

T2S wave 4: Customer impacts for non-T2S eligible securities (43xxx accounts)

Note: This is the current situation based on latest information gathered from the respective markets and T2S. 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 of Clearstream Banking Frankfurt (CBF), Centralny depozitar cennych papierov SR (CDCP), Klirinško depotna družba d.d.(KDD), KELER and Österreichische Kontrollbank (OeKB), 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.

All changes are applicable to the LuxCSD links to CBF, CDCP, KDD and OeKB unless otherwise mentioned.

KELER note: KELER will migrate to T2S in February 2017, but will postpone the implementation of its replacement system. The exact go-live of the new system is not yet available, but will be after T2S migration. Settlement against EUR is not offered by LuxCSD to customers today. All FOP instructions for the Hungarian market will settle via KELER as today and outside T2S, with the exception of cross-border deliveries to OeKB counterparties. Hence, none of the functionalities described below will be available with the migration in February 2017.

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.

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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
Österreichische Kontrollbank (OeKB) operated by Erste Group Bank AG Wien	15:35 SD	SD 15:45	17:35 SD	17:45 SD
Clearstream Banking Frankfurt (CBF)	15:40 SD	15:40 SD	17:40 SD	17:40 SD
KELER	N/A	N/A	17:40 SD	17:40 SD
LuxCSD	15:45 SD	15:50 SD	20:00 SD	17:50 SD
Slovak Republic (CDCP) operated by CSOB Bratislava	14:25 SD	15:10 SD	15:55 SD	17:35 SD
Slovenia (KDD) operated by Nova Ljubljanska banka d.d., Ljubljana (NLB)	15:35 SD	15:35 SD	16:55 SD	16:55 SD

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 LuxCSD in line with the requirements provided in this announcement. However, PFOD, DWP and RWP instructions will not be supported by LuxCSD in wave 4 and LuxCSD will reject such instructions if received from customers.

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Identification of CSDs in T2S

In T2S, all CSDs will be identified by their BIC11. Customers are required to use the following BIC11 as Place of Settlement for domestic instructions in CBF, CDCP, KDD, KELER, LuxCSD and OeKB in their settlement instructions:

CSD	SWIFT
CBF	DAKVDEFFXXX
CDCP	CSDSSKBAXXX
KDD	KDDSSI22XXX
KELER	KELRHUHBXXX
OeKB	OCSDATWWXXX

For cross-border transactions, the Place of Settlement must contain the BIC of the counterparty's CSD. The Place of Settlement list proposed in CreationOnline and Xact will be amended accordingly.

Note: Cross-border settlement between CSDs in T2S is only possible if the corresponding technical configuration in T2S for cross-border links has been established by the CSDs linked to each other.

If a customer uses a BIC8 to identify the Place of Settlement, 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 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 of using BIC11.

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Identification of settlement parties

Identification of the counterparty in the customer instruction

In T2S, the CSD participants are identified exclusively by the combination of their home CSD (SWIFT:

- PSET or CreationOnline and Xact: 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 CreationOnline and Xact: 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.

Multi-market securities where the home and remote markets are both in T2S will no longer be identified with a Remote Common Code. As such, the Place of Safekeeping should no longer be used and LuxCSD will ignore any Place of Safekeeping equal to another CSD that has already migrated to T2S. Cross-CSD instructions between two In-CSDs are identified in T2S when the CSD of the instructing party and that of its counterparty are different.

Procedure for customers' counterparties

Customers are requested to inform their local counterparties to use the following details for instructions sent via CBF, CDCP, KDD and OeKB that settle against LuxCSD in T2S:

BIC11 of LuxCSD: CEDELULLXXX or LUXCLULLXXX

In favour of/By order of: Customer BIC11 and account number of the customer

Note: T2S does not report the account field with second party level in the allegation messages and we therefore recommend customers to request their counterparties to include the CBL account number in field :70C::PACO instead of :97A::SAFE.

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Matching rules

General matching requirements

The matching of instructions with counterparties in CBF, CDCP, KDD and OeKB will take place in T2S. The following criteria are mandatory for free of and against payment instructions in T2S: Payment type;

- 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.

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	Creation via SWIFT and CreationDirect	CreationOnline
Opt out indicator Customer wishes to opt out from market claims or transformations	:22F::STCO//NOMC	Opt-out indicator
Cum indicator Customer wishes to indicate its transaction as cum coupon	:22F::TTCO//CCPN	CUM/EX indicator
Ex indicator Customer wishes to indicate its transaction as ex coupon	:22F::TTCO//XCPN	CUM/EX indicator

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

CBF note: If the Opt-out flag is set to NOMC, the transaction will be excluded from any market claim process. Reverse market claims will be processed regardless if the underlying event is income or non-

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income. The CCPN CUM/EX flag is ignored by CBF's claim processes meaning that market claims will not be generated even if the flag is set.

OeKB note: The Opt-out and Cum/Ex indicators are processed by OeKB for matching purposes as additional matching criteria in T2S, but ignored and not considered for the detection of market claims. We recommend not to use these qualifiers for the detection of market claims.

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.

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

Type and purpose of the optional matching field	Creation via SWIFT and CreationDirect	CreationOnline
Common reference Customer wishes to indicate a reference agreed with the counterparty	:20C::COMM	Common Trade Reference
Client of delivering CSD participant Customer wishes to specify the BIC11 or local code of the counterparty's underlying client	:95a::SELL	Client of delivering CSD participant
Client of receiving CSD participant Customer wishes to specify the BIC11 or local code of the counterparty's underlying client	:95a::BUYR	Client of receiving CSD participant
Securities account of the delivering party Customer wishes to specify the counterparty's account	:97A::SAFE with:95a::DEAG	Securities account of the delivering party
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

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

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Note: CBL's securities account number (SAC) in T2S can be used by counterparties as optional matching criteria to avoid cross-matching.

