

T2S CORPORATE ACTIONS STANDARDS¹

FREQUENTLY ASKED QUESTIONS (FAQs)

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¹ This version of the FAQ on T2S CA standards (October 2015) supersedes the previous version of the FAQ document of April 2015. Two new Q&As have been added to this compared to the previous version.

Introduction

In 2009, the T2S Advisory Group (AG) endorsed the T2S corporate actions (CA) standards.² These are the T2S CA standards on flows (i.e. pending settlement transactions in T2S) which are based on the market CA standards (also referred to as “CAJWG standards³”).

The T2S Corporate Actions Sub-group runs an annual gap analysis on the T2S markets’ compliance with the T2S CA standards. During the regular gap analysis process, as well as on other occasions, the CASG has received questions on the exact interpretation of some of the T2S CA standards. The main purpose of this document is by making widely available the replies to some of the most frequently asked questions to help the T2S markets to establish a uniform interpretation of the T2S CA standards with a view of achieving comparable self-assessment results for the annual gap analysis survey and their consistent implementation across the T2S markets. The FAQs do not focus on specific T2S market adaptation plans but rather on sharing questions and answers relevant for all T2S markets. Although the primary addressees are the members of the T2S National User Groups (NUGs) and/or the Market Implementation Groups (MIGs), the FAQs could also be of interest to a wider audience with an interest in T2S.

This version of the FAQ (January 2017) reflects the latest update of the T2S CA standards of May 2013, the discussions in the T2S CASG that took place in January 2017 and supersedes the previous version of the FAQ of November 2016. The changes in this version of the FAQ are the following:

- addition of question 2.19 to question 2.26 which describes various scenarios for transformation based on the Instruction Owner CSD (IOC) concept defined in the 23 November 2009 paper on “Market Claims and Transformations in T2S”;
- addition of annex 2 which summarises the various scenarios for the identification and processing of transformations.

1. Market Claims (MC)

According to the market CA standards (CAJWG), a market claim (MC) is defined as a ‘Process to reallocate the proceeds of a distribution so that they reach the contractually entitled party in case the later

² www.ecb.europa.eu/paym/t2s/governance/ag/html/subcompact/index.en.html

³ www.afme.eu/WorkArea/DownloadAsset.aspx?id=5632

has not received full entitlement on Record date'. In the context of T2S this applies to all pending transactions (Matched but not settled)⁴ on Record date. MC instructions are separate from the underlying transactions and can settle independently of them. The section below answers some of the questions relating to the interpretation of T2S market claims standards for various scenarios for market claim detection.

Detection and processing of market claims in the context of T2S

General rules:

A) When Opt-out indicator is not specified (BLANK):

- *For securities in nominal:*

a) Market Claim should be generated transferring CA proceeds from the seller to the buyer:

- If the Intended Settlement Date is on or before the Record Date but there is a Pending Transaction at close of business on Record Date.

- *For securities in units:*

b) Market Claim should be generated transferring CA proceeds from the seller to the buyer:

- If the trade date < Ex-date, transaction is still pending on the RD, indicator Ex/Cum is equal to "CUM" or BLANK.
- If the trade date => Ex-date, the transaction is still pending on the RD, indicator Ex/Cum is equal to "CUM".

c) Market Claim should be generated transferring CA proceeds from the buyer to the seller:

- If the trade date >= Ex-Date, the actual settlement date <= Record Date (RD), indicator Ex/Cum is equal to "EX" or BLANK.
- If the trade date < Ex-Date, the actual settlement date <= Record Date (RD), indicator Ex/Cum is equal to "EX".

B) When Opt-out indicator is specified ("Opt-out"):

No market claims should be generated, irrespective of the Ex/Cum indicators or trade date/settlement date of the settlement instruction.

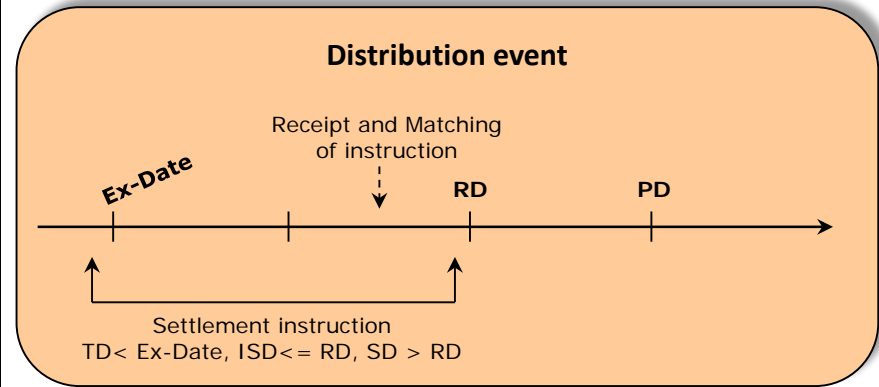
All other scenarios are excluded from the MC detection and creation process and no MCs are created by IOCs/CCPs in T2S. The counterparties involved in the transaction may nevertheless arrange for raising market claims bilaterally.

⁴ However, and in line with the market standards for CAs, the T2S standards also cover the scenario where the buyer creates the market claim to the seller, when trade date is on or after Ex Date and Actual Settlement Date is on or before Record Date (i.e. there is no pending transaction). In some markets this case is referred to as "reverse market claim".

Please refer to Annex 1 for an exhaustive list of all scenarios in which market claims should be generated by market infrastructures in T2S.

Question 1.1

Is the following pending transaction subject to market claim?
The Trade Date is prior to Ex-Date, the Intended Settlement Date (ISD) is prior to Record Date (RD), and the transaction is not settled by the end of Record Date.
If yes, should the ISD of the Market claim be the Payment Date of the Corporate Action (CA)?



Answer 1.1

The principle is that any eligible instruction traded “cum” which is not settled at the end of the day on the record date should result in a market claim at the end of the record date. This also applies to any instruction with a special settlement lifecycle. If the instruction is matched after the record date, a market claim should be raised as soon as possible during the 20 days detection period. In addition, the market claim should have an independent lifecycle from the underlying settlement transaction. As per T2S MC standard 18 the ISD of the market claims should be the payment date of the underlying CA. Consequently, the answer to both questions is ‘Yes’.

Question 1.2

What should be the ISD of a market claim which is created after record date?

Answer 1.2

The ISD of the market claim should be the payment date of the CA, irrespective of the creation date of MC i.e. whether the MC is created on or after the record date of the CA.

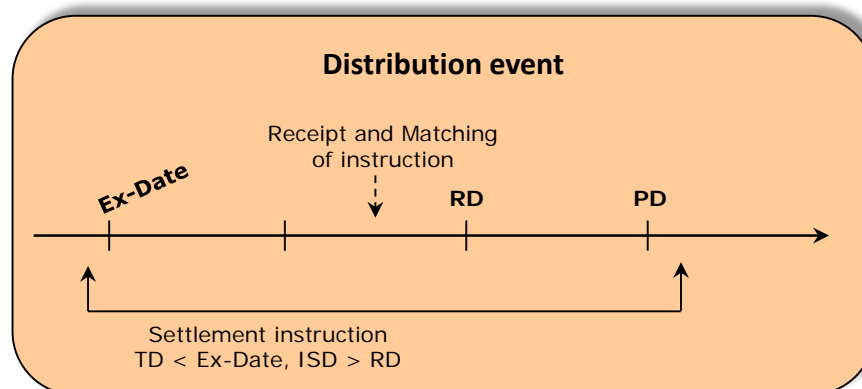
When the MC is created on the payment date of the CA (i.e. RD + 1 business day) then the ISD will be current day and the settlement of MC is attempted in T2S immediately.

When the MC is created after the payment date of the CA then the ISD will be in the past and the settlement of MC is attempted in T2S immediately (i.e. earliest settlement date).

Question 1.3

Is the following pending transaction subject to market claim?

1. The Trade Date is prior to Ex-Date, instruction is received and matched prior to Record Date, and Intended Settlement Date is after the Record Date.
2. If yes, should the Intended Settlement date of the Market claim be the Payment Date of the Corporate Action?⁵



Answer 1.3

See explanation in answer to Question 1.1

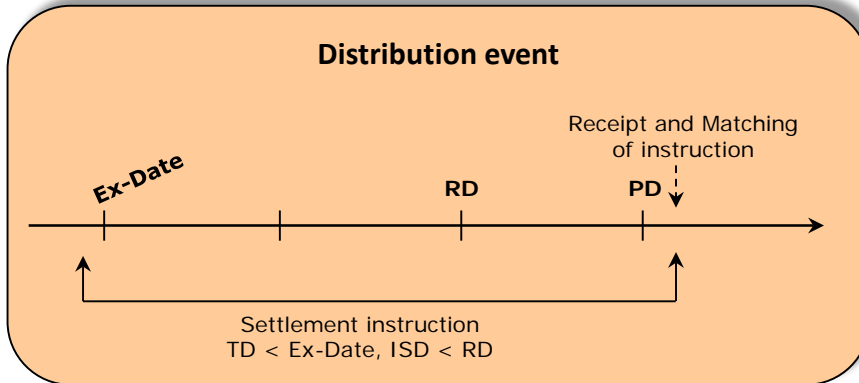
1. Yes
2. The ISD should be the same as the payment date. This means that, in terms of settlement, the market claim may settle at the earliest on the payment date, which is before the ISD of the underlying transaction.

Question 1.4

⁵ In that case the Market Claim could settle prior to the underlying transaction

Is the following pending transaction subject to market claim?

- i) The Trade Date is prior to Ex-Date, and Intended Settlement Date is prior to Record Date, and the instruction is received and matched after Record Date.



- ii) If 'Yes', should the Intended Settlement Date (ISD) of the Market claim be the Matching Date of the instruction? Would this comply with the Standard 5 of the CAJWG standards, but conflict with the T2S MC standard 18?

Answer 1.4

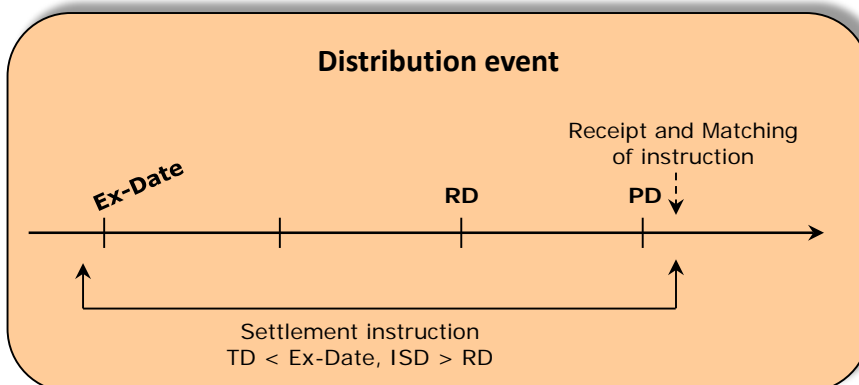
See explanation in answer to Question 1.1

- i) 'Yes'
- ii) AS per corporate action market standard (CAJWG) 5, the ISD of the market claim should be same as the payment date of the underlying CA. This means that, in terms of settlement, the market claim may settle as soon as it is matched, since the payment date is already reached. No conflict exists between the two sets of standards.

Question 1.5

Is the following pending transaction subject to market claim?

- i) The Trade Date is prior to Ex-Date, and Intended Settlement Date is after Record Date, and the instruction is received and matched after Payment Date.



- ii) If 'Yes', should the Intended Settlement date of the Market claim be the Matching Date of the instruction? Would this comply with the CAJWG MC standard 5, but conflict with the T2S MC standard 18?

Answer 1.5

See explanation in answer to Question 1.4

Question 1.6

According to T2S MC standard 3, *maximum time period for claim detection: 20 T2S opening days from Record Date*. Is it correct that unmatched instructions are kept pending in T2S for 20 T2S opening days from Record Date?

If 'Yes', market claims should therefore be detected for 20 days starting from Trade Date and not from Record date. The claim detection period is then 17 days after TD at maximum (considering a T + 3 settlement cycle). Can you please confirm?

Answer 1.6

As specified in T2S URD (T2S.05.430), an unmatched instruction is kept in T2S for 20 business days from its ISD or the date of its last status change. Thus recycling of unmatched instructions is not based on the Record Date of the CA. Technically, when an instruction is not matched in T2S, it is not subject to any further processing before it is matched. This is confirmed by T2S MC Standard 8 "As per CAJWG standards, market claims should be detected only for matched instructions". [As specified in T2S URD (T2S.05.430, T2S.05.460), if such an unmatched instruction is in T2S for 20 days it would be automatically purged at the beginning of the 21st day with no effect on claim detection as it has not been matched. Once an instruction is matched with another instruction before its purging from T2S, it will be recycled for an indefinite period of time in T2S. As market claims should be detected only on matched instructions, the situation described above should not arise as the matched instruction will stay in T2S indefinitely and be considered for market claim for 20 days after the Record date unless cancelled by both parties.]

The two processes (keeping unmatched instructions for 20 days & market claim detection on matched instructions for 20 days after RD) are not linked. The duration of keeping the unmatched instructions in the system is 20 days from its ISD or date of its last status change. After this period the instruction is cancelled by T2S. This cancellation process does not consider any corporate actions that exist on

the underlying ISIN.

On the RD End Of Day, IOC⁶s should consider “matched and pending” or settled transactions for identifying market claims. After RD and within MC detection period, if any transactions match or settle then they are also eligible for identification of market claims.

Question 1.7

According to T2S CA MC standard 19, “*the market claim transaction should be instructed with the same status (i.e. either “hold” or “released”) as the underlying transaction*”. The Instruction owning CSD (IOC) would instruct a market claim in the “on hold” or in the “released” status as per the underlying transaction. Which is the party responsible for changing the status to both transactions?

Answer 1.7

According to UDFS section 1.6.1.6 ‘Hold and Release’; A Settlement Instruction on Hold can only be released when the relevant T2S Actor that put the instruction on Hold or the relevant CSD sends the corresponding Release Instruction. Regarding the market claim transaction, it would be either the CSD or the relevant party who will release the market claim which is put “on hold”.

Question 1.8

According to T2S MC standard 23, “*market infrastructures should provide to their participants a user friendly facility which gives them the option to ensure that the market claim is not settled prior to the settlement of the underlying transaction*”.

- i) Can the hold/release be considered as the [user] friendly option given to participants?
- ii) Does the rationale for this standard exclude the possibility to use the T2S linkage option “AFTE⁷” for the purpose?

Answer 1.8

- i) Hold/release can be indeed described as one of the user friendly mechanisms to ensure a market claim settles after the underlying instruction has settled. Please note that the hold/release function is only applicable at the transaction level. Market Infrastructures which allow this process to be applied at the participants account level is **not** considered

⁶ “Instruction Owner CSD” (IOC): is defined as the CSD that provides the securities accounts on which the participant has sent an underlying instruction. The definition also includes the case where the CSD participant maintains a direct technical connectivity to T2S. There are always two IOCs per transaction, the IOC can be the same CSD if the transaction is between two of its participants. This role can be assigned either to the Issuer CSD or the Investor CSD, depending on the settlement chain scenario. By definition, the IOC is always aware of the pending instructions of its own participants.

⁷ AFTE is the ISO20022 processing code, which specify that the transaction/instruction is to be executed after the linked transaction/instruction

a 'user friendly facility'.

One procedure, which a CSD participant could consider to use to prevent settlement of a market claim before the settlement of the underlying transaction, is the following:

- the CSD participant puts on "party hold" its leg (its instruction) of the underlying pending transaction at the end of the settlement day (i.e. after the DVP cut-off if it is a DVP instruction);
- CSDs/CCPs then generate the respective leg of the market claim instruction with "party hold" status on this underlying transaction as required by the T2S CA standards;
- the CSD participant then releases for settlement its leg of the underlying transaction;
- After the underlying transaction has settled, the CSD participant releases for settlement its leg of the market claim transaction.

