

Impact of T2S on registered shares

Versioning	Version	2.0
	Publication date	August 29th, 2016

I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

Description of the existing practice	<p>Business flows related to registered shares are currently handled via 'securities free of payment', or DVP with a 0-amount ('SLAB at 0') when participants look to match the instructions.</p> <p>Euroclear France carries out a number of controls pre-settlement, notably on the operation type code ('Code Type Opération' or 'CTO') to check the compatibility of the account natures in case of movements on registered shares.</p>
---	---

Description of the T2S impact	<p>In T2S, all business flows (FOP, DV/RVP, DWP/RWP) are subject to matching. Business flows on securities held in a registered form can be handled through the service 'Free of Payment Without Matching' from Euroclear France ('already matched') or by Deliver Versus Payment instructions with a settlement amount at 0 entered through Euroclear France ou directly through T2S.</p> <p><u>Reminder</u> Euroclear's service on free of payment without matching will only be available when both counterparties are participants to Euroclear France and have subscribed to the corresponding service. To be noted that during the transition phase until the launch of the Stream 6, second phase of the project to harmonize corporate actions across Europe ('HDD-HDR'), the subscription will be free of charge, thus both counterparties participant to Euroclear France will de facto be granted the service.</p> <p>➤ The choice between both types of settlement instructions will depend on the nature of the operation</p> <ul style="list-style-type: none"> – Business flows related to buy/sell operations without cash will be operated through DvP instructions with a 0-amount (NB: 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.
--------------------------------------	--

Practice reference: NE-NOMIN-SETTL-01

➤ **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)
- Regularisations on buy/sell cash transactions outside of the 'SBI' system of Euroclear (BO)
- Regularisations 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).

To be noted: in certain cases, CTO codes are not mandatory when creating the instruction – Ex: CC (conversions) input in the BRN, or distribution of registered shares.

– **DVP/RVP:**

- will only concern CTO codes 'GO' or blank

➤ **Processing of transactions**

– **Initiated by an ICP participant:**

Participants connecting to T2S through their CSD (Euroclear France), or 'Indirectly Connected Participants' (ICP) can send their instructions either via STP or via Euroclear Connect for Screens. In both cases, they can input the CTO code.

– **Initiated by a DCP participant:**

Participants directly connected to T2S, or 'Directly Connected Participants' (DCP) will not be able to input the CTO code when creating an instruction FOP to be matched in the T2S GUI. The DCP will nonetheless be able to send FOP with the CTO code through its STP connection to T2S.

T2S will not present the CTO code in messages to the DCP. Nonetheless, T2S will send the CTO code to ESES for updating the ancillary securities accounting and reporting through ESES reports. The DCP participant will have to subscribe to the ESES reporting if he wants the CTO code presented in the settlement confirmation of its FOP instruction.

As a reminder, an instruction on registered shares can be sent to T2S directly, and the 'Bordereau de Référence Nominative' (BRN) to Euroclear France; when matched the latter will be created by Euroclear France upon reception of the securities flow from T2S.

Practice reference: NE-NOMIN-SETTL-01

➤ **Pre-settlement controls carried out by Euroclear France on instructions initiated by an ICP**

In the case of instructions initiated by an ICP, going through Euroclear France using a FOP to be matched instruction, DVP instructions, as well as for instructions using the service 'Free of Payment Without Matching', pre-settlement controls notably on the account nature and the CTO codes will be carried out by ESES before their processing to T2S. (see also DSD ESES-T2S Detailed Service Description French registered securities v1.1, page 140)

If the instructions pass the consistency check, they will be sent to T2S for matching and settlement, or rejected by Euroclear and will then have to be re-created by the participants.

The compatibility rules related to account natures and CTO codes remain unchanged.

Below is the table presenting the business rules related to CTO codes by instruction, extracted from the above mentioned DSD.

Settlement instruction type	Change in the account (institution)	Account nature		Business rules for erroneous CTO codes
		Debit	Credit	
FOP	Yes	001	001	Error if the CTO code is not TO, TT, TM, GO or if blank
	Yes / No	010	001	Error if the CTO code is not MO, BO, GO or if at blank
001		010		
DVP	Yes	001	001	Error if the CTO code is not GO or if not at blank Blank is considered equal to GO for Euroclear
	Yes / No	010	001	
		001	010	

To be noted: in the case of 'Free of Payment Without Matching' ('already matched'), the delivering party will be the one inputting the CTO code, that will be controlled by Euroclear.

