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Guidance for AMI-SeCo Standard 8 Payment Time

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

AMI-SeCo is invited to:

- *agree with the proposed clarifications that payments must be made as early as possible, to improve efficiencies in financial markets.*
- *The NSGs and industry associations (ICMA, ISLA, ICSMA and ECSDA) are invited to explain to Issuers/Agents the negative implications of late payments to the financial ecosystem.*
- *A communication pack has been prepared, which could be used by NSGs and industry associations.*

1. Executive summary

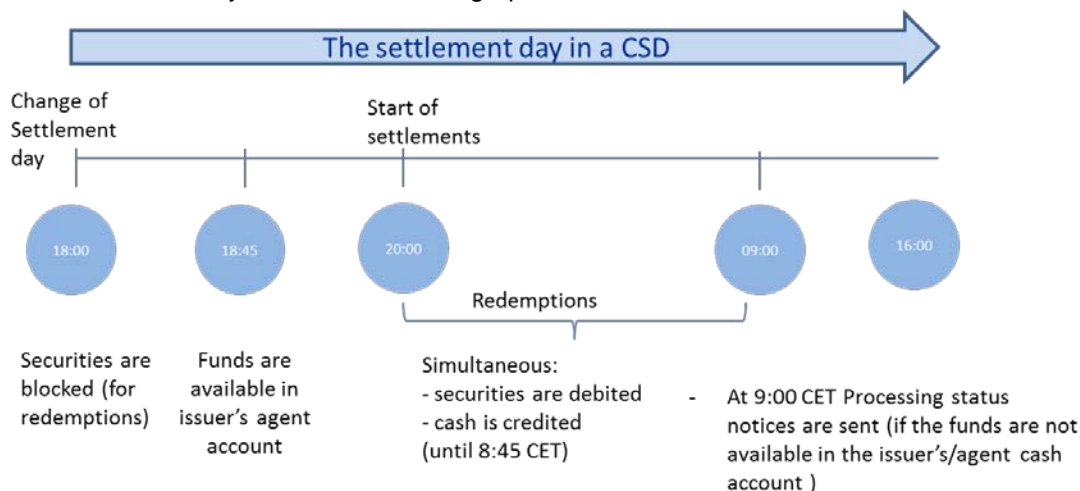
The Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) has agreed on the harmonised processing of corporate actions (CA), as described in the [AMI-SeCo Standards for Corporate Actions](#). These AMI-SeCo Standards are part of a single collateral management rulebook for Europe (SCoRE), which defines the common business processes, workflows and ISO 20022 messaging for financial market participants (including central banks and commercial banks). Additional guidance was requested for the implementation of Standard 8 (see Standard 8 text in the Annex).

Proposal for clarification Standard 8 on three topics:

- (i) Standard 8 requires that CA cash proceeds should be distributed as early as possible and further clarity is provided that CA payments must be made to CSD participants in a window from 20:00 CET until 8:45 CET at the latest.
- (ii) For partial or full redemption, there should be a simultaneous process so that cash proceeds should be made available by the issuer CSD at the same time as the redemption is processed.
- (iii) Further clarity is provided that if the cash proceeds have not been made available by the issuer/agent on time, the CSD must send a status notification to its participants at 09:00 CET in accordance with AMI-SeCo CA Standard 9. By 16:00 CET, if it cannot be resolved during

the business day, there are two options: (a) Securities are booked-out as per T&Cs and payment delay notices are sent to account holders or (b) Securities are not booked-out and payment delay notices are sent to account holders.

The additional clarity is illustrated in the graph as follows:



Reason for the proposed guidance on Standard 8

With the adoption of Standard 8, AMI-SeCo agreed on early payments to improve the efficiency in financial markets, i.e.

1. to address the fact that with (partial) redemptions the security/collateral is no longer eligible/available. The booking out of the securities (without simultaneous payment) could result in the transaction being under-collateralised because the collateral giver has not yet been compensated for the security subject to (partial) redemption;
2. to improve the processing of partial redemptions (PCAL events), where securities would become un-tradable. The new position (created for the partial redemption) results in a new denomination, which should not be commingled with the old denomination in the same balance of securities; and
3. need for simultaneous booking. This supports efficiencies, as no additional collateral needs to be sourced to cover the time gap. It also addresses operational fragmentation, as different processes for redemptions and cash compensations are avoided.

2. Example of the proposed guidance

Examples are provided to illustrate the proposal:

- (i) Distribution of CA cash proceeds to CSD participants "as early as possible":

- Cash distributions must take place in a window from 20.00 until 08:45 CET. The following steps should occur:
 - Securities subject to redemption must be blocked after the end of the settlement day (i.e. at around 18:00 CET).
 - For partial redemptions (PCAL events), issuers/agents must transfer the cash proceeds to their agents' accounts at the CSD by approximately 18:45 CET in order to ensure that CSDs can perform a simultaneous booking of the securities and cash movements at the same time that the new minimum settlement amount is applied).
 - For all other CA events, issuers should transfer the cash proceeds to their agents' accounts at approximately 18:45, and at the very latest by 08:45 CET.

