EUROPEAN CENTRAL BANK

EUROSYSTEM

Analysing the potential implications of T+1 on the processing of corporate events

Presentation to

AMI-SeCo

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Background

- The CEG has been working on a note covering:
  - i. the potential implications of a European move to T+1 settlement on the processing of corporate events, and;
  - ii. the impact on the processing of corporate events of misalignment between the settlement cycle in Europe and the settlement cycle in other markets (using the US T+1 settlement cycle as a case study).

- This paper will be finalised shortly.

- The analysis of the impact of misalignment of settlement cycles is complex, as the situation is confusing, and evolving.

- This presentation gives an insight into some key aspects from the paper.

Potential implications of a European move to T+1 settlement

Analysis

Introduction

- Reducing the standard settlement cycle has two key impacts:
  1. changing the key dates for a corporate event (as several of the key dates are determined in function of the standard settlement cycle), and;
  2. reducing the time period available for some operational processes.

- There are also possible indirect impacts, for example, T+1-related changes to a CSD’s daily settlement timetable may also have potential impacts on corporate events.

- From a corporate events perspective none of these impacts are necessarily show-stoppers for a move to T+1, and there are also some theoretical benefits.

Impact of T+1 on corporate event key dates

Introduction

- The gaps between the key dates of a corporate event are linked to the settlement cycle.

- Accordingly, a change in the standard settlement cycle from T+2 to T+1 will have an impact on corporate event key dates as illustrated on the next slides.

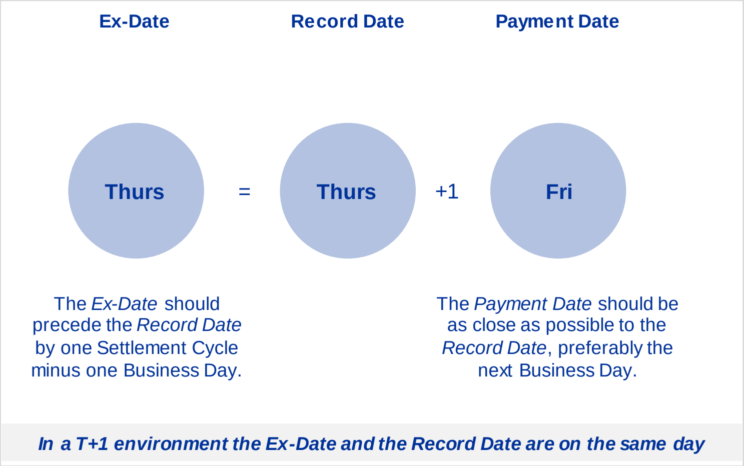
Impact of T+1 on corporate event key dates

Mandatory events without options

Key dates for mandatory events without options

- For mandatory events without options, corporate event standards stipulate that the gap between the ‘ex-date ’ and the ‘record date ’ is one business day less than the standard settlement cycle.

- In a T+2 environment, this means that there is one business day between the ‘ex-date’ and the ‘record date’ while in a T+1 environment the ‘ex-date’ and the ‘record date’ would be on the same day as illustrated here:



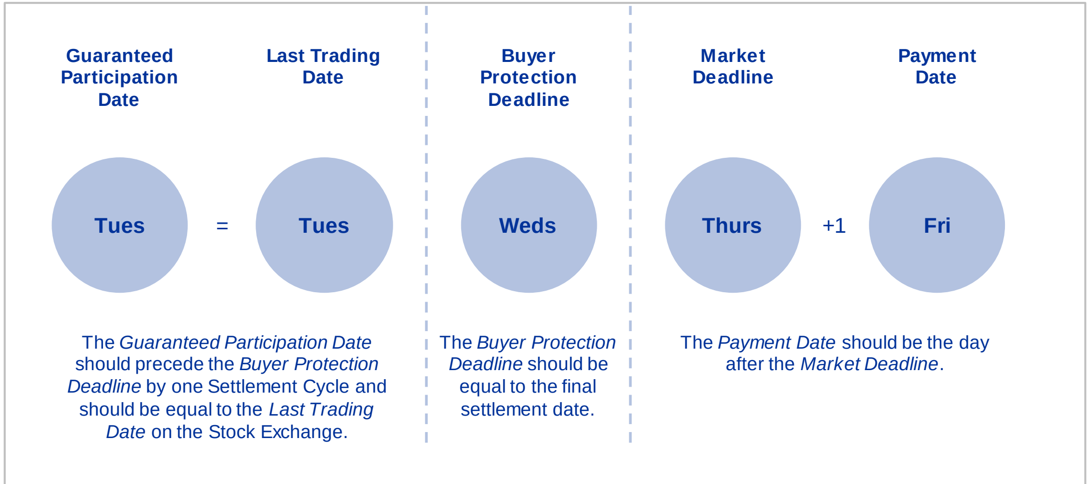
Impact of T+1 on corporate event key dates

