



Guidance for common implementation of AMI-SeCo Standard 6 Business day rule

The purpose of this note is to provide common guidance on the implementation of Standard 6 of the AMI-SeCo Standards for Corporate Actions for securities issued prior to November 2022. The NSGs and relevant associations (including ICMA, ISLA, ICMSA, ISMAG etc.) are invited to provide feedback on the guidance for implementation by Friday 21 August.

1. Introduction

The Eurosystem's Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) has agreed upon a series of standards to harmonise the processing of corporate actions as described in the [AMI-SeCo Standards for Corporate Actions](#). These AMI-SeCo Standards form part of the Single Collateral Management Rulebook for Europe (SCoRE), which defines the common business processes, workflows and ISO 20022 messaging to be used by financial market participants (including central banks and commercial banks).

The CMH-TF has identified a need for additional guidance for the implementation of Standard 6 with regard to securities issued before November 2022.

Standard 6: Business day rule

If the payment date of a corporate action falls on a non-business day (in the country of the currency in which the payment is due), the payment shall be made on the next business day.

Payment amounts are always calculated on the end-of-day positions on the record date. If the payment date falls on a non-business day in the country of the currency in which the payment is due¹, the payment must be made on the next business day. The terms and conditions of the security must not contain operational requirements stipulating that where the next business day would fall in the following month, the payment needs to be made in the same month (with the payment day being moved to precede the original payment date).

The CMH-TF Asset Servicing Expert Group (AS EG) reviewed feedback from NSGs on the application of standard 6 to existing securities that follow the Modified Following Business Day Convention (MFBDC) or Modified Previous Business Day Convention (MPBDC).

2. Guidance for common implementation of Standard 6**Guidance for implementation of Standard 6**

For securities issued before November 2022 (when the conditions dictated by the MFBDC or MPBDC unadjusted apply²):

- The MFBDC and MPBDC unadjusted may continue to apply to securities issued before November 2022, if MFBDC or MPBDC unadjusted were agreed to apply at the time of issuance. For these securities, *the record date (RD) shall be taken at the closing of the immediately preceding business day of the anticipated payment date (PD).*
- The process of advancing both the PD and RD by one day for processing of the MFBDC and MPBDC shall apply in the same way for securities with “adjusted³” payments and “unadjusted” payments indicated in the Terms and Conditions (adjusted is referring to the need to adjust the interest period without a reallocation of the cash proceeds).

Example of how to implement the guidance when the conditions dictated by the MFBDC or MPBDC apply:

If the scheduled PD falls on a Saturday (and the MFBDC or MPBDC unadjusted applies):

¹ For payments in euro, the ECB TARGET calendar determines whether a day is a non-business day

² The following conditions apply for unadjusted MBDC: (i) The payment date falls on last day of the month (ii) The payment date is a non-business day and (iii) the next business day falls in the next month.

³ The MFBDC and MPBDC could have ‘adjusted’ payments and ‘unadjusted’ payments indicated in the Terms and Conditions.

- Unadjusted: the number of days considered in the accrued interest period that create the cash proceeds does not change.
- Adjusted: refers to a need to adjust the interest period.

From a post-trading perspective (as explained below), the unadjusted convention requires anticipating the record date by one day and a reallocation of the cash proceeds for trades settled in the last day of the interest period (particularly relevant for on-exchange trades). In this case, a reallocation of the proceeds needs to be handled. For the adjusted convention there is no need for reallocation of the cash proceeds because the interest period is adjusted in line with the anticipated payment date and record date.

- *The effective PD is anticipated to Friday and;*
- *RD is anticipated accordingly to Thursday (close of business on PD-1).*

For all new securities' issuances as November 2022, as agreed by AMI-SeCo:

- *Payments shall be made on the next business day. In order to be eligible for CSD processing, it is recommended that CSDs should not accept securities with MFBDC or MPBDC unadjusted convention and should inform its issuer community accordingly in order to ensure compliance. The securities shall not include provisions in their Terms & Conditions that require the anticipation of payments (i.e. the anticipation of the PD if the latter falls on a non-business day and the next business day is in the next month).*
- The guidance will be added to the explanation of AMI-SeCo CA Standard 6.