- ii) Yes, the standard as elaborated in the rationale excludes the possibility to link the settlement of the market claim and the underlying transaction using the "AFTE" option. The only 'link' that will apply is the hold/release function whereby if the parent transaction was on 'party hold' over a record date the market claim will also be raised in a 'party hold' status.

Please note that for the purposes of managing market claims under "party hold" status above it is meant the usual "party hold" processing indicator for an instruction, which a CSD or its participant may use to hold its instructions for a variety of reasons either immediately or at any time during its lifecycle until settlement or cancellation. In this respect, CSDs/CCPs should not use other "on hold" indicators valid for T2S such as "CSD Hold", "COSD Hold" or "CSD Validation Hold" when managing market claims.

Question 1.9

When an opt-out indicator is specified in the settlement instructions, the Instruction Owner CSD (IOC) does not manage claims or transformation. In this case, can counterparties to the settlement transaction agree to manage the market claim or the transformation by themselves? If 'Yes' can they use the ISO transaction type codes "CLAI" or "TRAN"?

Answer 1.9

According to T2S MC standard 6, counterparties in the underlying transaction may choose to "opt-out" if they want to indicate that no claim at all should be raised on a given transaction. In this case IOC will not create market claims or transform the underlying transaction.

According to T2S CA MC standard 9, only IOCs or CCPs should generate market claims. The standards do not exclude the possibility that the counterparties instruct bilaterally agreed market claims as trade related settlement instructions. The counterparties should not use the key words

“CLAI”/“TRAN” while sending settlement instructions to T2S. However the T2S platform does not validate participants’ instructions with reference to these keywords, and it is always up to the CSDs to grant the respective privileges to their clients.

Question 1.10

Should the Investor-CSDs and market participants use the same CA identifier as allocated by the Issuer-CSD to the corporate action (ISO15022 message, MT564, tag 20C) in order to be sure that all intermediaries are referring to the same corporate action event? Please confirm.

Answer 1.10

T2S CA standards are defined only for the transaction management, and these standards do not impose any restriction on the usage of CA reference.

According to the T2S MC standard 17, the CSDs/ CCPs should include “appropriate references” in the market claims. Possible references include: T2S reference of the underlying transaction, and IOC corporate action event reference. The corresponding field in sese.023 is Document/SctiesStlmTxInstr/StlmTpAndAddtlParams/CorpActnEvtId.

Please note that T2S does not receive, validate or send Corporate Action notification messages (MT564).

Question 1.11

This question is about the detection of transactions eligible for transaction management (Market Claims and Transformations processing).

CSDs would start detection of pending transactions from Record Date onwards, by including all settlement instructions that are matched and unsettled as of Record Date. CSDs would also include unmatched trades on Record date and generate the market claims upon their matching, provided it occurs within the detection period (Record Date + 20 days). In addition, Market Claims would be managed by the CSDs, irrespective of the ISD of the underlying transaction. Please confirm.

Answer 1.11

The answer is provided in two parts. First part addressing the market claims and second part addressing the transformations processing.

Market Claims:

Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2). The standards are included below for the sake of reference.

Standard 1. Market claims should be created

a) For securities in units (e.g. shares): From the seller to the buyer, when trade date < Ex-Date and there is a Pending Transaction at close of business of Record Date; or

From the buyer to the seller, when trade date >= Ex-Date and Actual Settlement Date <= Record Date.

b) For securities in nominal (e.g. bonds): From the seller to the buyer, if the Intended Settlement Date <= Record Date but there is a Pending Transaction at close of business on Record Date.

Standard 2. Concurring Bilateral Input should allow to determine whether the underlying trade is “ex” or “cum” and the (I) CSD or CCP should take this into account for the creation of a Market Claim, irrespective of the actual Ex-Date.

T2S MC standard 4 addresses the timing of creating market claims. According to this standard, Market claims should be detected after the close of business on record date and during the rest of the claims detection period.

According to T2S MC standard 8, only matched settlement instructions should be considered for evaluating their eligibility for market claims. So, IOC can consider all matched settlement instructions (including settled ones, e.g. for reverse market claims) for market claims processing. Unmatched instructions should not be considered for evaluating eligibility of market claims.

According to T2S MC standard 3, maximum time period for claim detection is 20 T2S opening days from record date of the underlying CA. So, the IOC should identify market claims, on record date and up to 20 business days after the record date. According to T2S MC standard 5, the IOC should perform the market claim detection at least once per day, after record date, and within market claims detection period. IOC can consider all newly matched instructions for evaluating their eligibility for market claims.

Transformations:

According to the T2S MC standard 2, at the EOD (end of day) on record date or market deadline date, the IOC should transform all matched settlement instructions, when the underlying ISIN is subjected to a reorganisation. IOC should not consider unmatched instructions for transformation (as detailed in 'Scope of Transformation standards' in T2S transformation standards).

After the record date and up to 20 business days, IOC should transform any newly matched instructions on the underlying ISIN. In addition, as specified in T2S URD (T2S.05.430), unmatched instructions are kept in T2S for 20 business days from its ISD or the date of its last status change, and are cancelled afterwards.

The question is related to handling of market claims on partially settled transactions.

T2S supports partial settlement, if so decided, by the counterparties to the settlement transaction.

Consider a failed settlement transaction for 1000 in ISIN 1 on Record Date of CA. The settlement transaction also bears the partial settlement indicator set to Y.

- i) The IOC creates market claim/transformation on the 1.000 basis
- ii) Consider that at a later point in time on the record date, the underlying transaction settles partially (e.g. a quantity of 200 is settled and 800 is unsettled). The market claim/transformation is calculated on the 800 basis (i.e. for the unsettled part of the underlying trade). Please confirm
- iii) In case the answer is 'Yes' to the above question, please confirm the following. At a later stage, the same trade is settled for another partial quantity (300). In this case should the market claim/transformation previously created for a quantity of 800, remain unchanged? Or Shall the IOC or the counterparties bilaterally cancel the earlier created market claim/transformed instruction that was based on 800, and replace it by a new market claim/transformation based on the new unsettled quantity 500)?

Answer 1.12

Market claims are created only for the unsettled quantity of the settlement transactions, as available at the EOD of record date of the CA. In the example, 800 positions are unsettled by the EOD of record date. So the Market claim is created only on the basis of 800 positions.

As per T2S MC standard 23, the settlement of a market claim should be independent from the settlement of the respective underlying transaction. So the partial settlement of the underlying transaction after the record date of the CA should not impact the market claim that is already generated at the record date end of day.

Question 1.13

What details are available in the "statement of pending instructions" and in the "statement of transactions" from T2S, Is it possible to obtain these statements from T2S, based on a search criterion?

Answer 1.13

These two statements are reports generated by T2S. These reports can be configured to be generated based on an event or time, e.g. End Of Day.

Statement of pending instructions provides status and detailed information regarding instructions which do not have a final status (e.g. matched, unmatched, partially settled) within T2S. Refer UDFS 1.2.1, section 3.3.7.7 for specifications of the report (ISO20022 message semt.018.001.03).

Statement of Transactions gives information about the transactions of the respective CSD or other directly connected T2S party, settled in T2S for a particular settlement day. Refer UDFS 1.2.1, section 3.3.7.6 for specifications of the report (ISO20022 message semt.017.001.03).

Both reports are available as complete or delta. Delta reports only show the changes from the previously generated report. T2S actor can configure reports at party level. In addition CSDs can also opt for reports on system entity level, i.e. reports providing the CSD with information relating to all its participants. Please refer to section '1.6.4.2 Report generation' of UDFS 1.2.1.

Question 1.14

Can the market claim settle, even though the corresponding underlying transaction is not settled yet?

According to T2S MC Standard 23, "In line with the CAJWG standards, the settlement of a market claim should be independent from the settlement of the respective underlying transaction. However, market infrastructures should provide to their participants a user friendly facility which gives them the option to ensure that the market claim is not settled prior to the settlement of the underlying transaction"

On the Business Process Description (BPD) it is stated: Link indicator - the CSD (IOC) should not link the market claim to the underlying settlement instruction. However, in case the CSD (IOC) wants to ensure that the market claim settles only after the underlying settlement transaction, the CSD (IOC) may instruct the market claim related settlement instruction with a 'hold'. The CSD (IOC) will release this instruction upon receiving the settlement confirmation of the underlying settlement instruction from T2S.

Therefore the BPD indicates that the underlying settlement transaction and the Market claim should not be linked for settlement purpose. This means they are independent as it is indicated on the T2S MC standard 23. However, the BPD does not explicitly detail that the Market claim could settle prior the underlying settlement transaction.

Also the BPD states that the CSD should send the Market claim with 'hold'. In that case the Market Claim is linked to the underlying transaction and they are not independent.

Could you confirm?

Answer 1.14

Please note that Business Process Description (BPD) illustrates the business processes involving CSDs, Central Banks and other technically directly connected parties and their interaction with T2S. The CSDs processes with their clients are not in the scope of the BPD.

As detailed in UDFS section '1.6.1.11 Linked Instructions', when the instructions are not linked for settlement purpose in T2S, they can be settled in any sequence. In the context of this question, it is possible that market claim may settle before the underlying instruction. In fact, the standards refer to

the market claim being raised and settling independently from the underlying instruction. In order to prevent the market claim settling before the underlying transaction action is required by either party of the transaction. They must ensure their leg of the market claim is placed on 'party hold' then wait for the underlying transaction to settle before placing their leg of the market claim into a release status. As at Record Date should the underlying trade be in the 'release' status, the market claim will be raised in a 'release' status⁸ and placed into the settlement queue along with all other types of transactions which have a 'release' status. Therefore, should participants wish to change the settlement status, this must be done per transaction.

More specifically one procedure, which a CSD participant could consider to use to prevent settlement of a market claim before the settlement of the underlying transaction, is the following:

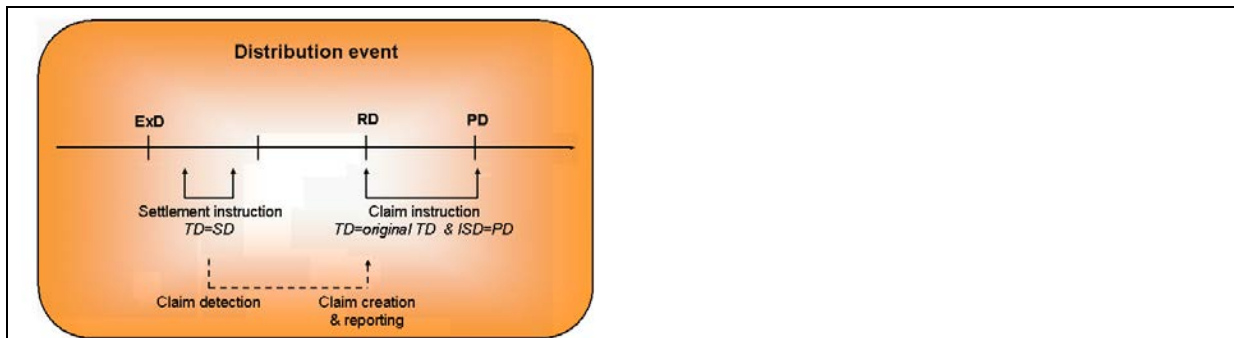
- the CSD participant puts on "party hold" its leg (its instruction) of the underlying pending transaction at the end of the settlement day (i.e. after the DVP cut-off if it is a DVP instruction);
- CSDs/CCPs then generate the respective leg of the market claim instruction with "party hold" status on this underlying transaction as required by the T2S CA standards;
- the CSD participant then releases for settlement its leg of the underlying transaction;
- After the underlying transaction has settled, the CSD participant releases for settlement its leg of the market claim transaction.

Please note that for the purposes of managing market claims under "party hold" status above it is meant the usual "party hold" processing indicator for an instruction, which a CSD or its participant may use to hold its instructions for a variety of reasons either immediately or at any time during its lifecycle until settlement or cancellation. In this respect, CSDs/CCPs should not use other "on hold" indicators valid for T2S such as "CSD Hold", "COSD Hold" or "CSD Validation Hold" when managing market claims.

Question 1.15

When should the IOCs report market claims from buyer to seller (in some markets also known as reverse market claims) to the counterparties of settlement instruction? Should they be created in the CSD settlement system and reported to the involved parties only at end of Record Date, or upon detection prior to Record Date? How does the partial settlement of an underlying transaction affect the generation of a reverse market claim?

⁸ This is because according to T2S MC Standard 19 "The market claim transaction should be instructed with the same status (i.e. either 'on hold' or 'released') as the underlying transaction."



Answer 1.15

The same principles (summarised in the answer to Question 1.1) should be applied. In the example, the market claims from buyer to the seller should be created at the end of the day on the record date and reported at that time.

More precisely, when the partial indicator of the underlying transaction is set to “yes” and when the transaction settles partially on ISD (here on ExD) and on ISD + 1 (here on RD), the IOC should create one market claim from the buyer to the seller on the aggregated quantity of all the partials.

Example: original quantity set to 100, with 2 partials of respectively 20 and 30 settled on ExD, a third one of 10 settled on RD, the market claim will be created once based on a settled quantity of 60 (20+30+10) of the underlying transactions.

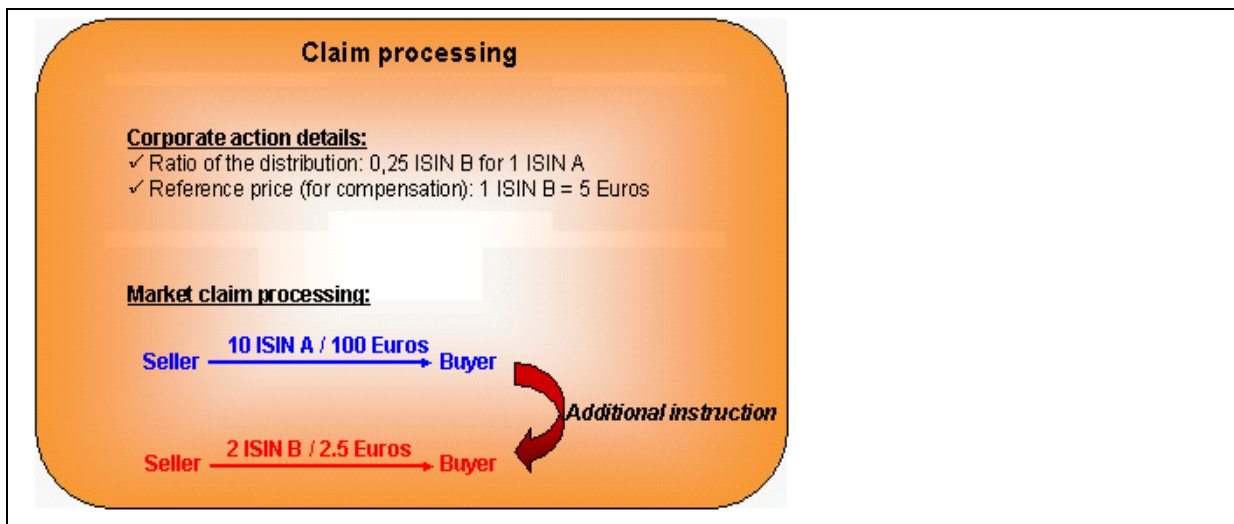
Detection and processing of market claims on securities distribution with fractions

Question 1.16

Consider the below scenario.

Corporate action type is distribution of securities. The market claim on the underlying transaction results in fractional outturn securities. The issuer announces the reference price for compensation of fractions.

In this case, should the cash compensation be transferred from the seller to the buyer?



Answer 1.16

Yes, there should be a cash transfer to the entitled party.

In the example, the underlying instruction is a DVP delivery of 10 ISIN A; The market claim will be an additional transaction of 2.5 ISIN B rounding down to 2 ISIN B. As the Issuer has announced a compensation of 5 euros per ISIN B, it means a cash amount of $0.5 * 5$ euros i.e. 2.5 euros to be paid to the entitled buyer by the seller. Please refer to T2S CA standards, Market Claims Standard 11.

