

Market Claim¹ and transformations in Cash adjustments on cancelled T2S mother transactions

Versioning	Version	1.3
	Date de mise à jour	16 December 2022

I. DESCRIPTION OF THE CURRENT PRACTICE & IMPACTS

Current market practice's description	<p>When dealing an instruction and starting from trade date of the transaction, the buyer is entitled to receive the financial rights paid between the day of trading and the date of registration of securities into the books of the custodian.</p> <p>On ESES markets, the central securities depository, Euroclear ESES, identifies the outstanding mother transaction with a matched status and generates the market claim on the Record date close of business and pays the Corporate Actions proceeds to the buyer's account as of the payment date (= D + 1 of the Record date). On mandatory corporate actions with or without options, Euroclear ESES detects and generates transformations on the default cash option by canceling the underlying instruction and creating a new instruction. The transformation is created on the Record date in the evening for mandatory corporate actions without options and on the morning of the day following the market deadline for corporate actions with options. The transformation into cash settled on the payment date.</p> <p>The reversal of the "market claim" and/or "the transformation" then consists in retroceding the Corporate Action proceeds from the buyer to the seller.</p>
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¹.As per the market standards for CA, a market claim is a process to reallocate the proceeds of a distribution to the contractually entitled party. The T2S CA standards, being standards on flows, focus on the scenario where the contractually entitled party has not received the underlying securities (there is a pending underlying transaction) at close of business on Record Date

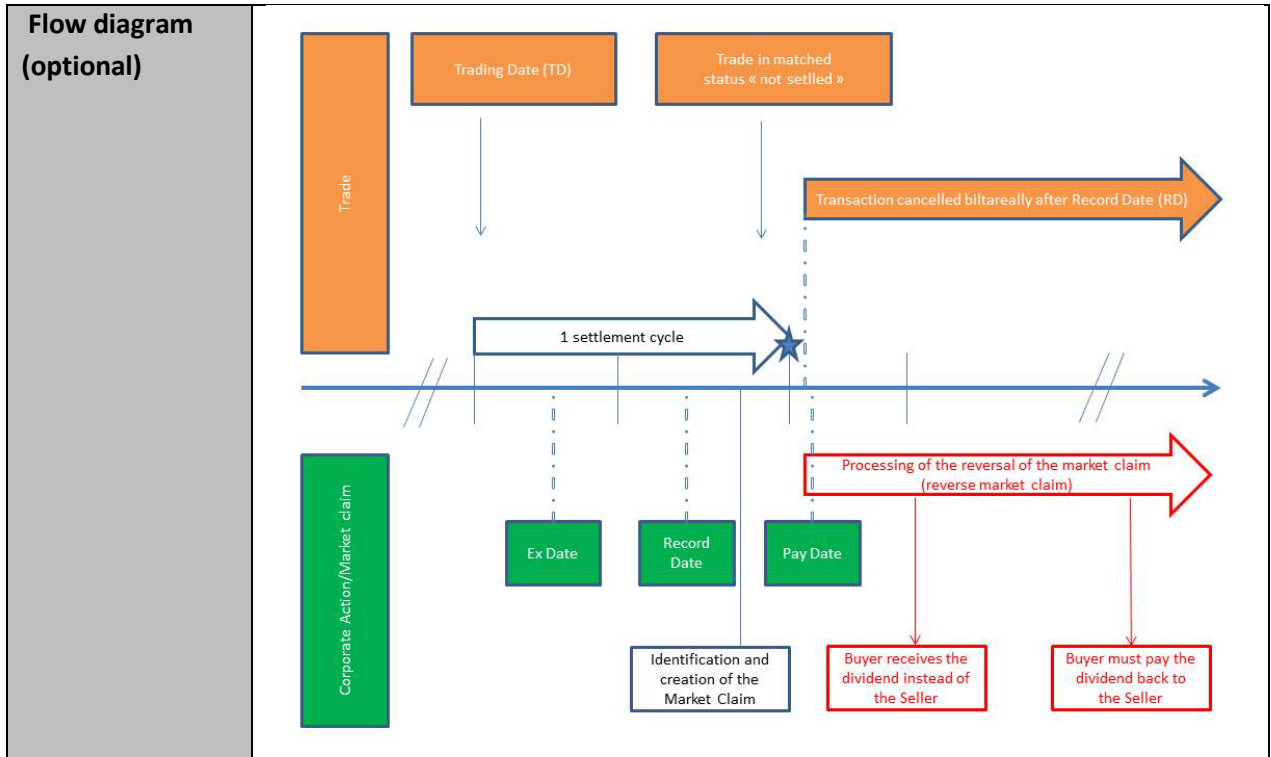
	<p>Since the move to T2S, mother transactions and market claims (so-called underlying market claim transactions) are independent.</p> <p>The two scenarios below can be met:</p> <ul style="list-style-type: none"> ➤ The mother instructions, even if they have reached the matched status and despite being subject to a Market Claim, may be cancelled bilaterally ➤ "Matched" mother instructions may be cancelled and replaced by a new instruction with same characteristics as the original instruction that was previously cancelled. This may result in the creation of a new Market Claim if the "OPT OUT" indicator has not been filled in the new instruction (ie "NOMC" in the ISO 20022).
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T2S impact's description	<p>This processing of reversals is impacting the tax declarations. The paying agent as Tax collector must reflect these adjustments in its tax return.</p>
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Main concern raised	<p>In case both clients of each custodian agree to settle the cash amount on bilateral basis and outside of the system, without any intervention of their custodians, the paying agent will not be able to correct the withholding tax.</p> <p>Thus, a common market practice is needed in order to:</p> <ul style="list-style-type: none"> ➤ Alert clients as well as their custodians to ensure these adjustments are regularized via the tax collector/paying agent and in respect of the deadlines. ➤ Strongly recommend custodians to follow specific procedures to carry out the amount back of the market claim wrongly perceived and proceed with the correction of the tax declaration made upstream
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Stakeholders role's description (optional)	<p>This adjustment's process involves several stakeholders:</p> <ul style="list-style-type: none"> ➤ Custodian's end clients (buyer / seller),
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- Settlements, Income/Corporate actions and Tax services teams at the custodian's level (custodians of the end clients)
- Tax collectors/Paying agents (if they are not the custodian)



