

Practice reference: MS-SETTL-CESSIONSTEMP-01

## Switch of the instruction mode of securities financing transactions into a Buy/Sell mode and management of the transition to T2S

<b>Versioning</b>	Version	1.2
	Publication date	August 29th, 2016

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

<b>Description of the existing practice</b>	<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"> <li>• the generation of the far leg of securities financing transactions and the link with the near leg;</li> <li>• the setting of all required data on the far leg, notably the trade date;</li> <li>• for variable-rate repurchase agreements, the cristallisation on D-1 of the intended settlement date, by Euroclear France 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</li> </ul> <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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<b>Description of the T2S impact</b>	<p>The 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"> <li>• The far leg of the contract will no longer be automatically generated;</li> <li>• The trade date of the far leg will no longer be generated by Euroclear France;</li> <li>• Cristallisation will no longer be operated by Euroclear France.</li> </ul>
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<b>Description of the major issue</b>	<p>The management of instructions on securities financing transactions in Euroclear France (notably the French ‘pension livrées’) spread across the migration must be addressed. Several banks have signalled their desire that this switch, sensible</p>
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	<p>considering the nature of the operations, should be separated from the actual migration of Euroclear France to T2S.</p> <p>Nonetheless, the 'Pensions Livrées' module will continue to accept instructions from participants, as Euroclear France cannot prevent participants from using it until the migration to T2S.</p> <p>As regards variable-rate repurchase agreements:</p> <ul style="list-style-type: none"> <li>• Instructions on the far leg of the transactions are delivery versus payment instructions, with a cash amount on the instruction integrating the interest payment.</li> <li>• 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.</li> </ul>
Description of the roles and responsibilities of the actors involved (OPTIONAL)	
Workflows (OPTIONAL)	
Links with other market practices	MS-SETTL-CESSIONSTEMP-02

## 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 &amp; Sell-Back mode, currently under review.</i></p> <p>French banks and institutions propose that securities financing transactions instructed today in the module 'Pensions Livrées' of Euroclear France are instructed in a buy/sell mode (2 instructions) ahead of the migration of Euroclear France to T2S, on <b>May 9<sup>th</sup>, 2016</b>. This market practice would allow a reduction in the number of 'contracts' outstanding at the time of the migration of Euroclear</p>
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France to T2S, as a number of contracts should reach maturity or be subject to early termination before the actual migration to T2S.

Instructions on securities financing transactions cleared by LCH SA, being subject to netting, are not impacted.

*Note: the market practice targets instruction modes on securities financing transactions, but does not impact how the contracts are negotiated at the trading level.*

**Management of the switch in buy/sell mode :**

- No back-loading of outstanding contracts will be operated by Euroclear France ;
- Nonetheless, operations for which the near leg was instructed before the date of the switch, provided they were not bilaterally cancelled, will be allowed to be maintained in the 'Pensions Livrées' module of Euroclear France, if the participant wish to do so;
- Although this market practice is the recommendation of the French market, it is not mandatory by nature; institutions remain free to continue to use the 'Pensions Livrées' module up to Euroclear France's migration to T2S. Both instruction modes will then in practice coexist until the migration of Euroclear France to T2S. Only on September 12<sup>th</sup>, 2016 will the 'Pensions Livrées' module be technically deactivated by Euroclear France.

**Management of instructions on contracts negotiated between the switch in buy/sell mode, from a trade date of May 9th, 2016 and until the migration to T2S (client and market side) :**

- 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, or field values, except for the value of the trade date.
- The value of the trade date should be set as follows:
  1. If the maturity of the contract is :
    - anterior to the migration to T2S, or
    - posterior to the migration to T2S, and instructions are re-issued before the point of no return is reached during the migration week-end,then the trade date should be set as follows:
    - the original trade date of the contract as negotiated;
    - if the original trade date is anterior by more than 35 days to the the intended settlement date of the far leg, then trading parties should reach an agreement on the value to be given to the field trade date. The recommendation of the French market is to set the value at the intended settlement date of the far leg.

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	<p>2. If the maturity of the contract is posterior to the migration to T2S, and instructions are re-issued after the point of no return reached during the migration week-end: the value of the trade date of the far leg should be set at the original trade date of the negotiation.</p> <p>3. For contracts negotiated less than 35 days before the migration of Euroclear France to T2S, the field trade date on the far leg will be set at the original trade date of the contract. These instructions will be re-issued during the migration week-end, after the point of no-return.</p> <p>→ <b>See also the table in appendix</b></p> <ul style="list-style-type: none"><li>• 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.</li><li>• The far legs must be instructed as soon as possible in order to ensure matching as soon as possible.</li><li>• The calculation of the interests must be made by trading parties. During the transition period between the switch in buy/sell mode and the migration (from May 9<sup>th</sup> to September 12<sup>th</sup>, 2016), cristallisation should be maintained at ISD-1.<ul style="list-style-type: none"><li>○ The fixing rate for EONIA is published around 6:45-7:00pm.</li><li>○ Institutions will be able to calculate the cash amount from 7pm onwards.</li><li>○ Institutions must instruct at the latest at 8pm so instructions can settle overnight in T2S.</li><li>○ During the transition period as well as after the migration to T2S, LCH SA will continue to operate the cristallisation at ISD-1 on behalf of its members.</li></ul></li><li>• 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.</li><li>• 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.</li><li>• For contracts negotiated less than 35 days before the migration of Euroclear France to T2S, market players have adopted the following practice;<ul style="list-style-type: none"><li>○ The field trade date will be set at the original trade date of the contract</li></ul></li></ul>
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	<ul style="list-style-type: none"> <li>○ Instructions will be re-issued during the migration week-end, after the point of no-return.</li> <li>● For instructions that may be purged by Euroclear France during the migration week-end : market players recommend that Euroclear France purges them, and that instructions are re-issued during the migration week-end, after the point of no-return.</li> </ul> <p><b>Specific case of open-ended contracts</b> 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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<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: 9/05/2016	<input type="checkbox"/> Date: 12/09/2016	<input type="checkbox"/> Date: _____

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



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**APPENDIX**

Values of the field trade date for instructions issued in the 'Pensions livrées' module before the switch in buy/sell mode (May 9th, 2016) and not settled at the date of the migration

		Contract maturity				Case of contracts negotiated less than 35 business days before the migration to T2S
		Anterior to the migration to T2S		Posterior to the migration to T2S		
		ISD of the far leg > Original trade date + 35 days	ISD of the far leg < or = Original trade date + 35 days	ISD of the far leg > Original trade date + 35 days	ISD of the far leg < ou = Original Trade date + 35 days	
Timing of the re-issuing of the instruction (far leg)	Before the point of no return is reached during the migration week-end to T2S	Need for an agreement between the trading parties. <i>(Recommendation : ISD of the far leg)</i>	Original trade date of the negotiation	Need for an agreement between the trading parties. <i>(Recommendation : ISD of the far leg)</i>	Original trade date of the negotiation	Original trade date of the negotiation
	After the point of no return is reached during the migration week-end to T2S			Original trade date of the negotiation		