

## BEST PRACTICES FOR T2S MARKETS' MIGRATION TO T+2:

### PROPOSALS BY

### THE T2S HARMONISATION STEERING GROUP (HSG)

*This is a set of T2S HSG proposals  
for T2S market participants and public authorities  
to consider as best practices for migrating to T+2*

#### Contents

<b>Introduction</b>	<b>3</b>
<b>Proposals for best practices for the introduction of T+2</b>	<b>6</b>
<b>1. Scope of the T+2 settlement cycle</b>	<b>6</b>
1.1 Transaction types	6
1.1.1 OTC transactions	6
1.1.2 Securities financing transactions	7
1.1.3 Primary market transactions	8
1.1.4 Grey market transactions	8
1.2 Financial Instruments	9
1.2.1 Collective investments funds	9
1.2.2 Derivatives	9
<b>2. Migration</b>	<b>10</b>
2.1. Rebalancing of indices and investment funds	10
2.2. Portfolio transfers	10
2.3. Issuance/Corporate actions	11
2.4. Clarifications on migration weekend	12
<b>3. Interim Measures until CSDR level II is in place</b>	<b>14</b>
3.1. Affirmation and pre-settlement matching	14
3.2. Impact monitoring	14

<b>Annex 1: CSDR Settlement Cycle Rule</b>	<b>15</b>
<b>Annex 2: Scope of financial instruments</b>	<b>17</b>
<b>Annex 3: Summary of HSG best practice proposals</b>	<b>18</b>
<b>Annex 4: Members of the HSG Task Force on T+2</b>	<b>20</b>

## Introduction

In order to foster coordination among T2S markets with reference to the new EU settlement cycle, as provided in the CSD Regulation - CSDR (Art. 5), the T2S Harmonisation Steering Group (HSG) has established a Task Force on T+2 (TF). According to its “Terms of References”, the primary objective of the TF is to ensure coordination across T2S regarding the change in settlement cycle and to minimize the impact of moving to T+2 for market participants.<sup>1</sup> The TF was composed of representatives of most segments of the financial industry (stock exchanges, CCPs, CSDs, banks, intermediaries, brokers, investment managers) with a wide European geographic representation (see Annex 4).

During the tenure of the TF, work on the CSDR has continued and a large number of European markets have decided to migrate to the T+2 settlement cycle on 6 October 2014. Changing settlement cycle in a single market has been done before without any known market disruptions. Changing settlement cycle in a large number of markets is without precedent and requires coherence and consistency in the migration approach being followed. This is particularly true if the planned migration take place on the same day, as anticipated. In order to achieve this, the TF has prepared for the HSG proposals for best practices with the aim to ensure consistency and coherence across T2S markets regarding the introduction of the T+2 settlement cycle. The HSG has endorsed these best practice proposals on 30 April 2014.

As per the adopted CSDR Art.5 text<sup>2</sup>, **the implementation of the relevant T+2 provisions is the responsibility of the competent authorities for the supervision of trading venues and CSDs.** As a consequence, any clarifications relevant for implementation of this provision are at the discretion of the relevant public authorities.

The T2S Community of stakeholders has an interest in all T2S markets having the same understanding of the scope of the T+2 rule. Taking into account that **most T2S markets have announced to move to T+2 on 6 October 2014**, it is important that they follow the same coherent and consistent migration framework. **The T2S Community of stakeholders wishes to avoid different interpretations at a national level when markets planning T+2 migration, which could result in an increase of settlement fails once those markets share the T2S platform. The value of these best practice proposals lies in reflecting a consensus across T2S markets on what needs to be planned ahead of migration to T+2.**

The HSG has decided to publish these proposals on the ECB/T2S webpages. Since it could be challenging to write to the 21 national authorities of the T2S markets, the HSG has decided, after consultation with

