

LuxCSD migration to TARGET2-Securities wave 4: Customer impacts for T2S-eligible LuxCSD securities issued in Euro (48xxx accounts) - update

Note: This is the current situation based on the latest information gathered. Should there be any changes we will inform you accordingly.

LuxCSD will implement the required adaptations to its systems in order to comply with the T2S mandatory specifications as well as those of its agents and/or depositories.

Customers are required to make the changes to their settlement instructions sent to LuxCSD as detailed below. Customers should also be aware of some changes to current market practices and align with their counterparties accordingly, where relevant.

- T2S settlement day and timings;
- Instruction types;
- Identification of CSDs in T2S;
- Identification of parties to settlement instruction;
- Matching rules;
- Countervalue difference;
- Allegements;
- Linked / back-to-back instructions;
- Hold and release;
- Partial settlement;
- Recycling rules;
- Bilateral cancellation;
- Market claims and transformations
- Asset servicing.

T2S wave 4 customer impacts

Accounts

New customers launching their activity with LuxCSD will need to open both a 43xxx as well as a 48xxx account. The 48xxx accounts are for settlement in T2S, while the 43xxx accounts remain for settlement outside T2S.

Following the approval of the account opening request, each customer account is allocated a unique LuxCSD account number within the range 48000 to 48999. Customers can settle transactions and hold balances in any LuxCSD security denominated in Euro and eligible for T2S through a single account with a single account number. A range of options is available for each account opened. Customers are asked to specify which options they require when opening an account.

This announcement applies to activity on 48xxx accounts only.

T2S cash accounts for settlement

Cash settlement in T2S eligible currencies (at the moment only Euro) will be processed via Dedicated Cash Accounts (DCA) in T2S. The funding of these DCAs will be done from the RTGS accounts in TARGET2. In order to participate in delivery against payment settlement, T2S participants need to link their T2S Securities Account (SAC) to at least one DCA via a National Central Bank (NCB). The DCA number will be provided by the NCB. Customers should inform LuxCSD of the DCA they intend to use for cash settlement in T2S.

Note: A DCA is required for income and corporate action payments, in addition to delivery against payment settlement.

T2S settlement timings

Note: All times are Central European Time (CET).

The settlement day in T2S will consist of the following steps:

- Start of day (SOD) preparation period from 18:45 to 20:00 on SD-1;
- Night-time settlement (NTS) from 20:00 on SD-1 until at the latest 03:00 on SD;
- Maintenance cycle from 03:00 to 05:00 during which no settlement takes place;
- Real-time settlement from 05:00 to 18:00;
- End of day processing from 18:00 to 18:45.

The following settlement deadlines will be applicable to customers:

Link	Current EUR AP deadline	T2S EUR AP deadline	Current FOP deadline	T2S FOP deadline
LuxCSD	15:45 SD	15:50 SD	20:00 SD	17:50 SD

T2S instruction types

In addition to allowing settlement free of payment and against payment in EUR, T2S will introduce the following new instruction types: PFOD (Payment Free Of Delivery), DWP (Delivery With Payment) and RWP (Receipt With Payment).

Customers can settle free of and against payment in EUR via Clearstream Banking in line with the requirements provided in this announcement. However, the new instruction types PFOD, DWP and RWP will not be supported by LuxCSD in wave 4 and LuxCSD will reject such instructions if received from customers.

T2S wave 4 customer impacts

The following table gives an overview of the different T2S instruction types and how they can be instructed in ICP and DCP mode.

	ICP mode	DCP mode
Instruction type	ISO 15022	ISO 20022
Receive free	MT540	sese.023
Receive against payment	MT541	sese.023
Deliver free	MT542	sese.023
Deliver against payment	MT543	sese.023