Question 1.17

If answer to Question 1.16 is “Yes”, Should the fractional part of market claim be processed using the reference price communicated by the issuer for the underlying corporate event?

Answer 1.17

Yes, the IOC should use the reference price communicated by the issuer or its agent.

Question 1.18

If answer to Question 1.16 is “Yes”, Should the fractional part of market claim be processed using a single “Delivery With Payment” instruction between the Seller and the Buyer (to transfer both Securities and Cash on a simultaneous basis), or should it be processed using two separate instructions (one for Securities, another one for the Cash compensation)?

Answer 1.18

This should be processed using 2 instructions, one FOP instruction for delivering securities from the seller to the buyer and another PFoD for paying the cash compensation (from the seller to the buyer) arising out of the fractional part of the MC.

Please refer to T2S CA standards, Market Claims Standard 11.

Detection of market claims using cum / ex functionality

Question 1.19

When an opt-out indicator is used in the settlement instructions sent to T2S, should it be considered by the IOCs while detecting market claims?

If yes, will the market claim opt-out indicator override any other detection rule i.e. will the IOC exclude the pending transactions from market claim detection?

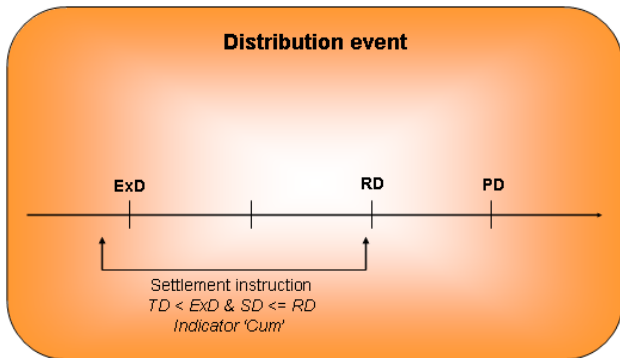
Answer 1.19

Yes. According to T2S MC 6, when the opt-out indicator is used by both parties in the settlement instructions, it will override market claim detection rules. In this case, market claim will not be raised.

Question 1.20

Consider a settlement transaction where Trade Date is prior to Ex-Date, Settlement Date is prior to Record Date, and transaction has a 'Cum' indicator.

Is this transaction subjected to a market claim?



Answer 1.20

Please note that an instruction with trade date before Ex-date and settlement date on or before record date should not include the Cum indicator since it is by definition a 'cum' distribution.

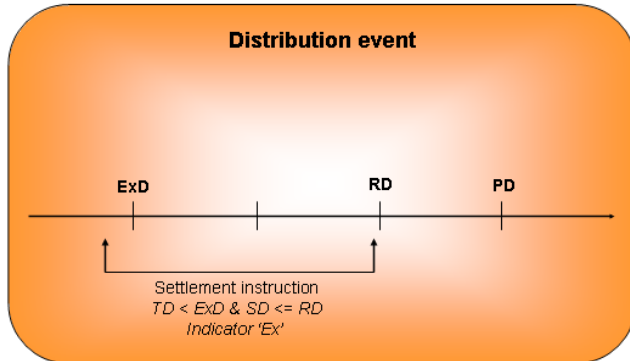
The buyer/receiver is entitled to the distribution benefits. If the transaction settles on or before record date, no market claim will be raised. If the transaction settles only after record date, a market claim will be raised, transferring the proceeds from the seller to the buyer.

Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2)

Question 1.21

Is the below transaction subjected to a market claim?

The Trade Date is prior to Ex-Date, Settlement Date prior to Record Date, and transaction has 'Ex' indicator.

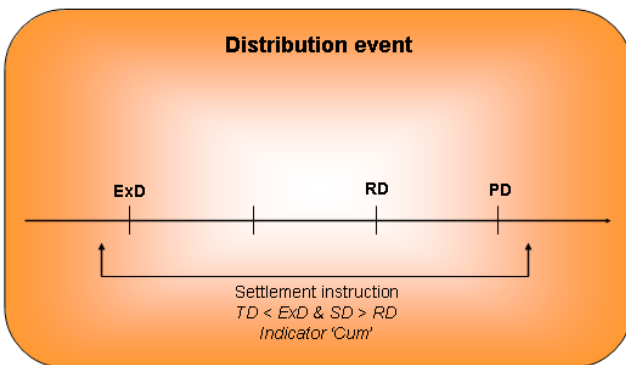


Answer 1.21

The CSDs/ CCPs should raise MC transferring CA proceeds from the buyer to the seller.

Question 1.22

The Trade Date is prior to Ex-Date, Settlement Date is after the Record Date, and the transaction has 'Cum' indicator. Is the below transaction subjected to a market claim?



Answer 1.22

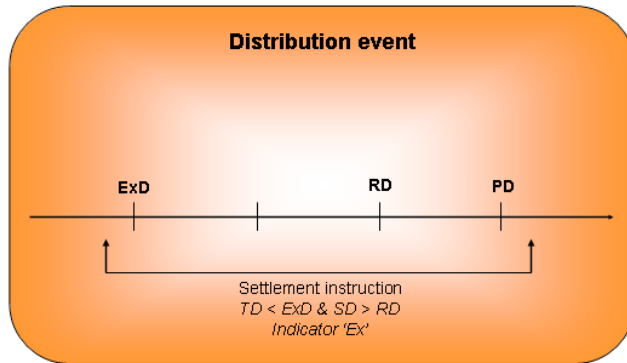
The buyer/receiver is entitled to the distribution. Since settlement cannot take place on or before record date, a market claim will be raised, transferring the proceeds from the seller to the buyer.

Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2)

Question 1.23

Is the below transaction subjected to a market claim?

The Trade Date is prior to Ex-Date, Settlement Date is after the Record Date, and the transaction has 'Ex' indicator.



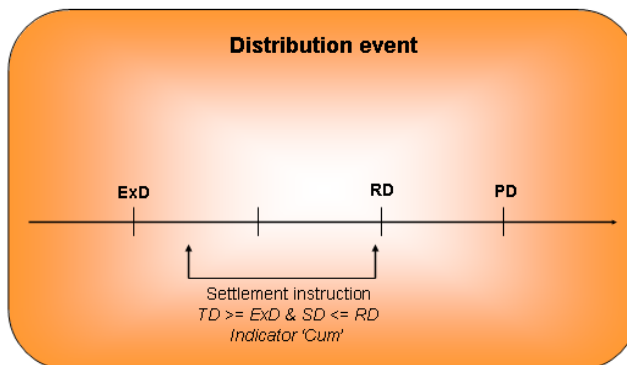
Answer 1.23

Since the transaction has an 'Ex' indicator, no market claim should be raised by the CSD/ CCP. Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2)

Question 1.24

Is the below transaction subjected to a market claim?

The Trade Date is after Ex-Date, Settlement Date is prior to Record Date, and the transaction has 'Cum' indicator.



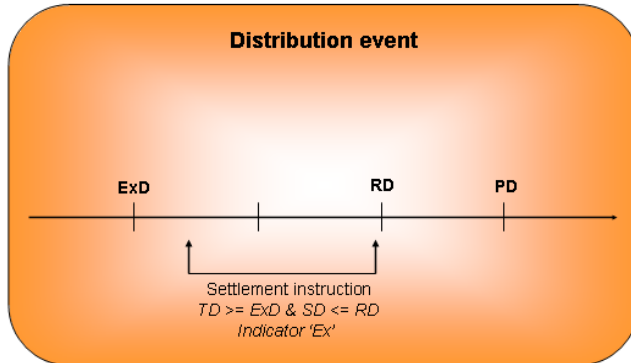
Answer 1.24

According to CAJWG MC standard 1 and 2, there will be no market claim generation. The buyer and seller should transfer CA proceeds bilaterally. Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2).

Question 1.25

Is the below transaction subjected to a market claim?

The Trade Date is after Ex-Date, Settlement Date is prior to Record Date, and the transaction has 'Ex' indicator.



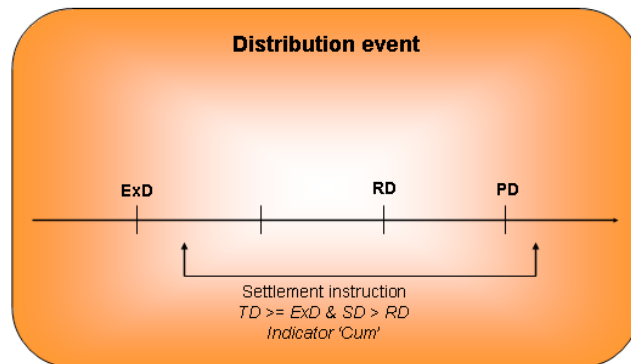
Answer 1.25

As the trade date is after the Ex-date, the transaction is treated as an 'Ex'. Specifying 'Ex' indicator in the instruction is redundant. In this case MC will be generated from the buyer to the seller. Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2).

Question 1.26

Is the below transaction subjected to market claims?

The Trade Date is after Ex-Date, Settlement Date is after Record Date, and the transaction has 'Cum' indicator.



Answer 1.26

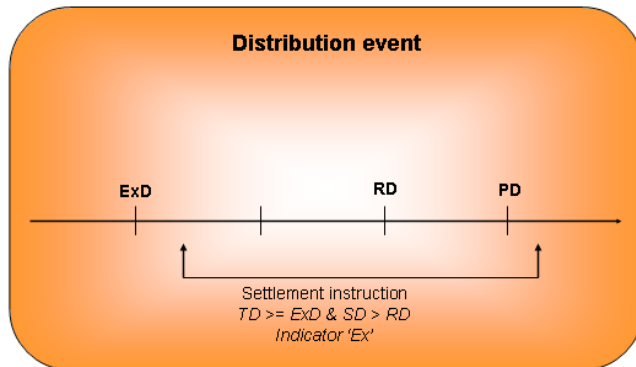
Market claims should be generated by IOC/CCPs in T2S transferring CA proceeds from the seller to the buyer.

Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2)

Question 1.27

Is the below transaction subjected to market claims?

The Trade Date is after Ex-Date, Settlement Date is after Record Date, and the transaction has 'Ex' indicator.



Answer 1.27

Please note that an instruction with trade date on or after Ex-Date and settlement date after record date should not include the 'Ex' indicator since it is by definition 'Ex' distribution.

The seller/deliverer is entitled to the distribution. Since the transaction can settle only after record date, no market claim will be raised.

Identification of settlement instructions eligible for market claims is detailed in CAJWG standards (no 1 and 2)

Question 1.28

Repo seller is the beneficial owner of the securities involved in the Repo transaction and is entitled to the CA benefits on these securities positions involved in Repo transaction. Are these claims covered by T2S market claim standards?

Answer 1.28

The T2S market claim standards do not differentiate the market claim processing based on the "transaction type", but applies to all types of transactions. In particular, no special processing is envisaged for Repo transactions. Therefore, in case of a CA on an ISIN, the open Repo transaction (second leg) could also be considered if it conforms to the T2S MC standards.

Question 1.29

What happens to the market claim, in case the underlying transaction is not settled by the payment date of the CA?

Answer 1.29

As per the T2S CA standards the market claim can settle independent of the underlying transaction. However the CSD or the instructing party can use means to delay the settlement of market claim until the underlying transaction is settled.

T2S Market claim standard 23. *In line with the CAJWG standards, the settlement of a market claim should be independent from the settlement of the respective underlying transaction. However, market infrastructures should provide to their participants a user friendly facility which gives them the option to ensure that the market claim is not settled prior to the settlement of the underlying transaction.*

Question 1.30

It is possible that the issuer does not provide reference price for fractions by the end of record date. How should the resulting fractions of CA benefits be processed in this case?

Answer 1.30

When the generation of a market claim instruction results in outturn securities fractions and the issuer does not announce the reference price for fractional part of the MC, then the securities proceeds of the MC should be rounded down to the nearest whole number and the IOC need not initiate any further action related to fractions. Please refer to T2S CA standards, Market Claims Standard 11.

Question 1.31

If the underlying transaction settles partially on or before record date, should a market claim be created based on the original quantity or the unsettled quantity? For example, 40 shares have settled out of 100 in a given transaction by end of record and there is 0.1 euro dividend on the shares. Should the MC be only based on the unsettled quantity of 60 shares?

Should there be a link between the settlement of the underlying transaction and the market claim after the market claim has been created. Can a market claim settle partially?

Answer 1.31

The market claim needs to be created on basis of the remaining quantity of securities that is still **unsettled** at the end of the record date. If at RD of the CA, 60 securities are pending, the market claim should be created with a cash amount equal to 60×0.10 euros. The buyer that already received 40 securities will also receive the cash dividend as a CA on stocks (consequently 40 on stocks + 60

via a market claim). The market claim “in cash” cannot be eligible to the partial settlement. Also the CSD should create the market claim with the same status as the underlying transaction. If the underlying transaction has been put on hold (by one participant but not by the CSD), the market claim as well should be created with ‘on hold’ status. CSD participants can decide on the usage of the Hold/release mechanism in T2S.

Question 1.32

Calculations of a Market Claim on an individual transaction result in zero securities or cash.

Does a CSD/CCP need to generate MCs in such cases?

Answer 1.32

When the calculations of Market Claims on individual transactions result in zero securities or cash in effect no market claims arise. Therefore, CSDs/CCPs do not need to generate market claims in such cases.

Question 1.33

Market Claims standard 17 states that: “Each CSD/CCP will include in the market claim settlement instruction sent to T2S appropriate references so that its participant can identify and process the claim satisfactorily.”

Furthermore in the explanatory comment to this standard it is stated that: “Possible references include: T2S reference of the underlying transaction, and IOC corporate action event reference. From a T2S system specification perspective, these references are only for information purposes (for CSDs participants) as these references do not trigger any specific processes in T2S (other than standard settlement).”

This standard allows for a number of different references to be used by IOCs/CCPs when generating market claims. Is there any guidance from the CASG on a best practice to be followed by T2S markets with regards to this standard?

Answer 1.33

The CASG acknowledges that the standard is broad enough to allow for different references to be used by different IOCs/CCPs. Usage of different references will not create technical difficulties in T2S for managing MCs as the fields used for the references are not used by T2S for validation or matching. However, in order for T2S actors to reap the full benefits of management of market claims in T2S, the CASG has agreed on the following best practice:

With regards to the reference to the underlying instruction, IOCs/CCPs should use the Market Infrastructure Transaction Identifier (MITI) reference of the underlying transaction, which is generated by T2S when an instruction is successfully validated in T2S. This reference should be populated in the market claim settlement instruction (sese.023) in the linkage sequence `SciesStlmTxInstr/Lnkgs/Ref/MktInfrstrctrTxId` using reason code `INFO` in `SciesStlmTxInstr/Lnkgs/PrcgPos/Cd`.

With regards to the reference to the underlying corporate action, the IOCs/CSDs should put the Official Corporate Action Reference (COAF) in the market claim settlement instruction (sese.023) in `SciesStlmTxInstr/StlmTpAndAddtlParams/CorpActnEvtId` until ISO standards change to add a specific field for the COAF reference.

Question 1.34

T2S Market Claims standard 23 reads: *“In line with the CAJWG standards, the settlement of a market claim should be independent from the settlement of the respective underlying transaction. However, market infrastructures should provide to their participants a user friendly facility which gives them the option to ensure that the market claim is not settled prior to the settlement of the underlying transaction.”*

With reference to the second part of the standard, when an Instruction Owner CSD (IOC) in T2S is generating a market claim on all types of transactions (including stock exchange or CCP transactions) is the IOC required to provide a user friendly facility to its participants in order to enable them, if they wish so, to ensure that this market claim is not settled prior to the settlement of the underlying transaction?

Answer 1.34

Yes, as one of the market infrastructures which detects and generates markets claims^[1], it has to comply with the second part of the requirement of market claim standard 23, i.e. to provide to its participants a user friendly facility that allows them to ensure that the market claim is not settled prior to the settlement of the underlying transaction. One example of such user friendly facility is described in Question 1.8 of the FAQ.

