A: Name of the request:

Market Claims and Automatic Transformations.

B: Submitting organization:

Euroclear SA/NV

1 Boulevard du Roi Albert II

B-1210 Brussels

**C: Scope of the new development:**

This registration request covers two functional domains in the communication between CSDs and their participants[1]. These functional domains are:

- Market claims

- Automatic transformations.

As these functions are strictly related to securities settlement, Euroclear proposes that the new development is subject to approval by the Securities SEG.

Market Claims

Market claims are transfers used to ensure the benefit of a distribution reaches the contractually entitled party and therefore represents an obligation to settle resources between two parties. This may be required, for example, when a transaction resulting from a trade cum dividend has not settled by the record date of the distribution of the dividend. The seller of the securities is obliged to transfer the dividend to the buyer.
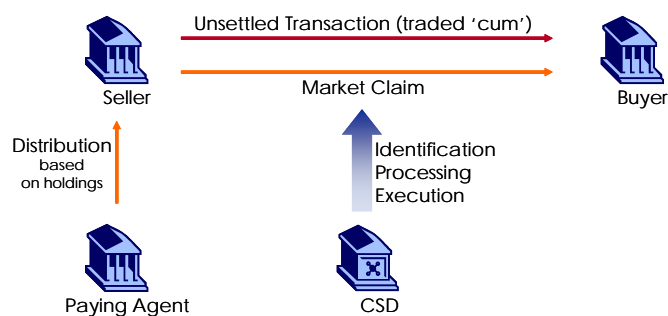
ECSDA[2] standards for removal of the Giovannini barriers regarding market claims require that securities settlement systems generate and process market claims on behalf of their clients. Market claims must be clearly identified and reported to participants at both the time of

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[1] While the proposal is for the messages to be restricted to CSDs and their participants, comments are invited as to whether that scope should be increased further up the settlement chain to CSD participants' clients.

[2] European Central Securities Depositories Association

identification and when the market claim settles, with an audit trail back to the underlying transaction and the corporate action.

In some securities markets, clients are able to exercise a similar level of control over the market claim as they have over the underlying transaction, namely that they may delete, freeze, prioritize and split the market claim just as they can the underlying transaction.

The activities relevant to market claims are as follows:

- Generation of the market claim by the securities settlement system;

- The generated market claim may be cancelled by the securities settlement system;

- The participant may request the deletion of a market claim (the ECSDA proposal is that these deletions should be matched before the market claim may be fully deleted by the CSD, but in other markets a unilateral process may be followed);

- It must be possible to split, prioritise and freeze a market claim;

- Market claims should be included in reconciliation messages from the securities settlement system to participants, including settled and unsettled movements, for securities and for cash;

- The securities settlement system should report the status of the market claim to the relevant participants; and

- Execution of the market claim by the securities settlement system.

The following table shows which activities are considered to be within the scope of this business justification:

Activity	In scope	Covered by
Instruction of the underlying transaction	No	MT 54x
Announcement of the corporate action	No	MT 564
Advice of market claim generationAdvise about the generation of a market claim	Yes	
Request for the cancellation of market claim	Yes	
Request for priority change	No	MT 530
Request to freeze/unfreeze	No	MT 530
Request to split	No	MT 530
Advice ofAdvise on the status of a market claim cancellation request	Yes	
Advise on the status of a Market claim status advice	Yes	
Confirm that a Market Claim has been settled (executed)execution confirmation	Yes	
Reconciliation of open stock market claim	No	MT 537
Reconciliation of settled stock market claim	No	MT 536
Reconciliation of open cash market claim	No	Cash management
Reconciliation of settled cash market claim	No	Cash management