➤ **Pre-settlement controls carried out by Euroclear France on instructions initiated by a DCP**

When the instructions are directly sent to T2S by a DCP, pre-settlement controls are not carried out by Euroclear, but by T2S. The control will be made on compatibility of account natures.

Nonetheless, T2S making limited controls there, T2S may need further information from the CSD to confirm the settlement of the instruction.

Practice reference: NE-NOMIN-SETTL-01

Example: compatibility between the account nature used and the institution concerned. For instance in the case of a credit in favor of an account of account nature 9. T2S cannot check at its level that this is the account of the agent of the issuer. In this case, the related movements will be put in 'CDS Validation Hold' by T2S and sent back to ESES who will make pre-settlement controls and potentially reject the instruction created by the DCP.

➤ **Management of T2S status codes common to both DCP & ICP**

The cross-reference table between the rejection messages generated by T2S as a result of pre-settlement controls, and the rejection codes existing in ESES is presented in the appendix to this market practice.

T2S rejection codes will be identical, whether the instructions are sent in ICP or DCP mode.

At that stage, rejections by T2S and non-observance of the restriction types will be signaled by a single code: MVS703, whatever the reason for the rejection. A change request is ongoing to present the type of rejection.

➤ **Post-settlement controls**

The control of the CTO code in Free of Payment instructions will be made by Euroclear post-settlement, and not T2S, whatever the nature of the operation on registered shares (see CTO codes on page 3).

– **Euroclear France procedure for post-settlement controls**

- If both CTO codes provided by participants differ, the code provided by the delivering party will prevail and be applied to the receiving party.
- If no CTO code is provided or if the CTO code is inconsistent, ESES will book the movement on the error account in the ancillary accounting of both the issuer of the instruction and the receiving party. As a reminder, only the instructions that successfully go through the pre-settlement controls presented on page 3 will be subject to post-settlement controls between the CTO code for the free of payment or DvP instruction, and the CTO code in the BRN.

Error accounts are ancillary accounts created for the implementation of T2S, and will be subject to reporting, and potentially formal notices and penalties. These error accounts will be accounts 52 (credits) and 62 (debits).

**T2S Market Practice Adaptation Workgroup
Market Practice Sheet**

Practice reference: NE-NOMIN-SETTL-01

Participants	Connectivity	CTO FOP	CTO BRN	Ancillary accounting	Regularization
ICP Vs ICP	STP or EuroclearConnect for Screens	Identical CTOs		Identical ancillary accounting	No regularization
		Different but consistent CTOs		Ancillary accounting booked according to CTO of the delivering party	The receiving party will have to regularize its ancillary accounting via Euroclear forms
ICP Vs DCP DCP Vs DCP	STP or EuroclearConnect for Screens (ICP only)	Identical CTOs		Identical ancillary accounting	No regularization
		Different but consistent CTOs		Ancillary accounting booked according to CTO of the delivering party	The receiving party will have to regularize its ancillary accounting via Euroclear forms
		Different and inconsistent CTOs (DCP)		Ancillary accounting booked on accounts 52 (credit) and 62 (debit)	Both participants will have to regularize their ancillary accounting via Euroclear forms
DCP Vs DCP	T2S GUI	CTO at blank	CTO filled	Ancillary accounting booked on accounts 52 (credit) and 62 (debit) – case of FOP	Both participants will have to regularize their ancillary accounting via Euroclear forms
		CTO at blank	CTO filled	Ancillary accounting identical in the case of DVP/RVP DWP/RWP (CTO=GO)	Both participants will have to regularize their ancillary accounting via Euroclear forms
DCP Vs ICP	(DCP) T2S GUI (ICP) STP or EuroclearConnect for Screens	CTO missing (not possible to input via GUI)	CTO filled	Ancillary accounting booked according to CTO of the delivering party (delivering party ICP)	The receiving party will have to regularize its ancillary accounting via Euroclear forms
			CTO filled	Ancillary accounting booked on accounts 52 (credit) and 62 (debit) (delivering party DCP, CTO at blank)	Both participants will have to regularize their ancillary accounting via Euroclear forms

Instructions in securities DVP/RVP against cash (including an amount set at zero) as well as DWP/RWP (market operations and clearing) must mention the CTO code GO. A DVP instruction without CTO, issued by the delivering party, shall be considered as CTO GO if another CTO code is mentioned, both instructions then being booked in the error accounts.

