

## BUSINESS JUSTIFICATION

### FOR THE DEVELOPMENT OF NEW UNIFI (ISO 20022) FINANCIAL REPOSITORY ITEMS

#### A: Name of the request:

Securities Issuance

#### 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 some of the processes involved in the Issuance (creation) of Financial Securities. In particular, it focuses only on those processes which involve the functions provided by a CSD<sup>1</sup> organisation.

The Financial Securities products under consideration are those currently eligible to a Domestic CSD<sup>2</sup>. As such, Euroclear asserts that the Securities SEG is the appropriate SEG to approve the messages developed under the auspices of this BJ.

This section of the document provides a general overview of the whole process, then specifically highlights the in-scope and out-of-scope elements.

##### Issuance Overview

The diagram below is deliberately very generic and reflects the overall general flows involved, rather than any particular market or product. It should also be recognised that there will be occasions where one or more roles below are performed by the same organisation (eg: Exchange & NNA<sup>3</sup>; Issuer & Issuer Agent; NNA & CSD), and occasions where some processes are not required at all (eg: where an Issued Security is not to be listed on an Exchange).

The process starts with the Issuer, who appoints an Issuer Agent, provides them with details of the Issue and then authorises them to co-ordinate all aspects of the Issuance process. The Issuer Agent collects all the relevant Issuance information<sup>4</sup> and requests the relevant NNA to allocate a new ISIN.

If the Issuance is for a Registered Security, the Issuer Agent will co-ordinate with a Registrar (if the Registrar is proactive – see note below) to record details of the Initial Legal ownership of the new Securities. Once this is done, either the Issuer Agent or the Registrar will provide the CSD with details of the Issuance and the Initial ownership, which the CSD will use to start maintaining accounts of ownership. The CSD will advise the NNA of the ISIN that is now in use.

Note1: for some Markets or Products the Registrar is involved before the CSD is instructed (proactive); in other Markets or Products the Registrar is involved after the CSD has started the accounting (reactive) and therefore needs the CSD to inform them of the Initial ownership.

<sup>1</sup> Central Securities Depository

<sup>2</sup> CSD-Eligible Securities will cover all Securities which a non-ICSD can Issue. This will include Domestic Debt & Equity and MMI, however, for some markets it may also cover Foreign Debt, Warrants, Investment Funds and non-ICSD Eurobonds as well.

<sup>3</sup> National Numbering Agent

<sup>4</sup> 'Issuance Information' in this document refers to: Security Identification; Amount of Issue; Issuance Accounts; Initial Owners and such information required to secure an ISIN from the NNA. It strictly *excludes* information covered by Securities Reference Data.

