

Guidance on AMI-SeCo CA Standard 6 Business day rule

This note provides common guidance on Standard 6 of the AMI-SeCo Standards for Corporate Actions.

AMI-SeCo is invited to agree with the guidance, which clarifies that:

- *As a general rule, the “unadjusted” calculation periods in business day conventions must not be used in order to improve processing efficiencies in financial markets (i.e. avoiding drawbacks of these calculation periods would bring post-trade complexities with the anticipation of payments, as both the Payment Date and Record Date would have to be brought forward). This rule should be applied by November 2023 at the latest for newly issued securities. A market will be deemed compliant if the rule is implemented, which can be done in several ways: (i) the CSD eligibility rules preclude the acceptance of securities with these conventions (making it non-eligible for use in CSDs across Europe) or (ii) common post-trade process of moving the Payment Date to the next business day is applied (i.e. do not apply the post-trade process of bringing the Record Date and Payment Date forward).*
- *In case the general rule cannot be applied for existing securities: A post trade convention with reallocations should be applied for “unadjusted” business day conventions, i.e. the Record Date must be determined at close of business on the business day preceding the Payment Date. The CMH-TF should define detailed rules to facilitate implementation of the Reallocation procedure as listed in this note.*
- *The NSGs and industry associations (ICMA, ISLA, ICSMA and ECSDA) are invited to explain to issuers the negative implications of the “unadjusted” calculation periods to the financial ecosystem and communicate that avoiding this type of calculation period should be the common rule for new issuances.*

1. Executive summary

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. The need for additional guidance/specifications was identified for the implementation of Standard 6 (see Annex for the text of Standard 6).

Proposal for guidance on Standard 6:

According to Standard 6, payments should be made on the next business day if the payment date is a non-business day and the guidance specifies how to concretely apply it with respect to the business day rules¹.

(i) The usage of “unadjusted” business day conventions resulting in anticipation of payments must be avoided for the following three conventions:

- A. Modified Following Business Day Convention - in combination with Unadjusted (MFBDC / Unadjusted);
- B. Previous Business Day Convention - in combination with Unadjusted (PBDC / Unadjusted);
- C. Modified Previous Business Day Convention - in combination with Unadjusted (MPBDC / Unadjusted).

For all new securities issuances, these three business day rules (in combination with the calculation period “unadjusted”²) must not be used anymore. Compliance can be achieved in several ways, i.e.

- CSDs do not accept securities with these three conventions (in combination with an unadjusted calculation period) in order to be eligible for CSD processing; or
- The payment is moved to the next business day;

Feedback from the market consultation shows that market participants agreed that these three conventions (with an “unadjusted” calculation period) are incompatible with post-trade processing and therefore payments should instead be made on the next business day. Standard 6 facilitates efficient post-trade processing, avoids inconsistent treatment across markets and limits reconciliation issues.

Feedback also shows that responsibility to not have these conventions lies primarily with the issuers/agents (and their ability to issue new securities without these conventions). Issuers/agents should therefore be invited in each market to discuss how these unadjusted conventions can be avoided because they are not best practice (e.g. via the use of adjusted conventions instead).

For existing securities, in case the general rule cannot be applied for the unadjusted conventions (payments must systematically be paid on the next business day);

- a Reallocation procedure should be applied. A correction is needed as the cash proceeds are being paid to the wrong person, i.e. that there is a need for a transfer/reallocation to the right

¹ Business day rules/conventions explain how to do the payment if the payment date of a corporate action falls on a non-business day (e.g. Saturday) and the change of the payment date would fall in a different month. See Annex.

² (i) Modified following business day convention (MFBDC): Cashflows falling on a non-workday are assumed to be distributed on the next business day unless it would fall in a different month, in which case it's the previous business day.

(ii) Previous business day convention (PBDC): Cashflows falling on non-workdays are assumed to be distributed on the previous business day.

(iii) Modified previous business day convention (MPBDC): Cashflows falling on a non-workday are assumed to be distributed on the previous business day unless it would fall in a different month, in which case it's the next business day.

