



T+2 for the French Market

French Market position Executive Summary
Updated version

March 2014

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I. Context and objectives

Shortening the settlement cycle to T+2 will generate further efficiency and will reduce risk across Europe. It is brought by the CSD Regulation and targets all European countries. The official deadline for the time being for its implementation across Europe is January 1st 2015.

In order to launch the T+2 project, the French Market, under AFTI's (the French post trade professional association) initiative, has set up a task force to identify all consecutive impacts.

This task force gathers:

- Other major French professional associations (ANSA, AMAFI, AFG)
- Market Infrastructures (Euronext, LCH Clearnet, Euroclear, Banque de France)
- All stakeholders impacted by T+2 (custodians, asset managers, clearers, brokers, issuers, data providers,...)

The objectives are to:

- Identify all impacts on stakeholders
- Define the implementation calendar

The work undertaken thus far has led to a first version of a written report on the French market position, released in June 2013.

An updated version has been released in March 2014, taking into account:

- Updates on European countries' migration into T+2
- Clarification on operational impacts
- Test phase specifications
- Updates on regulatory impacts

II. Main features of the T+2 implementation

• Scope

T+2 settlement cycle includes any operation, settled in a CSD or ICSD, if traded on:

- A regulated market
- A MTF
- An OTF (whenever applicable)
- An OTC market unless both parties decide otherwise

It should be noted that primary issues are out of scope

• Migration

Constraints for migration have been identified:

- Migrate before ESES markets' preparation to T2S
- Avoid corporate actions season (February to June)
- Simultaneous migration of T+2 and the new Corporate Actions standards

Therefore, the French Market migration to T+2 is planned for October 4th and 5th 2014 as follows:

- Friday, October 3rd 2014 will be the last trading date on a T+3 basis
- Monday, October 6th 2014 will be the first trading date on a T+2 basis
- Wednesday, October 8th 2014 will be the last settlement date on a T+3 basis and the first settlement date on a T+2 basis

It should be noted that:

- The French Market will maintain a migration to T+2 in October 2014, even if the CSD Regulation's deadline is postponed

- **Test phases**

Three months of testing are planned as follows:

- Two periods of end-to-end testing
 - First period of tests starting Friday, July 4th end of day, over the weekend
 - Second period of tests starting Friday, September 5th end of day, over the weekend

It should be noted that:

- Although the T+2 project and the new Corporate Actions standards (CSE Stream 5) project are independent, simultaneous test phases have initially been planned over Summer 2014
- Consecutively to CSE Stream 5 postponing to March 2015, July 2014 test phases will only apply to T+2.
- The T+2 migration date as well as all identified operational impacts remain unchanged.

- **Coordination with other European countries**

The Cross Market Advisory Committee (governance body of the ESES markets) has validated the common slot for the migration to T+2 for France, Belgium (including NBB) and the Netherlands.

Portugal has also confirmed a simultaneous migration with the ESES markets.

Not all of the other European countries have planned their migration to T+2. However, by the end of March 2014, 15 countries (including Great Britain) have officially declared a simultaneous migration with the ESES markets.

III. Main operational impacts

A full review of all operational processes has been conducted by the T+2 taskforce. The following highlights the main operational impacts of the new settlement cycles.

- **Operational efficiency**

All stakeholders concerned by T+2 should improve their operational efficiency in order to meet new expectations in terms of operational processes.

More specifically, Asset Managers with no automated systems in their connections with the brokers (trade confirmations) will have to implement more modern confirmation tools.

- **French specific processes**

The timeline of the following processes will be modified by Euroclear so that their calendars can fit the new settlement cycle

- French SBI confirmation process
- French SRD calendar

- **UCITs**

Non-listed UCITs are not in the scope of CSD Regulation and therefore have no obligation to switch to T+2. The choice of settlement cycle remains the Asset Manager's decision, according to the funds under management and their clients.

Recommendations are nevertheless made for Asset Managers to:

- Estimate the level of de-synchronization between assets and liabilities, according to UCIT structures
- At worst, expect structural de-synchronization between assets' and liabilities' settlement cycles leading to cash shortages
- At best, anticipate a loss of flexibility and intraday cash shortages according to cut offs

- **General Meetings**

In France, record dates are currently positioned 3 days before the General Meeting, based on traded transactions.

A decision to leverage T+2 to align the French Market with the future European General Meetings standards has led to fixing the record date 2 days before the General Meeting, based on settled transactions.

- **Registered securities (BRN)**

The BRN timeline must be adapted to T+2

- Current practice
 - Custodians send BRN to Euroclear before T+2, 7pm at the latest
 - Issuers register BRN at T+3
- Future practice
 - Custodians will have to send BRN to Euroclear before T+2, mid-day (exact time to be further defined by Euroclear and the market)
 - Issuers will have to register BRN before T+2 end of day
- Euroclear penalties will remain at T+4 at the beginning

IV. Other operational impacts

Other operational impacts are identified in regards to the migration only.

- **Multi listed securities**

During the transitional period when all European countries will have not yet switched to T+2, multi-listed securities' settlement cycles will be defined by the CSD in which the securities are settled.

CSDs will operate only one settlement cycle at a time.

- **Accrued coupons**

Accrued coupons will benefit from no evolution on the first day of settlement on a T+2 basis. This must be anticipated by the Market.

- **Market claims**

Impacts on market claims have been specified:

- Market claim for cash distribution: the French market must notice there will be no Ex date on the first day of trading on a T+2 basis
- Market claim for securities distribution: no specific impacts identified. Following T+2 project and CSE stream 5 project de-synchronization, there will be no specific impact identified. The French market must notice that there will be no Ex date on the first day of trading on a T+2 basis

IV. Regulatory impacts

A review of legal and fiscal articles to be modified by T+2 has been conducted. The list of impacted articles has been sent to regulatory authorities for completion.

Commercial agreements between parties may need to be reviewed as well in order to adapt to T+2.