Links with other practices N/A

II. MARKET PRACTICE PROPOSAL

Recommandation

<p>Recommended solution</p>	<p>It is recommended:</p> <ul style="list-style-type: none"> - Where possible not to change the status of the underlying market claim transaction from "Hold" to "Release" as long as the status of the original transaction ("mother" transaction) remains in "Hold" status. - Not to change into "Hold" status the mother instruction if it was not originally in this status and if a market claim has already been generated. - Final clients to inform their custodians on the reversal entries to ensure corrections are included into the tax return. - To monitor and track the status of "matched" parent transactions that are not settled beyond one week after payment of the market claim. - To use the same characteristics as the original market claim in case of refund. - To implement a detection of the market claims generated while the parent transactions have been canceled in order to carry out the adjustments on a timely manner. - Custodians to inform their final clients on the good practice in order to avoid any cancellations or changes (of the status "Hold" to "Release") of the parent transactions being in status "matched" status.
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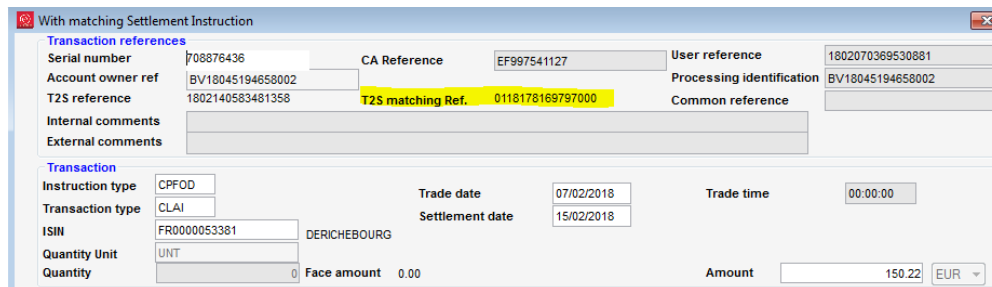
Recommended solution	2- MARKET CLAIM OR TRANSFORMATION INTO CASH REVERSAL
	<p>1. POSSIBLE MEASURE TO AVOID MARKET CLAIM IN CASE OF CANCELLATION / REBOOKING</p> <p>In order to regularize a settled market claim or transformation of a claim while the parent transaction is cancelled, both custodians (based on the information received from their clients or the final beneficial owners themselves) will have to agree on the re-booking details of the original market claim/transformation (ISIN code, Trade Date, Settlement Date, Amount, Quantity). In case both clients agree to re-book a new instruction (parent line cancelled) and where the market claim has already been generated but not yet regularized in T2S and in custodians' books, it is then required that "NOMC" indicator is populated on the new parent line on both sides of the instruction. Important note: The Settlement Date of the reversal must be equal or greater to the settlement date of the actual date of the reversal to avoid any CSDR Settlement Discipline penalties. The initial trade date of the original parent line can be used as no CSDR Settlement Discipline fees are applied to back dated trade date. This flag corresponds to the "OPT OUT" which blocks the generation of a new Market Claim on the re-booking of the T2S instruction which will have the same characteristics as the original instruction.</p> <p>The applicant custodian of the reversal's demand will complete the common template attached with all information previously agreed with the other custodian. This common template will be exchanged between both custodians for reversal's purpose, including custodian's details of the seller. The custodian (seller side) will be in the obligation to withhold the tax on the reversal's instruction and credit their client net of tax. This indicator is a matching criterion, both parties will have to quote it to allow the matching status.</p> <p>The reversal will be materialized via a T2S instruction called "PFOD" (Payment Free of Delivery) to be matched by both custodians.</p> <p>POINT OF ATTENTION: In the case where the re-booking is made on a partial quantity, it is required to regularize the original market claim on the partial quantity. In the case that the original instruction has been cancelled, and the underlying market claim or the transformation with an "Hold" status has consequently generated a CSDR Settlement Discipline penalties (before being cancelled or settled), then both parties could agree among themselves to return the penalty amount for its off set.</p> <p>The references "T2S Matching reference" must be filled in by the custodian issuing the request. These references represent common references of the original instruction and the market claim. Or alternatively the custodian could use the "User Reference" of the counterparty.</p>