Automatic Transformation

On the record date of a mandatory reorganisation event, any open transactions in the underlying security must be cancelled and replaced by a new transaction(s) in accordance with the terms of the event. When this process is performed automatically by the securities settlement system, it is known as automatic transformation.
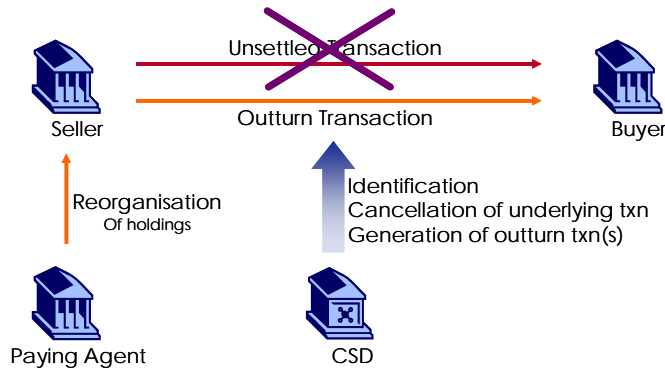
For elective reorganisation events, it will be possible for counterparties to input transformation election/buyer protection[3] instructions to govern whether, or in what form, an open transaction should be transformed. It is therefore necessary to be able to input a message to instruct transformation election/buyer protection and furthermore, where the instruction is valid, to immediately inform the relevant counterparty of the election.
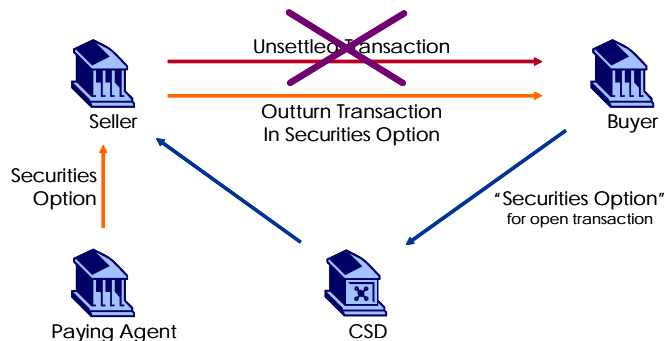
After the transformation has been effected, it should be possible to provide a clear audit trail between the transaction that was transformed, the corporate action that initiated the transformation process and the transaction(s) that is generated by the transformation process. For this reason, it is important to include the corporate action reference as well as a cross reference to the original transaction in the new transaction details. This enables the client to readily understand the calculation ratio and derivation of the new transaction.

It is worth noting that it is possible to transform any unsettled obligation to deliver securities, including return legs of securities financing operations and market claims. This latter scenario would only result from two separate corporate actions: the first event would give rise to a market claim in the underlying security of the second event.

Once the reorganisation corporate action has been announced to the market, the following activities are relevant for automated transformations:

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[3] The term 'buyer protection' is used to represent protection for any recipient of securities, free of payment, against payment or as a result of the lending process.

- Transformation election instructions and buyer protection; these instructions may either be input by both participants or be unilateral (e.g. in the case of a Central Counterparty), and instruct the securities settlement system whether, and how, each open transaction should be transformed;

- Transformation instructions from one party should be reported to the counterparty by the settlement system;

- It must be possible for a party to cancel a previously instructed transformation election instruction; and

- During the process of transformation:

  o The underlying transaction must be cancelled by the settlement system; and

  o One or more outturn transactions will be centrally generated by the securities settlement system; these outturn transactions should wherever possible reflect the original nature of the underlying transaction (for example, a transformed return leg of a repo is still a return leg of a repo but in a different security, a transformed market claim is still a market claim), but may be a cash only transaction (where one of the outturn resources is cash).

The following table shows which activities are considered to be within the scope of this business justification:

Activity	In scope	Covered by
Instruction of the underlying transaction	No	MT 54x
Announcement of the corporate action	No	MT 564
Instruct a Transformation election/buyer protection instruction	Yes	
Request the cancellation of a Transformation election/buyer protection cancellation	Yes	
Advise a party about the Transformation election/buyer protection made by their counterparty advice	Yes	
Advise on the status of a Transformation election/buyer protection status advice	Yes	
Advice of cancellation of underlying settlement transaction	No	MT 548
Advice of cancellation of underlying market claim	n/a	Claims messages (above)
Advice of central generation of outturn settlement transaction	No	MT 548
Advice of central generation of outturn cash only transaction	No	
Advise about the Advice of central generation of an outturn market claim market claim	Yes	Potentially to incorporate into claims messages (above)

D: Purpose of the new development:

Automated processing for market claims and transformations is not currently implemented in all CSDs, and, where it is, communication is typically achieved by the use of proprietary messages.

A market practice exists for the use of the MT 564 corporate action announcement message to advise of the raising of a market claim, and for the use of the MT 566 corporate action confirmation message to advise of the execution of the market claim. However, for the range of functions described in the above section on market claims, the applicability of corporate action messages breaks down. For example, numerous settlement-like statuses would need to be incorporated into the MT 567 corporate action status and processing advice message, due to the fact that in some markets market claims may be bilaterally deleted, frozen etc. An alternative would be to use a mix of corporate action and settlement messages (the MT 548 settlement status and processing advice for example), but this, again, is an unpopular suggestion.

