

Guidance for common implementation of AMI-SeCo Standard 8 Payment Time

The purpose of this note is to provide common guidance on the implementation of Standard 8 of the AMI-SeCo Standards for Corporate Actions (CA). 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).

Additional guidance has been prepared for the implementation of Standard 8, in particular related to the rules on the handling of partial and full redemptions outlined in the Standard which state that "cash proceeds should be made available at the same time as the partial / full redemption":

Standard 8: Payment Time

The cash proceeds of a corporate action should be distributed as early as possible (as described below), but no later than 12 noon on the payment date. For any CA event involving a partial or full redemption, the cash proceeds should be made available by the issuer CSD at the same time as the partial or full redemption is processed on the payment date, thus ensuring that relevant parties are compensated / paid in a timely fashion for the partial or full redemption. (AMI-SeCo Standards for Corporate Actions)

The CMH-TF Asset Servicing Expert Group (AS EG) analysed current operational processes related to partial/full redemptions, as payment processes are often un-bundled from the securities redemptions. Payment processes are different across Europe, i.e. some payments occur early (e.g. during Night Time

Settlement NTS)¹ while others occur later in the business day (e.g. during the Real-Time Settlement RTS).

Based on the analysis, the CMH-TF AS EG developed guidance for a common payment time for corporate action proceeds for all securities issued in CSDs in AMI-SeCo markets (see section 2). Section 3 outlines the considerations underpinning the guidance. A case study from the Danish market is provided as an illustration of a market where the guidance has already been successfully implemented (see section 4). The AS EG also considered the impact of the proposed guidance (see section 5).

¹ T2S is composed of two settlement cycles: The Night-Time settlement (NTS) and the Real-Time Settlement (RTS). In T2S, change of business day takes place at about 18:45 CET and the NTS runs from 20:00 CET. After the NTS the RTS is until 18:00 CET (with the last cash related settlement stopping at 16:00 CET).

2. Guidance for common implementation of Standard 8

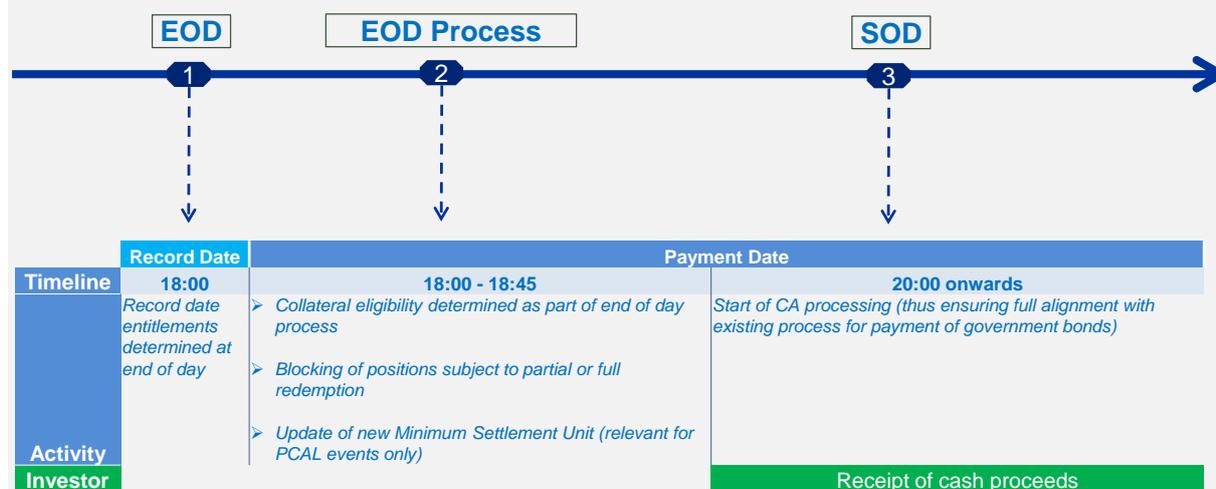
Guidance for implementation of Standard 8

As of November 2022, the following processes for cash distributions should apply across Europe:

1) The distribution of cash proceeds and the securities booking for partial/full redemptions shall take place simultaneously at the opening of the business day (from 20:00 CET in NTS in accordance with the current timeline for government bond payments)².