A dedicated form from Euroclear France will be available to regularise ancillary

Practice reference: NE-NOMIN-SETTL-01

	<p>accounting and clear error accounts. At that stage, input through Euroclear Connect for Screens is not considered.</p> <p style="text-align: center;">– Euroclear France documentation</p> <p>New players will have to be trained on the use of BRN. Euroclear France has anticipated the preparation of relevant documentation, to be circulated to other CSDs for them to make them available to their participants. This documentation should also be made available to participants that could use them in their relations with their counterparties. Euroclear France agreed to make it available when necessary.</p> <p>➤ Preparation of tests</p> <p>The PM test environment with business rules for controls will be available as soon as May 9th (Delivery #3).</p> <p>For BRN of conversions to ‘pure’ registered shares (<i>‘nominatif pur’</i>) with the related securities movement (reference to the delivering party), the reference will be presented in T2S (Pty1\PrcgID\).</p> <p>Custodians will have to adapt their business flows to be able to instruct the reference of the delivering party in an FOP (Pty1\PrcgID\) as well as in the BRN in order to allow the registrar to link the BRN and the FOP.</p> <p>CTOs will be input on Euroclear Connect for Screens or sent by files by DCPs in T2S, but it will not be possible to input them in T2S GUI. They will be presented on Euroclear Connect for Screens, available for tests, for 1st delivery on March 14th, 2016.</p> <p>BRN generating free of payment instructions will be kept; the comment field in the BRN will have to be updated. The resulting free of payment instructions will be ‘already matched’.</p>
--	---

Description of the major issue	Participants want to be in a position to handle operations on registered shares according to regulatory requirements and without regression.
---------------------------------------	--

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 03 • MS-SETTL-FRANCO 02
--	--

II. RECOMMENDED MARKET PRACTICE

Recommended practice	<p>1. Transfer of shares in administered registered form (<i>'nominatif administré'</i>) between Euroclear France participants</p> <p>It is recommended to be aware of new business rules described above in the part 'Description of the T2S impact' of the present market practice and apply them accordingly.</p> <p>2. Transfers of shares in administered registered form cross-CSD</p> <p>As a reminder, transaction type codes (CTO) to be used depending on client instructions must abide by the following rules:</p> <ul style="list-style-type: none"> - Change of name 'CI' or 'MI' in the case of a name change without change in the custodian or CSD (beware of the case of non-resident shareholders: under an 'MI' code, all securities from the issuer in a CCN will be applied the same modification). - Change in the custodian and CSD, but the investor wants to keep its identification number and the history of its positions in the register. FOP with TO code in the T2S instruction and in the BRN, allowing to keep the identification number of the shareholder and register the new intermediary in the register. - Change of shareholder, of custodian and CSD DVP with a GO code because of the transfer of title, leading to removal of the former shareholder, the new CSD being required to register or have the intermediary registered or the shareholder. <p>The application of the recommendation, in the last two cases, implies a communication to T2S CSDs and to custodians of other markets so they are informed of the market practice on French registered shares.</p> <p>As a matter of fact, in the case of transfers on administered registered shares (<i>'nominatif administré'</i>) to a participant of another T2S CSD, the instruction should be a FOP with matching mentioning the TO code for a securities <i>occasionally or essentially registered</i> when the shareholder remains the same.</p> <p>It is forbidden to create a DVP instruction with a code other than GO (ex: TO) as it would lead to a settlement in T2S, but the ancillary accounting would be</p>
-----------------------------	---

Practice reference: NE-NOMIN-SETTL-01

booked in an error account by ESES.

To be noted that the CTO code GO implies the removal of the former shareholder and the registration of the new one, or its custodian or its CSD.

The impact in the case of double voting rights must be carefully considered (possible loss):

- When the CTO code GO is used: loss of shareholder seniority and double voting rights when they exist; additionally in the case the CTO code is not filled, GO is automatically mentioned.
- If the movement is TO, the seniority can be kept and the new intermediary registered, but the custodian and CSD must be aware of the functioning of French registered shares and accept to register the end investor.