3. Considerations

General rule:

- The modified following/preceding business day unadjusted conventions (MFBDC/MPBDC unadjusted) are incompatible with post-trade processing. As an overall rule, issuers and CSDs should not use these conventions for all new issuances, i.e. if the payment date of a corporate action falls on a non-business day, the payment shall be made on the next business day (in accordance with AMI-SeCo CA Standard 6).
- If conditions dictated by the MFBDC or MPBDC (unadjusted) have to be applied on already issued securities because of existing requirements to anticipate the payment, the common guidance should be followed (as an interim solution)⁴.
- For new issuances as of November 2022, it is recommended that CSDs in AMI-SeCo markets⁵ avoid the acceptance of new issuances which contain these conventions (requirements to anticipate the payment date) in the financial instrument terms and conditions. The MFBDC/MPBDC unadjusted requirements for post-trade will have to be removed from every new prospectus for the issuance program. It is recommended that Issuers and CSDs should not introduce proprietary requirements to anticipate the payment date, which are similar to MFBDC or MPBDC (unadjusted).
- An overview of the list of accepted conventions in AMI-SeCo markets as of November 2022 is provided in the Annex.

Complexity and risks of the MFBDC/MPBDC (unadjusted) convention for post-trade:

- MFBDC or MPBDC (unadjusted) conventions bring complexity and risks to market participants in current post-trade processing.
 - o In the current situation, the coupon payment has to precede the coupon date if the coupon date falls on a non-business day and the next opening day would be in another month (e.g.

⁴ This guidance applies to all securities settling in European CSDs. Accordingly bifurcated issues (e.g. a 144A tranche settling in DTC and the REG S in Euroclear / Clearstream) are in scope.

⁵ AMI-SeCo markets: financial markets and relevant financial market stakeholders in the European Union, the United Kingdom and Switzerland.

coupon payment has to be anticipated to Friday if the scheduled coupon date falls on a Saturday). However, the entitlements are calculated on record date at the end of day of the opening day preceding the coupon date (e.g. calculations are at end of day on Friday) and at this moment the TARGET2 is already closed, so payments cannot be executed at that time any more. Central bank money payments can also never be 'predated'. The post-trade market infrastructures therefore cannot meet the expectation of market participants to be paid on time (e.g. expectation of Friday payments cannot be met as there is no possibility for these payments on Friday but only on the next opening day). This creates risks from a legal/contractual/liability and operational perspective for parties involved.

- Some CSDs already concluded that the “unadjusted” modified following and modified previous business day conventions are incompatible with their *modus operandi* (and already comply with Standard 6). These CSDs’ eligibility rules state that the unadjusted convention should be removed in every future prospectus. Other CSDs developed national arrangements, which were not in line with current market standards. ICSDs have other arrangements, which are also not following current market standards. Some CSDs allow the convention in a prospectus if the coupon is not near an end of month, or they rely on a technical rule for postponing the payment to the next month.
- The current convention conflicts with existing market standards which in turn creates difficulties for both the holder of the security and the entire post-trade community. For example, it is currently often not possible to ensure simultaneous booking of the cash and security legs (see example in section 4.2 and 4.3). This is in conflict with the requirement applicable under AMI-SeCo CA Standard 8.
- The guidance for MFBDC or MPBDC (unadjusted) conventions would remove to some extent the problems in post-trade for existing securities in the interim period until November 2022 but would also bring some complexity and risks, which need to be addressed.
 - A reallocation procedure needs to be developed to transmit the correct cash proceeds to the holder of securities (see explanation below). This reallocation procedure would have to be created either by the CSD or by the market participants (not all CSDs may create this mechanism for payments between market participants, so market participants may have to manage this process themselves). This may lead to the creation of different solutions, which in turn may increase complexity.
 - The reallocation procedure introduces new concepts/rules (to determine ownership on record date and proceeds), which are similar to, but different from, market claims (as, in the MFBD/MPBD case, there is not a failed settlement at the end of the record date). The reallocation procedure requires new market practices/standards to ensure that CSDs and market participants are correctly informed about ownership and proceeds. Contrary to market claims, the reallocation procedure involves only a payment and no settlement-related messages. In case of redemptions (as explained below), there is also no simultaneous cash and security movement. The implementation of the new procedures may therefore create risks from a legal / contractual / liability and operational perspective for parties involved. This would have to be addressed by the parties involved.
 - The guidance would only apply in some CSDs for certain securities, while other CSDs already have an eligibility requirement that forbids the convention. There would be an interim period where some securities are following the guidance, while other securities not. This creates complexity.

