

or

EURONEXT CLEARING MIGRATION

Frequently Asked Questions
for the settlement of securities

Version 1.1 – September 2023

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1 GENERAL OVERVIEW



1.1 PURPOSE OF THIS DOCUMENT

This document has been created to capture some of the key questions that Euronext Securities Milan (ES-MIL) participants may have in relation to the Clearing Migration Project, which will allow for the relocation of default Central Counter Party (CCP) arrangements on Euronext Amsterdam, Brussels, Dublin, Lisbon and Paris cash markets, to Euronext Clearing in Q4 2023.

This document will be updated to capture new topics that may arise and require clarification.

It will be available on the home page Euronext Securities Milan website.

1.2 GENERAL OVERVIEW

1.2.1 The role of Euronext Securities Milan in the Clearing Migration project

On 9 November 2021, Euronext announced that it would be expanding Cassa di Compensazione e Garanzia (CC&G) into Euronext Clearing (EXC), making it the preferred CCP for Euronext's cash equity, listed derivatives and commodities markets.

Clients will have access to a harmonised clearing framework across the Euronext venues, providing one single platform for accessing information on collateral, risk, and clearing.

Euronext Securities Milan (ES-MIL) will manage the final segment of the process and act as a hub for settlement instructions (SI) in T2S (Target-to-Securities Settlement Platform).

1.2.2 What does "T2S Settlement Hub" mean?

ES-MIL, will leverage its existing Investor CSD links to enable its participants to settle and administer securities issued in others CSDs through their own accounts in ES-MIL.

By using the T2S Settlement Hub, participants will gain access to a wide network of markets while having ES-MIL as their single counterparty CSD.

This will result in a unified set of procedures, particularly for processing Corporate Actions (CA); one legal framework, one pricing schedule, one processing timeline, and one technical interface to be maintained and developed.

The benefits of this service have already been put in practice with the Clearing Migration project where EXC will keep its accounts in ES-MIL and will have possibility to settle in several foreign markets (see chapter 2.1).

2 IMPACT & OPPORTUNITIES



2.1 The new CCP Model

2.1.1 What will change?

The 'Clearing Migration' project involves the implementation of the 'Standardised CCP Model' where EXC processes both guaranteed and non-guaranteed trades and creates net Settlement Instructions (SI).

