo	Issuance after the migration to T2S	Recommendation made	TD = Original TD of the negotiation with an OPT-OUT indicator set at blank.	Impact of market claims on repo and securities lending and borrowing on debt securities	Limited risk of market claim, only in case of « failed (*)» (see Appendix). <i>(*) ie with an intended settlement date equal or before the RD but with an actual settlement occurring after the RD.</i>
	Repo	Issuance after the migration to T2S					
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Impact of market claims on repo and securities lending and borrowing on debt securities	Limited risk of market claim, only in case of « failed (*)» (see Appendix). <i>(*) ie with an intended settlement date equal or before the RD but with an actual settlement occurring after the RD.</i>						
<table border="1"> <thead> <tr> <th>Securities lending and borrowing</th> <th>Issuance after the migration to T2S</th> </tr> </thead> <tbody> <tr> <td>Impact of market claims on repo and securities lending and borrowing on capital securities (equities...)</td> <td>Risk of market claim (see Appendix). Securities lending operations do not involve the realignment of the TD of far leg on the trade date of initial negotiation. Both operations (the near leg, the far leg) are distinct and the trade dates are filled based on an agreement between the parties, on the terms of the master agreement and on the occurrence or not of a market claim over the term of the contrat. A neutralization of the effects of the market claim would amount to positioning TD = ISD on each term of the negotiation in the eventuality of a market claim.</td> </tr> </tbody> </table>	Securities lending and borrowing	Issuance after the migration to T2S	Impact of market claims on repo and securities lending and borrowing on capital securities (equities...)	Risk of market claim (see Appendix). Securities lending operations do not involve the realignment of the TD of far leg on the trade date of initial negotiation. Both operations (the near leg, the far leg) are distinct and the trade dates are filled based on an agreement between the parties, on the terms of the master agreement and on the occurrence or not of a market claim over the term of the contrat. A neutralization of the effects of the market claim would amount to positioning TD = ISD on each term of the negotiation in the eventuality of a market claim.			
Securities lending and borrowing	Issuance after the migration to T2S						
Impact of market claims on repo and securities lending and borrowing on capital securities (equities...)	Risk of market claim (see Appendix). Securities lending operations do not involve the realignment of the TD of far leg on the trade date of initial negotiation. Both operations (the near leg, the far leg) are distinct and the trade dates are filled based on an agreement between the parties, on the terms of the master agreement and on the occurrence or not of a market claim over the term of the contrat. A neutralization of the effects of the market claim would amount to positioning TD = ISD on each term of the negotiation in the eventuality of a market claim.						

<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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### III. IMPLEMENTATION

Implementation timeline	Before the migration to T2S	Upon go live on T2S	After the migration to T2S
	<input checked="" type="checkbox"/> Date: 09/05/2016	<input type="checkbox"/> Date: 12/09/2016	<input type="checkbox"/> Date: _____

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## APPENDIX

This appendix details the business rules applicable to securities financing transactions and their impacts in terms of market claims.

1. If the Input/Matching of the far leg occurs at the same time as the near leg, the detection of market claims is made during the term of the contract, until its settlement.
  - a. To be noted that the simultaneous input is limited to far legs with a trade date = intended settlement date, with an intended settlement date less than 35 days ahead of reception of the instruction in Euroclear's SLAB module.
  - b. This solution is viable for securities financing transactions with a fixed rate or no remuneration.
  - c. This solution is not efficient when the transactions present variable rates or when specific market claim detection rules exist (outside of the module). Notably in the case of detection rules on the anteriority of the ISD ahead of the Record Date (RD) and the posteriority of the Actual Settlement Date (ASD) after the RD. This is applicable to the following types of securities:
    - i. Bonds in percentage, in Units, in FMT and not listed;
    - ii. French money market instruments ('TCN'), Treasury bills, Euro Certificates of Deposit.
2. More generally the timing on the Input/Matching of the near / far legs is separate, implying an input of the far leg at the maturity of the contract, with market claim detection rules constrained by rules applicable in Euroclear's module.
3. The following table shows the various use cases for automatic detection of market claims depending on the date of the far leg of the securities financing transaction.

Securities financing transaction with a maturity before the migration to T2S without neutralization of the market claim in ESES from May 9th, 2016 to the last business day before the migration to T2S					
As a reminder, in ESES currently: <ul style="list-style-type: none"> <li>• The ISD (Intended settlement date) cannot be posterior to the TD by more than 35 days</li> <li>• The detection of market claims occurs maximum 45 days after the RD (Record date)</li> </ul>					
The near leg cannot have a trade date equal to the original trade date of the contract if the latter is more than 35 days ahead of the ISD.					
Input in 'Slab' module Buy/Sell	Near leg	Debt securities	Market claim	Market claim in favor of the buyer	if ASD > ISD
		Capital securities	Market claim	Market claim in favor of the buyer	If TD < EX date and ISD > RD

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			Reverse Claim	Market claim in favor of the seller	If TD > Ex date and <= Record date
The far leg cannot have a trade date equal to the original trade date of the negotiation, or to the intended settlement date if the latter is more than 35 days ahead of the ISD. The recommendation is to set the trade date at the intended settlement date					
Input in 'Slab' module Buy/Sell	Far leg	Debt securities	Market claim	Market claim in favor of the buyer	if ASD > ISD
				No market claim. Manual detection during the term of the securities financing transaction : regularization to be made bilaterally between the parties	Whatever the ISD/ASD
		Capital securities	Market claim	Automatic detection over a period of 45 days limited by the 35-day restriction in the SLAB moduls. After 35 days after RD, detection is manual and bilateral	If TD < EX date and ISD > RD
				Reverse Claim	Market claim in favor of the seller
Input in Euroclear's Pensions Livrées' module	Near leg and far leg	Debt and capital securities	Market claim	Automatic management by the module over the period, according to participants' needs	
Securities financing transaction initiated before the migration to T2S and with a maturity after the migration to T2S without neutralization of market claims					
Instruction re-issued after the migration to T2S					
<b>Reminder:</b> After the first business day following the migration to T2S <ul style="list-style-type: none"> <li>• There is no constraint between the ISD and the Trade date</li> <li>• No control by ESES/T2S on this delay between the ISD and the Trade date</li> <li>• The detection of market claims occurs during 20 days after the RD</li> </ul>					
<b>Important: Market practice on securities financing transactions</b> <ul style="list-style-type: none"> <li>• Trade date is the original date of the contract</li> </ul>					
Input in 'Slab' module Buy/Sell	Near leg	Debt securities	Market claim	Market claim in favor of the buyer	If ASD > ISD
		Capital securities	Market claim	Market claim in favor of the buyer	If TD < EX date and ISD > Record date
			Reverse Claim	Market claim in favor of the seller	If TD > Ex date and <= Record date
The trade date is equal to the settlement date of the far leg of the securities financing transaction whatever the type of remuneration (variable EONIA, fixed , or no remuneration)					
Input in 'Slab' module Buy/Sell	Far leg	Debt securities	Market claim	Market claim in favor of the buyer	If ASD > ISD

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				Automatic detection over a period of 20 days after the RD. After 20 days after the RD, the detection is manual and bilateral	Whatever the ISD/ASD
		Titres de capital	Market claim	Market claim in favor of the buyer Automatic detection over a period of 20 days after the RD / manual and bilateral after RD	If TD < EX date and ISD > Record date
			Reverse Claim	Market claim in favor of the seller Automatic detection over a period of 20 days after the RD	If TD > Ex date and <= Record date