In view of these constraints, the guidance should be used as interim solution so that Issuers, Issuer Agents and CSDs have clarity on the post-trade processes, while still fulfilling their duties in line with the Terms and Conditions of existing securities. For all securities' issuances as of November 2022, the guidance would not apply and AMI-SeCo CA Standard 6 should be adhered to.

Benefits of the guidance for MFBDC or MPBDC (unadjusted) conventions:

- The guidance is in line with existing standards (e.g. CAJWG standards on key dates for cash distributions and mandatory reorganisations)
- Local / industry practices are not used any more (the usage of "record time", "back valuation", etc.) as best practice for MFBDC or MPBDC.
- No impact on Terms and Conditions (T&Cs do not dictate rules for the handling of RD - the RD is a post-trade key date as it enables entitlements calculation and is not mentioned in the T&Cs).
- No re-computation of entitled positions or accrued interest adjustments (for existing bonds). Entitlements will be calculated once (i.e. no re-computation, no reduction of interest period) on the basis of the anticipated record date.

4. Illustration of guidance for existing securities

This section illustrates how the guidance shall be applied to securities issued prior to November 2022 in instances where (i) the payment date falls on a non-business day (e.g. Saturday), (ii) the next business day would fall in the following month and (iii) the terms of issuance stipulate that the payment needs to be made in the same month. As per the examples of MFBDC or MPBDC unadjusted below, the cash proceeds and security booking are anticipated and always take place at the start of the business day⁶.

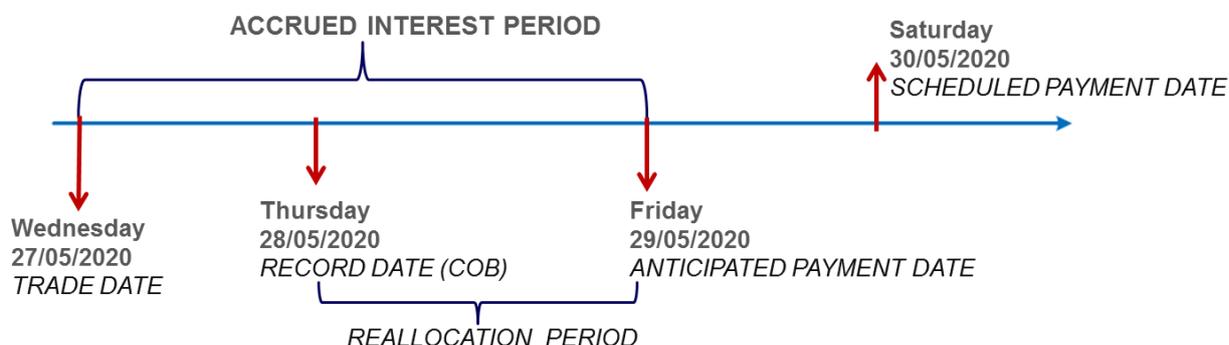
4.1 Coupon payment

For securities issued before November 2022, anticipating the payment date (e.g. 29/05) and the record date (e.g. 28/05) for processing of the MFBDC or MPBDC unadjusted may require reallocation for trades traded on 27/05 and settled on 29/05. In this case, the buyer doesn't receive the coupon because the detection date (i.e. record date) is on 28/05 COB while the interest accrues until 29/05. In such case a

⁶ The RD is anticipated to Thursday, which would be the date used to determine which account would be paid if above conditions are met. The original RD (falling on Friday) is still the date used to determine ownership of the securities with a legal right to entitlement and the date until when the accrued interests are calculated. The PD anticipated to Friday would be the date that would be used to determine when to pay the proceeds if above conditions are met.