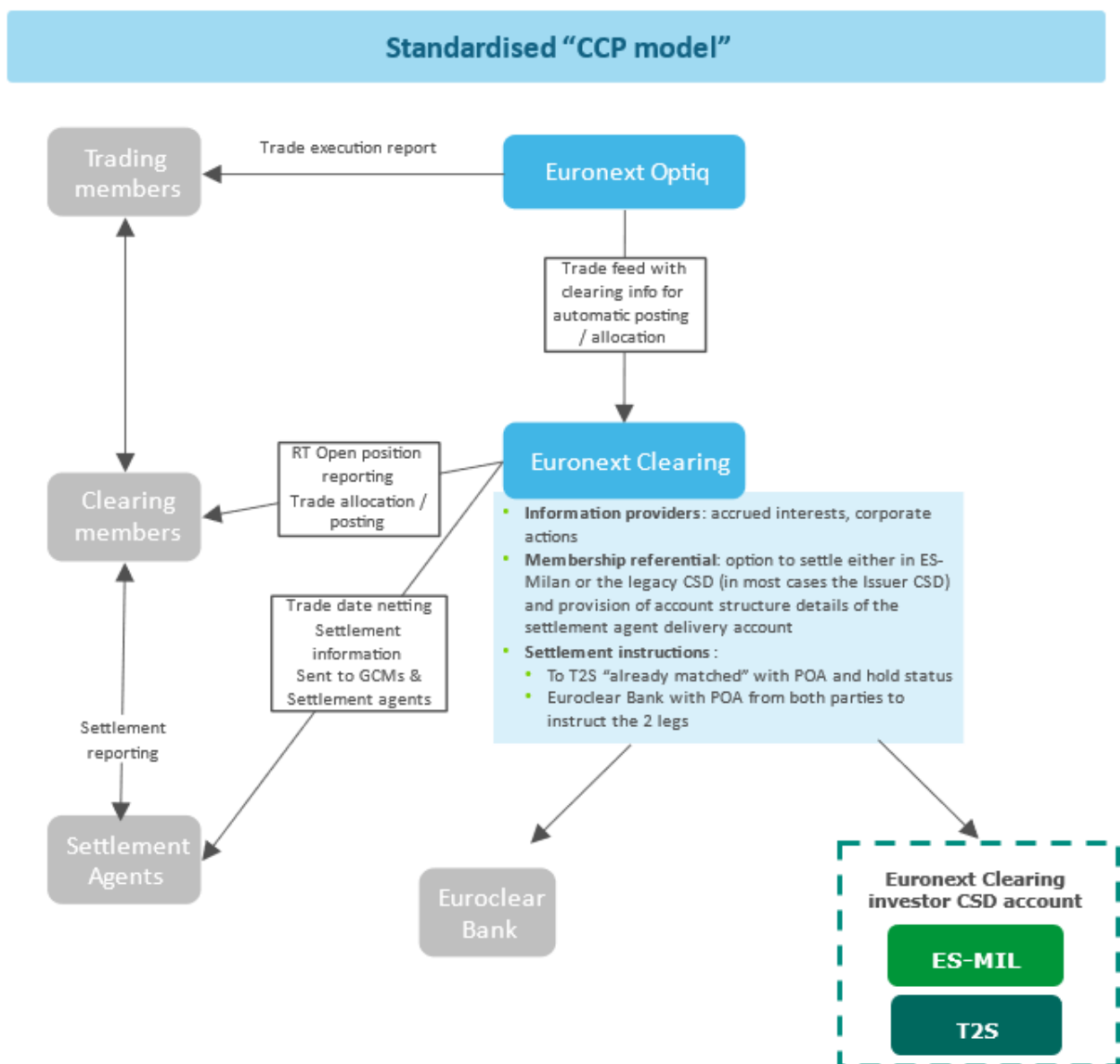


Fig. 1

Settlement in T2S will be coordinated by ES-MIL with the following CSDs:

- **ESES – Settlement platform for Euroclear Belgium, Euroclear France and Euroclear Nederland**
- **NBB - National Bank of Belgium**
- **ES-PTO – Euronext Securities Porto**

The overall flow is represented below:

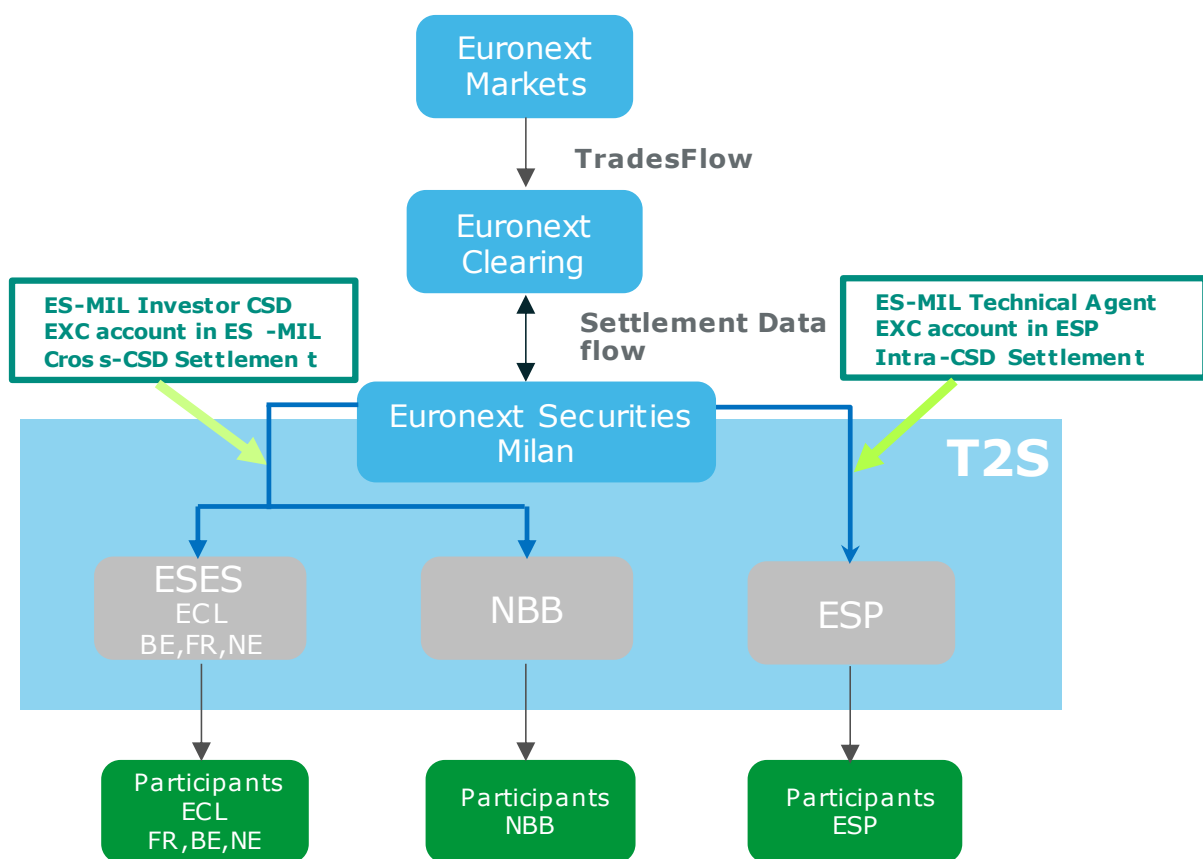


Fig. 2

As displayed, two different operational models will be adopted:

1. **Investor-CSD model with ESES and NBB**
2. **Technical Agent model with ES-PTO**

The ultimate goal is to extend the Investor CSD model to ES-PTO.

This operational framework will provide settlement of trades, from both guaranteed and non-guaranteed markets, as well as OTC instructions (such as collateral, investment).

For non-Guaranteed markets, settlement will occur intra-CSD between two parties in one of the Counterparty CSDs (CCSD, i.e. NBB, ESES and ES-PTO), without involving the EXC account in ES-MIL.

2.2 Low impact

2.2.1 How will ES-MIL participants be impacted?

ES-MIL Participants will not be directly affected by the CCP migration as there will be no changes made to the Italian markets.

Nevertheless, the links in place by ES-MIL as Investor CSD will require **changes to the (Technical) Issuer CSD** for some securities, specifically:

- **Austrian bonds** and **Swiss equities**) will be moved from their current Issuer CSDs (respectively OeKB and SIX-SIS) to ESES, which will act as the Technical Issuer CSD in T2S
- **NL00150001Q9 Stellantis** will be moved from DTCC to ESES.
To be highlighted that it is expected that Euronext markets will centralise settlement of Stellantis only in ESM (date to be confirmed), so this move has to be considered temporarily.
In the meantime, Stellantis cannot be moved directly with the External CSDs.
- **French Registered Securities** that are currently managed through Euroclear Bank will also be moved to ESES, which is the Issuer CSD

At this regard, you can find the updated version of the T2S Gateway at **Documentazione Cross Market | euronext.com**

This is required as these securities must be settled with counterparties in ESES, the latter acting as Issuer or Technical Issuer CSD for those financial instruments in T2S.

ES-MIL must move these securities to ESES since, at the moment, T2S does not allow to establish a link as Investor CSD with two different Issuer or Technical Issuer CSDs (i.e. ESES and the current CSD used by ES-MIL).

To clarify, the change of the (Technical) Issuer CSD:

- will require ES-MIL participants to carefully consider their current settlement arrangements and their counterparties reachability, as settlement will only be possible either intra-CSD between two counterparties in ES-MIL or cross-CSD with an ESES counterparty, and no longer possible with counterparties in the original Issuer CSD)

- should be considered temporary since a specific Change Request (CR797) that will allow Investor CSD to establish links with one or more (Technical) Issuer CSDs it is already under assessment in T2S. .

2.2.2 What is the timeline required for the change of the (Technical) Issuer CSD for the above mentioned securities?

At the moment, ES-MIL is planning to perform the change as follows:

- **Bonds Issued by OeKB**, on 18/09/2023
- **Equities issued by SIX-SIS**, on 25/09/2023 and 02/10/2023
- **ISINs held on Euroclear Bank, on 02/10/2023**
- **French Registered Securities and Stellantis**, on 16/10/2023

ES-MIL participants will not be involved in this change, however, but they could be requested to check and reconcile that the transfers have been correctly performed.

Please refer to **the related Operational Notice** for the list of securities involved.

2.2.3 What will change for French Registered securities?

Securities in scope per ES-MIL participants are:

1. **Fully Registered** (excluding Loyalty Bonus) - *Essentiellement Nominatif (VEN)*: Securities are only circulated in a registered form and segregated in a dedicated account in ESES
2. **Occasionally Registered** - *Occasionnellement Nominatif (VON* Occasionally Registered): Securities held in bearer or registered form as decided by the shareholder.

While Occasionally Registered securities are held by ES-MIL in ESES only in the bearer form, Fully Registered securities are held in Euroclear Bank, and will be transferred to ESES.

Given their nature, these securities will be held in ESES (which is the Issuer CSD), through specific segregated omnibus accounts opened by ES-MIL as Investor CSDs.