^[1] According to Market Claims standard 1 *a market claim should be detected by the two Instruction Owners CSDs (IOCs), or the CCP(s) where applicable, of the two counterparties in the transaction*

Question 1.35

Market claims standard 23 requires that "...market infrastructures should provide to their participants a user friendly facility which gives them the option to ensure that the market claim is not settled prior to the settlement of the underlying transaction."

If on-exchange and CCP transactions are sent for settlement to the CSD in a non-modifiable and "release" mode, then it is not possible to apply the mechanism set out in the answer to Question 1.8. An alternative would be for CSD participants to be able to modify the status of the CLAI instruction, generated on such CCP/on-exchange transactions, from "release" to "on hold" mode in the period between the time these CLAI instructions are generated (after 18:00 CET) till the first NTS settlement cycle (currently 20:00 CET).

Would such a facility be considered compliant with the requirements of market claim standard 23 regarding the availability of a "user friendly facility"?

Answer 1.35

Such a facility can indeed be considered to be compliant with market claim standard 23 for specific on-exchange and CCP transactions that cannot be sent to T2S in modifiable mode, providing that CSD participants have a window of **at least thirty minutes** before the start of the first overnight settlement cycle during which they are able to change the status of individual market claims from "release" to "on hold".

2. Transformations

Detection and processing of transformations

Question 2.1

For how many days after the record date the IOC should perform transformations in T2S?

Answer 2.1

According to T2S transformation standard 2, the transformation process shall take place by end of record date or market deadline and during the rest of the transformation detection period (i.e. 20 T2S opening days after the record date/market deadline).

However, based on the functionality of T2S for its initial release and to avoid any risks, the CASG agreed to deviate from this rule till the functionality of T2S is amended to safely detect transactions that may be transformed in the 20 days period prescribed by the Market standards for corporate action

processing (CAJWG standards).

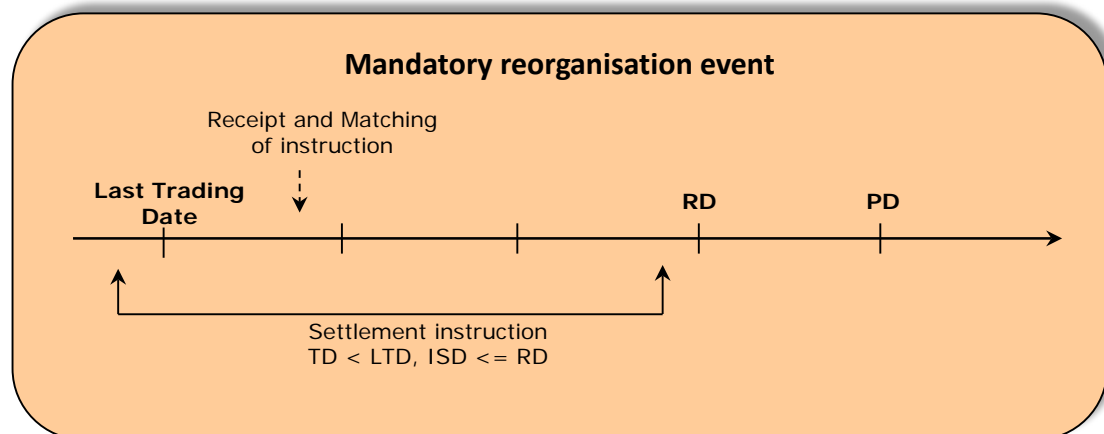
Therefore, until necessary changes are implemented in the T2S functionality, IOCs and CCPs should detect transformations on the basis of the pending transactions at the end of record date/market deadline, i.e. detection and management of transformations will be done only once between the EoD on Record date/Market deadline and the start of day on the next (payment, maturity) day

For more information, please refer to the clarifications provided by the CASG in a clarifications note on the subject⁹.

Question 2.2

a) Should the below settlement instruction be transformed as soon as it is matched?

The instruction is received in the old underlying ISIN after the Guaranteed Participation Date / Last trading date, with a trade date prior the Guaranteed Participation Date / Last trading date and intended settlement date is prior to the record date.



b) In that case should the ISD of the transformed transaction be the same as the Payment Date of the CA?

c) In case of 'No' to question (a), then Should the transaction be transformed only at end of record date, and only if it fails to settle?

Answer 2.2

a) According to T2S transformation standard 2, the time of transformation of the transaction depends on the timing of its matching.

- If the matching of settlement instruction in the old ISIN takes place before the Record Date/market deadline date, then the settlement should be initiated as soon as possible in the

⁹ For more information please refer to a clarification note of the CASG to CSDs on this: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg34/2014-06-27_clarification_note.pdf?e58458b417e383d5c9ce0044c943e0df

original terms (i.e. the old ISIN). Consequently, the transformation process will start at the EOD of Record date/Market deadline on the failed transaction

- If the matching takes place after the Record date/market deadline, then the transformation process has to be triggered immediately after matching and then settlement can take place in the new terms (i.e. on outturn ISIN)

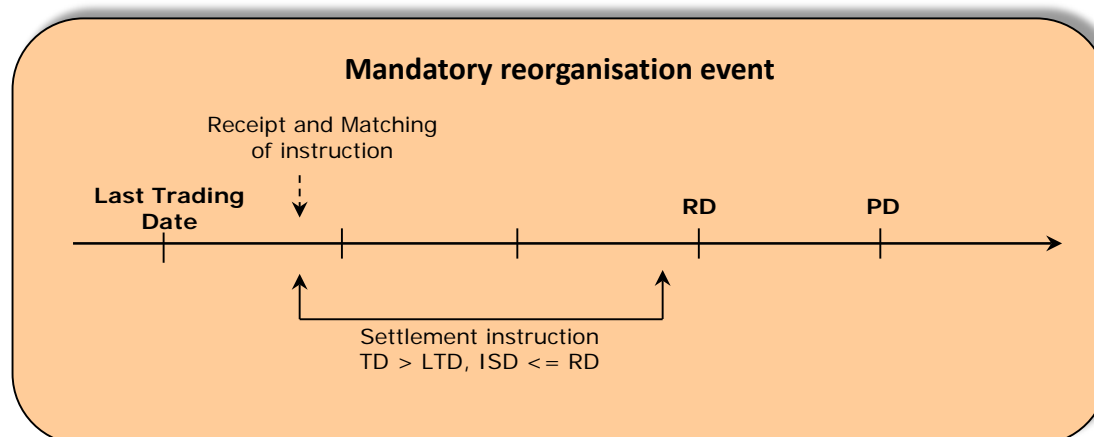
b) In both cases, the new transformed transaction received as ISD the Payment Date of the CA.

c) See the answer to part a) of the question

Question 2.3

Should the below settlement instruction be rejected by the CSD?

The instruction is received in the underlying ISIN after the Guaranteed Participation Date / Last trading date, with a trade date after the Guaranteed Participation Date / Last trading date, and intended settlement date is prior to Record Date.



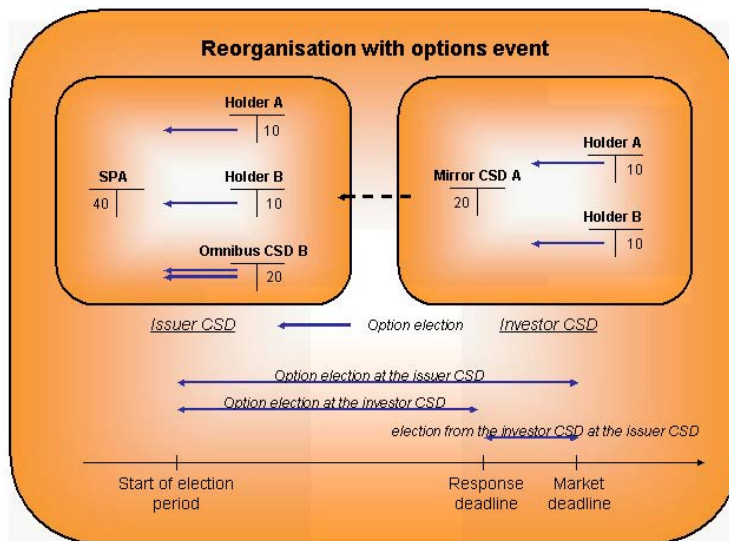
Answer 2.3

This transaction can be an OTC trade with non-standard settlement cycle. According to Market Standards for Transformations, standard 5, the Instruction with trade date after Guaranteed Participation Date / last trading date should always be in the new ISIN. The settlement instruction should not be rejected by the IOC because the ISD is less than the RD.

Question 2.4

In case of an elective event, it may happen that an investor CSD sets up a deadline for electing on the local market prior to the Market deadline communicated by the issuer, in order to have sufficient time to process the election at the issuer CSD (so called response deadline in the example here above). In that case, should the investor CSD also initiate transformation process at market deadline communicated by issuer?

Alternatively, can the investor CSD initiate the transformation process at its own market deadline?



Answer 2.4

T2S will bring competition between CSDs and it is their commercial choice to align their own market deadline as close as possible with the issuer CSD’s market deadline.

The transformation process has to be triggered on Record date/market deadline date and beyond by all CSDs (issuer or investor). Settlement of such transformed transactions will (can) only take place after the reorganization process on holdings.

Investor CSDs should process transformation of instructions at the market deadline that applies to its market. This deadline could be earlier than the one announced by its issuer CSD.

Question 2.5

As specified in the URD, settlement transactions may be linked for settlement purposes in T2S (e.g. AFTE indicator).

As per T2S MC standard 22, linking of market claims to the failed underlying transactions, in order to ensure that the market claims do not settle before settlement of the underlying failed trades, is not allowed. Is it correct that, the market claim or the new transformed trade contains the information that they relate to a failed underlying transaction and the failed transaction is linked to another transaction? This is also requested from CSD participants. Consider below illustration.

Settlement instruction 1 on ISIN A is linked to Settlement instruction 2 on ISIN B. Both settlement instructions are unsettled at the time a reorganisation takes place on ISIN B.

In this scenario, the IOC would cancel settlement instruction 2 and replace it with a new transformed settlement instruction 3. Can the new transformed settlement instruction 3 be linked to settlement instruction 1? Can the new transformed settlement instruction 3 report the information that it originated from failed settlement transaction 2, that was linked to another settlement transaction 1?

Answer 2.5

As specified in UDFS 1.2.1 section '1.6.1.11 Linked Instructions', for linking settlement instructions to settle together ('WITH'), references in the Linkages block of sese.023 should be used i.e. SciesStlmTxInstr/Lnkgs/Ref/SciesStlmTxId.

According to T2S transformation standard 4, the CSD should include the appropriate references in the transformed settlement instruction so that their participants can identify and process the transformation in their own books. In particular, T2S reference of the underlying transaction, the "TRAN" ISO transaction type code, and CSD corporate action event reference, should be included in the transformed instruction details.

Regarding linking of settlement instructions, transformed settlement instruction 3 can be linked to settlement instruction 1. The underlying settlement instruction 2 would contain the references of settlement instruction 1, and the CSD can replicate these references into the transformed settlement instruction 3.

It is to be noted that during the transformation process, CSD cancels the settlement instruction 2 first. As a second step CSD instructs transformed settlement instruction 3 to T2S. After the cancellation of settlement instruction 2, settlement instruction 1 can settle separately, as there is no linked instruction anymore. In order to avoid this, settlement instruction 1 can be kept on 'hold', before the transformation process. Once the transformed instruction with the linking is instructed to T2S, the settlement instruction 1 can be 'released from hold'.

Question 2.6

Would the below instructions be cancelled by the IOC or cancelled upon the initiative of the counterparties involved in T2S?

Unmatched settlement instructions eligible for transformation at the close of business on Payment Date/Market Deadline -1.

- i) Should the answer to the above be 'No', is cancellation done automatically by the T2S System after 20 T2S opening days after the Intended Settlement Date?
- ii) Should the answer to the above be 'No', in the case the transaction matches after the detection period, does it remain pending in T2S in the fail settlement status until bilateral cancellation, if any, occurs?

Answer 2.6

For details on transformation of unmatched settlement instructions, please refer to answer 1.11

- i) Unmatched settlement instructions are not in the scope of the transformation standards¹⁰. IOC should not cancel unmatched settlement instructions automatically. T2S cancels all settlement instructions that are still unmatched after 20 days after their ISD or last status change.
- ii) T2S Transformation standard 2, In case the settlement instructions on underlying ISIN matches after record date or market deadline date, the IOC should transform those matched instructions.

Question 2.7

According to T2S transformation standard 9, in case of multiple outturns, the new transformed transactions should not be settled as linked settlement in T2S.

The T2S CA standards and T2S Business Process Description Document issued by the T2S Programme Office recommends IOCs to send settlement instructions in outturn securities and/or cash only after the successful completion of the cancellation of the underlying trades.

The BPD further describes processing in the “Instruct credit of outturn securities” phase (page. 53, row 4 and following), as follows: “CSDs instruct T2S for the credit of outturn securities proceeds together with the removal of underlying securities. CSDs link the settlement instructions for removal and credit of securities and T2S settles the instructions on an “All or None” basis”.

Could you please confirm if there is a discrepancy between the T2S CA standards and the Business Process Description?

Answer 2.7

The latest version of BPD¹¹ v 1.1 is published in the T2S Webpages

According to T2S transformation standard 9, in case of multiple outturns the new instructions should not be settled as linked settlement in T2S. The BPD v1.1 also reflects this standard. Please refer to the process ‘T2S.BPD.SETT.TRAN.05.01’, page 268, line 17.

Also, the cancellation of settlement instructions on the underlying ISIN is not linked to instructing the transformed settlement instructions. Please refer to ‘Figure 5-12: Business Process Diagram [T2S.BPD.SETT.TRAN]’ in BPD v1.1.

¹⁰ Please refer to the ‘scope of the Transformation standards’ in T2S CA transformation standards.

¹¹ http://www.ecb.europa.eu/paym/t2s/pdf/BPD_v1-1.pdf?27a489a53607241e868024342a04c22e

Question 2.8

Market CA standard 18 (on Reorganization with options) specifies that each option should have a unique identifier provided by the Issuer that will be maintained by the Issuer (I) CSD and all intermediaries.

Furthermore, market CA standard 21 (on Reorganization with options) adds: “for non-elected underlying securities, the default option as announced by the Issuer should apply”.

Should the details above be also mentioned in the T2S Transformations standards, when describing Transformations on fails?

Answer 2.8

The T2S CA standards are detailed market CA practices for T2S markets. A T2S market will have to comply with the market CA standards before it complies with the T2S CA standards. As a result the provisions of the market standards are not fully replicated in the T2S CA standards.

Question 2.9

When an ISIN is undergoing reorganisation, the Issuer CSD may require blocking the settlement of transactions on that ISIN. This is in order to handle all CA related activities. For this purpose, can the CSD use one of the following two methods (1. updating the Maturity date 2. Block the ISIN)

Answer 2.9

T2S performs validations based on the ISIN’s maturity date on the T2S settlement instructions. With the exemption of settlement instructions sent by the CSDs, all others settlement instructions (coming from DCPs, CCPs etc.) with an intended settlement date on or after the maturity date will be rejected by T2S. So updating the maturity date of an ISIN will impact only these specific settlement instructions in T2S.

T2S CASG recommends that the ISIN’s maturity date should be updated by the SME (Securities maintaining entity) as late as possible, i.e. with a validity as of after the EoD on Record date. This would allow successful validation and matching of instructions with the old ISIN till the EoD on Record date as required by the CAJWG standards.

Exception is made in the case of securities whose maturity date is known from the start. In this case, the SME can put in T2S Static data the maturity date of a security from the start (with the security creation instruction).