The Global SMPG, at its March 2007 conference in Amsterdam, endorsed the proposal to develop ISO 20022 messages for market claims. Euroclear agreed to draft a market practice showing both the current ISO 15022 messages for notification and execution and ISO 20022 messages for the full scope explained above.

No market practice exists for transformation election/buyer protection messages, and, while the functionality seems to fit well with the corporate action election process for holdings, Euroclear clients have indicated that if they are to build a set of ISO messages for this purpose, they would prefer to move directly to the ISO 20022 situation, rather than build ISO 15022 messages for a period of a few years only.

E: Community of users:

These messages will directly affect ICSDs, CSDs and their participants.

The proposed messages will be implemented by Euroclear (for mandatory use) in the markets served by the Euroclear group CSDs. Some of these markets currently have an STP solution for these processes (notably the UK and Irish markets, as well as the ICSD), although they do not use ISO standard messages.

The Euroclear group markets currently process an average of over 100,000 market claims per month, and expected peaks in the lifetime of the Single Platform will be over 300,000 per month. One recent UK corporate action raised 60,000 market claims.

The UK market is the only market where transformation elections take place currently. The volume varies greatly dependent on takeover activity, but there can be many thousands for a popular elective event. There are approximately 200,000 requests per month for the equivalent of the counterparty advice message (although this may well decrease with a 'push' solution).

While the messages within the scope of this Business Justification will be implemented on the Euroclear Single Platform, they will be available for other markets. Interested markets are invited to participate in the validation processes prior to submission of candidate messages to the RA.

F: Timing and development:

The business processes described in this business justification will be implemented as part of Phase 2 of the Euroclear Single Platform, in late 2009. The candidate messages would most likely be submitted to the RA in Q1 2008.

Euroclear will re-use existing modelling expertise and facilities; however the assistance and guidance of the RA during the modelling process will continue to be sought during setup or where difficulties are experienced.

G: Commitments of the submitting organization:

Euroclear proposes to set up a modelling working group drawn from representatives within markets served by Euroclear CSDs and the ICSD. The business process flows will be based on the already published Service Descriptions for the Single Platform, which have been widely validated within the Euroclear community. Euroclear will also seek to work with the Securities Market Practice Group both globally and through the national groups within its community.

Euroclear are willing to respond to queries received by the RA in respect of these messages, and to participate in their ongoing maintenance.

Euroclear will conduct participant acceptance testing as part of migration to the Single Platform. After this acceptance testing would be an appropriate juncture for Euroclear to propose relevant updates to the published messages or documentation. This would take place in late 2009.

Euroclear confirms its knowledge and acceptance of the UNIFI IPR policy for contributing organizations, as follows.

"Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information".

H: Contact persons:

Kevin Wooldridge (kevin.wooldridge@euroclear.com)

I: Market Responses and disposition statements:

Market Claims and Automatic Transformations.

UK Comments:

UK is in favour of the Euroclear proposal.

Although there may be some overlap between the proposed messages and existing ISO 15022 messages, the Business Justification includes a well-argued case for the ISO 20022 coverage which is endorsed by UK technical securities community members. A degree of overlap between the two standards is understood to be inevitable during a period of co-existence of the two standards. This will allow parts of the industry involved in new developments to deliver coherent sets of compatible messages under the ISO 20022 regime whilst others will be able to continue using ISO 15022 messages in order to realise returns on investment in implementations of existing messages.

We support the inclusion of Lender Protection functionality along with the Buyer Protection functionality for the change requests. However we cannot see that reference to Lender functionality has been included within this document. Please can you ensure that this element is addressed as part of the Euroclear proposals for the new suite of claims messages.

Disposition of UK Comments:

Euroclear welcomes the support from the UK Market.

Euroclear accept and agree that interoperability during the co-existence period will be a common challenge for all ISO 20022 projects. Euroclear are looking forward to working with the SMPG to define a Market Practice which will help to meet this challenge

The term 'Buyer protection' could be more generically expressed as 'Receiver Protection' and should be understood to encompass all business scenarios under which an Entitled Owner of the underlying Security would require their election entitlement upheld. A footnote has been added to the text of the business justification to this effect.

"Business Justification - Market Claims and Automatic Transformations"

Comment from South Africa:

We have reviewed the above document and have no specific comment as to the content, but would support the business principle of a higher level of automation for market claims, even though in our market this applies more to SLB orders and other off-market orders. We would suggest that we keep abreast of developments in this arena. When the standards are established, the South African market can review the business case for the development of the functionality in the light of the number of claims we process in our market and the complications attached thereto.

Disposition of SA Comments:

Euroclear acknowledges the feedback from the South African Market and thanks them for their interest.