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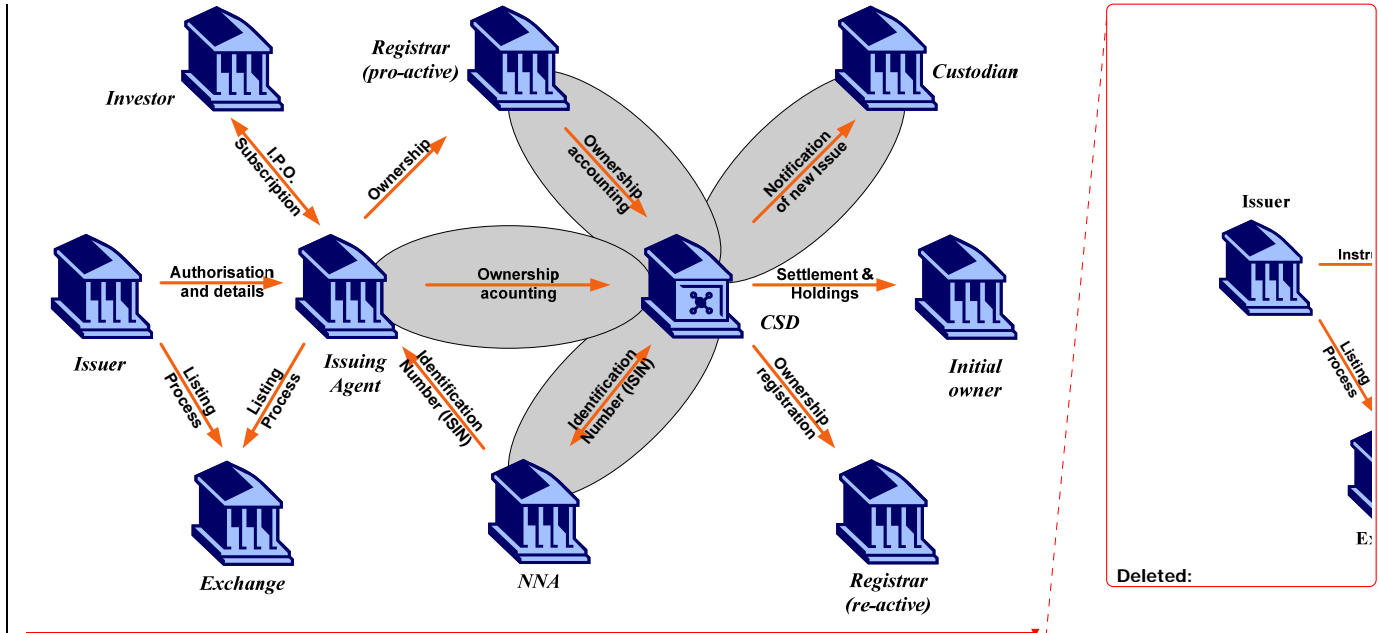
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Note2: for some issues, notably MMI, the Issuer Agent passes all the gathered Issuance information to the CSD but without an ISIN. In these cases the CSD applies for the ISIN. For this reason the ISIN process between CSD <-> NNA on the diagram is bi-directional – the NNA could be providing an ISIN, or the CSD could be advising that a pre-allocated one is being used.

Once the ownership accounting entries have been set up, the CSD will advise the Initial Owner that the Securities are available in their account for business.

Finally, if the Issue is to be available for Exchange trading, the Issuer or Issuer Agent will apply for a listing on the relevant Exchange.



In-scope functions (see shaded areas of diagram, above)
<u>Ownership accounting.</u> Communication between the Issuer Agent (or Registrar) and the CSD. This is where new Issuance Information (see footnote on page 1) and any Initial ownership are provided and responsibility to maintain accounting details, are taken on by the CSD.
<u>Identification Number (ISIN).</u> Communication between the CSD and the National Numbering Agency (NNA) to manage the allocation and confirmation of ISIN number. (If the Issuer Agent obtained the ISIN directly from the NNA, the CSD will confirm to the NNA that they have been instructed in it)
<u>Notification of New Issue.</u> Communication from the CSD to Custodians to advise that a new Security has been issued in the marketplace.
Out of scope functions (everything not in a shaded area of the diagram)
Communications, for any <u>issuance</u> purpose, which do not directly involve the CSD:
<ul style="list-style-type: none"> <li>• <u>Issuer – Issuing Agent</u></li> <li>• <u>Issuing agent – Investors</u></li> <li>• <u>Issuing agent – Registrars</u></li> <li>• <u>Issuing agent – NNA</u></li> <li>• <u>Issuing agent / issuer - Exchange</u></li> </ul>

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Communications between the CSD and a reactive Registrar.

Note: These messages will be the same as those used for co-ordination of subsequent changes of ownership, and are covered in a separate BJ: "Securities Registration and Holder Identification" (Submitter - Euroclear)

Communications between the CSD and the Initial owner to confirm the recipient of ownership and the quantity of the new Issue owned.

Note: These messages will be those used in normal Settlement & Reconciliations processing, and are covered in a separate BJ: "Securities Settlement & Reconciliation" (Submitter - SWIFT)

#### Other specific scope considerations

##### *Out-of-scope: Securities Reference Data*

Analysis is currently being performed by ISO Technical Committee 68 (Finance), Sub-Committee 4, Working Group 11 (Securities Ref Data), to define an all-encompassing set of reference data.