In practice, considering international market practices, there will probably be a removal of the former shareholder in the issuer register and registration as nominee of the CSD of the new shareholder. In order to register the CSD as nominee instead of the end investor, a CI code should be used for a change in the name while keeping the seniority and the rights.

The present recommendation aiming at keeping the seniority and preserve the rights of the shareholder when transferring administered registered shares to a custodian in another T2S CSD is the target, but it assumes a correct use of the rules applying to French registered shares, and implies in practice the following procedure:

Use FOP with matching as it is a cross-CSD instruction

- The participant of Euroclear France who initiated the transfer must mention the CTO code TO in its free of payment instruction (not a matching criterion) and in the BRN to change the intermediary custodian but keep the CCN.
- The custodian of the end investor receiving the securities must request the foreign CSD to issue a BRN in the name of the end investor with a CTO code CI and a comment 'Loi NRE' in order to preserve the rights for a foreign investor whose securities are held by a registered intermediary (BRN to be managed manually). The end investor must give the appropriate instructions to the new custodian in a foreign market.

The issue of the granting of shareholder privileges when the securities are registered in the name of the registered intermediary remains. In this case, the registered intermediary should be considered to apply for the relevant assets the same registration and removal dates as the end investor, in order to be able to provide the proofs allowing the end investor to benefit from its privileges. This does not appear realistic and

Practice reference: NE-NOMIN-SETTL-01

	<p>is not accepted by registrars of French securities, as they must have the knowledge of the end investor in order to apply shareholder privileges.</p> <p>As a conclusion, as long as a detailed communication is not made to other CSDs and foreign custodians are not ready to register the end investor, it is important to draw attention of shareholders on the fact that privileges related to seniority cannot be guaranteed in the case of a transfer of securities in administered registered form (<i>'nominatif administré'</i>) to a foreign custodian participant of a CSD other than Euroclear France.</p> <p>For Euroclear Belgium and Euroclear Netherlands, it appears the current practice is to register the end investor when he is French. For a non-resident client (non-resident from a French point of view), the international practice would be a registration of the custodian as registered intermediary, which does not allow the preservation of privileges related to shareholder seniority.</p>
--	---

Description of the roles and responsibilities of the actors involved (OPTIONAL)	
---	--

Workflows (OPTIONAL)	
----------------------	--

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: _____

Correspondance table between T2S Messages after pre-settlement controls and Error codes generated by ESES

T2S Business Rule	ESES Error Code
<p>BRL_T2S_BRN_AACC_0033(v00.01) For settlement instructions (instructed by ESES CSD) impacting the NDC 010 (debit or credit), ESES will control if the security was a fully registered securities on the trade date, before sending the settlement instruction to T2S:</p> <ul style="list-style-type: none"> - If the security was a fully registered securities on the trade date, ESES will send the settlement instruction to T2S - If the security was not a fully registered securities on the trade date, the settlement instruction (transaction notice, BRN...) is rejected with the following reason "Account nature and legal form do not match". 	<p>423' Account nature and legal form do not match</p>
<p>BRL_T2S_BRN_AACC_0040(v00.01) Existing controls concerning debited-credited account compatibility can be replicated within ESES, for "already matched" settlement instructions for which ESES CSD is the instructing party (except FOP generated by BRN)). ESES will check the debited-credited account compatibility before sending settlement instructions to T2S. See table "NDC compatibility controlled by ESES". If a following control fails the settlement instruction will be rejected by ESES.</p> <ul style="list-style-type: none"> - Instructions between Account nature 000 and 001 are allowed only if debited party = credited party (EF) - In case of delivery versus payment between two different parties, from account nature 001 to account nature 001, legal form of the security must be "registered" (VEN). - In case of Free of payment between two different parties, from account nature 001 to account nature 001, legal form of the security must be "registered" (VEN) if the CTO=GO. - In case of settlement instruction between account nature 000 and account nature 001, the settlement instruction must only be a FOP, DVP and PFOD are not allowed. - If the account nature of the debited or credited account in [008, 009] the Account owner must be the Account nature manager for the Account and the security 	<ul style="list-style-type: none"> - Instructions between Account nature 000 and 001 are allowed only if debited party = credited party (EF) => I11 'New' "INVALID SECURITIES ACCOUNT CREDITED/DEBITED BETWEEN PARTICIPANTS " - In case of delivery versus payment between two different parties, from account nature 001 to account nature 001, legal form of the security must be "registered" (VEN). => I12 'New' Settlement instruction type not allowed for this transaction" - In case of Free of payment between two different parties, from account nature 001 to account nature 001, legal form of the security must be "registered" (VEN) if the CTO=GO. => '413' "Registered transaction type and security legal form do not match" - In case of settlement instruction between account nature 000 and account nature 001, the settlement instruction must only be a FOP, DVP and PFOD are not allowed. => I12 'New' " Settlement instruction type not allowed for this transaction" - If the account nature of the debited or credited account in [008, 009] the Account owner must be the Account nature manager for the Account and the security => '445' PARTICIPANT CODE AND SECURITY CODE DO NOT MATCH
<p>BRL_T2S_BRN_AACC_0170(v00.01) An already matched settlement instruction (only FOP) concerning French registered securities (VEN or VON) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 001 and crediting the NDC 001 of two different participants must be instruct with a CTO = TO/TT/TM/GO. If the instruction is instruct without CTO or with a CTO ≠ TO/TT/TM/GO the instruction will be rejected by ESES.</p>	<p>335 CTO and account type (debit/credit) do not match</p>

