

## CSDR Settlement discipline: French Market

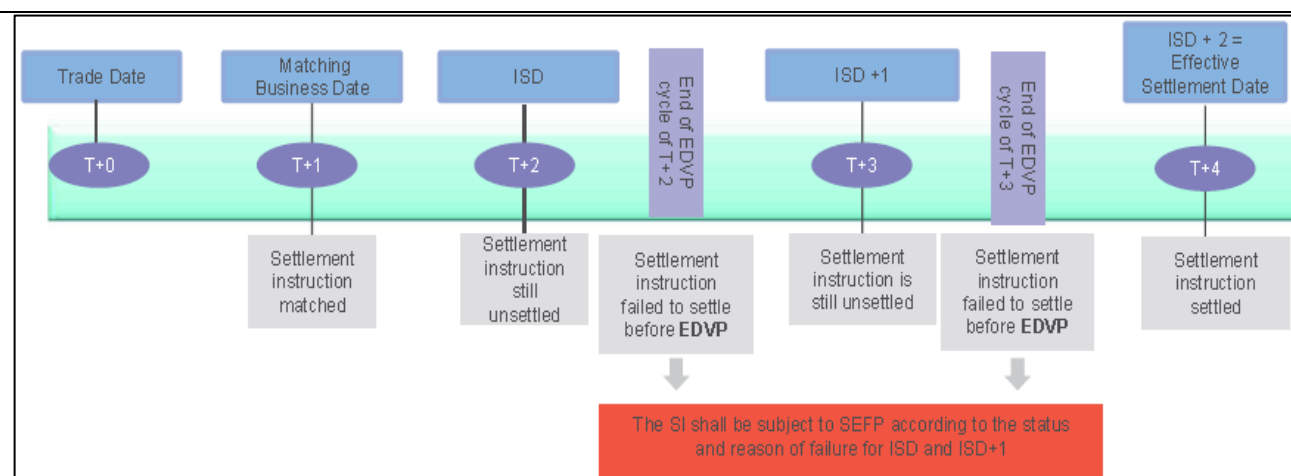
### Recommendations to streamline the portfolio transfers settlement

<b>Versioning</b>	Version	1.1
	Release Date	

## I. PRESENTATION OF EXISTING PRACTICE & IMPACTS'DESCRIPTION

<b>Description of existing practice</b>	<p>Portfolio transfers processed on the French Market, via the Free of Payment instructions, are mainly of 2 types:</p> <ol style="list-style-type: none"> <li>1) Already matched Transfer also called “à la française” means transfer between French custodians of retail portfolio securities held in Euroclear France.</li> <li>2) Transfer to be matched, which can be domestic, cross-border or international (see summary description in the annex).</li> </ol> <p>For the 1st type :</p> <ul style="list-style-type: none"> <li>- Trade and settlement dates are automatically calculated as the business day after the client's account manager inputs the transfer.</li> <li>- the receiving custodian sends an instruction to Euroclear with: <ul style="list-style-type: none"> <li>o settlement date = trade date</li> <li>o ISO transaction code = OWNE</li> </ul> </li> <li>- Euroclear sends an already matched instruction to T2S</li> </ul> <p>For the 2<sup>nd</sup> type:</p> <ul style="list-style-type: none"> <li>- Usually Standard Settlement Instruction (SSIs) are not exchanged in advance between counterparties , nor set up in the custodians' IT systems</li> <li>- The delivery custodian reaches out to the receiving custodian often by email or fax in order to exchange SSIs.</li> <li>- This manual process requires some time. Even if fax or email templates are shared between participants, it's difficult to standardize the process since it depends on the custodians' network and the intermediaries of the custody chain.</li> </ul>
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	<ul style="list-style-type: none"> <li>- As a general rule : <ul style="list-style-type: none"> <li>○ The delivery custodian defines the place of Settlement (PSET). If there might be any exception to this rule, it is handled bilaterally.</li> <li>○ The receiving custodian defines the Trade &amp; Settlement dates</li> </ul> </li> </ul> <p>Before CSDR Settlement Discipline came into force, the 2<sup>nd</sup> category of transfers would have been sent with an Intended Settlement Date (ISD) prior to the trade date, especially because:</p> <ul style="list-style-type: none"> <li>- the receiving instruction was processed based on the counterparty's allegation without identifying the ESES delivering participant</li> <li>- it was of no consequence</li> <li>- cancelations and re-input could be avoided</li> </ul>
<p><b>CSDR. Impact Description</b></p>	<p>Since 1<sup>st</sup> of February 2022 CSDR introduces 2 types of penalties:</p> <ul style="list-style-type: none"> <li>- Late Matching Fail Penalty, LMFP <ul style="list-style-type: none"> <li>○ applies to any instruction matched after the cut-off of the Intended Settlement date (ISD)</li> <li>○ is calculated only once (i.e. on the business day when it's matched) but do consider all the previous days where the instruction failed to settle due to the late matching</li> <li>○ If both counterparties are late, the penalty is charged to the last participant to enter or modify the relevant settlement instruction, for the period between the ISD and the matching of the instruction</li> </ul> </li> <li>- Settlement Fail Penalty, SEFP applies to settlement instruction that : <ul style="list-style-type: none"> <li>○ are matched before the relevant cut-off of a given business day</li> <li>○ and having reached their Intended Settlement Date (ISD), fail to settle on that business day.</li> </ul> </li> </ul>