MT540		Receive Free	Seq	MT541		Receive Against Payment
O	:20C:	:COMM //Common Reference ^a	A1	O	:20C:	:COMM //Common Reference ^a
M	:98a:	:TRAD //Trade date/time	B	M	:98a:	:TRAD //Trade date/time
O	:22F:	:TTCO //CCPN or XCPN ^b	E	O	:22F:	:TTCO //CCPN or XCPN ^b
O	:22F:	:STCO //NPAR ^c	E	O	:22F:	:STCO //NPAR ^c
O	:22F:	:STCO //NOMC ^b	E	O	:22F:	:STCO //NOMC ^b
M	:95P:	:PSET //LUXCLULLXXX	E1	M	:95P:	:PSET //LUXCLULLXXX
M	:95P:	:DEAG //Counterparty's BIC11	M	M	:95P:	:DEAG //Counterparty's BIC11
O	:97A:	:SAFE ^a //Counterparty's account in T2S	O	O	:97A:	:SAFE ^a //Counterparty's account in T2S
O	:95P:	:SELL ^a //Ordering party's BIC11, if different from DEAG	O	O	:95P:	:SELL ^a //Ordering party's BIC11, if different from DEAG
or	:95Q:	:SELL //Ordering party's name, if different from DEAG	or	or	:95Q:	:SELL //Ordering party's name, if different from DEAG
or	:95R:	:SELL ^a //Ordering party's proprietary code, if different from DEAG			:95R:	:SELL ^a //Ordering party's proprietary code, if different from DEAG
O	:97A:	:SAFE //Ordering party's account	O	O	:97A:	:SAFE //Ordering party's account

MT542		Deliver Free	Seq	MT543		Deliver Against Payment
O	:20C:	:COMM //Common Reference ^a	A1	O	:20C:	:COMM //Common Reference ^a
M	:98a:	:TRAD //Trade date/time	B	M	:98a:	:TRAD //Trade date/time
O	:22F:	:TTCO //CCPN or XCPN ^b	E	O	:22F:	:TTCO //CCPN or XCPN ^b
O	:22F:	:STCO //NPAR ^c	E	O	:22F:	:STCO //NPAR ^c
O	:22F:	:STCO //NOMC ^b	E	O	:22F:	:STCO //NOMC ^b
M	:95P:	:PSET //LUXCLULLXXX	E1	M	:95P:	:PSET //LUXCLULLXXX
M	:95P:	:REAG //Counterparty's BIC11	M	M	:95P:	:REAG //Counterparty's BIC8 or BIC11 ^d
O	:97A:	:SAFE ^a //Counterparty's account in T2S	O	O	:97A:	:SAFE ^a //Counterparty's account in T2S
O	:95P:	:BUYR ^a //Beneficiary's BIC11, if different from REAG	O	O	:95P:	:BUYR ^a //Beneficiary's BIC11, if different from REAG ^d
or	:95Q:	:BUYR //Beneficiary's name, if different from REAG	or	or	:95Q:	:BUYR //Beneficiary's name, if different from REAG
or	:95R:	:BUYR ^a //Beneficiary's proprietary code, if different from REAG			:95R:	:BUYR ^a //Beneficiary's proprietary code, if different from REAG
O	:97A:	:SAFE //Beneficiary's account	O	O	:97A:	:SAFE //Beneficiary's account

a. Optional matching fields.

b. Additional matching fields.

c. Only provide in order to prevent partial settlement.

T2S wave 4 customer impacts

T2S deadlines

Within the real-time settlement, the following deadlines apply in T2S for same-day settlement:

16:00: Against payment instructions

17:40: Bilaterally Agreed Treasury Management instructions;

18:00: Free of payment instructions

Identification of the counterparty in the customer instruction

In T2S, CSD participants are identified exclusively by the combination of their home CSD (SWIFT: PSET or the Xact Web Portal: Place of settlement), that is, the PSET shall be the BIC of the CSD the counterparty uses to access T2S, and their BIC11 (SWIFT: REAG/DEAG or the Xact Web Portal: Receiving/Delivering Agent).

If a customer uses a BIC8 to identify the Receiving/Delivering Agent, LuxCSD shall be entitled to modify the BIC8 provided and the settlement instructions will be then processed by default with a BIC11 by adding the default XXX suffix to comply with T2S settlement rules. Accordingly, such customers remain liable for any settlement fails that the use of the BIC8 may cause and the customers furthermore agree to indemnify LuxCSD against losses, liabilities, damages, penalties, expenses and all other costs of any kind suffered by LuxCSD as a result of the customer not complying with the above requirement.

Matching rules

General matching requirements

The following criteria are mandatory for free of and against payment instructions in T2S:

- Payment type;
- Securities movement type (values match opposite);
- ISIN code;
- Trade date;
- Settlement quantity;
- Intended settlement date;
- Delivering party BIC;
- Receiving party BIC;
- CSD of delivering party;
- CSD of receiving party.

For against payment transactions, the following criteria are also mandatory:

- Currency;
- Settlement amount.

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Additional and optional matching fields

T2S also provides additional and optional matching fields.

Additional matching fields

The following additional matching fields are available in T2S:

- Opt-out indicator;
- Cum/Ex indicator.