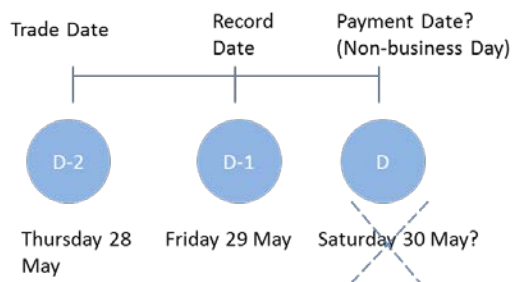
Calculation periods are either adjusted or unadjusted: (i) Unadjusted: the number of days considered in the accrued interest period that create the cash proceeds does not change, (ii) Adjusted: refers to a need to adjust the interest period.

person³. This additional mechanism could be a centralised mechanism (at the CSD level developed to generate the re-transfers) or, alternatively, the process could be decentralised (bilaterally between the two trading parties).

2. Example of guidance on Standard 6

The picture below illustrates the issue.

Illustration of current issue of “unadjusted” business day conventions.



Post-trade issues/complexities with:

- A. Modified Following Business Day Convention / Unadjusted (MFBDC Unadjusted).
- B. Previous Business Day Convention / Unadjusted (PBDC Unadjusted)
- C. Modified Previous Business Day Convention / Unadjusted (MPBDC Unadjusted).

- Complexity: If Record Date and Payment Date should move to the previous business days (because Monday is in the following month), the Record Date will be moved on 28/05 COB while the interest accrues until 29/05.
- As a general rule:
 - Exclude unadjusted calculation periods for payments.
 - or apply the post-trade process of keeping the Record Date and moving Payment Date (The payment will be postponed until Monday (even if Monday is in the following month). The Record Date remains on the Friday).
- If the reallocation is/has to be applied (for existing securities):
 - Pay on the next business day (same as for new securities) on Monday 01/06; or
 - The Record Date and payment date are brought forward. Pay on the previous business day (29/05) with Record Date on 28/05. The re-allocation of interest accrued is applied so that there should be a reallocation of the interest accrued between 28/05 and 29/05 to the right party.
- If Monday is not in the following month: The payment will be postponed until Monday, The Record Date remains on Friday.

³ Payments cannot be executed anymore at that time that the entitlements are calculated (the payment system is closed) and the expectation of market participants to be paid cannot be met

3. Guidance on Standard 6

It is proposed that Standard 6 is reviewed as follows (see underscore text):

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.

Description

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 due⁴, the payment must be made on the next business day. In particular, the following unadjusted business day conventions resulting in anticipation of payments must not be applied anymore i.e. (i) the Modified Following (ii) Modified Previous (iii) Previous Business Day Conventions - each in combination with the calculation period Unadjusted.

CSDs must not accept securities with these three conventions (in combination with an unadjusted calculation period) in order to be eligible for CSD processing or the payment must be moved to the next business day (i.e. if scheduled Payment Date is Saturday, it is moved to Monday).

The table below provides an overview of the application of the payment conventions:

Business Day Convention		Post-trade processes		
Following	Adjusted	✓	Yes	Pay the next business day
	Unadjusted	✓	Yes	Pay the next business day
Modified Following	Adjusted	✓	Yes	Pay the previous business day
	Unadjusted	×	No	Not admitted; or Pay the next business day
Previous	Adjusted	✓	Yes	Payment the next business day
	Unadjusted	×	No	Not admitted, or Pay the next business day
Modified Previous	Adjusted	✓	Yes	Payment the next business day
	Unadjusted	×	No	Not admitted, or Pay the next business day

4. Additional background description of Standard 6

Further explanations are provided to the “background of Standard 6” section of the AMI-SeCo Standards for Corporate Actions with relation to newly issued securities to ensure that all new securities are processed in a harmonised way.

⁴ For payments in euro, the ECB TARGET calendar determines whether a day is a non-business day

Background Standard 6: Newly issued securities

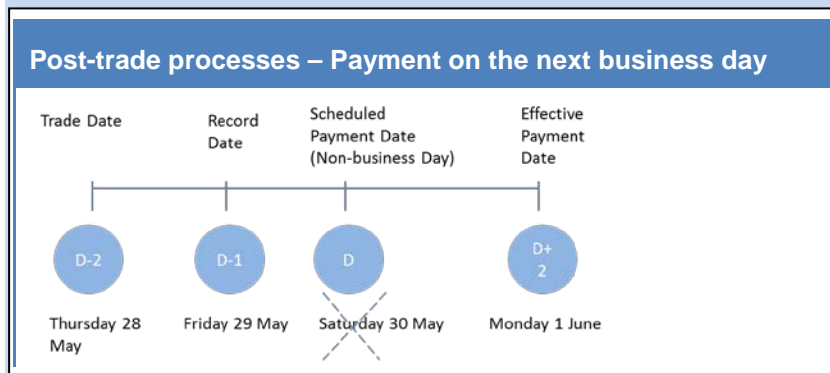
(1) *General rule for newly issued securities:* These three conventions should not be used any more in combination with Unadjusted:

- A. Modified Following Business Day Convention with Unadjusted (MFBDC Unadjusted),
- B. Previous Business Day Convention with Unadjusted (PBDC Unadjusted)
- C. Modified Previous Business Day Convention with Unadjusted (MPBDC Unadjusted).

(2) *General operational process for newly issued securities:* If admitted:

(i) The Record Date (RD) should remain the business day before the scheduled Payment Date (PD), i.e. at the closing of the day (End of Day) immediately preceding the scheduled PD.

(ii) The effective payment should be made on the next business day, i.e. at the day after the scheduled PD. The effective payment date should always equal the value date.



The process in CSDs is to generate a settlement instruction debiting the client and crediting the issuer paying agent. If the client does not have the funds, the settlement instruction should recycle. CSD should not be held liable as the CSD generated the instruction per documented process.

5. Next steps

The following steps are foreseen:

AMI-SeCo is invited to discuss and agree on the additional clarifications to be reflected in the updated Rulebook Meeting on 2/3 December 2020

NSGs engagement with issuers/issuers agents Q1 2021

Annex 1:

Existing text of 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.

Description

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 due⁵, the payment must be made on the next business day. The terms and conditions of a 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).

Annex 2: Reallocation procedure

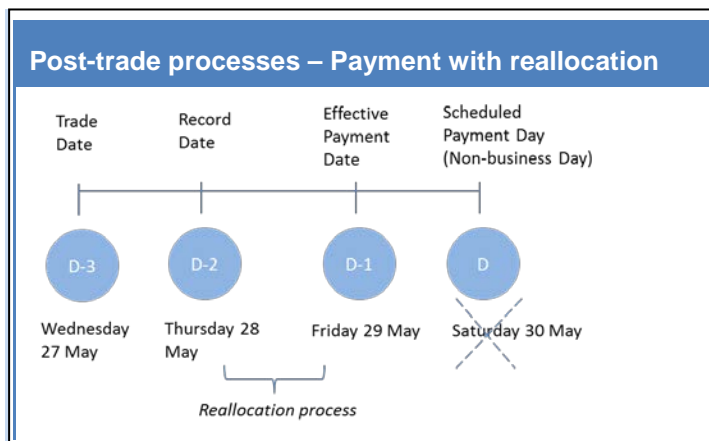
The Reallocation procedure is described below. Further details are provided below together with a list of additional clarifications, which could be further developed by the CMH-TF's Asset Servicing Expert Group if needed.

Reallocation procedure for unadjusted business day conventions MFBD, PBDC, MPBDC

(1) General rule for existing securities where the conditions were agreed at the time of issuance: a Reallocation procedure should be applied. This Reallocation procedure should only to be used for securities with these conditions issued until/before the implementation deadline of SCoRE Standards.

(2) General process for existing securities where the conditions were agreed at the time of issuance: Payment Date and Record date are brought forward (and a reallocation process occurs of cash proceeds to the beneficial owner).

⁵ For payments in euro, the ECB TARGET calendar determines whether a day is a non-business day



- The new Record Date (RD) should be the day before the new Payment Date (PD).
- Because the Record Date is brought forward, there should be a reallocation process, which compensates the beneficial owner (see Annex 1).