---

<sup>1</sup> Terms of References of the HSG Task Force on T+2: [http://www.ecb.europa.eu/paym/t2s/progress/pdf/taskforcet2/2013-10-25\\_T+2\\_TF\\_Final\\_Terms\\_of\\_Reference.PDF??fe5dee770c4dafb738c6431c01aeeea6](http://www.ecb.europa.eu/paym/t2s/progress/pdf/taskforcet2/2013-10-25_T+2_TF_Final_Terms_of_Reference.PDF??fe5dee770c4dafb738c6431c01aeeea6)

<sup>2</sup> See Part 10, Texts Adopted:  
<http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=20140415&secondRef=TOC&language=EN>

the recipients, to send these proposals to ESMA and in parallel to the European Commission and the ESCB<sup>3</sup>.

These HSG proposals are **non-mandatory best practices on top of what is provided in the CSDR**<sup>4</sup>. They should be understood as an attempt of the HSG to facilitate coordination among T2S markets with respect to the concrete implementation of the change to T+2. Since it is not clear yet whether and how ESMA and the competent authorities will endorse these proposals, the HSG will not monitor T2S markets' compliance with these best practices, as is the case with the T2S standards in the T2S Harmonisation List<sup>5</sup>.

While the below proposals have been developed irrespectively of the timeline of the individual T2S markets' migration to T+2, they might be particularly helpful in view of the expected big bang migration of the majority of European markets to T+2 on 6 October 2014.

Finally, and in accordance with the TF mandate, several non-T2S markets representatives have also been involved in the elaboration of these best practice proposals and are expected to benefit from them. Publishing these proposals on the ECB webpages would therefore contribute to the transparency and wider dissemination of this information.

### ***Outline of the proposals***

**Section 1** covers the proposals which are more closely related to the T2S project. They refer to the clarifications market stakeholders are asking for in order to implement the new CSDR rule. For example, is it clear and unambiguous to all which assets fall under the definition of “transferable securities” or whether primary or grey market transactions are excluded from the T+2 rule? A common understanding and implementation will ensure that matching and settlement fails are minimised, in particularly on a cross-CSD settlement in T2S (by one instructing party using a different rule than the other for the same transaction).

**Section 2** focuses on the migration plans of markets to move to T+2 rule. The apparent decision of most markets to move to T+2 eight months before the launch of T2S minimises any possible impact and relevance of the T+2 migration period to the T2S project. However, since this is an important aspect of the smooth functioning of the T2S relevant markets while at the same time they are preparing their adaptation plans to T2S, the HSG has decided to issue these proposals to support their coordination.

**Section 3** aims simply at providing some ideas in the context of the move to T+2 for the timely completion of the post-trade and pre-settlement activities as well as the monitoring of matching timeliness and settlement fails. The CSDR (articles 6 and 7) and their forthcoming level II technical standards will

---

<sup>3</sup> Although ESMA does not consult EU stakeholders on Article 5 of the CSDR (since no regulatory or implementing technical standards are foreseen in the CSDR), ESMA may decide to issue implementation guidelines on EU legal provisions according to its mandate. Furthermore, the European Commission can always update its published information (FAQ) regarding clarifications on the CSDR (e.g. scope of instruments and transaction types).

<sup>4</sup> Based on previous decisions of the AG, the monitoring process will be limited to the provisions of the CSDR (currently Art. 5) and will not cover these proposals.

<sup>5</sup> List of T2S Harmonisation Activities: <http://www.ecb.europa.eu/paym/t2s/harmonisation/activities/html/index.en.html>

address most of the proposals. However, since this is not expected to take place before mid-2015, the competent authorities and the market stakeholders may want to consider these proposals in the meantime.

## Proposals for best practices for the introduction of T+2

### 1. Scope of the T+2 settlement cycle

The CSDR is very clear on the assets and the transactions that are in scope of the T+2 rule. However, and in the absence of level II technical standards, the TF discussed a number of topics where it seems that clarifications from the competent authorities would be beneficial as to the transactions types or financial instruments that are covered, or exempted, from the CSDR text.