EUROCLEAR

<p>BRL_T2S_BRN_AACC_0180(v00.01) An already matched settlement instruction (only FOP) concerning French registered securities (VEN) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 010 and crediting the NDC 001 of the same participant or of two participants must be instruct with a CTO = MO/BO/GO. If the instruction is instruct without CTO or with a CTO ≠ MO/BO/ GO, the instruction will be rejected by ESES.</p>	<p>335 CTO and account type (debit/credit) do not match</p>
<p>BRL_T2S_BRN_AACC_0181(v00.01) An already matched settlement instruction (only FOP) concerning French registered securities (VEN or VON) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 001 and crediting the NDC 010 of the same participant or of two participants must be instruct with a CTO = MO/BO or GO if the instruction is instruct without CTO or with a CTO ≠ MO/BO or GO, the instruction will be rejected by ESES.</p>	<p>335 CTO and account type (debit/credit) do not match</p>
<p>BRL_T2S_BRN_AACC_0182(v00.01) An already matched settlement instruction (only DVP or DWP) concerning French registered securities (VEN) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 001 and crediting the NDC 001 of two participants must be instruct with a CTO = GO or without CTO. If the instruction is instruct with a CTO ≠ GO or ≠ "empty", the instruction will be rejected by ESES.</p>	<p>335 CTO and account type (debit/credit) do not match</p>
<p>BRL_T2S_BRN_AACC_0183(v00.01) An already matched settlement instruction (only DVP or DWP) concerning French registered securities (VEN) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 001 and crediting the NDC 010 of the same participant or of two participants must be instruct with a CTO = GO or without CTO. If the instruction is instruct with a CTO ≠ GO or ≠ "empty", the instruction will be rejected by ESES.</p>	<p>335 CTO and account type (debit/credit) do not match</p>
<p>BRL_T2S_BRN_AACC_0184(v00.01) An already matched settlement instruction (only DVP or DWP) concerning French registered securities (VEN) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) debiting the NDC 010 and crediting the NDC 001 of the same participant or of two participants must be instruct with a CTO = GO or without CTO. If the instruction is instruct with a CTO ≠ GO or ≠ "empty", the instruction will be rejected by ESES.</p>	<p>336 CTO and account type (debit/credit) do not match</p>
<p>BRL_T2S_BRN_AACC_0190(v00.01) A settlement instruction including CTO (already matched or to be matched (delivery leg)) concerning French registered securities (VON or VEN) send in indirect connectivity or when ESES is the instructing party (except settlement instruction generated by BRN, SBI and OST) and instructed with a CTO = TM/TO/TT/MO/BO must be a FOP instruction. If it's not the case the settlement instruction will be rejected by ESES.</p>	<p>"300 " Registered transaction type invalid or not allowed for FOP securities transfer</p>