CSD	Securities account number
OeKB	SAC OCSD250500
CBF	SAC DAKV7201000
LuxCSD	SAC LUXC0048700
CDCP	SAC CSDSCEDELULLXXXHA000000990000000183
KDD	N/A
KELER	N/A

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	Reason codes in Creation via SWIFT and CreationDirect	Free text provided in narrative field
Common Reference	:25D::INMH NMAT :24B::NMAT IIND	/COMM/common ref on MT578 received by LuxCSD
Place of Settlement	:25D::INMH NMAT :24B::NMAT DEPT	/PSET/PSET on MT578 received by LuxCSD
Market Claim Indicator	:25D::INMH NMAT :24B::NMAT NARR	/STCO/NOMC
Ex/Cum Indicator	:25D::INMH NMAT :24B::NMAT NARR	/TTCO/CCPN or XCPN

Note: There is no change in CreationOnline.

Unmatched instructions

T2S does not report unmatched statuses on instructions that have failed to match in accordance with the T2S matching criteria. This means in practice that LuxCSD may not receive a status from its local agent/depository.

This change of service can be partly mitigated by customers via the allegation and matching service offered by LuxCSD. LuxCSD attempts to match customer instructions with the allegation received from its agents/depositories and then reports to customers either an inferred matching or mismatch reason using the INMH status. In order for this service to work effectively we encourage customers to request that their counterparties quote the customer's LuxCSD account number in the counterparty's instructions.

Countervalue difference

The following T2S cash tolerances will apply to instructions against counterparties in CBF, CDCP, KDD, and OeKB (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.

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Allegements

T2S will send allegation messages depending on the information indicated in the counterparty's instruction. LuxCSD may receive counterparty instructions alleged against CBL's account at CBF, CDCP, KDD and OeKB and will report them to customers provided that the customer's LuxCSD account is present in the allegation and the allegation subscription is in place on the customer account.

The allegations will contain the additional and optional matching criteria described above. These can be used to correctly format instructions to ensure matching if it has not yet been sent to LuxCSD.

Linked instructions (back-to-back)

T2S provides functionality to link settlement instructions together. LuxCSD continues to offer instruction linking on its links to CBF, CDCP, KDD and OeKB via the existing back-to-back (B2B) service. The format for B2B instructions will remain unchanged.

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.

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

Xact Web Portal, Creation via SWIFT and CreationDirect: SETT//PENx PENx//PRCY

CreationOnline or Xact Web Portal: Counterparty Instruction on Hold in CreationOnline

Xact Web Portal: Counterparty Instruction on Hold in Xact Web Portal

KDD note: The T2S functionality Hold and Release will not be available for KDD eligible securities.

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.

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.

KDD note: CDCP will not offer partial settlement and therefore it is not applicable to settlement in T2S with counterparties that access T2S via CDCP.

Recycling rules

The following recycling rules will apply in T2S and will also be applicable to CBF, CDCP, KDD and OeKB:

- 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).

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Cancellation

T2S will introduce the following cancellation rules which will also be applicable to CBF, CDCP, KDD and OeKB:

- 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 CreationOnline or 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 CreationOnline or Xact Web Portal.

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 Transaction Management) should be dealt automatically by the issuer CSDs in T2S, and will not require input from the customer. This has been confirmed for:

- Austra / OeKB
- Germany / CBF
- Luxembourg / LuxCSD
- Slovenia / KDD

CDCP note: Market claims and transformations will not be available.

Market Claims

As a result, market claims (for both cash and securities where applicable) for instructions on securities eligible in CBF, KDD, KELER and OeKB will be detected and processed by the issuer CSDs and subsequently by the agent and/or the depository and LuxCSD. Once detected by the issuer CSDs 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. In addition to the existing statuses, a new status "Partially compensated" will be available. Compensation credits/debits will be reported to customers via MT566 with indicator :22F::ADDB//CLAI.

The issuer CSDs apply 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 the issuer CSD 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.

OeKB and KELER note: Reverse market claims are not processed by OeKB. Market claims on bonds will be detected by KELER only for cross border deliveries to/from OeKB.

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Transformations

Similarly to the market claims process, transformation on securities eligible in CBF, KDD and OeKB will also be detected and processed by the issuer CSDs 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 based on feedback received from the market. Outturn in cash and securities will be posted to customers' accounts and reported in the MT950, MT9xx, MT54x and MT536 reports.

Cum/ex indicator and opt out indicator

In line with the new T2S functionalities, unless otherwise specified, you are able to use the cum/ex indicator or opt out indicator on the original settlement instructions as follows (for example, if you do not wish the automatic compensation or transformation be applied by the issuer CSD and 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.

Buyer Protection

In line with the CA market standards (CAJWG), the T2S CA standards do not impose issuer CSDs to implement buyer protection functionality. However if applied by the issuer CSD, it could be either:

- an automated buyer protection functionality in accordance with agreed market standards; or
- a manual buyer protection mechanism, via a bilateral agreement between the respective counterparties by means of a manual process (no intervention of the market infrastructure regarding the exchange of buyer protection instructions).

If the issuer CSD offers a buyer protection service, it will handle the execution of the buyer protection and take actions on the underlying transaction (Hold / cancellation / transformation).

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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