
Briefing note

AFME understanding of T+2 Approach for migration on 6th October.

2nd October 2014

Executive summary

Many European markets currently settle 3 days after the trade date (T+3). With effect from 6th October 2014, this will change to two days (T+2). The move anticipates the Central Securities Depository (CSD) Regulation, promoted and agreed by European policymakers, which determines that markets should move no later than 1st Jan 2015. There are certain exemptions and the Spanish equity market, which is undergoing significant reform, will not move to T+2 until later in 2015.

Overview

This document is proposed to be used as a guide to assist market participants in their transition to T+2. There may be some unintended consequences that relate to third countries when trading outside of the EU. However, we intend to actively seek discussions with data vendors, venues and participants to resolve this situation after the initial transition period.

AFME members have agreed that, for the purposes of migration, we will follow the approach outlined by Bloomberg and Reuters as clients require certainty about treatment of their transactions with effect from 6th October.

- As per the regulation, if a transaction is executed on a MiFID venue (Regulated Market or MTF), the settlement date should be T+2 (or less), with exceptions for privately negotiated trades, trades negotiated privately but executed on a trading venue, or the first transaction where transferable securities are subject to initial recording in book entry form.
- MiFID venues can be found here:
http://mifiddatabase.esma.europa.eu/Index.aspx?sectionlinks_id=4&language=0&pageName=Home

For off-venue (OTC) transactions:

- AFME recommends the use of T+2 as a default best practice for all transactions where possible. Please refer to AFME T+2 Task Force: Recommendations – July 2014 which can be found here:
<http://www.afme.eu/WorkArea/DownloadAsset.aspx?id=11493> or at
<http://www.afme.eu/Divisions/Post-Trade/>
- For transactions in XS ISINs, which are predominantly Eurobonds, we have been advised that a static data feed from Thomson Reuters or Bloomberg will automatically default to a settlement date of T+2 for most instruments, following the logic described below. This can be overridden if both parties agree.
This may impact XS securities traded in third countries where European Regulation is not

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expected to have an effect. Any refinements will be discussed and, where needed, remediated post 6th October migration in cooperation with venues, vendors and market participants.

- Bloomberg and Reuters have advised that they will take the following approach for migration:
- OTC government bonds, corporate bonds, convertible bonds, and preferred bonds with the following ISIN prefixes (which include XS ISINs) will default to T+2:

| Country Prefix | Country |
|----------------|----------------------|
| AT | Austria |
| BE | Belgium |
| BG | Bulgaria |
| HR | Croatia |
| CY | Cyprus |
| CZ | Czech Republic |
| DK | Denmark |
| EE | Estonia |
| EU | European Union |
| FI | Finland |
| FR | France |
| DE | Germany |
| GR | Greece |
| HU | Hungary |
| IS | Iceland |
| IE | Ireland |
| IT | Italy |
| LI | Liechtenstein |
| LV | Latvia |
| LT | Lithuania |
| LU | Luxembourg |
| MT | Malta |
| NL | Netherlands |
| NO | Norway |
| PL | Poland |
| PT | Portugal |
| RO | Romania |
| SK | Slovakia |
| SI | Slovenia |
| ES | Spain |
| SE | Sweden |
| CH | Switzerland |
| GB | United Kingdom |
| XS | Not country specific |

- Bloomberg advise that bonds already T+2 or less remain unchanged. The exception being Iceland and Malta, which will change to T+2 for the following tickers: ICETN, ICEGB, and MALTTB.
- Bloomberg advise that private securities created via PPCR, and money market instruments created via MMKT, will move to T+2 if their calendar falls under a country listed above or TE (Target) calendar.

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- Bloomberg - ABS/RMBS is in scope regardless of the ISIN prefix if the country of collateral is one of the countries listed above, or if the currency of collateral is the currency of one of the countries listed above in cases where there is more than one country of collateral.
- Syndicated loans are not in scope.
- Bloomberg members should review the document posted at *{TARGET<GO>}* on the Bloomberg terminal for a list of affected ABS/RMBS, or contact them directly via their web portal if further details are required. Members using Thomson Reuters static data feed should contact their customer services representative in case of any further questions

For XS ISINs, this implies the following:

- In line with the XS ISIN approach, the default settlement date for 144A XS ISINs will be T+2.
- In line with the US ISINs approach, the default settlement date for 144A US ISIN will be T+3 (i.e. out of scope)

AFME's position

AFME is strongly supportive of a well structured move to T+2. This paper does not intend to contradict any part of the Regulation, merely to interpret those areas which may be considered unclear and to clarify uncertainties that we have observed in the market. If in doubt, please refer to the official text which can be found here:

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0909&from=EN> (page 20 Article 5).

We recognise that the above approach will not cover every security issued but believe that the above guidelines will assist participants in the run up to trading on Monday 6th October.

Further information

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