Source: ECB

<b>Description of the major issue</b>	<p>For the 1<sup>st</sup> category (Already matched portfolio transfer in Euroclear France), there is no impact as long as Trade &amp; Intended Settlement dates are set after the client order's input date. For instructions received after the cut-off on the Intended Settlement date, the penalty for the delivering party is offset by a reverse one, same debit/credit amount.</p> <p>For the 2<sup>nd</sup> category (with matching), if transfer is sent with an ISD «in the past», it will be charged immediately. It must therefore be prohibited.</p> <p>The delivering and receiving custodians must exchange SSIs prior to the transfer, especially for international or cross-border ones, where both parties have different local agents.</p> <p>Nominee accounts, i.e. where the final beneficiary owner identity is not disclosed to the receiving intermediary, may face a specific issue.</p> <p>In this case the transfer may be put on hold until receiving the confirmation from the final BO's custodian.</p> <p>The Instruction is thus pending and penalties charged for one or several days.</p>
<b>Description of the roles of all stakeholders (OPTIONAL)</b>	
<b>Flow diagram (OPTIONAL)</b>	
<b>Links to other practices</b>	<p>○</p>

	<p><b>France Liaison Group</b> <b>Market Practice Card</b></p>	
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## II. MARKET PRACTICE RECOMANDATION

<p><b>Recommended practice</b></p>	<p>French market participants recommendations:</p> <ul style="list-style-type: none"> <li>- Both counterparties have to exchange SSIs regardless of the transfer's type (domestic, cross border, international). Otherwise, the transfer order cannot be processed as long as all key elements have been made available either from the delivery or the receiving custodian or both. Therefore up-to-date SSIs exchange is a condition of the transfer acceptance.</li> <li>- The trade date must be equal to the settlement date in order to avoid Corporate Actions on Flow (it's a CFONB recommendation, <i>Comité Français de Normalisation Bancaire</i>) when dealing with already matched instructions</li> <li>- The ISD must be set at least 2 business days after the acceptance date, when dealing with instructions to be matched</li> </ul> <p>In other words, an ISD input 2 business days after the exchange of SSIs should allow a smooth settlement, i.e. in accordance with the settlement discipline requirements and avoid penalties.</p> <p>If trade and settlement dates are not met by the delivery custodian or tis agent, than allegement must be used, if time period makes it possible. Fixing a new ISD and inputting new instructions should not be allowed.</p> <p>In case the custodian operates a nomminee account and may be required to use the « Hold and Release » functionality, all parts of the custody chain, from the beneficial owner up to the receiving agent, have to accept the transfert prior to the ISD.</p>
<p><b>Description of the roles of all stakeholders (OPTIONAL)</b></p>	
<p><b>Flow diagram (OPTIONAL)</b></p>	

	<b>France Liaison Group Market Practice Card</b>	
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### III. IMPLEMENTATION

Implementation Horizon	Before the Settlement Discipline component of CSDR. comes into force	When starting production on T2S	After entry into force
	<input type="checkbox"/> Date: _____	<input type="checkbox"/> Date: _____	<input type="checkbox"/> Date: _____

### IV. ANNEX

category	transfer type	Delivery		Receipt	
		Custodian	safekeeping place	Custodian	safekeeping place
without matching	<b>already matched</b> Euroclear	French	Euroclear France	French	Euroclear France
	<b>Domestic France</b> (Luxembourg funds eligible in Euroclear)*	French	Euroclear France	French or foreign	Transfer Agent
with matching	<b>Domestic Other than France</b> (example Germany)	French	Clearstream Frankfurt	French	Clearstream Frankfurt
	<b>cross border</b> (both custodians are French ; Foreign ISIN)	French	Local custody Italy	French	Local custody Switzerland
	<b>International</b> (a French and a foreign custodian)	French	Euroclear France	foreign	Clearstream Luxembourg

\* Luxembourg funds eligible in Euroclear France are delivered from the custodian to the Transfer Agent (from the Luxembourg in Euroclear France) via an already matched.  
At the same time, the delivery custodian provides the transfer agent with the SSIs of final BO's custodian(in most cases by fax)