The impact from this initiative is expected to be so widespread that it will form a future BJ in its own right.

Therefore, Securities Reference Data has been explicitly defined 'out of scope' for this BJ.

##### *Out-of-scope: Physical Security Certificates*

Messages that could accompany the Physical Certificate Delivery processes are very similar in nature to the Settlement Instructions normally used for Free Deliveries. It is also considered that such messages would not be specific to Issuance, but would be the same as for any subsequent Physical movement.

As such, the Submitter of this BJ considers that this should be a matter for separate study, with its own BJ work-stream if appropriate.

Therefore, Physical Security Certificates have been explicitly defined 'out of scope' for this BJ.

##### *Out-of-scope: ICSD-Eurobonds*

In the specific area of ICSD-Eurobonds, two International CSDs – Euroclear and Clearstream - operate jointly as Numbering Agent. This specialised function requires all Issuances to be synchronised between the two ICSDs, the Issuer and the Issuer Agent. A specific system - EPIM<sup>5</sup> - was created to serve this requirement.

As a fully operational production system, EPIM is neither under a re-design nor has it made any (publicised) commitment towards fully implementing ISO standards. If an upgrade for EPIM to use ISO compliant messages were to be considered, it would be a separate commercial decision and would encompass its own specific BJ submitted at that time.

Additionally, inclusion of the EPIM operation would remove focus away from the primary goal of messages which are specifically required as part of a scheduled implementation.

However, given the similarity of flows and the potential benefits of shared expertise, Euroclear would warmly welcome input from the EPIM users and ISMAG<sup>6</sup> business experts to maximise benefit from this development.

Therefore, ICSD-Eurobond Issuance has been explicitly defined 'out of scope' for this BJ. Euroclear would be happy to participate in a maintenance change request at a later date.

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<sup>5</sup> European Pre-Issuance Messaging

<sup>6</sup> International Standards Market Advisory Group

CSD-Eligible Debt & Equity

CSD-Eligible Debt and Equity Issuance models generally follow the practice where the Issuer Agent obtains the ISIN from the NNA, then provides all details to the CSD. The CSD would confirm the ISIN usage to the NNA, and arrange for the Initial Ownership to be appropriately accounted for.

A Registrar would be used for Registered Securities, and the details for the CSD could come from either the Issuer Agent or the Registrar. The details passed will be the Issuance Information which may contain a list of the Initial owners of the Securities, whose accounts will be credited with the quantities prescribed.

The legal owners will be informed of their ownership via the regular Settlement & Reconciliation messaging but a separate advice will be available to notify Custodians of the new Issuance. For those markets and products where the Registrar operates reactively to the CSD, regular Registration messages will be used.

It should be expressed that the above describes a 'usual' expected flow.

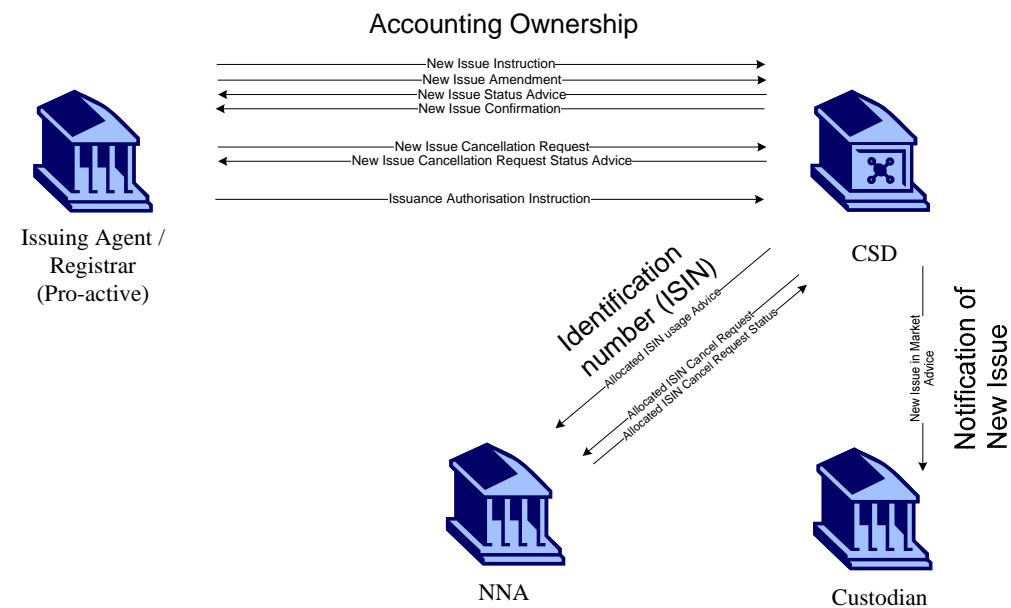
The actual messages and content will be defined by the Modelling Working Group (see section F) however, as a guide, the diagram below shows the anticipated functional processes to be supported:

- Instruction (a command to the CSD to note the New Issue details and prepare to start recording holdings and settling transactions in this new security), Amendment and Cancellation of the Issuance sent to the CSD by the IA/Registrar.
- Status updates (keeping the IA/registrar advised of progress) and confirmation of Successful Issue or Cancellation from the CSD back to the IA/Registrar
- ISIN usage and cancellation confirmation between the CSD and NNA
- A final Authorising 'Green Light' from the IA/Registrar
- A notice of New Issue in the marketplace from CSD to Custodians

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### Money Market Instruments

MMI Issuance is very similar to the CSD-Eligible Debt & Equity above, except that the Issuer Agent is rarely a Registrar, given that most MMI are usually bearer Instruments.

The main difference for the purpose of this BJ, are that the Issuer Agent does not obtain an ISIN directly from the NNA. Instead, it provides all the other Issuance information to the CSD, and leaves the CSD to obtain a number from the NNA and pass it back. Therefore, the CSD needs to be able to request a number from the NNA.

In order to simplify the process (since a large number of MMIs are issued, compared to CSD-Eligible Debt & Equity), some NNAs allow the CSD to take-on a block of numbers from which the CSD will allocate numbers as the MMI instructions arrive.

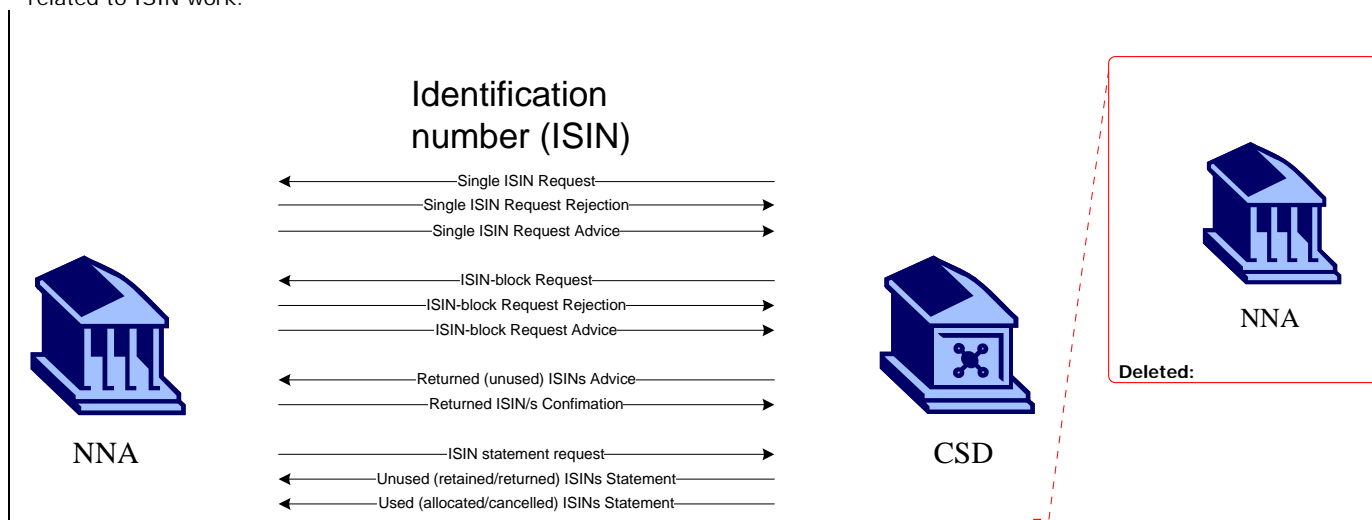
The CSD will then inform the NNA of which numbers it has allocated, along with the Issuance Information. As above, the CSD & NNA would remain synchronised regarding cancellation of any allocated numbers.