Elective events

Key dates for elective events

- For elective events (mandatory events with options and voluntary events), corporate event standards stipulate that the gap between the ‘Guaranteed Participation Date’ and the ‘Buyer Protection Deadline’ is equal to the standard settlement cycle.

- In a T+2 environment, this means that there are two business days between the ‘Guaranteed Participation Date ’ and the ‘Buyer Protection Deadline ’ while in a T+1 environment the gap would be one day as illustrated here:



In a T+1 environment there is 1 day between the Guaranteed Participation Date and the Buyer Protection Deadline

Impact of T+1 on corporate event key dates

Other considerations in the event of a move to T+1

- All market infrastructures must adjust the key dates in line with the new standard settlement cycle.
- A standard rule for managing the transition to a new standard settlement cycle would also be needed.
- For example, all corporate events announced prior to the planned migration date to a new standard settlement cycle could be subject to the existing (i.e. T+2) key dates with the new key dates applicable to all corporate events announced on or after the migration date.

Impact of T+1 on processing of election instructions on pending transactions

- For trades executed on or close to the guaranteed participation date, the timeframe to send and process election/buyer protection instructions will be reduced by one day in a T+1 environment.

- In the one day between the guaranteed participation date and the buyer protection deadline, several activities will have to take place, for example:
  - (i) the settlement instructions have to be sent,
  - (ii) intermediaries have to receive them and identify that there is a pending corporate action for that security,
  - (iii) the intermediaries may have to send corporate action notifications through the custody chain and;
  - (iv) the buyer may have to send a buyer protection instruction.

- While today buyer protection instructions are mostly processed on a manual basis in Europe, in a T+1 environment there may be a need to implement automated buyer protection to ensure timely and efficient processing of buyer protection instructions. This would reduce risk to the buyer and ensure investors are protected.

Impact of T+1 on market claims

- As explained earlier, in a T+1 environment the ex-date and record date will fall on the same day.
- If a move to T+1 settlement results in an increase in the level of settlement fails, then the number of market claims will also increase as a consequence.
- This potential increase in market claims further increases the importance of all European markets achieving full compliance with market standards for market claims in advance of a transition to a T+1 standard settlement cycle.

Impact on the misalignment between the settlement cycle in Europe and other markets

Case study on the US T+1 move

Impact of US T+1 migration on multi-listed securities

Overview

- The main problem is that many of the key dates for a corporate event are determined as a function of the settlement cycle.
- This means that if that a security with a corporate event is traded on two separate exchanges with different settlement cycles, then we will have either:
  - Dates for the corporate action that are operationally appropriate for trading on one of the exchanges, but not for trading on the other. This will create an operational burden (with potential knock-on impacts).
  - Two sets of dates.
- If we have two sets of dates for the same security, then this creates complexity and risk, as parties will not necessarily be able to interpret correctly the information they receive.
- Different key dates have an impact on:
  - The pricing of the security
  - The pricing of derivatives
  - The processing of buyer protection instructions and market claims
  - The taxation of corporate event proceeds
  - The delisting date of the security

Impact of US T+1 migration on multi-listed securities

Different approaches taken by different trading venues in Europe

- Securities may be listed on a single exchange but traded on multiple trading venues.
- For example, Apple is listed in the US (Nasdaq) while in Europe Apple shares may be traded on Deutsche Börse (with settlement in Clearstream Banking Frankfurt) or on Borsa Italiana (with settlement in Euronext Securities Milan).
- For those two trading venues we have 2 different approaches:
  - European key dates follow those announced by the issuer in the US market (Ex-Date = Record Date) – Clearstream approach
  - European key dates follow existing market standards (Ex-Date = Record Date – 1) – Euronext approach
- As a result of these different approaches, an investor will not observe frictionless activity for a stock traded across multiple venues.

Next steps

Next steps

- The paper, which goes into further detail on the elements presented today, will be shared with AMI-SeCo for review in a written procedure.

- The paper will be shared with ESMA thereafter.