#### 1.1 Transaction types

##### 1.1.1 OTC transactions

The draft CSDR explicitly states that the T+2 rule *shall not apply* to “over the counter” (OTC) transactions (i.e. ‘*transactions which are negotiated privately but executed on a trading venue and transactions which are executed bilaterally but reported to a trading venue*’). One can assume that the T+2 rule does not apply for the rest of the OTC transactions (i.e. transactions which are neither executed on nor reported to the trading venues).

The task force members believe that in the absence of further clarifications on the settlement cycle rules for OTC transactions, there is a risk that OTC transactions would remain with the current market default settlement cycle (i.e. T+3 unless otherwise agreed among counterparties). However some task force members believe that, unless mutually agreed by the counterparties, OTC transaction should also settle T+2.

The following reasons are put forward:

- Historically, when a market/trading venue has decided to modify its settlement cycle for transactions performed on a trading venue, it has been observed that all other transactions, including OTC transactions, did follow the new rule.
- Although trading in debt securities, and in particular trading in government debt securities, can take place either on a trading venue or OTC, a significant percentage is OTC. The CSDR imposes that transactions on a trading venue move to T+2. If OTC transactions do not move as well to T+2, there is a big risk, according to some TF members, of increase in settlement fails and funding issues. Indeed an entity may buy on a trading venue and sell OTC the same lot of securities and this will create a one-day funding issue. If the entity buys OTC and sell on a trading venue the same lot of securities, it will fail delivery for one day (unless of course the OTC counterparts were to decide to use the same settlement cycle as for the on exchange trade).

In some specific transactions, such as a repurchase agreement, the specific circumstances of the transaction will impose to the two parties to the transaction to agree on a different settlement cycle (other

than the market default). Taking this reality into account, some flexibility is required. Recommending that all OTC transactions should also move to T+2 is not realistic.

**Best practice proposal Nr. 1:**

Market participants are invited to use T+2 as the default rule for settling OTC transactions unless the two parties to the transaction have agreed otherwise.

Transactions in Eurobonds performed on a EU trading venue must also settle T+2 in line with the CSDR text. An important part of transactions in Eurobonds are performed OTC and hence should follow this proposal: unless the two parties agree otherwise, Eurobonds transactions performed OTC should settle on the second business day after trading take place.

### **1.1.2 Securities financing transactions**

#### ***Repos***

Repurchase agreement transactions (“repo transactions”) are usually composed of two legs: a party agrees to sell a lot of securities to another on a given day and repurchase the same securities later on pre-established conditions.

Repo transactions can be performed OTC, on a repo platform as well as on a trading platform.

The OTC settlement cycle of the two repo transactions (either the spot leg or the forward leg) varies: it can go from intraday transactions to several years although long-term repos are less frequent. The settlement cycle of both legs of the transaction will settle based on the agreed terms of the repo.

**Best practice proposal Nr. 2:**

Market participants are invited not to use the T+2 rule for settling repo and other securities financing transactions.

#### ***Financing of inventory***

In today’s T+3 financial markets the financing of cash position is usually performed one day after trade date and usually settled on a T+2 basis as only at that point market participants have knowledge of their inventory (being short or long). With the move to T+2 financing of inventory will move to T+1.

### 1.1.3 Primary market transactions

Primary market transactions do usually settle when the new securities are issued. Therefore, the “when issued” rule should apply to such transactions.

According to the CSDR, *the first transaction where the transferable securities concerned are subject to initial recording in book-entry form pursuant to Article 3(2)* is out of scope of migration to T+2.

#### **Best practice proposal Nr. 3:**

The competent authorities are invited to clarify that according to CSDR Article 5(2), the T+2 rule is not applicable to primary market transactions.

### 1.1.4 Grey market transactions

Grey or “when-issued” market exists for securities trades on a when-issued basis, i.e. when securities issuance has been announced, but securities have not yet been issued. The transaction is settled only after the security has been issued, i.e. recorded for the first time in the books of a CSD. Orders are made conditionally - "when issued" - because they may not be settled, particularly in the event the offering is cancelled. Government securities, stock splits and new issues of stocks and bonds can all trade on a grey market basis.