These additional matching fields are not mandatory but, when one of the counterparties provides a value for them in its instruction, matching values must be provided by the other counterparty.

In their instructions to LuxCSD, customers may use the following fields:

Type and purpose of the additional matching field	SWIFT	Xact Web Portal
Opt out indicator Customer wishes to opt out from market claims or transformations	:22F::STCO//NOMC	Sett. transaction cond. NOMC - No automatic market claim
Cum indicator Customer wishes to indicate its transaction as cum coupon	:22F::TTCO//CCPN	In Advanced Input Trade transaction cond. CCPN - Cum coupon
Ex indicator Customer wishes to indicate its transaction as ex coupon	:22F::TTCO//XCPN	In Advanced Input Trade transaction cond. XCPN - Ex coupon

Customers must ensure that their counterparty indicates the same opt-out and cum/ex indicator at instruction level; otherwise the instructions will not match.

Optional matching fields

The following optional matching fields are available in T2S:

- Common reference;
- Client of delivering/receiving CSD participant;
- Securities account of the delivering/receiving CSD participant.

These optional matching fields are not mandatory and when one counterparty includes a value and the other does not, the instructions will match.

If both parties provide a value, this value must be identical in both instructions in order for them to match. If this is not the case, the instruction remains unmatched.

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In their instructions to LuxCSD, customers may use the following fields:

Type and purpose of the optional matching field	Creation via SWIFT and CreationDirect	Xact Web Portal Advanced input
Common reference Customer wishes to indicate a reference agreed with the counterparty	:20C::COMM	Common ID
Client of delivering CSD participant Customer wishes to specify the BIC11 or local code of the counterparty's underlying client	:95a::SELL	Delivering settlement parties Party 1
Client of receiving CSD participant Customer wishes to specify the BIC11 or local code of the counterparty's underlying client	:95a::BUYR	Receiving settlement parties Party 1
Securities account of the delivering party Customer wishes to specify the counterparty's account	:97A::SAFE with:95a::DEAG	Safekeeping account of the delivering party in Delivering settlement parties, Party 1
Securities account of the receiving party Customer wishes to specify the counterparty's account	:97A::SAFE with:95a::REAG	Safekeeping account of the receiving party in Receiving settlement parties, Party 1

Customers can use the above optional matching criteria to reduce the risk of cross-matching.

Reporting related to additional and optional matching fields

LuxCSD will adapt its best matching algorithm to take into account the additional matching criteria and report any mismatches accordingly. In the event of optional matching fields, a mismatch will only be reported if present on both the allegation and the customer instruction.

Any mismatches to the new matching criteria will be reported as follows:

Matching field	Reported status
Common Reference	:25D::INMH NMAT :24B::NMAT IIND
Place of Settlement	:25D::INMH NMAT :24B::NMAT DEPT
Market Claim Indicator	:25D::INMH NMAT :24B::NMAT NARR
Ex/Cum Indicator	:25D::INMH NMAT :24B::NMAT NARR

Unmatched instructions

T2S does not send reports for unmatched statuses on instructions that have failed to match in accordance with the T2S matching criteria.

LuxCSD will derive the unmatched statuses from the feedback from T2S and will report to customers accordingly.

Countervalue difference

The following T2S cash tolerances will apply to instructions against counterparties in T2S (against payment instructions in EUR only):

- EUR 2.00 for transactions with an amount equal to or less than EUR 100,000; and
- EUR 25.00 for transactions with an amount greater than EUR 100,000.

LuxCSD will adapt its best matching algorithm when comparing the settlement amount accordingly.

Allegements

T2S offers the following processes for allegements:

- Settlement Allegement: if a Settlement Instruction does not match after the first matching attempt, the Counterparty is informed through an Allegement message after a predefined period of time (standard delay period that is configured in T2S Static Data by the T2S Operator).
- Cancellation of an Allegement Message: if an Unmatched Settlement Instruction is cancelled by the T2S Actor or by T2S, the Counterparty receives a Cancellation of the Allegement message automatically generated by T2S.
- Removal of an Allegement Message: if the Counterparty sends its corresponding Settlement Instruction to T2S, and if both Instructions are matched, the Counterparty receives a Removal of Allegement message.

Linked instructions (back-to-back)

T2S provides the functionality to link Settlement Instruction(s) and/or Settlement Restriction(s), referred to as Intra-Position Movement instructions. The aim is to submit such linked instructions to specific rules during business validation, eligibility or settlement application processes. Settlement Instructions and Settlement Restrictions can be linked together either via a link specified by the T2S Actor or via a link generated automatically by T2S.