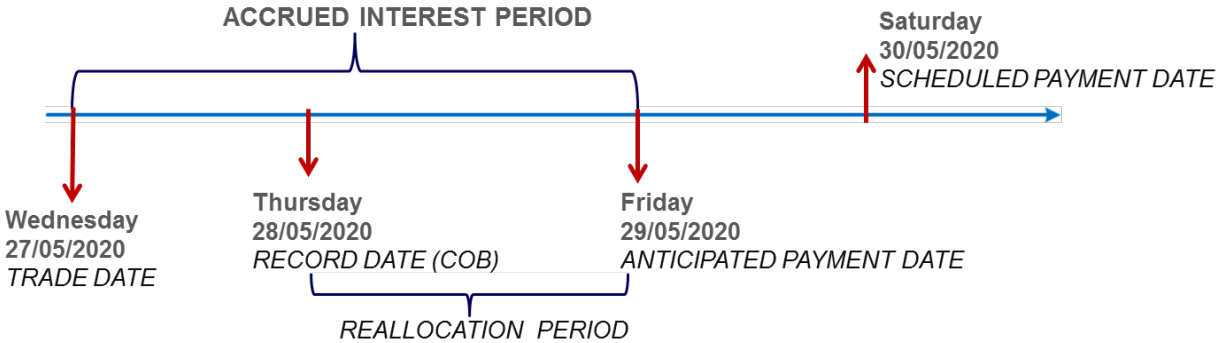
(3) *General overview:* The table below provides an overview of the application of the payment conventions:

Business Day Convention		Best practice	Post-trade processes
Following	Adjusted	✓ Yes	Payment the next business day
	Unadjusted	✓ Yes	Payment the next business day
Modified Following	Adjusted	✓ Yes	Payment the previous business day (if it would fall in a different month)
	Unadjusted	No	Pay on the previous business day with reallocation
Previous	Adjusted	✓ Yes	Payment the previous business day
	Unadjusted	No	Pay on the previous business day with reallocation
Modified Previous	Adjusted	✓ Yes	Payment the next business day (if it would fall in a different month)
	Unadjusted	No	Pay on the previous business day with reallocation

Detailed description of Reallocation procedure (with reallocation process) for existing securities

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 requires 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 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.



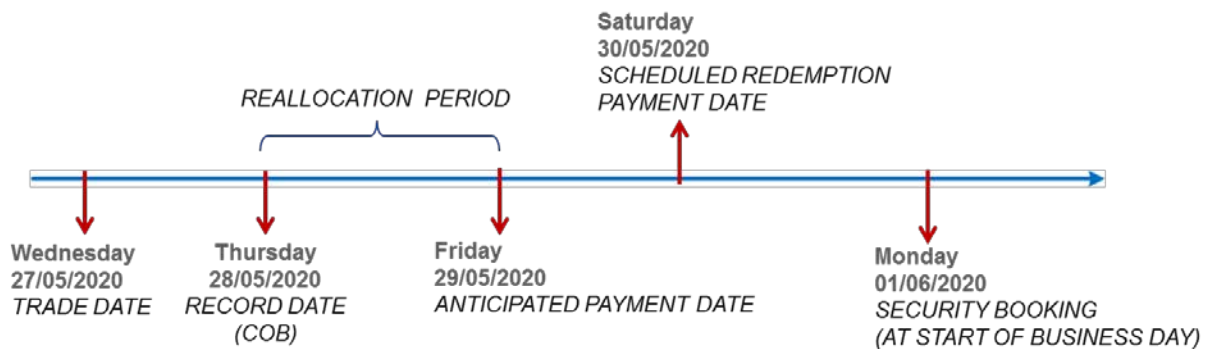
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2 Partial redemption

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 because interest accrues until Friday 29/05⁶.

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).

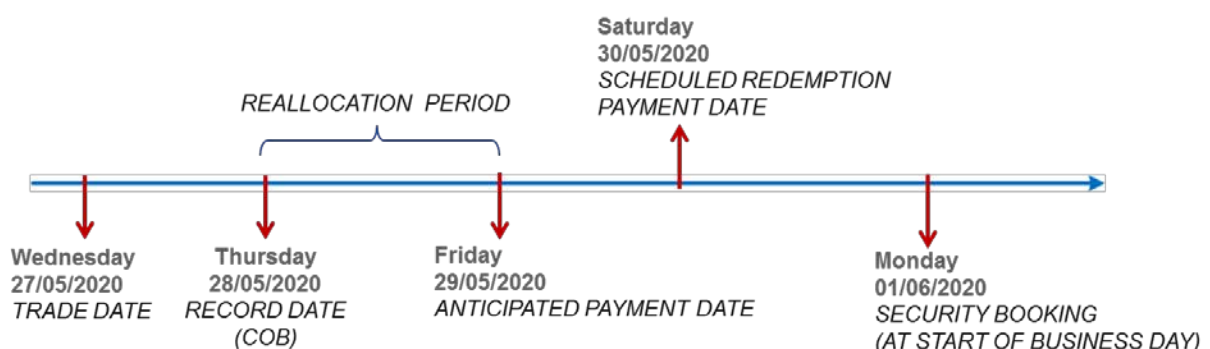
⁶ The security booking cannot be anticipated to 29/05 in order to make a simultaneous booking of the cash and security movements because it is not possible to redeem a security when the accrued interest period is still on. This will remain unchanged with the adoption of standard 6. Also in this case, a reallocation of the cash proceeds needs to be handled. In addition, securities cannot be booked-out at NTS of 29/05 otherwise securities traded on 27/05 cannot be settled in their Intended Settlement Date, i.e. 29/05