#### **Best practice proposal Nr. 4:**

The competent authorities are invited to clarify that the T+2 rule should not be applicable to grey market transactions which will continue to settle following the “when issued” rule.

## 1.2 Financial Instruments

### 1.2.1 Collective investments funds

Collective investment funds shares/units are not considered 'transferable securities' as they are not generally negotiable on the capital market, and therefore, are generally out of scope of the T+2 settlement cycle. Most of the transactions in these collective investment funds are subscriptions and redemptions, which are actually primary market transactions (although by many not seen as such), and hence should follow the prospectus of the collective investment fund. However, ETFs are considered transferable securities and are in the scope of the T+2 rule since a very important part of the ETF transactions are traded on trading venues.

#### **Best practice proposal Nr. 5:**

Market participants are invited to agree that the T+2 rule is not applicable to transactions in collective investment fund shares/units, with the exception of transactions in fund shares/units that are traded on a trading venue (e.g. ETFs). Transactions in collective investment fund shares/units should continue to settle in line with the prospectus of the investment fund or in line with the rules of the trading venues where they are admitted for trading.

### 1.2.2 Derivatives

Transactions in derivatives contracts that do not include any settlement on transferable securities are not relevant for this analysis.

The TF discussed the settlement cycle of transferable securities stemming from a derivatives contract execution and whether this is in the scope of the CSDR. It was concluded that although derivatives trades are not covered by the CSDR *per se*, the securities settlement stemming from derivative transactions should possibly keep aligned with the T+2 rule.

The exercise of derivative contracts (such as options) or the expiration of derivative contracts (such as futures or options) on transferable securities, usually settles on the same settlement cycle as the underlying securities. Financial market participants active in derivatives in transferable securities (including warrants and exchange traded derivatives (ETDs)) should consider maintaining the alignment of the activity in derivatives with the activity in the underlying security.

## 2. Migration

The migrating markets are invited to limit certain business activities where possible around the weekend of the migration to T+2.

### 2.1. Rebalancing of indices and investment funds

Market infrastructures and investment banks maintain their proprietary indices, many of which are based on concrete underlying securities. For example, the index DAX 30 is maintained by Deutsche Börse by including the top 30 German companies according to their market capitalisation.

However, periodically the exchange will reassess whether a company should be part of the index or not, based on the fact whether it is still in the top 30 companies on the market for a certain period. In case it is not, it will be usually substituted with another company. Multiple portfolio strategies depend on the fact whether a share is included in a major index or not (for example, a fund tries to mirror exactly the holdings in an index, a fund is allowed to invest only in companies part of certain index, etc.). Thus rebalancing of a major index will usually trigger huge trading activity connected with this. It goes for rebalancing of fund portfolios, which is not triggered by rebalancing of an index but because of another trigger, namely to realign the weightings of holdings in a portfolio. For example, rebalancing in this case involves periodically buying or selling assets in your portfolio to maintain your original desired level of asset allocation. This is needed because of the fact that the prices of the underlying assets have changed in the meantime.

#### **Best practice proposal Nr. 6:**

Where possible, market infrastructures and investment banks should avoid rebalancing of stock market and proprietary indices based on European transferable securities around the weekend of the migration to T+2. In addition, where possible, investment fund managers and other portfolio managers should avoid rebalancing their portfolios containing European transferable securities.

### 2.2. Portfolio transfers

Market participants should avoid large portfolio transfers in the week prior to the T+2 migration in order to minimise their business activity. Market participants normally have the flexibility to plan ahead to move their portfolios to other custodians in the month prior of after the move to T+2. Thus by careful planning they may alleviate the business activities that need to be in the end settled at CSDs during the month of migration to T+2.

#### **Best practice proposal Nr. 7:**

Market participants, where possible, should avoid making portfolio transfers around the weekend of the migration to T+2.