It should be mentioned that because of the T2S business validation rule to reject all instructions not sent by CSDs with ISD on or after the maturity date of an ISIN, initially it will not be possible in T2S to do detection and transformations in the 20 days period after the maturity date of an ISIN. Therefore, detection and management of transformations will be done only once between the EoD on

Record date and the start of day on the next (payment, maturity) day¹². The CASG is investigating with the Change Review Group a change of the T2S functionality to solve this problem and allow transformations to be detected and generated for 20 days as required by the T2S CA Standards but this is likely to be resolved only for Release 2 of T2S.

Regarding blocking of securities during transformations and as per the T2S URD/UDFS blocking the ISIN would impact only the CSD that does the blocking, and would not impact other CSDs. (please see example 5 in section 1.2.1.8 - Restriction types of UDFS 1.2.1, page 57)

As per the CAJWG standards on reorganisations, outturn securities should be assigned ISINs which are different from the underlying ISIN. Following this standard, the CSD should remove positions in underlying ISIN from all participants' securities accounts by the beginning of payment date (Record date + 1 business day). So no settlement on the underlying ISIN can take place in participant's securities accounts. Consequently blocking an ISIN in T2S to stop settlement on that ISIN, as a result of reorganisation corporate action, is not required.

As specified in the Business Process Description (BPD) version 1.1 section 5 "corporate actions", Blocking of the ISIN in T2S should be used only in exceptional cases, where the CSD is not able to send CA related instructions before the required Night Time Sequence 1. In such case, the CSD could block the settlement of instructions on the underlying ISIN. This will allow CA instructions to settle first (distribution of outturn securities) before any trade related settlement on the outturn ISIN could settle.

Question 2.10

During the transformation process, can the IOC choose between the below two options depending on its internal rules on handling instructions

1. Only cancelling pending settlement instructions on the underlying ISIN
2. Transforming the pending settlement instructions on the underlying ISIN i.e., cancel and reinstruct?

Answer 2.10

As per the T2S CA Transformation standards, the IOC should transform all pending instructions by end of Record date or market deadline date. It is not an option for the IOC to only cancel the pending instructions without instructing the transformed instructions.

¹²For more information please refer to a clarification note of the CASG to CSDs on this:
http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcompact/mtg34/2014-06-27_clarification_note.pdf??e58458b417e383d5c9ce0044c943e0df

Question 2.11

During the transformation process, the IOC should

- 1) In step 1, cancel the pending instructions on the underlying ISIN and
- 2) In step 2, send transformed instructions on the outturn ISIN to T2S.

Should the IOC wait for the cancellation confirmation (of step 1) from T2S before proceeding with step2?

Answer 2.11

T2S CA transformation standards sections 3.1 and 3.2 (CSDs/CCPs interaction with T2S) details the sequence of activities during the transformation process.

IOC should first instruct T2S for the cancellation of pending transactions (Flow 3 in section 3.1). Only after the transactions are cancelled in T2S and cancellation confirmation is received by IOC from T2S (Flow 4 in section 3.1), the IOC can send the transformed instructions to T2S (Flow 5 in section 3.1).

The IOC should not send the transformed instructions before the underlying transaction is cancelled in T2S.

Question 2.12

Are CSDs and CSD participants allowed to send/ settle instructions after maturity date of the ISIN?

Answer 2.12

Only CSDs are allowed to send the instructions after the maturity date of the ISIN. CSD participants cannot instruct T2S directly after the maturity date of ISINs; nevertheless they can do so via their CSD, which is allowed to send instructions to T2S and settle them even after the maturity date of the ISIN.

Question 2.13

When the reorganisation CA results in two outturn ISINs, during the transformation process, how will the settlement amount of the underlying instruction be split between the two new transformed instructions?

Answer 2.13

The settlement amount of the transformed (new) instructions should be proportional to the ratio of each outturn securities.

To calculate the settlement amount of each transformed instruction, determine first the percentage of each outturn security out of the total number of outturn securities. Apply the same percentage on the original settlement amount to arrive at the settlement amount for transaction on an outturn ISIN.

Example:

Consider a pending instruction #1 for 100 ISIN A against €150. Consider a reorganisation CA, where 1 ISIN A is replaced by 2 ISIN B and 3 ISIN C.

Step 1: Sum the number of outturn securities, i.e. $2+3=5$.

Step 2: Determine the percentage of each outturn ISIN out of the total number of outturns, i.e. $2/5$ for ISIN B and $3/5$ for ISIN C.

Step 3: Split the original settlement amount in the same percentage calculated in step 2, i.e. $€150 * 2/5 = €60$ for transformed instruction on ISIN B and $€150 * 3/5 = €90$ for transformed instruction on ISIN C.

Step 4: Create the 2 transformed instructions, i.e.

instruction #2: 200 ISIN B against €60

instruction #3: 300 ISIN C against €90

Question 2.14

The CCPs netting process may not be complete by the end of day of the T2S. In case of a reorganisation event on an ISIN, CSD would transform the instructions on the underlying ISIN by the end of record date. In this case how the transformation of instructions that are still being netted by the CCPs, can be processed?

Answer 2.14

As a general principle, transactions cleared and netted by CCPs stem from markets that have implemented the market CA standards i.e. the last trading date occur one settlement cycle before the record date. Therefore, the transformation would apply to “fails” only.

The transformation process of such failed transactions by a CCP depends on the netting model followed by that CCP.

CNS model (Continuous Netting Settlement): In CNS model CCP cancels failed netted transactions every end of day and re-inserts them in the next “netting process”. It is the responsibility of the CCP to transform in their books the failed transaction which are subjected to the “reorganization event”. Afterwards, CCP can complete the netting and send the transformed netted transactions for settlement

to T2S. There is no timing constraint with respect to the T2S schedule of settlement day as such transactions reach T2S already transformed.

TDN or SDN (Trade date netting or settlement date netting): In TDN/ SDN model the CCP sends the netted transactions either by end of trade date or when settlement has to take place (on ISD). The processing of corporate actions on flows relies entirely on the IOC. In both scenarios, these netted transactions have already been attempted for settlement in T2S and are in failed status. They would be “recycled” for settlement in T2S. The CSD can therefore trigger the transformation of such netted transactions as in the case of any other type of OTC transactions.

Question 2.15

For reorganisation events, do the participants need to strictly follow the Last Trading Day (LTD) for OTC transactions as well?

Answer 2.15

No, only the rule related to the ISD applies to the transformations. ISD cannot be after the record date of the CA, when the instructions are from CSD participants.

Question 2.16

According to the requirements of the T2S CA Standards CCPs are asked to generate transformations, therefore, they will need to be able to send instructions to T2S on or after the maturity date of an ISIN (in particular PFODs referring to a matured ISIN resulting from transformation of second leg of a repo into cash). With the current T2S functionality T2S will reject such PFOD instructions, not send by CSDs, which are sent on or after the maturity date of an ISIN to T2S.

Answer 2.16

The CASG acknowledges that there is a problem from functional perspective which needs to be addressed in the medium term. In the meantime one of the following workarounds should be agreed by CCPs with their CSD to enable them to send PFOD instructions on an ISIN on or after the maturity date:

- i) Send all the PFOD instructions related to the old ISIN on the maturity date in indirectly-connected party mode. That is to instruct the PFODs via the CSD with the CSD as the instructing party.
- ii) Send all the instructions related to the old ISIN on the maturity date as CCP with the T2S System User of the CSD. Here the CCP needs to obtain from the CSD a user id linked to the CSD (with the privilege to send instructions with the CSD as instructing party) and could thus a CCP can send the instruction itself. Please note that the inbound transmission fees will be linked to the CSD and not to the CCP for billing purposes.
- iii) Send all the PFOD instructions with the new ISIN (resultant of the transformation) to be able to instruct on the maturity date of the old ISIN. For tracking purpose the CCP could use the CorporateActionEventIdentification field to identify such instructions.

Question 2.17

Standard 4 of the T2S CA Transformation standards states that:

“IOCs/CCPs managing the transformation will use the ISO20022 format as specified in the T2S URD. IOCs/CCPs will include in the transformation settlement instructions the appropriate references so that their own participants can identify and process the transformation satisfactorily in their own books. The minimum references required include: T2S reference of the underlying transaction, the “TRAN” ISO settlement transaction condition code, and CSD corporate action event reference. From a T2S system specification perspective, these references are only for information purposes (for CSDs/CCPs participants) as these references do not trigger any specific functionality in T2S (other than standard settlement processing).”

This standard allows for a number of different references to be used by IOCs/CCPs when generating transformations (the transformed instructions). Is there any guidance from the CASG on a best practice to be followed by T2S markets with regards to this standard?

Answer 2.17

The CASG acknowledges that the standard is broad enough to allow for different references to be used by different IOCs/CCPs. Usage of different references will not create technical difficulties in T2S for managing transformations as the fields used for the references are not used by T2S for validation or matching. However, in order for T2S actors to reap the full benefits of management of transformations in T2S, the CASG has agreed on the following best practice:

With regards to the reference to the underlying instruction, IOCs/CCPs should use the Market Infrastructure Transaction Identifier (MITI) reference of the underlying transaction, which is generated by T2S when an instruction is successfully validated in T2S. This reference should be populated in the transformed settlement instruction (sese.023) in the linkage sequence `SciesSttlmTxInstr/Lnkgs/Ref/MktInfrstrctrTxId` using reason code `INFO` in `SciesSttlmTxInstr/Lnkgs/PrcgPos/Cd`.

With regards to the reference to the underlying corporate action, the IOCs/CSDs should put the Official Corporate Action Reference (COAF) in the transformed settlement instruction (sese.023) in `SciesSttlmTxInstr/SttlmTpAndAddtlParams/CorpActnEvtId` until ISO standards change to add a specific field for the COAF reference.

Question 2.18

What should the transaction type code of a transformed instruction be?

Answer 2.18

The transaction type code of a transformed instruction should be the same as the one of the original instruction.

This is because a transformation changes only the entitlement, subject to the transfer, but not the type of the original transaction. TRAN is for this reason the indicator that a certain instruction is transformed; it is populated in a different field, i.e. the settlement transaction condition field.

Transformation scenarios

The following scenarios for Transformations are based on the Instruction Owner CSD (IOC) concept defined in the 23 November 2009 paper on “Market Claims and Transformations in T2S”¹³.

The IOC concept in T2S

¹³ See http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcompact/ca_key_market_claims.pdf?c6e54103e99d80e1cc5e9250366eba08

In the T2S cross-border settlement context, in addition to the use of the standard terminology for Investor and Issuer CSD roles, a third role can be introduced: the “Instruction Owner CSD” (IOC). The IOC is defined as the CSD that provides the securities accounts on which the participant has sent an underlying instruction. The definition also includes the case where the CSD participant maintains a direct technical connectivity to T2S and therefore sends its instructions directly to T2S.

There are always two different IOCs per cross-CSD transaction. If the transaction is between two participants of the same CSD, then this CSD acts as IOC for both participants. An IOC may be either an Issuer CSD or an Investor CSD, depending on the settlement chain scenario. **By definition, the IOC is always aware of the pending instructions, and the relevant settlement information, of its own participants.**

Caveat: Please note that the T2S CA standards do not and could not prescribe the service level agreements between Issuer CSDs and their participants, including Investor CSDs. The below Transformation Scenarios aim at presenting the T2S CA requirements (i.e. how IOCs are instructing T2S) and NOT at prescribing business models of interaction within the custody chain.

Scenario A: Standard case, i.e. the Issuer CSD of the underlying ISIN (ISIN A) is also the Issuer CSD of the outturn ISIN (ISIN B).

Question 2.19

Example 1: The pending transaction relates to a delivery of securities (ISIN A), where participant A of Investor CSD A delivers securities to participant I of Issuer CSD I. Investor CSD A has a direct link with Issuer CSD I (see figure below ¹⁴)

```

graph LR
    PA[Participant A] --> ICA[Investor CSD A]
    PI[Participant I] --> ICI[Issuer CSD I]
    ICA --> ICI
  
```

In this cross-border scenario:

1. Which CSDs are aware of these specific pending instructions on ISIN A?
2. Which CSDs are aware of the transformation?
3. Which CSDs have to send the transformation instructions to T2S and with which details (e.g. securities account, match status)?

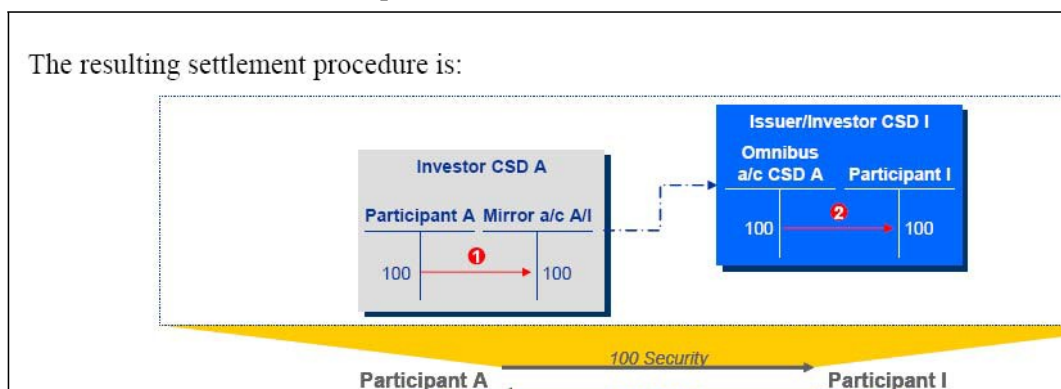
¹⁴ This example relates to examples 1 and 4 described in the afore-mentioned 2009 paper. For convenience, only Example 1 is reproduced here. For Example 4 which described also the additional relationship between the Investor CSD and its Technical Issuer CSD in the T2S settlement chain, see to the afore-mentioned 2009 paper.

Answer 2.19

1. Both IOCs (i.e. Investor CSD A and Issuer CSD I) are aware of pending instructions on ISIN A
2. Issuer CSD I should inform CSD A (as one of CSD I participants) about the corporate action event information (including information on ISIN B).
3. Issuer CSD I and Investor CSD A as IOCs should instruct a transformation related instruction on ISIN B using the same securities accounts as detailed in the original instruction.
 - In order for settlement to take place the IOCs must ensure the set up the outturn security prior to generating Transformations.
 - CSD A would send an instruction to debit its participant A account and credit participant I account in CSD I;
 - CSD I would instruct to debit participant A account in CSD A and credit participant I account in CSD I.
 - Matching is required in T2S for cross-border transformation scenarios (i.e. more than one IOC involved); i.e. the instructions should be sent to T2S as unmatched.

T2S will generate the relevant postings in the omnibus account A in CSD I and mirror account A/I in CSD A as per the settlement of the transformation instructions

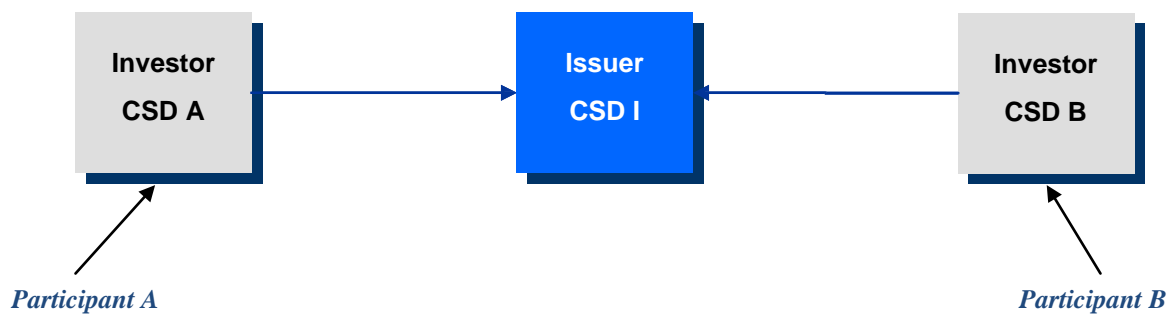
The resulting settlement procedure is:



Question 2.20

Example 2: *The pending transaction relates to a delivery of ISIN A, where participant A of CSD A delivers securities to participant B of CSD B. Both Investor CSD A and Investor CSD B have a direct link with Issuer CSD I (see figure below ¹⁵).*

¹⁵ Example 2 relates to examples 2 and 3 described in the afore-mentioned 2009 paper.