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Hold and release

The hold and release feature available in T2S will be used by LuxCSD for pre-matching only. Therefore, once the customer's instruction is provisioned and released to the market, it will no longer be possible to place the instruction on hold.

This feature enables customers to temporarily hold back a securities transaction from settlement, even if cash or securities provision is available, and to release it only when settlement is desired.

The "Hold" condition can be specified immediately when sending instructions to LuxCSD or, provided that the instructions are still pending in LuxCSD, it can be added at a later stage.

If the customer's counterparty has placed its instruction on hold, LuxCSD will report status/reason as follows:

SWIFT: SETT//PENx PENx//PRCY

Xact Web Portal: Counterparty Instruction on Hold in Xact

Partial settlement

T2S will apply partial settlement when the delivering party does not have the full amount of securities or the receiving party does not have sufficient cash on the dedicated cash account (DCA) for settlement. Partial settlement takes place at 10:00 CET, 12:00 CET, 14:00 CET and 15:45 CET.

Customers' delivery and receipt instructions will continue to be provisioned for the full quantity and/or cash value before being released for settlement. Consequently, customer's delivery and receipt instructions may only settle partially if their counterparty is short of securities or cash.

Customers that do not wish their transactions to settle partially must provide field :22F::STCO//NPAR or Partial Settlement set to "Partial not allowed" in their instruction.

Similarly, if a customer wants to specify in its original instruction that partial settlement is allowed (for instance, to override a standing instruction not to allow partial settlement), the settlement condition indicator :22F::STCO//PART is to be used.

MT530 must be used to modify partial settlement details of an existing instruction. MT530 used the settlement condition indicator 22F::PRTL// NPAR or PART.

Recycling rules

The following recycling rules will apply in T2S and will also be applicable to LuxCSD:

- Unmatched instructions will be recycled for 20 business days (starting from the initial settlement date), after which they will be cancelled.
- Unmatched cancellation requests will be recycled for 20 business days (starting from the date of receipt).
- Matched instructions will have no cancellation limit and will be recycled until a business rule is violated (for example, security reaches maturity).

Cancellation

T2S will introduce the following cancellation rules which will also be applicable to LuxCSD:

- Unmatched instructions: can be cancelled unilaterally by the party who placed the instruction at any time or until cancelled by T2S;
- Matched instructions: must be cancelled bilaterally by both counterparties.

For instructions that require bilateral cancellation, if the customer's counterparty sends a cancellation first, LuxCSD will report the status IPRC//CPRC or Processing – Cancellation Requested by your counterparty in the Xact Web Portal on the customer settlement instruction.

If the customer sends the cancellation first, LuxCSD will report status/reason CPRC//CANP CANP//CONF on the cancellation request in SWIFT or Cancellation processing – Pending in the Xact Web Portal.

Cancellations are reported via MT548 or MT537 messages.

Market claims and transformations

In line with the Corporate Actions Joint Working Group (CAJWG), the Corporate Actions Subgroup (CASG) International Standards and the best market practices, market claims and transformations (together referred to as Transaction Management) should be dealt with automatically by LuxCSD, and will not require input from the customer, unless buyer protection information is input.

The specifications for asset servicing of CFF Qualified Investment Fund Shares held on 48xxx accounts will be published in 2017.

Market Claims

Market claims (for both cash and securities where applicable) for instructions on securities issued in LuxCSD (LU securities in LuxCSD) will be detected and processed by LuxCSD. Once detected by LuxCSD after the close of business on record date and for the next 20 T2S business days, LuxCSD will report them to customers in the Market Claim Report with the relevant status of the market claim. Compensation credits/debits will be reported to customers via MT566 with indicator :22F::ADDB//CLAI.

Reverse market claims will continue to be managed via adjustment to the entitlement as today.

LuxCSD applies trade date accounting for securities that are in units and settlement date accounting for securities that are in nominal.

Market claims in T2S will have their own lifecycle once matched (via Already Matched instructions) by LuxCSD and will settle independently from the underlying settlement instruction. Although no action is required from customers, if the customer and its counterparty bilaterally cancel the underlying settlement instruction, the customer will need to agree directly with its counterparty about the reversal or the cancellation of the market claim.

Transformations

Similarly to the market claims process, transformation on securities issued in LuxCSD will be detected and processed by LuxCSD in T2S after the close of business date on record date and for the next 20 T2S business days. Transformations are detected for matched and partially settled instructions only.