- Funds need to be available to paying agents before the start of the business day. If funds are not made available by issuers to paying agents, and cannot be resolved during the business day, the payment of the cash proceeds is postponed to the next business day. Alternatively the paying agent may provide intraday credit if deemed appropriate.

2) Cash distributions (e.g. interest payments or dividends) should also take place at the start of the business day. This avoids distinctions between payments for redemptions and other cash distributions, so that market participants always can expect that cash distributions will take place at the start of the business day.



² T2S markets should use the NTS. Non-T2S markets and ICSDs have different deadlines but should also follow the same approach when applying the guidance, i.e. use the earliest settlement window/ times (from around 20:00 CET on settlement day).

3. Considerations

General rule:

The proposed guidance is applicable for all corporate actions as of November 2022. The guidance ensures full alignment with the procedures already in place today for payment of government bonds in the majority of AMI-SeCo markets. There is a grandfathering (exemption period) before November 2022, so that market participants, issuers and market infrastructures can adapt their national practices.

As of November 2022, the guidance is applicable to all CAs (i.e. regardless of whether the security is issued by November 2022 or later thus ensuring a single process can be adopted for existing securities and new securities issued after November 2022)³. There is no impact on the Terms & Conditions (T&C) of the existing issuances, because the T&C do not dictate the timing of payment but rather the key dates, e.g. payment date. Compared to some national practices, this means anticipating the cash credit to the start of the business day in some markets.

For partial and full redemptions if the funds are not available in the issuer's (agent) cash account on the payment date, two options are possible:

1. Securities are booked out as per the terms and conditions.
2. Securities are not booked-out pending the receipt of the cash proceeds.

In both instances a notification of the delay should be sent to the account holder in accordance with AMI-SeCo CA Standard 9 (Notification of processing status).

Risks and inefficiencies associated with current practices:

The CMH-TF AS EG considered that risk arises in the current environment where the security is (partially) redeemed, while cash distributions only occur later at the business day. This non-simultaneous bookings of cash and securities (gap) leads to:

- An exposure from a collateral management perspective, i.e. the booking out of the securities could result in the transaction being undercollateralised while the collateral giver has not yet been compensated for the security subject to (partial) redemption. Therefore the collateral giver currently needs to either provide additional collateral or replace the collateral prior to the actual redemption date.

³ The scope of AMI-SeCo CA Standards is explained in the [Corporate Action Rulebook](#) (*The AMI-SeCo CA Standards set out in this document cover the processing of CA events relevant to debt instruments issued in issuer CSDs in Europe through the custody chain*).