In this cross-border scenario

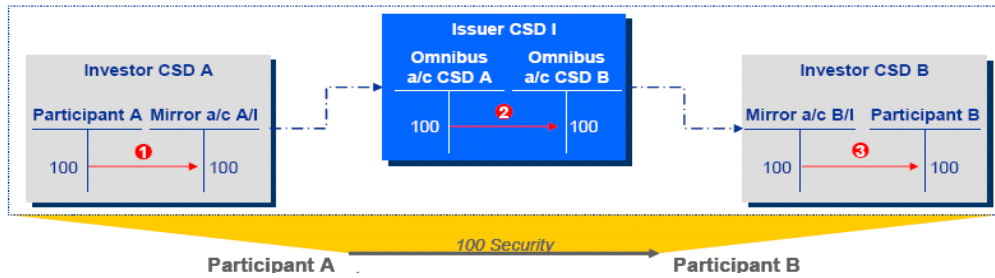
1. Which CSDs are aware of these specific pending instructions on ISIN A?
2. Which CSDs are aware of the transformation?
3. Which CSDs have to send the transformation instructions to T2S and with which details (e.g. securities account, match status)?

Answer 2.20

1. Both IOCs (Investor CSD A and Investor CSD B) are aware of pending matched instructions on ISIN A as IOCs. Issuer CSD I may be also aware of the pending instructions, provided that it has access to the pending realignment instructions on the omnibus accounts of CSD A and CSD B in T2S.
2. Issuer CSD I should inform both CSD A and CSD B as Investor CSDs about the corporate action event information.
3. Investor CSD A and Investor CSD B as IOCs should instruct a transformation related instruction on ISIN B using the same securities accounts as detailed in the original instruction.
 - In order for settlement to take place the IOCs must ensure the set up the outturn security prior to generating Transformations.
 - CSD A would send an instruction to debit its participant A account and credit participant B account in CSD B;
 - CSD B would instruct to debit participant A account in CSD A and credit participant B account in CSD B.
 - Matching is required in T2S for cross-border transformation scenarios (i.e. more than one IOC involved); i.e. the instructions should be sent to T2S as unmatched.

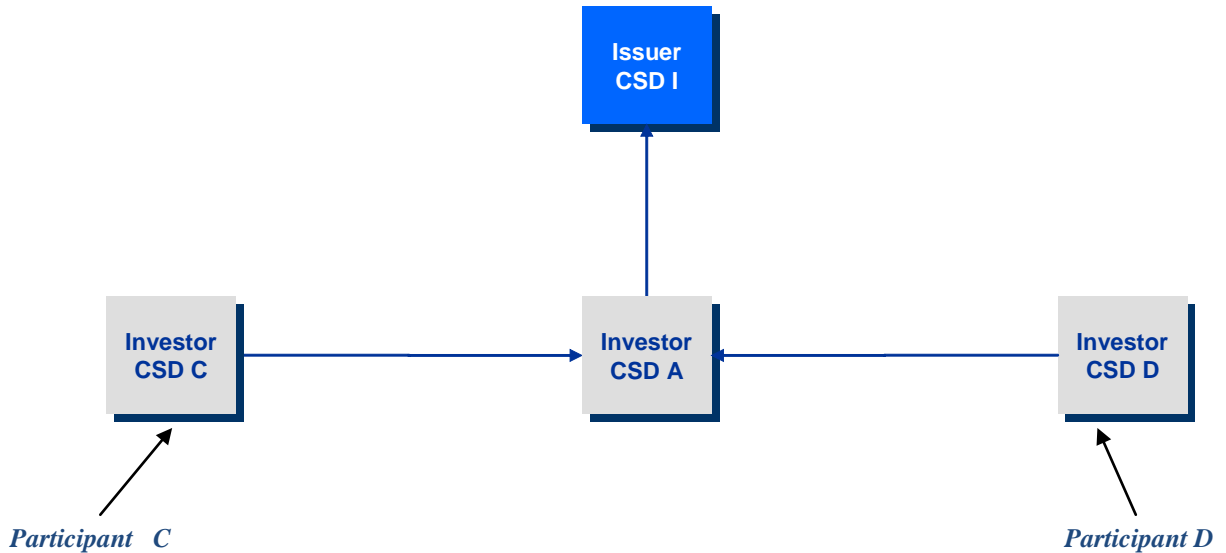
On the basis of these instructions, T2S will generate the relevant bookings between the omnibus accounts A and B in CSD I. T2S will generate the bookings between participant's A account in CSD A and mirror account A/I in CSD A. T2S will also generate the bookings mirror account I/B in CSD B and participant B account in CSD B.

The resulting settlement procedure is:



Question 2.21

Example 3: The pending transaction relates to a delivery of ISIN A, where participant C of Investor CSD C delivers securities to participant D of Investor CSD D. Investor CSD A acts as technical issuer of ISIN A for both Investor CSD C and Investor CSD; Investor CSD A has a direct link with Issuer CSD I of ISIN A (see figure below¹⁶).



In this cross-border scenario:

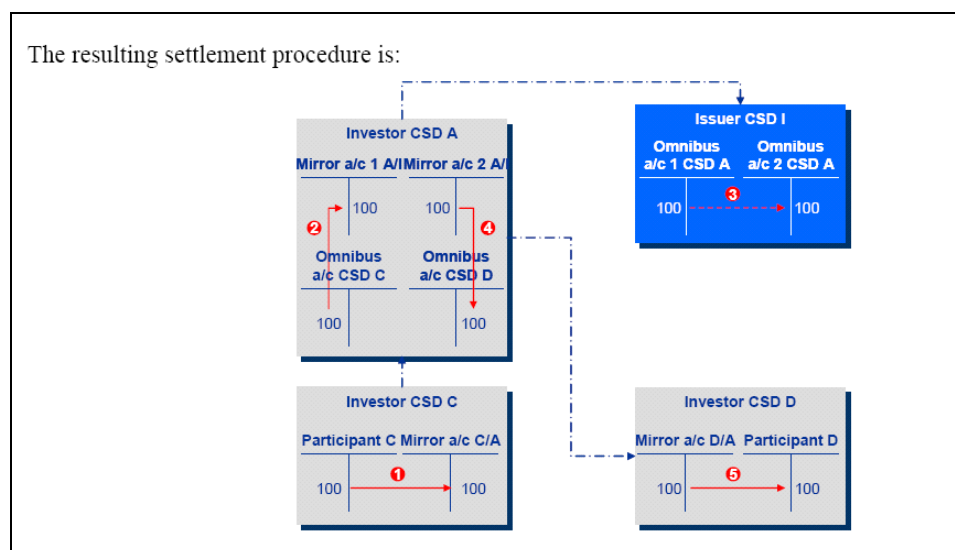
1. Which CSDs are aware of these specific pending instructions on ISIN A?
2. Which CSDs are aware of the transformation?
3. Which CSDs have to send the transformation instructions to T2S and with which details (e.g. securities account, match status)?

Answer 2.21

¹⁶ This example relates to examples 5 described in the afore-mentioned 2009 paper

1. Both IOCs (Investor CSD C and Investor CSD D) are aware of pending instructions on ISIN A as IOCs. CSD A may be also aware of the pending realignment instructions on their respective omnibus accounts of CSD C and CSD D, provided that it has access to this information via T2S. Issuer CSD I may be also aware of the pending realignment instructions, in case that Investor CSD A segregates holdings of its Investor CSDs C and D in distinct omnibus accounts at Issuer CSD I (if there is a single omnibus account, there will be no pending realignment instructions from the perspective of Issuer CSD I).
2. Issuer CSD I should inform Investor CSD A about the corporate action event information. Investor CSD A as technical issuer, should subsequently inform Investor CSD C and Investor CSD D.
3. Investor CSD C and Investor CSD D as IOCs should instruct a transformation related instruction on ISIN B using the same securities accounts as detailed in the original instruction.
 - In order for settlement to take place the IOCs must ensure the set up the outturn security prior to generating Transformations.
 - CSD C would send an instruction to debit its participant C account and credit participant D account in CSD D;
 - CSD D would instruct to debit participant C account in CSD C and credit participant D account in CSD D.
 - Matching is required in T2S for cross-border transformation scenarios (i.e. more than one IOC involved); i.e. the instructions should be sent to T2S as unmatched.

From the perspective of participants C and D, settlement takes place between their respective accounts with their respective CSDs. T2S generates movements (1, 2, 3, 4 and 5,) as depicted in the diagram below, to perform the bookings.



Scenario B: the Issuer CSD of the outturn ISIN (ISIN B) is not the same as the Issuer CSD of the underlying ISIN (ISIN A).

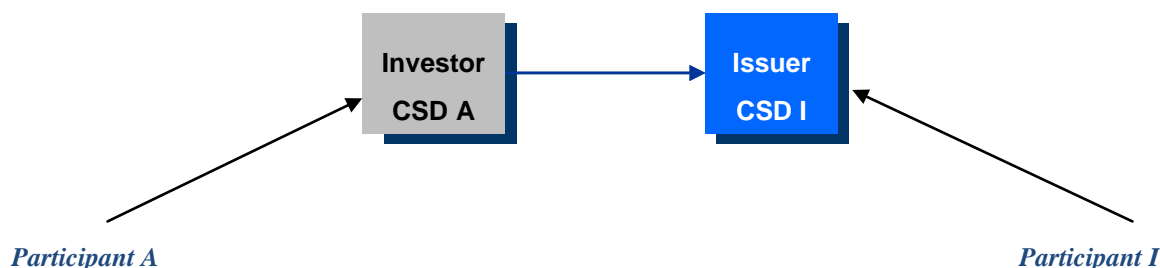
In the context of T2S, there may be transformations scenarios in which the outturn ISIN is issued in a CSD that is different from the issuer CSD of the underlying ISIN. This might be the result, for example, of a cross-border corporate acquisition in which the Issuer may opt for centralizing the issuance of the outturn ISIN in a single CSD.

In such a scenario, the IOC model also applies; nonetheless, it may be that one or both IOCs do not have a settlement link with the issuer CSD of the outturn ISIN (B). In such case, the IOCs would be expected to only process the cancellation step of the transformation.

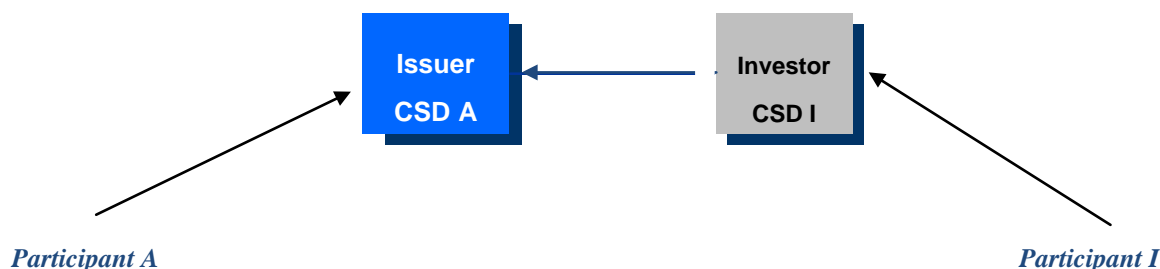
The below questions / answers should be read for the cases where both IOCs have a settlement link with the issuer CSD of the outturn ISIN.

Question 2.22

Example 4: The pending transaction relates to a delivery of securities (ISIN A) where participant A of Investor CSD A delivers securities to participant I of Issuer CSD I. Investor CSD A has a direct link with Issuer CSD I (see figure below)



As a result of a transformation on the underlying ISIN A, there is an outturn ISIN B issued by Issuer CSD A. Investor CSD I has a direct link with Issuer CSD A (see figure below).



In this cross-border scenario:

1. Which CSDs are aware of these specific pending instructions on ISIN A?
2. Which CSDs are aware of the transformation?
3. Which CSDs have to send the transformation instructions to T2S and with which details (e.g. securities account, match status)?

Answer 2.22

1. Both IOCs (Investor CSD A and Issuer CSD I) are aware of the pending instructions on ISIN A
2. Issuer CSD I should inform Investor CSD A about the corporate action event information, i.e. reorganisation of ISIN A and issuance of new ISIN (i.e. “outturn” ISIN B).
3. CSD I and CSD A as IOCs should instruct a transformation related instruction on ISIN B using the same securities accounts as detailed in the original instruction.
 - In order for settlement to take place the IOCs must ensure the set up the outturn security prior to generating Transformations including the Cross-CSD settlement links related setups.
 - CSD A would send an instruction to debit its participant A account and credit participant I account in CSD I;
 - CSD I would instruct to debit participant A account in CSD A and credit participant I account in CSD I.
 - Matching is required in T2S for cross-border transformation scenarios (i.e. more than one IOC involved); i.e. the instructions should be sent to T2S as unmatched.

T2S will apply a settlement procedure similar to the one detailed in question 2.18, but in this scenario the roles of the involved CSDs will be inverted (i.e. booking on the omnibus account will take place in the books of CSD A in its role as Issuer CSD of the outturn ISIN B, and in the mirror account of CSD I in its capacity as Investor CSD of CSD A).

Scenario C: Transformation Process

Question 2.23: According to the CAJWG standards, transformations should take place after close of business on record date for mandatory reorganisations, and after close of business on market deadline date for mandatory reorganisations with options and for voluntary reorganisations. What happens if transformations have already taken place, and a rate change on the Default Option is announced?, What will the process be? Please consider both scenario in which the transformed instruction is still pending, and the scenario in which the transformed instruction has settled.

Answer 2.23: The view of the CASG is that open transactions should be treated in the same way as settled positions. Under the CAJWG standards – “If a correction of the Payment is necessary, it should take the form of a complete reversal of the Payment followed by a new correct Payment” – therefore the same principle applies to transformations and market claims.

a) For unsettled transformed transactions the IOC(s) should bilaterally cancel the transaction and create new transformation transactions.

b) For those transformations which have settled a complete reversal is required, and new transformations using the correct rate should be generated.

Question 2.24: The CAJWG standards leave open the possibility that there is a gap of more than one business day between the record date/market deadline date of a reorganisation and the payment date of the proceeds. In such a case, should settlement of the underlying transaction still be allowed to occur during this period?

Answer 2.24: Settlement of the underlying transaction would still be accepted after record date/market deadline COB only in the case of a voluntary reorganisation event (and only for transactions for which there is no buyer protection). For all other reorganisation events the IOC should stop settlement at the record date/market deadline end of day regardless of when the payment date is. This is because at final settlement on the record date/market deadline business day, the positions in the ISIN being reorganised are fixed for the purposes of the reorganisation and associated transformations. Any transactions matched after this point in time must be transformed.

Transactions generated by the CSD, such as CORP transactions to process the corporate action, can still settle after the record date/market deadline.

Question 2.25: Assuming that there is a gap of more than one business day between record date/market deadline date and the payment date, should the date of generation of the new transformed instructions be shifted from record date/market deadline date to payment date-1? This could have advantages if – for example – the final ratios and prices necessary to calculate the proceeds are not available on record date/market deadline date.

Answer 2.25: As per the answer to question 2.24, settlement must finish on record date/market deadline end of day. As per CAJWG Standard, the ratios and prices shall be known by record date, then transformations must be generated on the night of market deadline with a settlement date equal to payment date or the ISD of the original transaction (whichever is the latest). However, in the exceptional situation that some ratios/prices are **not** known, then the IOC(s) should generate the transformations once the ratios/prices are announced.

Scenario D: On stock scenario (CSDs without any link to a new issuer CSD)

Question 2.26: It is possible that a reorganisation takes place whereby the outturn ISIN –has an issuer CSD that is different from the issuer CSD of the underlying security. This in turn creates the possibility that some or all of the issuer and investor CSDs for the underlying security do not have a link to the issuer CSD for the outturn security. The answer to Question 2.21 covers how an IOC should handle the transformation process in such a situation, but this answer does not cover how the question of how the reorganisation on booked positions in the underlying security

should be processed. If an issuer or an investor CSD holds a position in a security that is undergoing a reorganisation, and that CSD does not have a link to the issuer CSD of the outturn security, how should that CSD process the reorganisation?

