**Payment mode for cash flows on corporate actions outside ESES**

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| **Versioning** | Version | 2.0 |
| Publication date | August 30th, 2016 |

1. **Description of the existing practice & of the Impacts**

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| **Description of the existing practice** | Today cash flows resulting from a corporate action are settled through Target2 accounts of the relevant institutions. |
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| **Description of the T2S impact** | The payment of cash flows in T2S as a result of a corporate action generated by the CSD (ESES) relies on the Dedicated Cash Account (DCA) of the relevant institutions in T2S.  Yet, some cash flows that will not be initiated by the CSD but by custodians or paying agents outside of T2S will be handled in Target2.  For the most part, it consists in ancillary cash flows such as commissions, or even all cash flows related to specific operations such as dividends on US QI securities, or the re-issuance of a corporate action following the cancellation of the underlying instruction in order to apply a market claim corresponding to a mandatory transformation when the ISIN no longer exists.  This does not endanger the processing of cash flows in the context of payment against delivery of corporate actions initiated in the form of delivery versus payment instructions in T2S between the custodian and the paying agent. |
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| **Description of the major issue** | French institutions wish to keep the highest level of automation for these non-ESES operations which will remain partially manual.  Two solutions arise to manage these payments initiated by the paying agent outside of Euroclear’s systems :  1 – As is currently made, that is using Target2 accounts  ► Pros : no impact on current habits  2 – Via T2S DCA accounts, through cash payments free of delivery (PFOD)  ► Pros: all cash flows are managed and received though the same system  This functioning will have to be specified in the single advice form or Corporate Action Form (CA Form) as, even with a market practice common to French market players, other players will have to be informed of the functioning. |
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| **Description of the roles and responsibilities of the actors involved**  **(OPTIONAL)** |  |
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| **Workflows**  **(OPTIONAL)** |  |
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| **Links with other market practices** | * MS-MATCH-CRITE-01: Settlement instruction parties – Mandatory matching criteria * MS-MATCH-CRITE-02: Use of the optional matching field: Client of the CSD participant *(Validated but not published)* |

1. **Recommended market practice**

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| **Recommended practice** | The AFTI Corporate Action Expert Group concluded it appears a wiser practice to keep paying commissions on corporate actions, which represent most part of cash amounts settled outside of ESES, though Target2 accounts. Other residual cash flows which cannot be processed through ESES will also be processed through the Target2 account.  The use of Target2 account will be specified in corporate actions advices, in a free text field, as this piece of information is not scheduled for the moment in the CA Form.  This rule shall apply systematically to French market players. Exceptions may arise as a participant of another CSD is impacted by a corporate action initiated by a French market player. |
| **Reasons for the choice** | The monitoring of cash flows coming from ESES on the DCA account appears sensible at the moment, thus resulting in the recommendation to handle these flows separately, at least as from the launch of T2S on the French market as well as several months thereafter.  This market practice may need to be reviewed if institutions wish to do so. |
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| **Description of the roles and responsibilities of the actors involved**  **(OPTIONAL)** |  |
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| **Workflows**  **(OPTIONAL)** |  |

1. **IMPLEMENTATION**

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| **Implementation timeline** | **Before the migration to T2S** | | **Upon go live on T2S** | | **After the migration to T2S** | | |
|   Date: \_\_\_\_\_\_\_\_ | |   Date: 12/09/2016 | |   Date: \_\_\_\_\_\_\_\_ | | |
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| **Requirement for a specific test set** | Yes  | | | No  | | |