Transformations in T2S are processed in two technical steps (via Already Matched instructions): first, the cancellation of the underlying settlement instruction followed by the replacement by one or several new transformed settlement instructions.

LuxCSD will cancel and replace customers' pending settlement instructions. Outturn in cash and securities will be posted to customers' accounts and reported in the MT950, MT9xx, MT54x and MT536 reports.

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Buyer protection

Buyer protection is a process where a buyer who has yet to receive the underlying securities of an elective corporate action instructs the seller in order to receive the chosen proceeds. The objective of buyer protection is to ensure that the buyer in a pending transaction, who has acquired the right to elect in an (elective) reorganisation, will be able to express the preferred option, and receive the proceeds of his choice.

LuxCSD will implement a manual buyer protection mechanism in line with the T2S corporate action standards.

To facilitate the buyer protection process, LuxCSD will provide the following to customers:

1. Corporate Action notification MT564/568 messages (CAN, IPAR and CA Reference Data) to customers will include the Buyer Protection deadlines whenever it is communicated by the market. This information will be reported in the structured fields:
 - :98a::ECPD (sequence D) - Election to Counterparty Market deadline and
 - :98a::ECRD (sequence D) - Election to Counterparty Response Deadline and
 - :98a::GUPA (sequence D) - Guaranteed Participation Date.

Changes are to be applied to all channels and all available formats (ISO, PDF, XML, XLS). The Buyer Protection deadline will be visible in Xact Web Portal as well.

2. The CASG compliant template for the buyer protection invocation.

Even though not offered by the market (no deadlines provided), the buyer can invoke the buyer protection mechanism. In this case, LuxCSD will process the buyer protection manually and on a “best efforts” basis for the customer.

Cum/ex indicator and opt out indicator

In line with the new T2S functionalities, unless otherwise specified, customers are able to use the cum/ex indicator or opt out indicator on the original settlement instructions (for example, if you do not wish the automatic compensation or transformation be applied by LuxCSD). Customers should note that the fields are additional matching fields, that is matching values must be provided by both counterparties. For further details on the indicators and services available, please refer to the section “Additional matching fields” above.

Asset servicing

Event processing

Customers may instruct on voluntary and mandatory with choice events using the following media:

- Via the Xact Web Portal.
- File Transfer, via File Upload.
- Via SWIFT MT565 message by using the BIC address: CEDELULL or LUXCLULL.

Standard rules for the completion of the SWIFT MT565, as described in the Creation via SWIFT User Guide, must be followed.

Instructions and status reports are fully supported by queries in the Xact Web Portal and optional reporting via SWIFT MT567 is available upon subscription for instructions input via the Xact Web Portal.

For reporting, LuxCSD customers will receive, by default, SWIFT messages with the BIC address: CEDELULL. Customers can request for the outbound BIC address to be changed to LUXCLULL via MT599, or can input the change directly with Xact Web Portal.

Details about deadlines will be made available in the LuxCSD Customer Handbook.

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Position blocking

Holdings will be blocked, unblocked or debited for delivery, if appropriate within LuxCSD, based on the instruction and the corporate action type and terms when a valid instruction is received from the customer. For a corporate action instruction received before an exercise period, there will be no preliminary blocking of securities.

Payment management

All T2S LuxCSD eligible proceeds from corporate actions will be paid to the related DCA account. All payments will only be made upon receipt of proceeds from the market. LuxCSD will generate the corporate actions payments instructions in T2S per proceed.

Whenever the corporate actions proceeds are non-T2S eligible, it will be paid to LuxCSD customers on their linked Clearstream Banking account.

For all non-T2S eligible securities proceeds, LuxCSD customers are required to open and maintain a LuxCSD account 43xxx account to allow those asset servicing payments to be processed automatically.

If the proceeds are not eligible at all, the customers will be asked to provide the delivery details to execute the payment accordingly.

As a general rule, LuxCSD will process corporate actions payments on the same day as received from the market; it assumes that the following markets/systems need to be opened:

- Market, TARGET2 and T2S for payments in cash; and
- Market and T2S for payments in securities.

Whenever the payment cannot be processed the same day, for example, late receipt of proceeds, reconciliation issue, technical issue, it will be done the next possible cycle/day.

Testing

LuxCSD customers that would like to participate in the T2S community test in January 2017 should either contact their Relationship Officer or email luxcsd-t2s-support@luxcsd.com.

Further information

For further information, customers may contact LuxCSD Client Services or their Relationship Officer.

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