Answer 2.26: In such a case, the issuer or investor CSD should process the debit of the underlying securities, and should advise the holders of the underlying securities of the need for them to provide specific delivery details for receiving the outturn ISIN outside of the CSD.

3. Buyer Protection (BP)

Question 3.1

Does the Buyer Protection (BP) deadline fall on the CA record date?

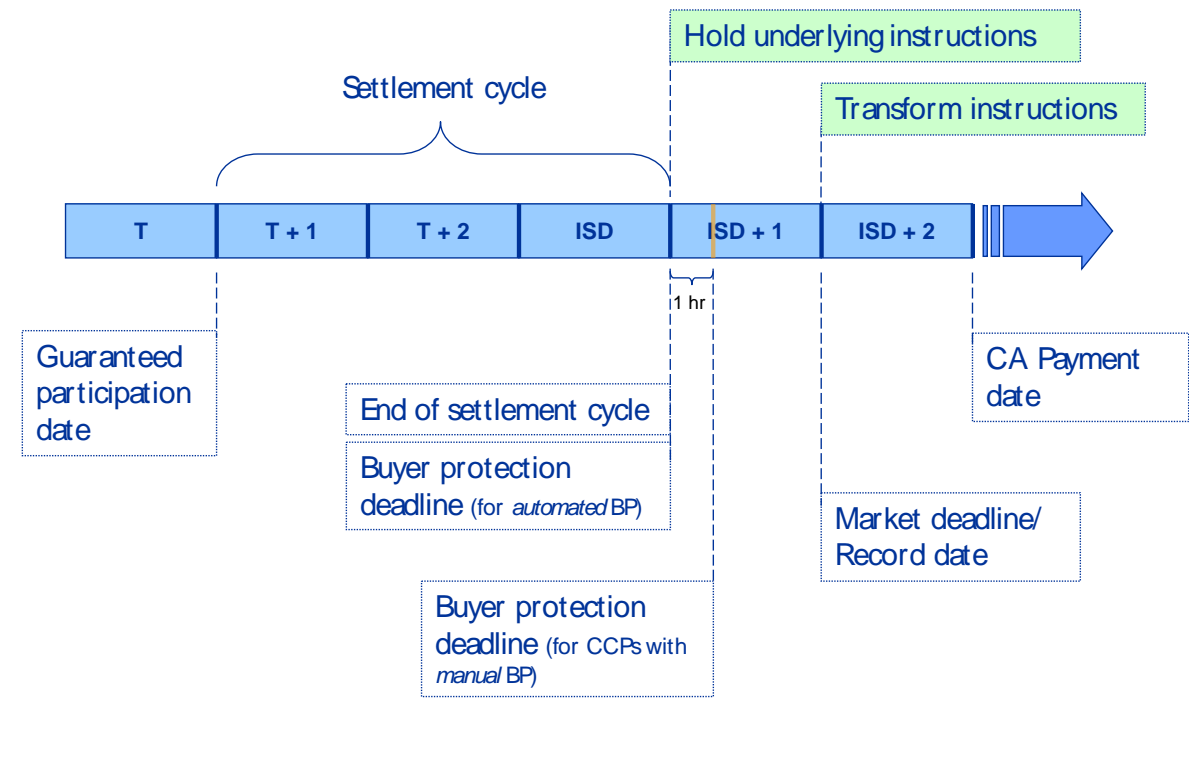
Answer 3.1

According to the market CA standards (CAJWG) of 2012, the BP deadline time will be at the EOD on the day before the RD. In the context of T2S this means 06:00 pm (CET).

As per currently envisaged T2S schedule, the End of Day is at 6:45 p.m. CET (indicative). So the BP deadline will also be at 6:45 p.m. CET (indicative). As the Start Of Day for the next business day in T2S is at 6:45 p.m. CET (indicative), the BP deadline will not fall into the next T2S business day (i.e. Market deadline/ Record date).

Only in case of CCPs in a manual BP regime, the BP deadline is EOD (of 1 day before the record date) + 1 hour. In this case it would be at 7:45 pm (indicative), and will fall onto the next business day of T2S.

Diagram 1. in the T2S Buyer Protection standards



Question 3.2

Should each market identify the entity being in-charge of managing BP instructions? Will the entity be the either CSD or CCP only?

Answer 3.2

T2S markets have the choice between implementing an automatic BP mechanism (to be managed centrally by the CSD) and a manual BP framework (bilateral interaction between buyer and the seller).

Question 3.3

Is the guaranteed participation date the latest deadline for instructions to be eligible for BP?

Answer 3.3

According to T2S BP standard 9, in order for the settlement transaction to be eligible for buyer protection, the trade should be concluded before the end of the guaranteed participation date.

Question 3.4

In the T2S BP standards, 'Location of BP processing' section specifies that 'BP instructions are detected, generated and communicated between the buyer and the seller'. Proposed addendum to this text is "through and up to the chain of intermediaries". Please confirm if the addendum can be incorporated.

Answer 3.4

The addendum is agreed in the CASG, and is applicable for automated BP only i.e. the addendum would be "through and up to the chain of intermediaries for automated BP". The amendment will be reflected in the next publication of the T2S BP standards.

Question 3.5

Referring to the T2S BP standard 1: Should the underlying settlement instruction be put on hold or should it be cancelled and replaced by a new transformed instruction? Is there a discrepancy between the terms used in the 'Comments/Results' column in table that summarises the four possible scenarios (page 4) and the last sentence in the Explanatory Comment to T2S BP standard 1)

Answer 3.5

According to T2S BP standard 14, if the IOC offers automated BP services, then the IOC should freeze (put on hold) the underlying instructions upon receipt of a BP instruction from the buyer. But

in case the IOC does not offer automated BP services, and the buyer and seller communicate with each other the BP instructions, then the buyer and the seller should cancel the underlying settlement instructions and re-instruct reflecting the option chosen by the buyer.

Question 3.6

Referring to CAJWG BP Standard 5: How late BP instructions are processed, in case the seller does not match them? In markets where BP is endorsed, the seller should not have rights to refuse a BP instruction, provided it is received in time and its content is coherent.

Answer 3.6

As per BP standard 5 of CAJWG, 'Any Buyer Protection instruction by the buyer prior to the Buyer Protection Deadline and related to a Transaction for which the trade date is on or before the Guaranteed Participation Date [...] should be accepted without requiring a Matching...'. The CAJWG BP standards address the settlement instructions with trade date before or on the guaranteed participation date with an ISD on or before the buyer protection deadline.

According to T2S BP standard 7, processing of late BP instructions should be established on the basis of bilateral agreement between the buyer and the seller, or the CSD/CCP rules – where and when CSDs/CCPs are offering such automated and centralised BP processing services.

Question 3.7

According to T2S BP standard 6, references in the BP instruction should become a standard as well, especially in a cross-CSDs transaction. Please confirm.

Answer 3.7

We confirm that T2S BP standard 6, as well as all T2S CA standards apply to all activity in T2S (including and especially the cross-CSD transactions).

Question 3.8

T2S BP standard 9 adds 1 day to the buyer protection deadline in comparison with the CAJWG standards. Is a final schedule of the processing steps and latest deadlines for each of such steps, available?

Answer 3.8

The T2S BP standard 9 simply reiterates the CAJWG BP standard. The sequence of different dates and the BP deadline specified in T2S BP standards are the same as they are laid out in the CAJWG standards. Please refer to the diagram in the CAJWG standards in the section on reorganisations with

options and Diagram 1 in the T2S CA BP standards.

Question 3.9

Referring to T2S BP standard 12: *“Only the BP election (i.e. corporate action option) can be amended.”*

Is it correct to specify that a BP can only be cancelled? The remark is with the consideration that, a BP instruction is needed when it deviates from the default option. If a BP instruction needs to be amended this means that the buyer opts for the default option.

Answer 3.9

According to T2S BP standard 14, a BP instruction is indeed needed only when the buyer wants to apply an option other than the default on underlying transaction quantity. However, amending a BP instruction does not necessarily mean that BP is opting for the default option – e.g. corporate actions of types distributions with options, reorganisations with options, voluntary events, may have more than 2 options. So in case a BP is not correct, the buyer may amend the BP by opting for a different option which may not be always the default one.

Question 3.10

Referring to T2S BP standard 13: *If the underlying transaction can be settled prior to the BP deadline, it should settle and the BP instruction should be cancelled by the Instruction Owner CSD (IOC) if the IOC offers such a BP service.*

Is it correct that, the BP is needed only as long as the underlying settlement transaction is pending at the end of day on the CA Record Date i.e. if the underlying transaction settles, the BP is void?

In cases when the IOCs or seller processes BP instruction (and the buyer is due to receive the preferred option), the IOC or seller should cancel the underlying settlement transaction and instruct a new transformed transaction reflecting the option chosen in BP. This is also in line with the T2S BP standard 14.

Answer 3.10

We clarify that as per the T2S BP standards/ CAJWG standards, BP is allowed only until one day before the record/market deadline date. So correspondingly the ‘guaranteed participation date’ is defined as one settlement cycle before the buyer protection deadline, both for automated and manual BP instructions. The pending settlement instructions on the record date/market deadline date are not covered by the Market BP standards and T2S BP standards.

As per T2S BP standard 14, at the end of the BP deadline, the IOC or buyer/seller should freeze the

underlying settlement instructions where a BP is instructed. This will avoid the settlement of underlying instructions on the market deadline date/ record date. In case the underlying transactions have settled already by the BP deadline, then the IOC should cancel the BP (in automated BP) or the BP becomes void (in Manual BP).

Question 3.11

T2S BP Standard 14: *“Transactions attached with a valid BP that are still pending at the BP deadline should be frozen (put on hold) by the IOCs until their transformation on market deadline/record date. The Transformation of the underlying transaction should be carried out by the IOCs, in accordance with the BP instruction, at the Market Deadline / Record Date of the voluntary reorganisation.*

If the CSD does not provide an automated BP service, then buyer and seller shall cancel the underlying transaction and re-instruct, in accordance with the BP instruction, at the market deadline / record date of the voluntary reorganisation”

What is the reason for freezing the underlying settlement instruction once the new transformed instruction has been sent to T2S for settlement after the CA record date or Market deadline date?

Answer 3.11

On the record date/market deadline date the underlying pending transactions will be transformed by the CSD. As the BP deadline is already one day before the market deadline date, it is possible that the underlying transactions (for which a buyer requested BP is applicable), may settle during the market deadline date. In order to prevent settlement of such transactions during the market deadline date, the underlying transactions need to be frozen/ put on hold by the IOCs.

Question 3.12

Please confirm that T2S BP standard 17 does not deal with actual CA payment.

Answer 3.12

T2S BP Standard 17 refers to the settlement date of transformed instructions, and not to the proceeds of the CA (as part of CA execution). During the CA execution on payment date, the CSD will provide the CA proceeds to the seller, who holds the underlying securities positions on record date/ market deadline date. When IOC offers BP services, the IOC, based on the BP instructions from buyer, would have transformed the settlement instructions between the seller and buyer by the end of record/ market deadline date. When the CSD does not offer automated BP services, the buyer/seller should have cancelled and re-instructed new instructions bilaterally (reflecting buyer’s option). The T2S BP standard 17 specifies that settlement of those newly instructed transactions should take place on the payment date of the CA.

Question 3.13

Are all the CSDs involved in the transaction chain informed about the related buyer protection instruction?

Answer 3.13

If the Issuer CSD offers BP services, then all Investor CSDs involved in the underlying transaction should offer BP services for the relevant pending transactions.

Question 3.14

According to the scope of T2S BP standards, if the IOC does not offer an automated BP service, the cancellation of instructions on the underlying ISIN, and re-instructing on the outturn ISIN/cash should be carried out by the buyer/seller of the transaction. Please confirm?

Answer 3.14

In case the IOC is not offering a BP service, then the IOC will not have information on the CA option chosen by the Buyer on the positions of pending settlement instruction. So the IOC will transform the pending settlement transactions to reflect the default option. In order to avoid this, the buyer and seller should bilaterally instruct a cancellation of pending instructions, and re-instruct on the new outturn ISIN/ cash.

Question 3.15

If a BP is not instructed on an unsettled securities transaction, and if the securities will lapse due to a mandatory with options reorganisation event, should the IOC still perform transformation of the pending settlement instruction (i.e. buyer pays the settlement amount to the seller and receives no securities?)

Answer 3.15

CASG Transformation Standard 3 requires that all eligible transactions be transformed. The criteria for determining whether a transaction is eligible are set out in the CAJWG standards, including notably CAJWG Transformations Standard 1 and CAJWG Buyer Protection Standard 12.

If the default option/action of a mandatory with options reorganisation event, e.g. rights exercise, is to lapse securities proceeds, the transaction is to be transformed into a transaction of the original settlement amount against 0 securities.

-If the event is a voluntary reorganisation, e.g. tender offer, and hence the default option/action of the event is to take no action, the transaction is not to be transformed at all – it should remain unchanged in all respects.

Question 3.16

Can the buyer send a BP instruction while the underlying instruction is yet to be matched and still is in pending status?

Answer 3.16

No, all buyer protection instructions must be referring to matched instructions.

Question 3.17

With reference to BP standard 8 (*It is recommended that the ISO20022 standards are referred to as the basis for such instructions*) about the format of the manual BP instruction, is there a template which T2S markets must use in order to comply with the requirement of this standard?

Answer 3.17

Strictly speaking, there is no template which is part of the T2S Buyer Protection standards. The same applies for the market (CAJWG) corporate action standards.

However, many EU markets have agreed to work on a common template to be used by their markets as this would facilitate consistency in cross-CSD transactions. This template has been developed by the CAJWG and has been published on the AFME website. A link to the template is also available on the webpage of the T2S CASG.

4. Other questions

Securities fractions

Question 4.1

What is the definition of a “securities fraction” in the context of T2S CA standards?

Answer 4.1

The T2S CA standards are based on the market standards on CAs (i.e. CAJWG standards).¹⁷

According to the CAJWG definitions, a fraction is “*the decimal part of the balance of outturn securities resulting from the calculation of the proceeds of a Corporate Action.*”

In the context of T2S, the MSU and the SUM values need to be taken into account when fractions are calculated:

“A fraction entitlement is a numerical quantity which is either less than 1 when the MSU/SUM is greater or equal to 1, or less than 0.x when the MSU/SUM is below 1 (depending on how many decimal places the MSU/SUM goes to).”

Please see the answer to Question 4.3 for additional details with respect to the cases where MSU and SUM are not equal to each other, and where MSU/SUM are less than 1.

Question 4.2

What values for the Minimum Settlement Unit (MSU)/Settlement Unit Multiple (SUM) of a security should be set up in T2S static data in order to be able to process corporate actions in T2S in the most efficient way (i.e. without the need for additional intervention or using workarounds)? Are these dependent on the different types of financial instruments?

Answer 4.2

The Securities Maintaining Entities (SMEs) on T2S are allowed to set up the MSU and/or SUM of a security in T2S Static Data according to their own business requirements and commitments.

However, in order for there to be an efficient processing of corporate actions in T2S (i.e. to obviate the need for manual intervention and the use of workarounds), the CASG proposes that SMEs on T2S apply the following practice for the set-up of MSUs and SUMs:

- For equities: MSU = SUM = 1.
- For debt Instruments: MSU = SUM.
- For fund shares/units: MSU = SUM = 1 or 0.x. The MSU and SUM must be equal, no matter how many decimal places the units are able to settle in.

Question 4.3

How does a partial redemption affect the MSU and SUM of a debt instrument?