For CSDs operating in T2S: if the payment date is Friday then the cash proceeds are credited at the start of the business day of Friday which commences at 20.00 CET on Thursday. If the payment date is Monday then the cash proceeds shall be credited at the start of the business day of Monday which commences at from 20:00 CET on Friday. For non-T2S CSDs the payment shall be processed at the start of the business day as defined in the respective CSD.

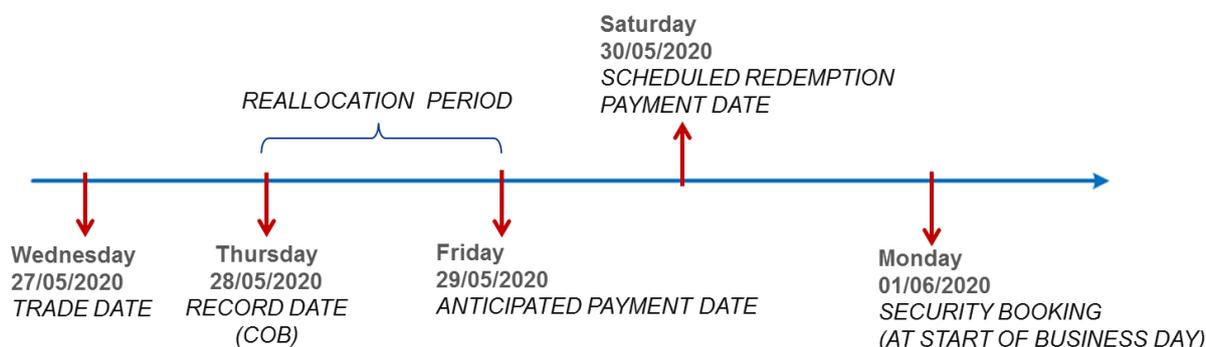
reallocation of the cash proceeds is needed. It should be noted that this reallocation is a pure post-trading operational procedure and does not affect a trader's ability to trade based on the dirty price.



4.2 Partial redemption

In the case of a partial redemption with reduction of nominal value (PCAL) of existing securities under MFBDC or MPBDC unadjusted, the current process requires that the **securities booking** takes place at open for business of the next available business day (on 01/06) and not at the start of the business day on the payment date. This will remain unchanged with the adoption of standard 6. Also in this case, a reallocation of the cash proceeds needs to be handled.

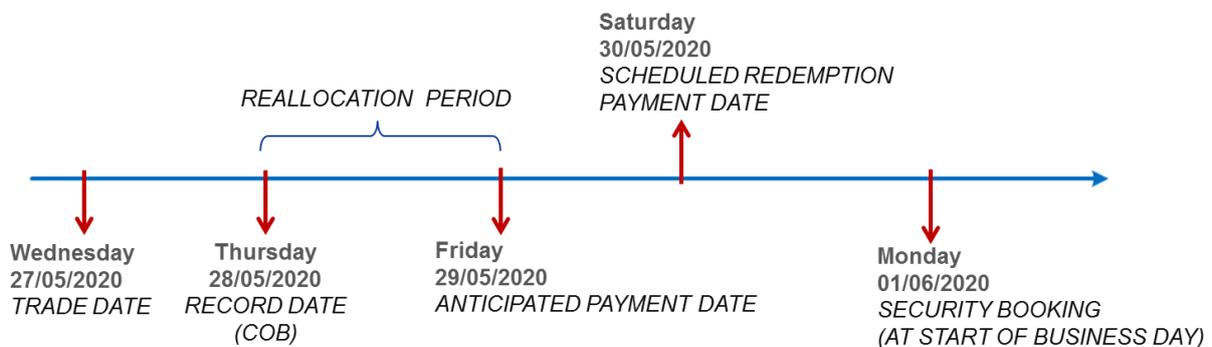
In accordance with SCoRE standard 8, the **cash proceeds** will be paid at the start of the business day on the anticipated payment date (29/05). Accordingly this means that there is a gap between the payment of the cash proceeds and the debit of the security position. From a collateral management perspective, the collateral taker shall retain the cash proceeds until all movements have been confirmed i.e. the payment should only be transferred to the collateral giver after the security movement confirmation (seev.036) has been received from the CSD (which shall be received at the start of the business day = 01/06 in the example below).