### 2.3. Issuance/Corporate actions

Issuers should avoid scheduling major corporate actions events (issuance of debt instruments, IPOs, processing of mergers and acquisitions, restructuring of securities etc.) during this period. The task force is nevertheless aware that there may be already published plans for corporate and sovereign securities that may be difficult to change.

#### **Best practice proposal Nr. 8:**

Issuers should avoid, where and when possible, scheduling major issuance events and/or complex corporate action events around the weekend when a market will migrate to T+2.

The change of sequence of key dates, relevant for corporate actions processing, arising from the change of settlement cycle around the migration weekend should be clearly communicated. This is particularly important for markets that have not yet adopted or committed to adopt the CAJWG standards for corporate action processing by that time. They should carefully analyse their current market practices with respect to the changes required by the migration to T+2 and communicate well in advance the changes that will result in corporate actions processing.

#### **Best practice proposal Nr. 9:**

Markets, which have not yet adopted the record date and the sequence of key dates for corporate actions processing, enshrined in the CAJWG standards, should with respect to the migration weekend:

- i) Analyse the processing of CAs on their market
- ii) Assess how CAs processing will be affected by the migration to the T+2 settlement cycle
- iii) Widely communicate the changes in CAs processing on the respective market that will result from migration to the T+2 settlement cycle

For markets, which have adopted the relevant elements of these standards (record date and sequence of key dates based on settlement cycle), apart from the clarification for the migration week-end, there is little need for further clarifications as the move of a market to T+2 will also automatically mean that the lifecycle of corporate actions processing will need to be adapted accordingly.

**Best practice proposal Nr. 10:**

Markets, which have adopted the record date and the sequence of key dates for corporate actions processing, enshrined in the CAJWG standards, should:

- i) In case of mandatory events (securities and cash distributions as well as mandatory reorganisations), for which the rule is that the difference between ex-date and record date should be one settlement cycle minus one day, change their practice so that the record date is right after ex-date.
- ii) In case of elective events (distribution with options, mandatory reorganisation with options, voluntary reorganisations), for which the rule is that there should be one settlement cycle difference between the guaranteed participation date and the buyer protection deadline, change their practice respectively that there should be two days difference instead of three.
- iii) Widely communicate the above changes in CAs processing on the respective market in line with the planned implementation agreed for the respective market.

**2.4. Clarifications on migration weekend**

In view of the decisions of the majority of European markets to migrate to T+2 on 6 October, particular care should be taken by all markets migrating on this date to ensure that migration of their market is implemented without any problems. Particular attention is expected from market infrastructures and major custodians. For the markets moving to T+2 on 6 October 2014, the last date on which trading will be done on a T+3 basis will be Friday, 3 October 2014. As of Monday, 6 October 2014, settlement will be based on T+2. It is therefore clarified that on Wednesday, 8 October 2014, the market infrastructures have to process for settlement the transactions traded on 6 October 2014 (including those of Friday 3 October).

**Best practice proposal Nr. 11:**

For the markets moving to T+2 on 6 October 2014, the last date on which trading will be done on T+3 basis will be Friday, 3 October 2014, and from Monday, 6 October 2014, settlement will be based on T+2.

In view of the higher number of settlement instructions that are envisaged to be processed with Intended Settlement Date (ISD) 8 October 2014, market participants should confirm, affirm and match their trades with ISD 8 October as soon as possible and send their instructions for settlement to their custodians or to their CSD (where applicable) as soon as possible as well.

**Best practice proposal Nr. 12:**

Market participants should confirm and affirm their trades with intended settlement date 8 October as soon as possible and send their settlement instructions to their custodians, or their CSD where applicable, as early as possible.

Finally, where relevant the different markets are encouraged to share and coordinate any plans they have for testing migration to T+2 as much as possible. Furthermore, national markets migrating on this date should be aware of the negative externalities resulting from potential failure of a European market to migrate to T+2 on this date and have mitigating measures in place to address such situations should they arise.