Answer 4.3

¹⁷[http://www.afme.eu/uploadedFiles/Content/Divisions_\(Public\)/Post-Trade/Market%20Standards%20for%20Corporate%20Actions%20Processing,%20revised%202012.pdf](http://www.afme.eu/uploadedFiles/Content/Divisions_(Public)/Post-Trade/Market%20Standards%20for%20Corporate%20Actions%20Processing,%20revised%202012.pdf)

In many cases, partial redemptions are processed by creating a new ISIN for the amount outstanding after the redemption. In some cases, the ISIN of the security stays the same after the redemption. In such a case, the SME (an entity, typically a [Issuer] CSD, which has been assigned the responsibility for maintaining the reference data for a security in T2S) for that security in T2S should ensure that the Minimum Settlement Unit (MSU) and/or the Settlement Unit Multiple (SUM) values are amended in the T2S Static Data to reflect the percentage of the principal amount which is redeemed.

Non-compliance of issuer CSDs with T2S CASG (and CAJWG) standards

Question 4.4

How should investor CSDs comply with the T2S CASG and the CAJWG standards in the event that an issuer CSD is not compliant?

Answer 4.4

Background:

The main principle underpinning the existing T2S corporate action standards is the mandatory compliance by all T2S CSDs and markets, and such mandatory compliance applies both for issuer CSD and investor CSD services.

Through their role as issuer CSD, and by the fact that most corporate action processing follows the “cascade” principle whereby processing first takes place at the issuer CSD and then subsequently takes place at the level of investor CSDs and other intermediaries in the custody chain, non-compliance by issuer CSDs with T2S corporate action standards has a major impact on investor CSDs and on all other intermediaries.

Non-compliant issuer CSDs do not comply with T2S corporate action standards in two ways:

- No provision of service
- Provision of service deviating from standard description

From the perspective of an investor CSD, the lack of provision of a service by an issuer CSD may prevent that investor CSD from providing the service; the provision of a “deviating” service by the issuer CSD may oblige the investor CSD also to provide such a “deviating” service.

Accordingly, it is not possible to mandate compliance by investor CSDs with T2S corporate action standards in the event of non-compliance by issuer CSDs.

Investor CSD options:

In the event of non-compliance by issuer CSDs, investor CSDs have the following three options:

1. Strict copy of processing by non-compliant issuer CSD

The main advantage of Option 1 is that it applies a simple, uniform rule, so that for any individual

ISIN on T2S there is just one corporate actions process. This avoids the confusion and risks that may arise if different CSDs on T2S process corporate actions on the same ISIN in different ways.

2. Standards-compliant processing (where possible)

Option 2 has the advantage that – where it is possible - investor CSDs provide a standards-compliant service to their participants.

The main disadvantage of Option 2 is that it creates the possibility that for a given ISIN on T2S, there are different corporate action processes on T2S, and that such processes depend – for stocks – on the individual CSDs in the custody chain, and – for flows – on the two “instruction-owning” CSDs (i.e. the CSD of the buyer and the CSD of the seller). In particular for corporate actions on flows, there is a major potentiality for confusion and risk, as, for example, for a participant in an investor CSD, the processing of a market claim may depend on the processing of the CSD of the counterparty, and that CSD may well be any of the other 22 CSDs on T2S.

However, the above consideration do not suggest that Option 2 should be prohibited in favour of Option 1, due to the two reasons below:

The first reason is that prohibiting Option 2 would prohibit a possible improvement in the service provided by an investor CSD, or – in the event that the investor CSD currently provides the service – would mandate a deterioration in service.

The second reason is that the long-term goal is full compliance with the standards. Option 2 is a step towards full compliance. In particular in the event that an investor CSD currently provides a standards-compliant service (such as generating market claims even though issuer CSD does not generate market claims), mandating Option 1 would have the effect of forcing investor CSDs to take a step away from full compliance.

3. Divergent processing (i.e. processing that is neither standards-compliant nor issuer CSD-compliant)

Option 3 has only disadvantages, as adding another divergent process will only create more complexity.

Guidelines:

The CASG would like, first of all, stress the importance of all issuer CSDs complying fully with the CAJWG and the CASG standards, as this is the only fully satisfactory solution.

However, in the event that an issuer CSD is non-compliant, the CASG urges investor CSDs to apply the following guidelines:

- a) Prioritise compliance with the core standards (as identified by the CAJWG);
- b) Use the set of key dates as specified by the issuer CSD; any use of alternative key dates (i.e. key dates that differ from the key dates identified by the issuer CSDs) would generate confusion and risk for all market participants;

- c) Provide CSD participants as well as market participants in general with full information as to how the events will be processed;
- d) Apply simple rules;
- e) Do not apply divergent processing (i.e. do not use Option 3), as this increases complexity.

Annex 1 Scenarios for Market Claims detection

The below table summarises different scenarios of settlement transactions and their eligibility for market claims generation:

Table 1: Scenarios for detection of market claims

Scenario reference No	Trade Date < Ex-Date (N means <u>TD=>Ex-Date</u> but <u>TD<=RD</u>)	ISD<= Record Date	Actual settlement date < = Record Date	Opt-out indicator	Ex/cum indicator	Market Claim is created	Direction
Scenarios for market claim detection for securities in nominal							
1	Y/N	Y	N	Blank	N/A	Y	From the seller to the buyer
Scenario for market claim detection for securities in units							
2	Y	N/A	N	Blank	Blank/Cum	Y	From the seller to the buyer
3	N	N/A	N	Blank	Cum	Y	From the seller to the buyer
4	N	N/A	Y	Blank	Blank/Ex	Y	From the buyer to the seller
5	Y	N/A	Y	Blank	Ex	Y	From the buyer to the seller
No market claim detection for transactions in which opt-out is present							
6	N/A	N/A	N/A	Opt-out	N/A	No	N/A
In case of a combined use of both opt-out and ex/cum indicators, the opt-out flag takes precedence, and neither market claim nor reverse market claim should be generated.							

Annex 2: Scenarios for the identification and processing of Transformations

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Asset Class	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt
Type of event	Mandatory Reorganisation	Mandatory Reorganisation	Mandatory Reorganisation	Mandatory Reorganisation	Mandatory Reorganisation	Mandatory Reorganisation
Trade date	On or before record date	On or before record date	On or before record date	On or before record date	On or before record date	On or before record date
ISD	On or before record date	On or before record date	On or before record date	On or before record date	After record date	After record date
Cum/Ex indicator stating	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.
Opt Out Indicator	Blank	Blank	Y (NOMC)	Y (NOMC)	Blank	Y (NOMC)
Settled by cob market deadline	No	Yes	No	Yes	No	No
Is the transaction subject for CSD detection for Transformations?	Yes	No	Yes	No	Yes	Yes
Will a Transformation transaction be raised?	Yes	N/A	No	N/A	Yes	No
Direction of the newly created transaction	From the seller to the buyer	N/A	N/A	N/A	From the seller to the buyer	N/A
Comments	The direction of the transformed transaction is no different to the original underlying transaction.	No transformation is created as settlement took place and the buyer will be paid the entitlement	The transaction is eligible for Transformations but both participants do not wish for Transformations to take place. Therefore the (I)CSDs will cancel the underlying transactions.	No transformation is created as settlement took place and the buyer will be paid the entitlement	The direction of the transformed transaction is no different to the original underlying transaction.	The transaction is eligible for Transformations but both participants do not wish for transformations to take place. Therefore the (I)CSDs will cancel the underlying transactions.

	Scenario 7	Scenario 8	Scenario 9	Scenario 10	Scenario 11	Scenario 12
Asset Class	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt	Equity or Debt
Type of event	Mandatory Reorganisation with Options	Mandatory Reorganisation with Options	Mandatory Reorganisation with Options	Mandatory Reorganisation with Options	Mandatory Reorganisation with Options	Mandatory Reorganisation with Options
Trade date	On or before market deadline	On or before market deadline	On or before market deadline	On or before market deadline	On or before market deadline	On or before market deadline
ISD	On or before market deadline	On or before market deadline	On or before market deadline	On or before market deadline	After market deadline	After market deadline
Cum/Ex indicator stating	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.	Not applicable - should a transaction have these fields populated it will have no bearing on the outcome.
Opt Out Indicator	Blank	Blank	Y (NOMC)	Y (NOMC)	Blank	Y (NOMC)
Settled by cob record date	No	Yes	No	Yes	No	No
Is the transaction subject for CSD detection for Transformations?	Yes	No	Yes	No	Yes	Yes
Will a Transformation transaction be raised?	Yes - into the default option	N/A	No	N/A	Yes - into the default option	No
Direction of the newly created transaction	From the seller to the buyer	N/A	N/A	N/A	From the seller to the buyer	N/A
Comments	The direction of the transformed transaction is no different to the original underlying transaction.	No transformation as settlement took place and the buyer will be paid the entitlement	The transaction is eligible for Transformations but both participants do not wish for transformations to take place. Therefore the (I)CSDs will cancel the underlying transactions.	No transformation as settlement took place and the buyer will be paid the entitlement	The direction of the transformed transaction is no different to the original underlying transaction.	The transaction is eligible for Transformations but both participants do not wish for transformations to take place. Therefore the (I)CSDs will cancel the underlying transactions.

Annex 3 Glossary

Unless explicitly mentioned otherwise, the definitions below are replication of the definitions attached to the market (CAJWG) corporate actions standards

Actual Settlement Day	Date on which the settlement effectively takes place
Bilateral Input	Instructions submitted by both parties to settlement as opposed to direct input, which is submitted by third parties
Book Entry	Accounting of securities and other financial assets in dematerialised or immobilised form
Business Day	Business day at the Issuer (I)CSD
Buyer Protection	Process whereby a buyer who has yet to receive the Underlying Securities of an Elective Corporate Action, instructs the seller in order to receive the outturn of his choice
Buyer Protection Deadline	Last day and time by which a Buyer Protection instruction can be given
CCP	Central counterparty, i.e. an entity that interposes itself between the two parties to a trade, becoming the buyer to every seller and the seller to every buyer
Cash Distribution	A Distribution where the proceeds consist of cash only
Chain of Intermediaries	Sequence of Intermediaries connecting the Issuer / Issuer CSD with the End Investor and vice versa in respect of securities held by Book Entry in a securities account
Corporate Action	Action initiated upon a security by the Issuer or an Offeror
Distribution	Corporate Action whereby the Issuer of a security delivers particular proceeds to the holder of the Underlying Security without affecting the Underlying Security
Distribution with Options	A Distribution with a choice of proceeds
Election Period	Period during which elections can be made
Elective Corporate Action	Distribution with Options, Mandatory Reorganisation with Options or Voluntary Reorganisation
End Investor	Physical or legal person who holds the security for his own account, not including the holder of a unit of a UCIT (undertaking for collective investments in transferable securities)
Ex-Date	Date from which the Underlying Security is traded without the benefit / right attached to it
Fractions	The number of Underlying Securities remaining after the calculation of the entitlement to the proceeds of a Corporate Action or The decimal part of the balance of outturn securities resulting from the calculation of the proceeds of a Corporate Action
Guaranteed Participation Date	Last date to buy the Underlying Security with the right attached to participate in an Elective Corporate Action
(I)CSD	(International) Central Securities Depository
Intended Settlement Date	Date on which a Transaction is due to settle

Interim Security	Short term transferable operational instrument, issued for processing purposes only, which is not representative of the Issuer's capital
Intermediaries	Financial institutions that provide and maintain securities accounts
Investor (I)CSD	(I)CSD that holds securities with another (I)CSD or with an Intermediary
ISIN	International Securities Identification Number
ISO	International Organization for Standardisation
Issuer	The issuer of an Underlying Security including the agent mandated by the Issuer for Corporate Actions purposes
Issuer (I)CSD	(I)CSD with whom the Issuer has deposited and maintains its primary securities issuance by Book Entry
Mandatory Reorganisation	A Reorganisation that mandatorily affects the Underlying Security
Mandatory Reorganisation with Options	A Mandatory Reorganisation with a choice of proceeds
Market Claim	Process to reallocate the proceeds of a Distribution to the contractually entitled party
Market Deadline	Last date and time, preferably end of day, to send election instructions to the Issuer (I)CSD
Matching	Process of comparing the two relevant settlement instructions as provided by the two counterparties to ensure that they match
Offeror	Party (other than the Issuer) including its agent, offering a Voluntary Reorganisation
Payment	Delivery of the proceeds of a Corporate Action.
Payment Date	Date on which the Payment is due
Pending Transaction	Unsettled Transaction
Record Date	Date on which settled positions are struck in the books of the Issuer (I)CSD at close of business to determine the entitlement to the proceeds of a Corporate Action
Reorganisation	A Corporate Action whereby the Underlying Security is replaced with proceeds
Securities Distribution	A Distribution where the proceeds consist of securities.
Settlement Cycle	Number of Business Days from the trade date to the Intended Settlement Date
Transaction	The result of Matching.
Transformation	Process by which Pending Transactions, on or after Record Date / Market Deadline, are cancelled and replaced by new Transactions in accordance with the terms of the Reorganisation
Underlying Security	Security that is the subject of a Corporate Action
Underlying Transaction	Transaction upon which a Market Claim, Transformation or Buyer Protection is applied
Voluntary reorganisation	A Reorganisation in which participation is optional for the holder of the Underlying Security

Annex 4 Schedule of the T2S settlement day – night-time settlement¹⁸

Phase	Sequence	Settlement Activities
First Night Time Settlement Cycle	0	<ol style="list-style-type: none"> 1. Settlement of Inbound liquidity transfers from RTGS accounts to T2S DCA 2. Internal liquidity transfers between 2 DCAs 3. T2S regenerated cash settlement restrictions corresponding to CoSD blocking 4. Other cash settlement restrictions
	1	<ol style="list-style-type: none"> 1. Settlement of settlement instructions related to CA on stocks 2. Settlement of all types of liquidity transfers 3. Settlement of cash settlement restrictions 4. Settlement of remaining cash reserve collaterals from preceding settlement days 5. Settlement of unsettled settlement instructions/ settlement restrictions from sequence 0
	2	<ol style="list-style-type: none"> 1. Settlement of internal FOP settlement instructions 2. Settlement instructions for CA on stock, liquidity transfer and cash settlement restrictions 3. Settlement of reverse collateral settlement instructions related to reimbursement of intraday auto- collateralisation 4. Settlement of unsettled settlement instructions/ settlement restrictions from sequence 1
	3	<ol style="list-style-type: none"> 1. Settlement of CBO settlement instructions 2. Settlement of internal FOP settlement instructions, settlement instructions for CA on stock, liquidity transfer and cash settlement restrictions 3. Settlement of reverse collateral settlement instructions relating to reimbursement of intraday auto collateralisation 4. Settlement of unsettled settlement instructions/ restrictions from sequence 2
	4	<ol style="list-style-type: none"> 1. All eligible settlement instructions/ settlement restrictions/ liquidity transfers for current settlement day including CA on flow 2. Settlement of unsettled settlement instructions/ settlement restrictions from sequence 3

¹⁸ See T2S UDFS v.1.2.1, Section 1.4.4 Detailed description of the settlement day

Phase	Sequence	Settlement Activities
Last Night Time Settlement Cycle	4	<ol style="list-style-type: none"> 1. All eligible settlement instructions/ settlement restrictions/ liquidity transfers for current settlement day including CA on flow 2. Settlement of unsettled settlement instructions/ settlement restrictions from sequence 3
	X	<ol style="list-style-type: none"> 1. Settlement of all eligible settlement instructions/ settlement restrictions/ liquidity transfers for current settlement day including CA on flow 2. Settlement of settlement instructions and unsettled instructions/ restrictions from sequence 4 3. Settlement of unsettled settlement instructions from sequence 4 eligible for partial settlement processing
	Y	Reimbursement of liquidity provided by ‘multiple liquidity providers’ via automated outbound liquidity transfer
	Z	Settlement of <ol style="list-style-type: none"> 1. Inbound liquidity transfer, 2. Internal liquidity transfer 3. Outbound liquidity transfer