

# Guidance for S6 and S8

Asset Servicing Expert Group



**CMH-TF** 24/11/2020

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## **Topics**

1. Introduction

2. SCoRE Corporate Actions Standard 6 Business day rule

3. SCoRE Corporate Actions Standard 8 Payment Time

4. Next steps

From 28...



## 1. Introduction

CMH TF Asset Servicing Expert Group discussed guidance for SCoRE CA Standards 6 and 8; and the <u>need to explain/communicate</u> on the common set of rules for processing corporate actions

1. Issuers/Agents of issuers of debt instruments in the European Union, United Kingdom and Switzerland.

2. Eurosystem central banks and Eurosystem counterparties.

3. CSDs acting as issuer and/or investor CSDs in the European Union, United Kingdom and Switzerland

4.Market participants /
Custodians acting as
account servicers in the
European Union, United
Kingdom and Switzerland.

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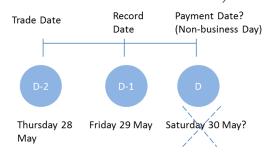
4. Next steps

#### Standard 6: Business day rule

If the payment date of a corporate action falls on a non-business day (in the country of the currency in which the payment is due), the payment shall be made on the next business day.

#### To address the following issues:

drawbacks of the "unadjusted" calculation periods in business day conventions: these calculation periods bring post-trade complexities with the anticipation of payments, as both the Payment Date and Record Date would have to be brought forward (i.e. the "unadjusted" must not be used in order to improve processing efficiencies in financial markets).



Post-trade issues/complexities with:

- A. Modified Following Business Day Convention / Unadjusted (MFBDC Unadjusted).
- B. Previous Business Day Convention / Unadjusted (PBDC Unadjusted)
- C. Modified Previous Business Day Convention / Unadjusted (MPBDC Unadjusted).

#### Description

Payment amounts are always calculated on the end-of-day positions on the Record Date. If the payment date falls on a non-business day in the country of the currency in which the payment is due, the payment must be made on the next business day. In particular, the following unadjusted business day conventions resulting in anticipation of payments must not be applied anymore i.e. (i) the Modified Following (ii) Modified Previous (iii) Previous Business Day Conventions - each in combination with the calculation period Unadjusted.

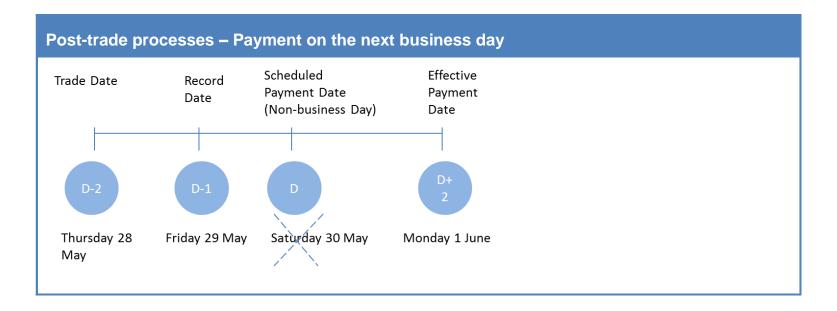
CSDs must not accept securities with these three conventions (in combination with an unadjusted calculation period) in order to be eligible for CSD processing or the payment must be moved to the next business day (i.e. if scheduled Payment Date is Saturday, it is moved to Monday).

## Business day rule

The table below provides an overview of the application of the payment conventions:

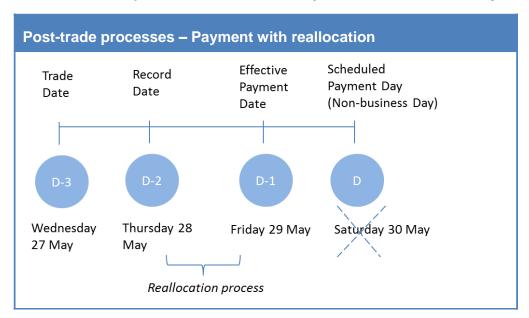
Business Day Convention		Best practice	Post-trade processes
Following	Adjusted	✓ Yes	Pay the next business day
	Unadjusted	✓ Yes	Pay the next business day
Modified Following	Adjusted	✓ Yes	Pay the previous business day
	Unadjusted	* No	Not admitted; or Pay the next business day
Previous	Adjusted	√ Yes	Payment the next business day
	Unadjusted	* No	Not admitted, or Pay the next business day
Modified Previous	Adjusted	✓ Yes	Payment the next business day
	Unadjusted	× No	None
		×	

### Newly issued securities



## Existing securities

Reallocation procedure for unadjusted business day conventions MFBD, PBDC, MPBDC



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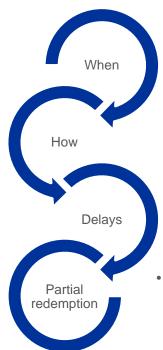
#### Standard 8: Payment Time

The cash proceeds of a corporate action should be distributed as early as possible.