In a further service extension being offered by the submitter, the Issuer Agent may similarly request a block of ISINs from the CSD, which the CSD will provide out of its own reserved block from the NNA. It is expected that this process would use exactly the same messages as the arrangement between the CSD and NNA.

The actual messages and content will be defined by the Modelling Working Group (see section F), however, as a guide, the same functional processes as for CSD-Eligible Debt & Equity above are expected to be required, along with some additional functional processes, as indicated below:

- The requesting, rejection and allocation of a single ISIN
- The requesting, rejection and allocation of a block of ISINs
- The returning of unwanted ISINs from a block
- The reconciliation of ISINs from previously reserved blocks

Also, for simplicity, this diagram shows only the additional process flows required by the CSD related to ISIN work.



**D: Purpose of the new development:**

Generally, processing for Issuance varies across the Global markets from fully-automated to a variety of partially-automated solutions. Even in those cases where full automation has been achieved, there is a high level of proprietary messaging since there is no existing ISO or other internationally recognised standard in the Issuance area.

More specifically, the standardisation of Issuance messaging is a requirement for the Euroclear Single Platform service, enabling consistent Issuance processing right across the Euroclear Group of markets CSDs.

This focus, in turn, provides an ideal opportunity to welcome input from all markets, globally, to achieve maximum future benefit from this development, especially in other areas of Issuance not directly affecting the CSD role.

**E: Community of users:**

These messages will directly affect CSDs, NNAs, IAs and Proactive/Issuing Registrars. IAs are deemed to include any organisation (Broker/Dealer, Law-Firm etc) which performs the role of Issuer Agent as per the descriptions and diagrams in the Scoping section above.

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 although, as previously stated, they do not use ISO standard messages.

These messages will thus extend the coverage of ISO 20022 in the business area of securities issuance, with a guaranteed adoption in the markets served by the Euroclear group CSDs.

It can be observed, that in preparing these standards, the requirements and differences of 5 markets have been considered and rationalised together. Therefore it is to be hoped that the resulting messages, designed to cater for diverse needs, will be more readily applicable to a wider audience of markets.

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 the second half of 2010. The candidate messages would most likely be submitted to the RA in Q3 2008.

The development proposal is to set up, in the first instance, a Modelling Working Group drawn from representatives within markets served by Euroclear CSDs. 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.

Additionally, Euroclear will seek to work with the Securities Market Practice Group both globally and through the national groups within its community, and would welcome the input of any other interested party through these forums.



### G: Commitments of the submitting organization:

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.

Diagrams shown in this BJ are only intended to be an indication of those which will be used in the submission of candidate messages, and should therefore only be interpreted as such. The actual candidate submission diagrams will conform to the relevant ISO 20022 submission requirements and will contain the precise details identified during the development phase.

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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 external 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"*

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### H: Contact persons:

Alan Bredin ([alan.bredin@euroclear.com](mailto:alan.bredin@euroclear.com))

**I : Market Responses and disposition statements:**

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**Business Justification:** Securities Issuance

**Submitter:** Switzerland, Matthias Meier

**Date:** 26th November 2007

Switzerland supports this Business Justification.

We see a lot of benefit with the development of the standards, to harmonise the formats and the market practices in this field. We are interested to provide input in appropriate way in the development of the standard. (Page 6)

The underlying generic business processes are not covering the whole end to end processes. Therefore the submitting organisation needs to make sure that the standards development does not hinder the development of additional standards for the business processes which are for this BJ out of scope, as described on page 2 - 3.