Historically, when a market decided to change its settlement cycle, it was usually the local stock exchange and/or the competent authorities that have issued local guidelines regarding the planned migration. As nowadays changes to market practices are also driven by MTFs and the market as a whole, and given the more global and interconnected nature of today's financial markets, all market participants should be involved and receive clear information on the planned move and its possible impacts at least three months in advance of the move.

### **3. Interim Measures until CSDR level II is in place**

The CSDR (articles 6 and 7) and their forthcoming level II technical standards will address most of the proposals stated below. However, since this is not expected to take place before mid-2015, the competent authorities and the market stakeholders may want to consider the following proposals in the meantime.

#### **3.1. Affirmation and pre-settlement matching**

The shortening of settlement cycles will force all market players to perform in two working days all the processes that are currently performed in three working days. This is particularly valid for the processes that take place after trading and before settlement, such as affirmation and pre-settlement matching/confirmation<sup>6</sup>. In many markets today, there is already a settlement cycle on the evening preceding the settlement date. In those markets then, all pre-settlement activities will need to be completed by the end of T+1.

##### **Best practice proposal Nr. 13:**

Local infrastructures and competent authorities should strongly recommend all market players to adopt best practices in the processes that take place after trading and before settlement:

- The affirmation process should be performed on trading date
- The pre-settlement matching process should be performed no later than T+1

#### **3.2. Impact monitoring**

Historically, when a market has shortened its settlement cycle, it led to an increase in the number of settlement fails (i.e. transactions that do not settle on the intended settlement date), however this increase usually did not last more than a few days. Each market should be able to assess the possible negative impact of the shortening of the settlement cycle on the level of settlement efficiency of the market. CSDs should collect information on the daily level of settlement fails before and after migration. This information will help competent authorities and local infrastructures to monitor the impact of the change in settlement cycle being introduced and, if need be, take corrective actions.

##### **Best practice proposal Nr. 14:**

CSDs should collect information on the daily matching rate and the level of settlement fails before and after the settlement cycle migration date and make these available to the competent authorities and CSD participants.

## Annex 1: CSDR Settlement Cycle Rule

CSDR defines new settlement cycle rules in its article 5. Below is the text of this article according to the version adopted by the European Parliament on 15 April 2014:<sup>7</sup>

### Chapter II Settlement Periods

#### Article 5 Intended settlement dates

1. Any participant to a securities settlement system that settles in that system on its own account or on behalf of a third party transactions in transferable securities, money-market instruments, units in collective investment undertakings and emission allowances shall settle such transactions on the intended settlement date.

2. As regards transactions in transferable securities referred to in paragraph 1 which are executed on trading venues, the intended settlement date shall be no later than on the second business day after the trading takes place. This requirement shall not apply to transactions which are negotiated privately but executed on a trading venue, to transactions which are executed bilaterally but reported to a trading venue or to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form pursuant to Article 3(2).

3. The authorities competent for the supervision of the CSDs shall be competent for ensuring that paragraph 1 is applied.

The authorities competent for the supervision of trading venues shall be competent for ensuring that paragraph 2 is applied.

Some definitions, used in CSDR Article 1 (subject matter and scope), MiFID Article 4 –definitions (Directive 2004/39/EC) and the draft MiFIR (Art. 2), are recalled below to ensure a common understanding. MiFID II below should be understood to mean the new draft MiFID, officially known as Directive 2014/(to be finalised)/EU on markets in financial instruments updating Directive 2004/39/EC of the European Parliament and of the Council and amending Directive 2011/61/EU on Alternative Investment Fund Managers and Directive 2002/92/EC on insurance mediation (Recast)

**"Transferable securities"** should be understood to mean “those classes of securities which are negotiable on the capital market, with the exception of instruments of payment, such as:

---

<sup>7</sup> The CSDR text has not yet undergone legal-linguistic finalisation.

