

Practice reference: MS-MATCH-CRITE-03

Use of additional matching criteria

Versioning	Version	2.0
	Publication date	August 30th, 2016

I. DESCRIPTION OF THE EXISTING PRACTICE & OF THE IMPACTS

Description of the existing practice	There is today no additional matching criterion in Euroclear France, but only mandatory matching criteria.
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Description of the T2S impact	<p>In T2S, the following matching criteria are mandatory:</p> <ul style="list-style-type: none"> - Securities movement type - Intended settlement date - Trade date - Currency - Settlement amount - Settlement quantity (unit or nominal) - Credit/debit securities - Credit/debit cash - ISIN - Delivering party (BIC11) - Receiving party (BIC11) - CSD of the counterparty <p>2 additional criteria are presented:</p> <ul style="list-style-type: none"> - CUM/EX indicator applying to operations subject to market claims, allowing to specify whether the instruction must be eligible to the dividend or coupon payment or not (distribution). - OPT-OUT indicator, allowing to specify whether the instruction must be subject to market claims or transformation (distribution and reorganization). <p>Functioning: additional fields match if, and only if, the fields are filled identically by both parties, or left blank by both.</p>
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Description of the major issue	<p>The custodian will use the instruction from its clients to instruct the securities settlement system.</p> <p>These indicators have a direct impact on market claim detection rules, this detection being limited in time (20 days).</p> <p>The use of the OPT-OUT indicator ('NOMC' in T2S) and 'CUM' or 'EX' ('CCPN' and 'XCPN' in T2S) must be clarified.</p>
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	<p>The OPT-OUT indicator excludes the instruction from the application of market claims, whether or not 'CUM' or 'EX' is mentioned on the instruction (case of a distribution).</p> <p>When the OPT-OUT indicator is set a blank, the CUM/EX indicator allows to mention the direction of a market claim in distribution operations on securities booked in 'UNT'.</p> <p>On the contrary, reorganizations only consider the OPT-OUT indicator, which will result in the cancellation of the original instruction, without transformation.</p> <p>The OPT-OUT indicator will require the market claim to be handled bilaterally.</p> <p><i>See also Market claims – Detection rules in Euroclear's DSD Market claims and Transformations.</i></p> <p><i>Additionally, the table of possible combinations of additional matching criteria is reminded on page 43 of the T2S CA FAQ (https://www.ecb.europa.eu/paym/t2s/governance/ag/html/subcorpact/index.en.html)</i></p>
Description of the roles and responsibilities of the actors involved (OPTIONAL)	
Workflows (OPTIONAL)	
Links with other market practices	<ul style="list-style-type: none"> • MS-MATCH-CRITE-01 • MS-MATCH-CRITE-02 • MS-SETTL-CESSIONSTEMP-01 • MS-SETTL-CESSIONSTEMP-02

II. RECOMMENDED MARKET PRACTICE

Recommended practice	<p>Additional matching criteria are presented in T2S on all settlement instructions 'to be matched', with the exception of Free of Payment Without Matching instructions 'already matched'.</p> <p>The use of Free of Payment Without Matching will not generate market claims, as for the OPT-OUT indicator on a regular instruction. This service will notably be used for portfolio transfers and OST proceeds.</p> <p>After analysis, it appears that two elements may constraint the use of additional matching criteria:</p> <ol style="list-style-type: none"> 1. The risk of increased mismatching <p>Market operators on securities financing transactions are reluctant to use these matching criteria, for fear of potentially increasing the rate of unmatched</p>
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	<p>transactions.</p> <p>2. The fiscal impact</p> <p>The use of additional matching criteria CUM/EX, OPT-OUT/OPT-IN, and more specifically the indicators 'EX' and 'OPT-OUT', lead to a lack of transparency on market claims which are no longer automatically detectable by the information systems of custodians. The custodians could be held liable as they are responsible towards tax authorities for collecting tax information and tax proceeds. They could in effect be held responsible, directly or indirectly, of tax arbitrage.</p> <p>3. Conclusion</p> <p>Prudence should prevail in the use of these indicators.</p> <p>At that stage, without further analysis on the tax aspects, no general market practice is recommended, as long as custodians respect the instructions from their clients. It is important that the clients are advised of the potential fiscal impact of using these indicators, and of the necessary prudence in their use.</p> <p>The recommendation, for securities financing transactions is to set the value of these indicators at blank. A priori, it appears useful to apply this recommendation to all activities, provided that the instruction from the client is respected.</p> <p>4. Specific rules for the migration to T2S</p> <p>Operations migrated to T2S can by nature not present these indicators who do not exist today. The only operations that may be affected in the course of the migration are those re-input after the point of non-return. They should a priori not present these additional criteria, as the instruction should be identical to the original instruction.</p> <p>Nonetheless, as they will be available in the system, the recommendation is not to use them, also considering the above mentioned fiscal impacts.</p>
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Description of the roles and responsibilities of the actors involved (OPTIONAL)	
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Workflows (OPTIONAL)	
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III. IMPLEMENTATION

Implementation timeline	Before the migration to T2S	Upon go live on T2S	After the migration to T2S
	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Date: _____	Date: 12/09/2016	Date: _____