For any CA event involving a partial or full redemption, the cash proceeds should be made available by the issuer CSD at the same time as the partial or full redemption is processed on the payment date, thus ensuring that relevant parties are compensated / paid in a timely fashion for the partial or full redemption.

- To address the following issues:
  - Exposure: the booking out of the securities could result in the transaction being undercollateralised while the collateral giver has not yet been compensated for the security subject to (partial) redemption.
  - Inefficiencies: as additional collateral needs to be sourced to cover the time gap.
  - Operational fragmentation: Different redemption processes and cash compensations.

Clarity is provided on:



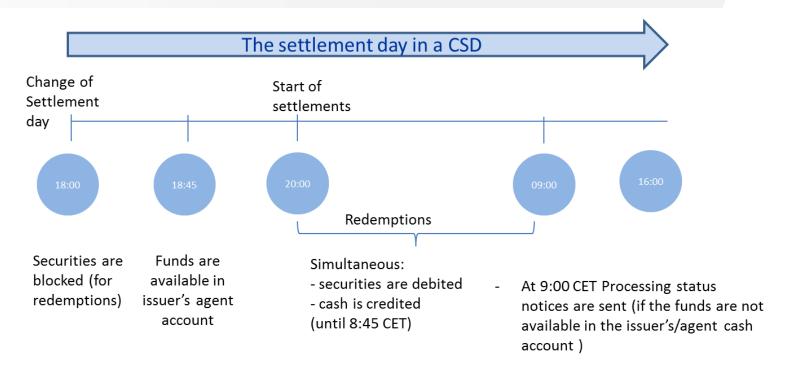
 CA payments must be made to CSD participants until the opening of the payment system - between 20:00 CET and 8:45 CET.

• Cash proceeds should be made available at the same time as the redemption.

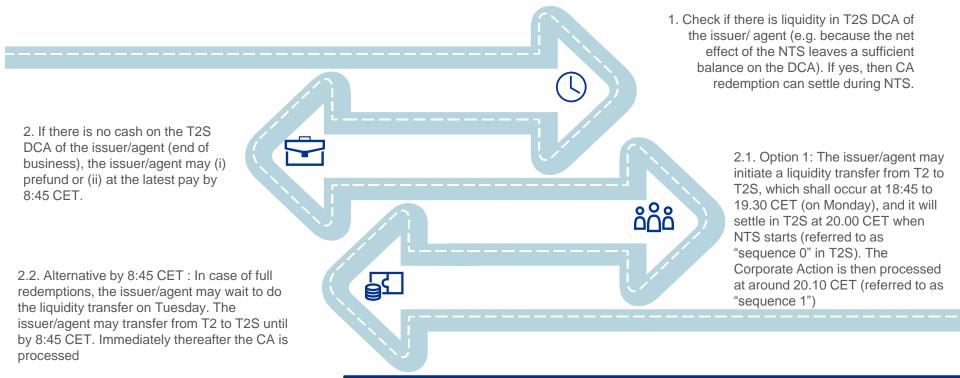
 As of 9:00 CET, the CSD must send a notification of processing status to its participants informing them that the cash and/or security payment is pending

In case of partial redemption with reduction of nominal amount (PCAL events), the securities booking must take place in the NTS of the PD which starts at 20:00 CET (the start of "sequence 1" in T2S). Following the securities booking, the new position/denomination is created (particularly relevant to avoid operational issues).

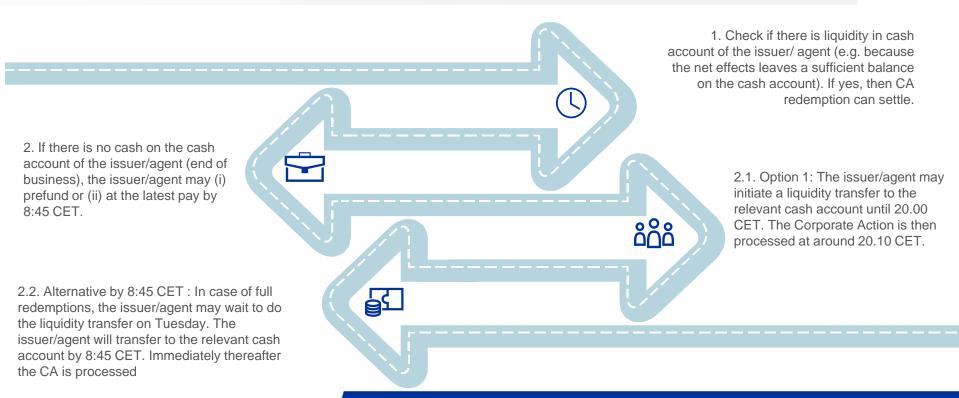
Overview



Case study 1: Full redemption in T2S market



Case study 2: Full redemption in a non-T2S market



## 4. Next steps

- NSGs and industry associations (ICMA, ISLA, ICSMA and ECSDA)
  are invited to explain the guidance to stakeholders and issuers
- The Rulebook will be updated to reflect the additional guidance on S6 and S8
- Relevant aspects of the FAQs will also be incorporated into the updated Rulebook