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 because interest accrues until Saturday 30/05. The security booking cannot be anticipated to 29/05 in order to make a simultaneous booking of the cash and security movements because it is not possible to redeem a security when the accrued interest period is still on. 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).



Annex 2: Additional clarifications on the Reallocation procedure

Further details on the Reallocation procedure to be specified/agreed by CMH TF (As a starting point, some preliminary answers are provided):

- Q 1: Who should initiate the reallocation?
 - A: If there is a bilateral mechanism, for trades traded on 27/05 that settle on 29/05, on the anticipated payment date the cash proceeds are paid to the seller and not to the buyer because on the Record Date the securities are still on the seller's securities account. In this case, a reallocation of cash proceeds shall be handled but the buyer receives the payment 2 days later (on Monday 01/06).
 - If there is a central mechanism then the CSD should initiate the reallocation.
- Q 2: How to make sure that the party entitled to receive the proceeds is compensated in due time?:
 - A: In case of centralised solution, the CSD shall create a mechanism that allow timely processing of cash settlement (i.e. debit the Seller in favour of the Buyer). In case of bilateral solution between counterparties, the Buyer will claim the due amount to the seller as already happens in some markets for market claims and transformations that are not automatically handled at CSD level.
- Q 3: What are the mechanisms to limit the risk of not being compensated as the proceeds can be already sold or the receiver can go into default?
 - A: As in any other SFT, if the Buyer holds legal title at the time of the scheduled payment time, it should be receive the interest accrued. It is important to bear in mind that this mechanism is the same as that used for market claims and transformations.
- Q 4: Who would be liable if a (I)CSD has paid the proceeds but the reallocation does not take place?
 - A: In case of bilateral solutions (i.e. absence of central solution), it is up to the Buyer to initiate the reallocation by requesting a payment of the due amount from the seller. In case of a centralised solution, the CSD ensures that reallocation takes place.
- Q 5: As per MFBDC logic, when the payment falls on a non-business day and the next business day falls in another month, the legal owner is supposed to receive its proceeds on the day preceding the non-business day. However, will the proceeds be only paid next business day at earliest?
 - A: No. Payment of proceeds is contingent to the actual settlement of the underlying trade (i.e. delivery from the seller to the buyer). For example, if settlement occurs in the NTS of 29/5 the reallocation procedure can be executed same day.
- Q 6: Does the difference in the value dates between the original issuer's payment and the final payment to a legal owner via reallocation raise additional questions on how and whom to manage the late values claims if any?
 - A: In case of bilateral solution, the counterparties will agree on the most effective value date for reallocation of payment. It is important to bear in mind that these principles are already valid for market claims and transformations. In case of centralised solutions, the reallocation is contingent to the actual settlement of the underlying trade i.e. from the Seller to the Buyer.

- Q 7: Could the reallocation be subject to tax on some jurisdictions and should it therefore be reported with appropriate messages?
 - A: The reallocation is a post-trade mechanism to ensure that the Buyer receives the full accrued interest (to which it is entitled as the legal owner of the title). It is important to bear in mind that, like market claims and transformations, the reallocations are always handled gross.
- Q8: Why can the cash and security movements not be booked simultaneously for existing securities bearing the unadjusted convention?
 - A: The non-simultaneity between cash credit and security debit is due to the inefficiency that MFBDC brings to post-trading processes.
- Q 9: Is the reallocation process similar to a market claim/coupon compensation?
 - A: There are some similarities, in that the post-trade process generate an outcome in which part of an interest payment is paid to the wrong person/amount, so that there is a need for a re-transfer. But there are also differences: in this case a reallocation procedure is needed due to the inefficiency that MFBDC brings to post-trading processes; in case of market claims the trigger is the presence of failing settlement transactions at Record Date.