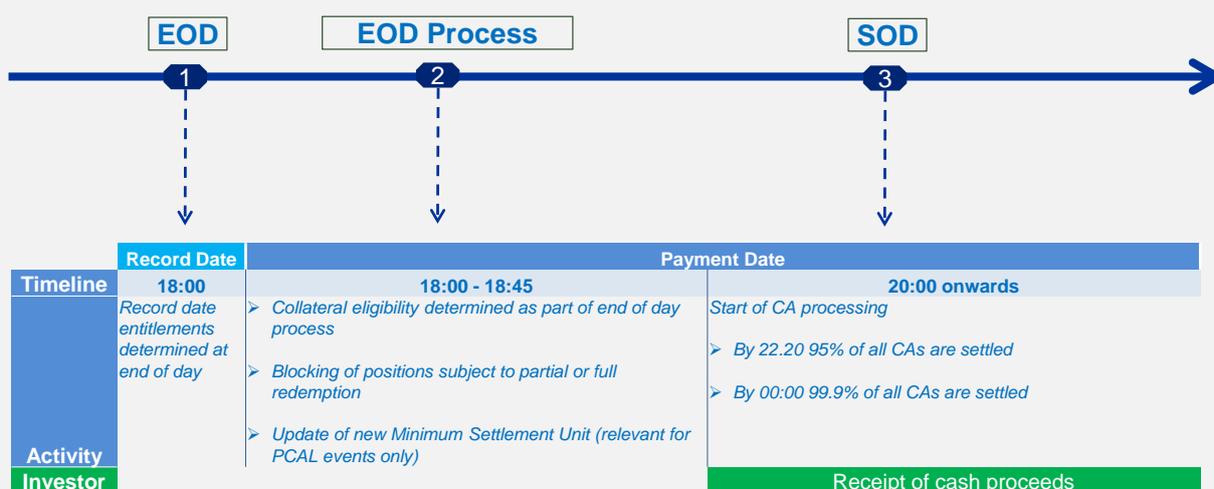
- Inefficient use of collateral as additional collateral needs to be sourced to cover the time gap between the loss of collateral eligibility and the receipt of the cash proceeds. This is further amplified in cases where the collateral giver must substitute the collateral prior to the record date.
- A redemption process with a time gap between the securities redemption and the payment. In the case of partial redemptions (PCAL), the Minimum Settlement Unit (MSU) of the security must be adjusted at 18:45 on Payment Date – 1 while the cash compensation for the partially redeemed security only occurs later.

4. Case study from the Danish market

In the Danish market, the CSD already operates according to the guidance for redemption (i.e. simultaneous distribution of cash proceeds and booking of securities). This section provides a detailed overview of the process in the Danish market.

Box 1: DK Experience

- In Denmark, financial market participants and issuers agreed on a common market practice to simultaneously settle partial/final redemptions and payments in T2S, thereby using netting.
- The CSD instructs all CA transactions to T2S for settlement starting from the first NTS. In special cases it is possible for the issuer or issuer agent to ask the CSD to instruct transactions with status hold.
- Both payment and redemption of holdings occur simultaneously. If the CAs are not settled during T2S NTS 1 and 2, the issuer or issuer agent could provide funds to the T2S DCA in the morning. In extraordinary and exceptional cases, if the CA instruction is not settled by 16.00, the settlement would be postponed to the next valid settlement day. There would be no payment or redemption of clients/investors holdings.
- The graph illustrates the current process in place in the DK market.



5. Summary of advantages/impact

The following table provides a summary of the advantages/impact associated with the proposed guidance for AMI-SeCo CA Standard 8:

Advantages	Impact
Efficiency - netting effect between CA settlement and trade settlement in NTS	Process update for issuers - Funding processes may change for issuers, so that the funds are available before NTS. Changing processes towards cash payments in NTS may require anticipating current funding processes and change current workflows with issuers. Education (with issuers) is needed to avoid a potential increase in payment delays (DK use case to be used as example of best practice in operation)
Issue resolution – the guidance will address the existing issues identified with the timing gap between adjustment of Minimum Settlement Unit and the credit of associated cash compensation.	There may be certain CA events especially for equities products, where it's difficult to prefund the CA payments.
Efficiency - the simultaneous method of cash and securities bookings ensure equal timing for transfer of money and securities, <u>which facilitates the efficient management and optimisation of collateral assets</u>	There may be an impact on other business lines of banks.
Certainty – clear rules and common payment time creates certainty around management of cash proceeds and creates certainty on collateral value at different times.	
Increase in collateral availability – alignment of security and cash movements eliminates timing gap between loss of collateral eligibility and credit of cash proceeds. This will increase the attractiveness of the securities for use in collateralised transactions.	
Harmonisation – the common guidance will allow full alignment with the procedures already in place today for payment of government bonds.	
Notification – the guidance enables notification of possible payment delays according to a clear timetable (as foreseen in AMI-SeCo Corporate Actions Standard 9).	