They are available in the SESE transactions (ISO 2022) coming from T2S:

T2S Matching référence

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<SciesStlmSD1>
<RltdTxId>0118176702396000</RltdTxId>
</SciesStlmSD1>
```

Or available on the Euroclear Connect For Screen of Euroclear :



With matching Settlement Instruction			
Transaction references			
Serial number	708876436	CA Reference	EF997541127
Account owner ref	BV18045194658002	User reference	1802070369530881
T2S reference	1802140583481358	Processing identification	BV18045194658002
Internal comments	T2S matching Ref. 0118178169797000		
External comments			
Transaction			
Instruction type	CPFOD	Trade date	07/02/2018
Transaction type	CLAI	Settlement date	15/02/2018
ISIN	FR0000053381	DERICHEBOURG	
Quantity Unit	UNT		
Quantity	0	Face amount	0.00
		Amount	150.22 EUR

User reference of the counterparty

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<DlvrStlmPties> <Pty1> <PrcgId> ou <RcvgStlmPties> <Pty1> <PrcgId>
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When both end clients instruct reversals by their own means to their respective custodian, it is recommended that they use their own customer reference of the original transaction (reference of the underlying transaction). It is facilitating for both custodians the detection of the agreed reversals and the associated market claim/transformation (e.g., 123A of the underlying line and 123A REV on reversal).

To note:

In some cases, custodians may hold separate DCA by activity (e.g. a DCA for the Settlement activity, a DCA for the Custody activity). Thus, when creating the PFOD reversal's instruction the counterparty should quote their appropriate DCA where needed.

Tax adjustment (Tax Department)

As soon as reversals are settled in T2S and on the books of the final clients the relevant paying agents will be required to complete and send to the French tax authorities the appropriate tax return (i.e., declaration no. 2777, no. 2778 or 2779) depending on their country of incorporation and the tax residency of the counterparty concerned.

This adjustment can be made only within the period of claim open for the custodian (31 December of the second year following that of the initial payment of the market claim: a market claim initially paid in 2021 can be regularized only until 31 December 2023).

The custodian of the receiver (final client) must retain the proof of the tax deductions made on its declaration, namely:

- The SWIFT message received from his client informing him of the cancellation of the parent transaction
- The common template sent to the custodian of the selling counterparty, informing the custodian that it must withhold the tax on its client's account (seller) corresponding to the reversed market claim.

Flow diagram
(optional)

III. IMPLEMENTATION

Implementation date	Prior to T2S migration	At T2S Production launch	Post T2S migration
	<input type="checkbox"/> Date: _____	Date:	<input checked="" type="checkbox"/> Date: 2020

ANNEX

To receive

REQUEST FOR REGULARISATION OF MARKET CLAIMS IN T2S

Corporate Actions - Principal/Income Claim

Counterparty Account Name	
Counterparty ESES Account Nr	
Counterparty BIC Code	

Our Account Name	
Our ESES Account Nr	
Our Code BIC	

Trade details of the Market claims	
CPTY User Ref/Réf Utilisateur	
TS2 Matching Reference	
Claim on behalf of	

Event details			
COAF		Event type	
Security Name		Security Isin	
Ex-date		Record date	
Pay Date			

Trade details of the underlying trade/Mother trade			
Quantity of shares traded		Type of Trade	
Trade Date		Contractual SD	
Intended SD		Internal trade Ref.	