- (a) Shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;
- (b) Bonds or other forms of securitised debt, including depositary receipts in respect of such securities;
- (c) Any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures;”

**“Trading venue”**, according to draft MiFIR Art. 2 (1) (25), means any regulated market, an MTF or an OTF;

**"Regulated market"**, according to the draft MiFIR, means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III (of MiFID II);

**"Multilateral trading facility (MTF)"**, according to the draft MiFIR, means a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments - in the system and in accordance with non-discretionary rules - in a way that results in a contract in accordance with the provisions of Title II of MiFID II ;

**“Organised trading facility (OTF)”** according to the draft MiFIR, means a multilateral system which is not a regulated market or MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract in accordance with the provisions of Title II of MiFID II.

## Annex 2: Scope of financial instruments

Table 1 summarizes some ideas discussed in the T2S Community regarding the proposed T+2 scope coverage. The analysis is only indicative and it is up to the competent authorities to finalise and approve such or a similar table.

**Table 1: Some first analysis on T+2 scope (subject to approval by the competent authorities)**

	Asset type	Covered by scope of regulation	Transferable securities	Rationale	Suggested Approach
	Equity	Yes	Yes	Mostly traded on trading venues	Follow T2 cycle for all transactions
	Warrants	Yes	Yes	Mostly traded on trading venues	Follow T2 cycle for all transactions
	Rights	Yes	Yes	Mostly traded on trading venues	Follow T2 cycle for all transactions
	Preferred Shares	Yes	Yes	Mostly traded on trading venues	Follow T2 cycle for all transactions
	ADRs	partially	Yes	if traded on a European trading venue	Follow T2 cycle for transactions on EU trading venues
	ADR REG S	partially	Yes	if traded on a European trading venue	Follow T2 cycle for transactions on EU trading venues
	GDRs	partially	Yes	if traded on a European trading venue	Follow T2 cycle for transactions on EU trading venues
	Investment Trusts	Yes	Yes	Exchange traded	Follow T2 cycle for all transactions
	Convertible Bonds	Yes	Yes	Not traded on exchange - MTF or O trading OTC	Transactions on trading venue follow T2 cycle. Transactions OTC follow recommendation Nr 1
	Global Issue Bonds	Yes	Yes	Could trade on trading venues. Most trading OTC	Transactions on trading venue follow T2 cycle. Transactions OTC follow recommendation Nr 1
	Eurobonds	Yes	Yes	Could trade on trading venues. Most trading OTC	Transactions on trading venue follow T2 cycle. Transactions OTC follow recommendation Nr 1
	Corporate Bonds	Yes	Yes	Could trade on trading venues. Most trading OTC	Transactions on trading venue follow T2 cycle. Transactions OTC follow recommendation Nr 1
	Government Bonds	Yes	Yes	Could trade on trading venues. Most trading OTC	Transactions on trading venue follow T2 cycle. Transactions OTC follow recommendation Nr 1
	Funds (non exchange traded)	No	No	Not covered by the regulation.	Redemption and subscription continue to follow fund prospectus guidelines
	ETF's	Yes	Yes	Mostly traded on trading venues	Follow T2 cycle for all transactions
	IECPS	Yes	Yes	Traded OTC with minimal OTF trading	Follow T2 cycle for all transactions as this is the current standard
	IECDs	Yes	Yes	Traded OTC with minimal OTF trading	

## **Annex 3: Summary of HSG best practice proposals**

### **Scope**

1. Market participants are invited to use T+2 as the default rule for settling OTC transactions unless the two parties to the transaction have agreed otherwise
2. Market participants are invited not to use the T+2 rule for settling repo and other securities financing transactions
3. The competent authorities are invited to clarify that according to CSDR Article 5(2), the T+2 rule is not applicable to primary market transactions
4. The competent authorities are invited to clarify that the T+2 rule should not be applicable to grey market transactions which will continue to settle following the “when issued” rule
5. Market participants are invited to agree that the T+2 rule is not applicable to transactions in collective investment fund shares/units, with the exception of transactions in fund shares/units that are traded on a trading venue (e.g. ETFs). Transactions in collective investment fund shares/units should continue to settle in line with the prospectus of the investment fund or in line with the rules of the trading venues where they are admitted for trading