*Disposition of Swiss Comments:*

*Euroclear welcomes the support from the Swiss Market, and would also welcome their participation in the validation process.*

*We also note the point that this development, covering only part of the Issuance life-cycle, must ensure that due diligence is exercised in creating models that are conducive to future initiatives.*

*In this respect, we will seek to arrange a modeling review meeting with interested market experts from outside the Euroclear group of markets partway through the modeling phase, as a forum to discuss the direction to that point and highlight anything which appears to be too proprietary.*

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**Business Justification Securities Issuance**

The UK has no comments.

*Disposition of UK Comments:*

*Euroclear welcomes the response of the UK Market and is encouraged that there were no causes for concern.*

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Clearstream comments on Securities Issuance business justification:

- Clearstream welcomes the business justification.
- We would like to be actively involved in the validation process and in the creation of the new messages, and associated message flows.
- Extension of the initiative to EPIM does not look appropriate at this stage; we believe that the initiative should first concentrate on the Domestic Markets, where we definitely see the advantage of a direct connection between Issuers and CSD's.
- We see synergies with the current ISMAG initiatives for the Eurobonds market. Consultation with ISMAG should therefore be considered.

*Disposition of Clearstream Comments:*

*Euroclear welcomes the support from Clearstream, and look forward to their participation in the validation process. In addition to this participation, we would also refer Clearstream to the intended modeling review detailed in the disposition to the Swiss comments above.*

*Euroclear agrees with the comment regarding ISMAG, and confirm that Euroclear's own representatives on the ISMAG were consulted during the BJ scoping discussions and are invited onto the Euroclear Working Group in their ISMAG capacity.*

France has no comment about the BJ Securities Issuance

*Disposition of French Comments:*

*Euroclear welcomes the response of the French Market and is encouraged that there were no causes for concern.*

**SWIFT comments on Securities Issuance business justification:**

- Our view is that EPIM's should be clearly within the scope of this development. We appreciate that there is a question of timeline for the submitter but we feel there is a risk in not including it now and having to potentially do some redesign/maintenance for EPIM's in the future. We would also like to note that the inclusion of EPIM's was also the recommendation of the HWGSS (Harmonisation working group for securities standards).
- It is not entirely clear if this business justification covers part of the IPO process. On one hand, ISIN allocation and the announcement of a new issue are clearly in scope and, on the other hand, the Settlement & Reconciliation business justification we have submitted covers the settlement of new issuance subscriptions. What about the piece in between (the subscription process)?
- There is a table on page 2 that shows the scope but there are also flows on page 4 and 5. This is a little confusing as the names of the flows that appear on page 2 do not appear (as titles?) on pages 4&5.
- Some of the terminology needs a little clarification – what is a new issue instruction exactly, an advice of the new issue or a subscription to it?

*Disposition of SWIFT's Comments:*

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

*In respect of EPIM: The overlap is recognised and accepted in the BJ. However, the reasons of timeline and commitment for placing EPIM out of scope are clearly stated, as is Euroclear's intention to be fully available for subsequent related enhancement initiatives. Whilst some overlap benefit may be envisaged, the supporting Euroclear project timeline does not have sufficient window to entertain the scope of extra requirements that EPIM also contains. It is noted also that Clearstream shares this view.*

*However, the overlap has be recognised in both the BJ and these dispositions, and that all efforts will be made to allow for this development to be, as far as possible, harmonious with perceived future initiatives in, and around, this business area.*

*In respect of IPO: IPO/Subscription is out of scope, but missing from the generic diagram. It will be added to the diagram and be specifically out-scoped. Please see changes in the main document.*

*In respect of the table on page 2: Agreed, these names and titles will be aligned. Please see changes in the main document.*

*In respect of terminology: Agreed, Instruction and Advice will be clarified. Also, for clarity, the Issuer is now said to Authorise the Issuer Agent, rather than Instruct them. However, the word/s subscription/subscribe do not appear in the document anywhere - although after being adding to the first diagram, it will be shown as de-scoped. Please see changes in the main document.*