Cash details of the Market claims	
Description	You owe us the coupon
Currency	EUR
Amount	

As soon as the reversals are settled in T2S and on the clients' accounts at custodian's level, the Tax Department of the buyer's custodian will request the French tax authorities to refund the withholding tax and other levies paid on the initial dividend unduly perceived by the buyer. The custodian can reclaim by means of "imputation" on the fiscal declarations 2777, 2778 or 2779 depending on every case. In parallel, the seller's custodian is informed and required to apply the applicable withholding tax to its own client (i.e depending on its statute, fiscal residency and documentation in place) on the dividend amount perceived.

To Pay

REQUEST FOR REGULARISATION OF MARKET CLAIMS IN T2S

Corporate Actions - Principal/Income Claim

Counterparty Account Name	
Counterparty ESES Account Nr	
Counterparty BIC Code	

Our Account Name	
Our ESES Account Nr	
Our Code BIC	

Trade details of the Market claims	
CPTY User Ref/Réf Utilisateur	
TS2 Matching Reference	
Claim on behalf of	

Event details			
COAF		Event type	
Security Name		Security Isin	
Ex-date		Record date	
Pay Date			

Trade details of the underlying trade/mother trade			
Quantity of shares traded		Type of Trade	
Trade Date		Contractual SD	
Intended SD		Internal trade Ref.	

Cash details of the Market claims	
Description	We owe you the coupon
Currency	EUR
Amount	

As long as the reversals are settled in T2S and on the client's account at the custodian's level, the Tax department of the buyer's custodian will have to adjust the tax.

EC4S la patte CITI

With matching Settlement Instruction

Transaction references

Serial number	708876436	CA Reference	EF997541127	User reference	1802070369530881
Account owner ref	BV18045194658002			Processing identification	BV18045194658002
T2S reference	1802140583481358	T2S matching Ref.	0118178169797000	Common reference	
Internal comments					
External comments					

Transaction

Instruction type	CPFOD	Trade date	07/02/2018	Trade time	00:00:00
Transaction type	CLAI	Settlement date	15/02/2018		
ISIN	FR0000053381	DERICHEBOURG			
Quantity Unit	UNT				
Quantity	0	Face amount	0.00	Amount	150.22 EUR

Transaction complement

Partial settlement	NPAR	Allowed modifiable flag		Party hold	No
Priority		Settlement condition		CSD hold	No
CTO		Trade condition		CSD validation hold	No

Party

CSD BIC	SICVFRPPXXX	EUROCLEAR FRANCE	External code type	BIC
Participant BIC	CITGB2LXXX	CITIBANK EUROPE PLC CLIENT ACC	Client external code	UBSWGB24XXX
Participant	186		Client name	
Routing code	99998			

Party's accounts

Sub-account	LM	UBS	T2S Securities account	SICVCITGB2LXXX000LMUBS	
NDC	0	ICPG	0	Restriction type	AWAS
				Dedicated cash account	CFREURCITFRPPSEC00004ASFR

Counterparty

CSD BIC	SICVFRPPXXX	EUROCLEAR FRANCE	External code type	BIC
Participant BIC	MGTCBEEBEECL	EUROCLEAR BANK	Client external code	UBSWGB24XXX
Participant	611		Client name	
Routing code				

Counterparty's accounts

Sub-account	L1	0	T2S Securities account	SICVMGTCBEEBEECL000L10
NDC	0			

Input
 ESES
 14/02/2018
 Quit

Status
 SETTLE

EC4S la patte SGSS

Instruction avec appariement
X

Références de l'opération

N° Série	708876435	Référence OST	EF997541127	Référence Utilisateur	1802070375113036
Référence propriétaire	BV18045194658001	Processing identification	BV18045194658001	Référence commune	
Référence T2S	1802140583481616	Réf. appariement T2S	0118178169797000		

Commentaire interne

Commentaire externe

Opération

Type instruction	DPFOD	Date de négociation	07/02/2018	Heure de négociation	00:00:00
Type transaction	CLAI	Date de dénouement	15/02/2018		