Example 1: Full redemption in T2S

In case of a full redemption e.g. on Tuesday: If there is no cash on the T2S DCA of the issuer/agent (on Monday end of business), the issuer/agent may prefund (on Monday) or at the latest pay immediately at the opening of the payment system (on Tuesday opening of the payment system)

- Prefund: The issuer/agent may initiate a liquidity transfer from T2 to T2S, which shall occur at 18:45 to 19.30 CET (on Monday), and it will settle in T2S at 20.00 CET when NTS starts (referred to as "sequence 0" in T2S). The Corporate Action is then processed at around 20:10 CET (referred to as "sequence 1").
- Immediately following the opening of the payment system: In case of full redemptions, the issuer/agent may wait to do the liquidity transfer on Tuesday. The issuer/agent earliest time to transfer from T2 to T2S is at the opening of the payment system at 7.00 CET. Immediately thereafter the CA is processed (e.g. 7:10 CET)

If the liquidity is already in T2S DCA of the issuer/ agent (e.g. because the net effect of the NTS leaves a sufficient balance on the DCA), then CA redemption can settle during NTS.

(ii) Simultaneous bookings for redemptions

- For corporate actions involving a cash and security movement, the distribution of cash proceeds and the securities booking must take place simultaneously.

(iii) Delayed payments on full redemptions

- If the provision of funds has not been made available by issuers/paying agents, the CSD must send a notification of processing status to its participants at 09:00 CET informing them that the cash and/or security payment is pending (see page 50 of the [SCoRE CA Rulebook](#) for more details). The CSD must do additional checks to resolve the issue.
 - If the funds are still not made available by 16:00 CET, there are two options (a) the securities booking must take place and the payment of the cash proceeds should be postponed to the next business day. In this case, securities cannot remain in the

participants' accounts if the maturity date has been reached but no cash settlement can take place (settlement will only take place with the availability of the cash funds with DvP Settlement instructions). (b) Securities are not booked-out, payment delay notices are sent to account holder.

Example 2: Full redemptions vs partial redemption with reduction of nominal amount

In case of **full redemption**, e.g. if a financial instrument reaches maturity on Tuesday, the security must be booked-out on Tuesday because it no longer exists (as provided for in the bond amortization schedule). Alternatively, if securities are not booked-out, payment delay notices are sent to account holder.

In case of **partial redemption with reduction of nominal amount** (PCAL events), the securities booking must take place in the NTS of PD (i.e. starting from sequence 1 in T2S) to avoid operational issues (because the new position will be created based on the new denomination and therefore there is the need to avoid a commingling between old and new denomination in the same balance securities).

Market feedback from the AMI-SeCo consultation showed support that corporate events associated cash settlement should be done as early as possible at the start of day on payment date. CSDs explained to be able to offer the necessary market infrastructure to allow the processing of the corporate action payments in the Night-time settlement and during the Real-Time Settlement. However, engagement is needed with the issuers for corporate debt so that they transfer the cash proceeds to their agent's accounts until the morning on payment date.

3. Clarification of Standard 8

It is proposed to add the following to Standard 8 (see underlined text):

Standard 8: Payment Time

The cash proceeds of a corporate action must be distributed as early as possible. For any CA event involving a partial or full redemption, the cash proceeds must 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)

Description

[...]The following rules therefore apply:

- Issuers/agents in European markets (and in European currencies) must ensure that cash and security proceeds are made available by no later than 8:45 CET (i.e. in a window from 20:00 CET until 08:45 CET). The following steps must occur:

- Securities subject to redemption must be blocked after the end of the settlement day (i.e. at around 18:00 CET).
 - For partial redemptions with reduction of nominal amount (PCAL events), issuers/agents must make the cash proceeds available to their agents' accounts at the CSD by approximately 18:45 CET in order to ensure that CSDs can perform a simultaneous booking of the securities and cash movements at the same time that the new minimum settlement amount is applied.
 - For all other CA events, issuers must make the cash proceeds available to their agents' accounts by approximately 18:45, and at the very latest by 08:45 CET.
- cash proceeds for all CA events which involve a partial or full redemption must be paid at the same time as the associated partial or full redemption of the security.
 - At 9:00 CET, if funds have not been made available by issuers/agents, the CSD must send a notification of processing status to CSD participants informing them that the cash and/or security payment is pending. The CSD sends the notification in accordance with CA STANDARD 9: "Notification of processing status" of the SCoRE CA Rulebook. The CSD must do additional checks to resolve the issue. If funds are not available in the issuer's agent cash account until 16:00, either (a) the debit of securities takes place and cash credits are settled on the next day after the acceptance of the cash amount by the issuer's agent or (b) Securities are not booked-out, payment delay notices are sent to account holder.

3. 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

Current text of 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)

Description

[...]The following rules therefore apply:

- Issuers of government bonds must ensure that cash and security proceeds for government bonds issued in domestic CSDs are paid no later than open for business of the payment system (i.e. 07:00 for T2).*
- Issuers of corporate debt must ensure that cash and securities proceeds are paid to the participants of the issuer CSD by 10:30 on the CA payment date.*
- Issuers of debt instruments involving a partial or full redemption must ensure that cash proceeds for all CA events on debt instruments which involve a partial or full redemption are paid at the same time as the associated partial or full redemption of the security.*