

T2S CORPORATE ACTIONS SUB-GROUP

Minutes of the 41st CASG meeting

1. Introduction / Welcome

The CASG chairman, Mr James Cunningham, introduced Ms Mireille Galeazzi as the new member from the Euroclear Group. He mentioned the new AMI-SeCo governance structure (replacing the T2S Advisory Group and the COGESI), the impact of which on the CASG work would be discussed further during the meeting. Ms Leena Ruostetsaari from Euroclear Finland confirmed that the Finnish CSD will not be joining T2S in September 2017 as testing results have not been considered sufficiently stable. Discussions are on-going with the Finnish market and T2S; a new migration date will be announced.

2. Overview of CASG programme for 2017 and beyond - CASG deliverables

The CASG discussed the deliverables for 2017 and their timing. Two gap analysis updates/reports are planned respectively following the T2S migration wave 4 (on 6 February 2017) and the last T2S migration wave (on 18 September 2017). An update of the CASG FAQ containing transformation scenarios will be submitted to the next HSG for approval before publication on the T2S website.

The group then discussed the deliverables for 2018 (and beyond), in particular the appropriate frequency of publication for the CASG gap analysis report and the FAQ update. The synergy with the annual EMIG reports and the future deliverables of the HSG (Harmonisation Progress reports) and those of the AMI SeCo (Impact Analysis on non-compliance reports) will have to be considered. It was suggested that the monitoring process could be more tightly focused on cases of non-compliance. Some CASG members also suggested that the monitoring and gap analysis process have a greater focus on investor CSD activities, as currently the focus is largely on issuer CSD activities. This latter point will be discussed in more detail at the next CASG meeting.

3. Compliance issues of the AT market (from 14:00 onwards on 18 January 2017)

Mr Viktor Spitzer from UniCredit and Chairman of the Austrian Corporate Actions National Implementation Group (CANIG), kindly accepted the CASG invitation to discuss the current status of the Austrian market's non-compliance with the CASG standards, and the steps needed for full compliance.

As reported in the AG Impact Analysis report the Austrian market will not comply with three market claims standards by the time of its migration to T2S: a) standards 6 and 7 – due to concerns around tax fraud, the AT market decided not to take into account the “opt-out”, “ex” and “cum” flags when

generating market claims; b) standard 23 – it is understood that the Austrian CSD will not provide a user friendly facility to control the interdependence of the settlement of the market claim and the underlying transaction; CSD participants will instead be provided with an optional facility to put automatically on hold (at securities account level) the market claims generated by the Austrian CSD.

Regarding the issue of “opt-out”, “ex” and “cum” flags, CASG discussions concluded that this is related to a broader underlying problem of how to ensure no artificial creation of market claims, thus requiring a clarification of rules from tax authorities. Reference was also made to the AG’s Market Claims and Withholding Tax discussion note, shared with the EPFT and recently published on the T2S website. CASG members observed however that as long as standards 6 and 7 are not followed by a participating market, they will have to face non-compliant issues for another dividend season in the T2S environment.

Regarding the issue related to market claim standard 23, the CASG already clarified the point in its FAQ through Q&As 1.8, 1.34 and 1.35. The Austrian market is requested to consider an implementation plan for full compliance with this CASG standard.

4. CASG on-going discussions

4.1. FAQ updates

- Transformation scenarios + Annex 2

CASG members approved the text of a set of questions and answers to be added to the CASG FAQ document. This version will be submitted to the HSG for approval, before publication on the T2S website.

4.2. Responses of the CASG 2016 fact-finding questionnaire

- Review of answers to Questions 1 to 8

The summary of the answers to the CASG 2016 fact-finding questionnaire will be enhanced with the outcome of the CASG discussions. It will be shared with the EMIG.

4.3. Issues list of the CASG

- The CASG is to discuss the open on-going issues related to CA processing, based on its issues list.

CASG members checked the pending issues and agreed on their latest statuses. Closed items will be deleted from the list, which will be restructured to take into account the future collateral aspects.

5. Review of (possible) future CASG topics and discussions

5.1. T2S plans relating to Corporate Actions (T2S Release 2 / Compliance with new ISO releases / Overview of outstanding CA CRs)

CR 515 (Allow instructions from CSD participants for n days after maturity date of security) which had been initiated by the CASG was listed for Release 2.0. In its 24 January 2017 meeting the CRG agreed to opt for a fully automated solution, i.e. T2S should be able to cover all requirements without the need for CSDs to make additional configurations in order for the solution to work, and to add to the CR that during the transformation period of 20 days after maturity, it should not be possible to delete the ISIN in T2S, as requested by the CASG. The CRG recommended thus to launch the 4CB detailed assessment.

5.2. Going beyond the CASG Standards - Is there a rationale for additional guidance (market practice documents, etc.)?

5.3 Going beyond the CASG Standards - Expansion to cover collateral harmonisation aspects from a CA perspective

CASG members discussed agenda items 5.2 and 5.3 together.

A few collateral related aspects have already been identified by the group. There is for instance the need to harmonise the legal definition (and ownership) of contracts between repo and lending & borrowing. However, the CASG acknowledged that the two existing sets of corporate actions standards were drafted from the perspective of cash market trades, and thus did not take into account repo market conventions.

The COGESI Collateral Harmonisation closing notes will be distributed to CASG members for their information. These notes will also serve as background material for the HSG discussion.

6. Any other business

6.1. Other topics

- Update and follow up on prospectus regulation

Mr James Cunningham provided the CASG with an update on the political approval process for the prospectus regulation. He added that he would provide some brief analysis on the implications for the MSU/SUM discussions that the CASG has had in previous meetings.

6.2. Next steps

Next CASG meetings in 2017

- 02-03 May (moved one day earlier to enable the XMAP meeting to take place on 4 May)
- 26-27 September (tentative)