Consequently, **ES-MIL will request its participants to open dedicated accounts for holding these securities.**

It should be noted that if a participant should not have such dedicated accounts, and there are Registered securities coming from CA on a bearer security, they will be temporarily deposited in a technical account and then delivered according to instructions of the participant.

In case participants decide to open a dedicated account to hold registered securities, it will be requested as mandatory to indicate a bearer account to be associated. This set up will support CA events where bearer securities distribute registered securities or vice versa. For the go live the set up required is 1 bearer account to be associated to 1 registered account. A future enhancement will allow participants to associate more than 1 bearer account for 1 registered account upon their need.

Moreover, it should be noted that registered securities would require the management of the *Bordereau de Références Nominatives* (BRN) for the registration/deregistration of the Beneficial Owner (BO).

Nevertheless, **ES-MIL will acquire the nominee role from the Issuers of these securities, which will simplify the management of** BRNs, since securities will be held at ES-MIL level rather than at the BO level.

Thus, the BRN will be declared at ES-MIL name level and ES-MIL will be considered as a Nominee for **its Settlement Investor CSD business**.

In practice, for:

- Domestic transactions between two ES-MIL participants, the BRN is not required since the BO remains ES-MIL (nominee) in the eyes of the registrar.
- Cross-CSD transactions, the BRN will be managed by ES-MIL and there will be no impact on ES-MIL Participants.

Lastly, BRNs would be needed for French residents but ES-MIL will apply its policy of **excluding French resident participants from its Investor CSD service**.

A dedicated phase will be scheduled by ES-MIL to allow participants to test the new arrangement for French Registered securities.

The French Registered securities will continue to be traded both on the domestic markets and OTC. In this latter case, the participant is required to fill in the settlement instruction with the dedicated securities account opened in ES-MIL. Please note that an instruction that reach T2S platform with standard account (not dedicated) is not rejected by T2S. It is processed and goes fail due to lack of securities (because the holdings for registered securities are on the dedicated accounts only). It will be therefore subject to penalties.

2.2.4 What will change for Portuguese securities?

No changes are planned. ES-MIL will continue to hold Portuguese securities in Euroclear Bank.

ES-MIL will however establish a technical communication channel with ES-PTO to support the sending of settlement instructions by EXC.

2.2.5 What will change regarding market claims and transformation?

No changes are expected for the securities that will not be migrated (see par. 2.2.2).

For the securities that will be migrated and foresee payment in EUR, the rule of the Issuer CSD for cross-CSD settlement will be the following:

- for AT Bonds, SI will be generated with gross amount, as it is now
- for CH equities, SI will be generated with net amounts.

For securities paying in non-EUR currency, no changes are expected. Hence market claims (both credit and debit) will be settled through the multi-currency account hold by ESM in ESES.

2.2.6 What are the key milestones to be aware of in this project?

The 'Clearing Migration' project is expected to go live in two phases:

- Euronext Brussels: **23 October 2023**;
- Euronext Amsterdam, Dublin, Lisbon and Paris: **6 November 2023**;

In preparation of this, ES-MIL will need to complete the change of the (Technical) Issuer CSD for the securities mentioned above according to the plan reported in Annex A.

The whole process will need to be completed by beginning of October 2023 and participants may be required to take part in some testing sessions.

User Testing phase will run between 5 June 2023 and 10 October 2023 but will not involve ES-MIL Participants unless they have chosen to move settlement in ES-MIL for the markets involved in the migration (see 2.2.4).

2.3 Potential opportunities

2.3.1 Are there any opportunities for ES-MIL participants?

ES-MIL participants have the opportunity to benefit from the CCP migration and the T2S Settlement Hub service.

In particular, most of the securities traded in the markets involved (Belgium, France, Netherland and Portugal) will be made available for settlement in ES-MIL, both for OTC and market transactions, providing greater flexibility and new portfolio management opportunities.

With specific reference to market transactions, participants will need to redirect their settlement flow in ES-MIL.

For example ES-MIL Participants could settle French securities between their accounts in ES-MIL and the account of EXC, all in ES-MIL, resulting in an intra-CSD settlement.

As clarified, it is necessary that trades concluded on the French market are settled in ES-MIL through the proper Securities Settlement Instructions (SSI) configurations

2.3.2 What support will Euronext Securities Milan provide for the 'Clearing Migration' project?

The initiative is presented and discussed with ES-MIL participants within the PTPC (Post Trade Projects Committee) context.

For any further information you can refer to you ES-MIL Relationship Manager.

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