4.3 Full redemption

In the case of a redemption of existing securities under MFBDC or MPBDC, the current process requires that the **securities booking** takes place at the start of the next available business day (i.e. at the start of the business day = 01/06 in the example below) and not at the start of the business day on the payment date. This will remain unchanged with the adoption of standard 6. Also in this case, a reallocation of the cash proceeds needs to be handled.

In accordance with standard 8, the **cash proceeds** will be paid at the start of the business day on the anticipated payment date (29/05). From a collateral management perspective, the collateral taker shall retain the cash proceeds until all movements have been confirmed i.e. the payment should only be transferred to the collateral giver after the security movement confirmation (seev.036) has been received from the CSD (i.e. at the start of the business day = 01/06 in the example below).



5. Illustration of procedure for new issuances (as already agreed by AMI-SeCo)

According to Standard 6, for securities issued after November 2022, if the payment date of a corporate action falls on a non-business day (e.g. Saturday 30th of May 2020), the payment shall always be made on the next business day (01/06/2020) irrespective of the corporate action event involved (i.e. same handling procedure shall apply to coupon payments, (partial) redemptions etc.). An illustration is provided below.



Annex: Overview of accepted conventions in AMI-SeCo markets for all new security issuances as of November 2022

BUSINESS DAY CONVENTIONS

BUSINESS DAY CONVENTION	CALCULATION PERIOD	PAYMENT DATE	COUPON DATE	AMI-SeCo Markets	BUSINESS DAY CONVENTION	CALCULATION PERIOD	PAYMENT DATE	COUPON DATE	AMI-SeCo Markets
FOLLOWING	ADJUSTED			Y	PREVIOUS	ADJUSTED			Y
	UNADJUSTED			Y		UNADJUSTED			N
MODIFIED FOLLOWING	ADJUSTED			Y	MODIFIED PREVIOUS	ADJUSTED			Y
		*	*				*	*	
	UNADJUSTED			Y		UNADJUSTED			N
		*		N			*		Y

* IF MONTH CHANGES BY APPLYING RULE ON PRECEEDING ROW

IN ALL CASES, COUPON PAYMENTS ON A REDEMPTION DATE THAT IS NOT A BUSINESS DAY WILL PAY ON THE NEXT BUSINESS DAY AND THE CALCULATION PERIOD IS UNADJUSTED

In AMI-SeCo Markets:

- ADJUSTED ADMITTED FOR ALL BUSINESS DAY CONVENTIONS
- UNADJUSTED AUTHORISED WITH FOLLOWING BUSINESS DAY CONVENTION ONLY

BUSINESS DAY CONVENTIONS⁷

COUPON DATE	PAYMENT DATE	BUSINESS DAY CONVENTION	AMI-SeCo Markets	COUPON DATE	PAYMENT DATE	BUSINESS DAY CONVENTION	AMI-SeCo Markets
		FOLLOWING BUSINESS DAY	Y			PREVIOUS BUSINESS DAY	Y
		MODIFIED FOLLOWING BUSINESS DAY (ADJUSTED)	Y			MODIFIED PREVIOUS BUSINESS DAY	Y
							
		MODIFIED FOLLOWING BUSINESS DAY (NOT REDEMPTION)	N			MODIFIED PREVIOUS BUSINESS DAY (NOT REDEMPTION)	Y
							
		PAYMENT FOLLOWING BUSINESS DAY (UNADJUSTED)	Y			PAYMENT PREVIOUS BUSINESS DAY	N

* IF MONTH CHANGES BY APPLYING RULE ON PRECEEDING ROW

⁷ Source: NBB-SSS