### **Migration**

6. Where possible, market infrastructures and investment banks should avoid rebalancing of stock market and proprietary indices based on European transferable securities around the weekend of the migration to T+2. In addition, where possible, investment fund managers and other portfolio managers should avoid rebalancing their portfolios containing European transferable securities
7. Market participants, where possible, should avoid making portfolio transfers around the weekend of the migration to T+2
8. Issuers should avoid, where and when possible, scheduling major issuance events and/or complex corporate action events around the weekend when a market will migrate to T+2
9. Markets, which have not yet adopted the record date and the sequence of key dates for corporate actions processing, enshrined in the CAJWG standards, should with respect to the migration weekend:
  - I. Analyse the processing of CAs on their market
  - II. Assess how CAs processing will be affected by the migration to the T+2 settlement cycle
  - III. Widely communicate the changes in CAs processing on the respective market that will result from migration to the T+2 settlement cycle
10. Markets, which have adopted the record date and the sequence of key dates for corporate actions processing, enshrined in the CAJWG standards, should:
  - I. In case of mandatory events (securities and cash distributions as well as mandatory reorganisations), for which the rule is that the difference between ex-date and record date should be one settlement cycle minus one day, change their practice so that the record date is right after ex-date.
  - II. In case of elective events (distribution with options, mandatory reorganisation with options, voluntary reorganisations), for which the rule is that there should be one settlement cycle difference between the guaranteed participation date and the buyer protection deadline, change their practice respectively that there should be two days difference instead of three.
  - III. Widely communicate the above changes in CAs processing on the respective market in line with the planned implementation agreed for the respective market.

11. For the markets moving to T+2 on 6 October 2014, the last date on which trading will be done on T+3 basis will be Friday, 3 October 2014, and from Monday, 6 October 2014, settlement will be based on T+2
12. Market participants should confirm and affirm their trades with intended settlement date 8 October as soon as possible and send their settlement instructions to their custodians, or their CSD where applicable, as early as possible

**Interim measures before CSDR Level II**

13. Local infrastructures and competent authorities should strongly recommend all market players to adopt best practices in the processes that take place after trading and before settlement:
  - I. The affirmation process should be performed on trading date
  - II. The pre-settlement matching process should be performed no later than T+1
14. CSDs should collect information on the daily matching rate and the level of settlement fails before and after the settlement cycle migration date and make these available to the competent authorities and CSD participants

## **Annex 4: Members of the HSG Task Force on T+2**

Mr Paul Bodart (Chairperson)	Member of the T2S Board
Mr Patrick Hess (Secretary)	T2S Programme Office, ECB
Ms Vanessa Grueneklee	AXA AM
Mr Marc Tibi	BNP Paribas
Mr Nathan Renyard	BATS Chi-X
Mr Candido Dieguez Martin	BBVA Spain
Ms Alexia Kazakou	Citibank
Ms Sylvia Buicanescu	Depozitarul Central
Mr Marko Niederheide	Deutsche Bank AG
Ms Soraya Belghazi	ECSDA
Mr Vincent Dessard	EFAMA
Mr Bradley Arrowsmith	EuroCCP
Mr Edwin de Pauw	Euroclear
Mr Richard Gardiner	FESE
Mr Jon Wondrack	Goldman Sachs
Mr Alistair Jones	HSBC Securities Services
Mr Colin Stock	JP Morgan AM
Mr Tamás Horváth	KELER CCP
Ms Anne Mairesse	LCH.Clearnet SA
Ms Elena Vantellini	Monte Titoli
Ms Helen De Geer	NASDAQ OMX Clearing
Mr Janne Palvalin	Nordea Finland
Mr Eric Bey	NYSE Euronext
Mr Johan Vieweg	SEB Sweden
Mr Ian Cornwall	SIX Swiss Exchange AG
Mr Pierre Colladon	Société Générale Securities Services
Mr Günter Bauer	UniCredit Bank Austria
Mr George Kalogeropoulos	T2S Programme Office, ECB