ISIN	FR0000053381	DERICHEBOURG			
Unité quantité	UNT				
Quantité	<input type="text" value="0"/>	Nominal	0.00	Montant	<input type="text" value="150.22"/> EUR

Complément opération

Indic partiel	NPAR	Indic modifiable		Blocage participant	Non
Priorité	Normale	Condition de dénouement		Blocage CSD	Non
CTO		Condition de négociation		Blocage Validation CSD	Non

Partie

BIC CSD	SICVFRPPXXX	EUROCLEAR FRANCE	Type code externe	BIC
BIC affilié	MGTCBEBEECL	EUROCLEAR BANK	Code externe client	MLLGB3LESF
Affilié	<input type="text" value="611"/>		Nom client	<input type="text"/>
Adhérent	99998			

Comptes partie

Sous Compte	L1	<input type="text" value="0"/>	Compte titres T2S	SICVMGTCBEBEECL000L10	
NDC	<input type="text" value="0"/>	ICPG	<input type="text" value="0"/>	Type restriction	AWAS
			Compte espèces	CFREURSOGEFRPPTT-DCA-SGSS	

Contrepartie

BIC CSD	SICVFRPPXXX	EUROCLEAR FRANCE	Type code externe	BIC
BIC affilié	CITGB2LXXX	CITIBANK EUROPE PLC CLIENT ACC	Code externe client	MLLGB3LESF
Affilié	<input type="text" value="188"/>		Nom client	<input type="text"/>
Adhérent	<input type="text"/>			

Comptes contrepartie

Sous Compte	LM	<input type="text" value="UBS"/>	Compte titres T2S	SICVCITGB2LXXX000LMUBS
NDC	<input type="text" value="0"/>			

Saisie ESES 14/02/2018

Statut DENOUE

Quitter

Request initiated by Citi

REQUEST FOR REGULARISATION OF MARKET CLAIMS IN T2S

Corporate Actions - Principal/Income Claim

Counterparty Account Name	EUROCLEAR BANK
Counterparty ESES Account Nr	611
Counterparty BIC Code	MGTCBEBEECL
Our Account Name	CITIBANKEUROPE PLC CLIENT ACC
Our ESES Account Nr	186
Our Code BIC	CITIGB2LXXX
CPTY User Ref/Réf Utilisateur	1802070375113036
TS2 Matching Reference	0118178169797000
Claim on behalf of	XXXXXXXXXXXXXXXX (name of client)

<DlvrSttlmPties> <Pty1> <Prcgld> ou
 <RcvgSttlmPties> <Pty1> <Prcgld>
 selon sens si on est RECE la contrepartie est dans
 DLVR et inversement
 <SciesSttlmSD1>
 <RltdTxid>0118176702396000</RltdTxid>
 </SciesSttlmSD1>

Event details			
COAF	EF997541127	Event type	DVCA
Security Name	DERICHEBOURG	Security Isin	FR0000053381
Ex-date	2018-02-13	Record date	2018-02-14
Pay Date	2018-02-15		
Trade details			
Quantity of shares traded	1,073	Type of Trade	RVP
Trade Date	2018-02-07	Contractual SD	2018-02-15
Intended SD	2018-02-09 (denouement théorique)	Internal trade Ref.	1802070369530881 (T2S reference of initial TRAD instruction at CITI)
Cash details			
Description	you owe us the coupon		
Currency	EUR		
Amount	150,22		

SGSS'side

REQUEST FOR REGULARISATION OF MARKET CLAIMS IN T2S

Corporate Actions - Principal/Income Claim

Counterparty Account Name	CITIBANKEUROPE PLC CLIENT ACC
Counterparty ESES Account Nr	186
Counterparty BIC Code	CITGB2LXXX
Our Account Name	EUROCLEAR BANK
Our ESES Account Nr	611
Our Code BIC	MGTCBEBECL
CPTY User Ref/Réf Utilisateur	1802070369530881
TS2 Matching Reference	0118178169797000
Claim on behalf of	XXXXXXXXXXXXXXXX (name of client)

<DlvrSttlmPties> <Pty1> <Prclgd> ou
<RcvgSttlmPties> <Pty1> <Prclgd>
selon sens si on est RECE la contrepartie est dans
DLVR et inversement

<SctiesSttlmSD1>
<RltdTxid>0118176702396000</RltdTxid>
</SctiesSttlmSD1>

Event details			
COAF	EF997541127	Event type	DVCA
Security Name	DERICHEBOURG	Security Isin	FR0000053381
Ex-date	2018-02-13	Record date	2018-02-14
Pay Date	2018-02-15		
Trade details			
Quantity of shares traded	1,073	Type of Trade	DVP
Trade Date	2018-02-07	Contractual SD	2018-02-15 1802070375113036
Intended SD	2018-02-09 (Intended SD)	Internal trade Ref.	(T2S reference of the initial TRAD instruction at SGSS)
Cash details			
Description	we owe you the coupon		
Currency	EUR		
Amount	150,22		