Any input towards the Market Practice process would be welcomed.

Business Justification: Market claims and automatic transformation

Comments of Switzerland:

This BJ is designed to introduce ISO 20022 standards for two specific business processes:

Market Claims:

Generally two market practices are in use:
a) CrossEx Compensation: as per SMPG – Guidelines for the confirmation MT566 are mostly used in Continental Europe
b) Market Claims are primary used in the UK and the underlying transactions in the CSDs are Free of Payment / Cash Payment only. This process was agreed by the ECSDA, the approval of EBF and ESF is missing.

Euroclear as the submitter of the BJ favours the Market Claims approach.

We expect that with the results of the Giovannini High – Level - Gap Analysis a harmonisation of this process should be possible. As long as the results of this work are not published it should be possible to develop a ISO 20022 standard for the CrossEx Compensation approach.

In general Switzerland accepts that Euroclear wants to certify their processes and messages by ISO 20022, however if some other CSD and markets decides to use the CrossEx Compensation model the RMG and SEG should accept this approach as well.

Automatic Transformations

For this process the discussions in the ECSDA is still ongoing and therefore no decision is taking by EBF and ESF.

Euroclear takes the lead and there is a chance to shorten the ongoing debate in the other bodies. As there are some tricky details to solve, which should be well supported by the community, Euroclear as the submitting organisation should consult the industry adequately. The RA and the SEG must make sure that the standards have a broad backing from the community.

Switzerland accepts this Business Justification and expects that our comments are incorporated in the standards development.

Disposition of Swiss Comments:

Euroclear welcomes the support of the Swiss Market and notes their concerns.

The proposed Market Claims process has been designed to cover the life-cycle of a Claim and thereby incorporates a final confirmation advice to the counterparties, as is currently addressed in the SMPG guidelines using an MT566. Previous discussions with Swiss market representatives have suggested that the process of confirming the settlement of a claim is similar in both the compensation process and the market claim process. These similarities will be investigated during the modeling process.

Euroclear is, and remains, committed to the ideals of standardisation and looks forward to working with the SMPG and other Market experts to maximise leverage of the proposed new message set.

In respect of Buyer Protection for Automatic Transformations, Euroclear would welcome industry-wide input into this development.

Comments from SWIFT on Euroclear's business justification 'Market Claims and Automatic Transformations'

1) To be accurate, the table on page 2 should indicate that "Advise of market claim generation" is covered by the MT564 and "Market claim execution confirmation" is covered by the MT566. Is the Market Claims functionality of the current MT564 and MT566 included in your scope?

2) Within the framework of removing Giovannini Barrier 1, we would like to recommend that the entire market claim business process be covered by ISO 20022 instead of a mixed ISO 15022/20022 solution. This would imply that the requirements of all market participants/actors be fed into the development of these messages. We think it is important to emphasize in the BJ that the resulting ISO 20022 message set would be the solution to support for Market Claims within the framework of Giovannini.

3) Care should be taken of the co-existence and interoperability of communications between those already adopting new ISO 20022 solutions and those still using ISO 15022 solutions, in line with industry expectations as expressed in the recent industry consultation we conducted.
SWIFT will face the same issues with recently introduced business justifications for the reverse engineering of ISO 15022 messages for corporate actions, settlement and reconciliation. SWIFT invites Euroclear, and any other submitting organisation that would initiate similar developments, to work together at aligning our development processes and the production of similar coexistence support tools to ensure easy migration of the industry.

Disposition of SWIFT comments:

Euroclear acknowledges the feedback from SWIFT and thanks them for their contribution.

Euroclear accepts and supports the current SMPG - supported by ECSDA - Market Practice using ISO 15022 MT56* messages to cater for basic Market Claims requirements.

However, analysis into the full life-cycle and processing needs of a Market Claim, highlights the need for further functional capabilities which fall outside the scope of reverse-engineering and

thereby form the fundamental basis behind the creation of an explicit set of messages. The table on page 2 indicates the full scope of processing that is required for the market claims lifecycle, and an indication of whether a process is in the scope of the Business Justification. Where a process is not within the scope, the table indicates which message may be used. It is for this reason that ISO 15022 messages are not listed against the 'in scope' functions.

In respect of Giovannini, we note that all out-of-scope messages (per the table on page 2) are now incorporated into ISO 20022 proposals.

Euroclear accept and agree that interoperability during the co-existence period will be a common challenge for all ISO 20022 projects and actively welcome the opportunity to share in any coordinated approach which might smooth the transition and reduce the risk.