



# **Harmonisation of market claim messaging**

## **SMPG White Paper**

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This white paper is written by the Global Securities Market Practice Group, though it describes a situation which is currently mainly a European issue. This may change in future in case markets and CSDs outside of Europe implement similar processes for market claims. It should also be noted that financial institutions outside of Europe may well already today be affected by European market claims.

The objective of a market claim is to ensure that the proceeds of a corporate action distribution event (e.g. a cash dividend or a spin-off) reach the entitled party of a settlement transaction which failed to settle on the intended settlement date.<sup>1</sup> European market claims are to be created and processed in accordance with the European standards for transaction management, as defined by the Corporate Actions Joint Working Group (CAJWG) and the Target2-Securities Corporate Actions Sub-Group (T2S CASG).

The main points of European standards for market claims are as follows:

- CSDs and CCPs are to generate market claims for affected settlement transactions, starting after close of business on record date and continuing for a period of 20 business days.
- Market claims are to have an intended settlement date that is equal to the payment date of the CA event or the next business day, if the market claim is generated after payment date.
- Market claims are to be created without any link to the underlying settlement transaction; the standards make it clear that a claim may indeed settle before the underlying settlement transaction. However, CSD members may decide to prevent settlement of a specific market claim until the underlying settlement transaction has settled using CSD functionality such as hold & release.
- Market claims are to be generated with the same status as the underlying settlement instructions, i.e. if the delivery instruction was not released for settlement (likely due to a lack of securities), the market claim instruction will also be created without being released for settlement.

Before the implementation of T2S, few CSDs supported the functionality according to the above. Indeed, in many smaller markets, market claims were bilaterally agreed between the two counterparties to the underlying settlement transaction. This remains the case for most CSDs which have not decided to migrate to T2S. Since the process is manual, the market claim instructions are not created until all terms have been concluded and settlement occurs immediately after creation. In other markets, i.e. former ex-date markets such as Germany, the CSD generated market claims after settlement of the underlying transaction, which automatically settled subsequently at the CSD. Thus, except for the UK & Irish market, there was before T2S fairly little need in the industry for reporting of market claims generation and even less for status reporting between generation and settlement.

With T2S now live this is no longer the case. On T2S, market claims do not settle automatically, they are not subject to partial settlement (since they are corporate action transactions) and they

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<sup>1</sup> Or, in the case of reverse market claims, to ensure the proceeds reach the entitled party to a settlement transaction which settled by record date but which was traded without the right to receive the distributed proceeds.

will also be subject to CSD-R penalties and buy-ins. CSDs need to communicate information regarding creation and status of market claims to their members, and the CSD members need to be able to communicate requests for amendments of market claims to the CSDs. Since CSD members often act on behalf of clients, the need for communication is propagated in the chain of intermediaries.

This has generated a series of questions, such as:

- a. If a CSD member cannot receive market claim status updates from its CSD, how can the CSD member prioritise the different transactions?
- b. If the CSD member cannot do this for its clients, how can the client do it?
- c. How can a CSD member, or its client, release a market claim for settlement if they cannot identify it?
- d. If a CSD member can settle part of the market claim only by splitting it (cancelling and creating two new instructions), how can this be achieved without the support of ISO/SWIFT messages?

### Market observation

When we look at how the market has actually implemented market claim reporting on the field we can observe a vast disparity in the messages that are being used. The reasons for these discrepancies are numerous and vary depending on the sub-processes. The *market claim generation* and *status management* sub-processes are the ones where most of the variance can be observed. Some CSDs use MT564, some others will use MT548. Some report the claims in the MT537, others not - see the comparison table established by the SMPG CA WG in the Appendix below.

When analysing the fields and codes that are being used within the messages, the disparity is even greater. Key elements are missing today from the reporting like having a unique identifier for the market claim.

In short, the fact that current MT messages are not fit for purpose has led to variety in implementation. Concerning the booking sub-process, an overall common pattern shows that the CA confirmation message, MT566/seev.036 (CACO), is used for the booking of a market claim and works well for this purpose although fields and codes have not been implemented in a harmonised way. However in some markets where the MT 548 is used, the settlement of market claims is confirmed via MT 544-7.

### Business needs

Based on the European standards and T2S functionality, the SMPG CA WG has identified nine business needs in the market claim process as outlined below. Five of them are not supported by existing ISO messages:

1. to report that a market claim has been generated and registered on the account holder's account, including both the market claim transaction details (including the unique ID of the market claim) as well as the key CA event details (at least event reference, type, underlying ISIN);
2. to report a change of status of a market claim;
3. to report the cancellation of a market claim;
4. to request the cancellation of a market claim, e.g. in order to split a claim;
5. to instruct a new or replacement/split market claim;

6. to hold or release a market claim for settlement and amend its priority - covered by the MT530 in ISO 15022 and sese.030 in ISO 20022;
7. confirm settlement of a market claim – covered by the MT566 in ISO 15022 and seev.036 in ISO 20022;
8. include a market claim in a statement of pending transactions – covered by the MT537 in ISO 15022 and semt.017 in ISO 20022; and
9. include a market claim in a statement of settled transactions – covered by the MT536 in ISO 15022 and semt.018 in ISO 20022.

We believe the five unsupported business needs (items 1 to 5 above) can become supported by creating at least two new ISO messages, a market claim status message to address the first three points and a market claim instruction/cancellation message to address point 4 and 5, though the number and content of messages would of course need to be established using the ISO 20022 message modelling methodology.

We would ideally like to have these messages created in both ISO 20022 and ISO 15022.

From a timing perspective, it is imperative that dedicated ISO 20022 market claim messages are created before many financial institutions migrate to ISO 20022.

#### Proposed approach

In order to tackle the above issues in a realistic way the SMPG proposes to follow a two-step approach:

- **Short term** (target date 2018) – leave message usage as it is currently and target alignments within the different message types. In other words we will create SMPG recommendations to ensure harmonisation in the fields and formats.
- **Medium-term goal** (target date 2020) - harmonise the *market claim generation and status management* sub-process in ISO 15022 and ISO 20022 by creating specific additional messages. We would suggest to not impact the *booking* sub-process at this stage, as less disparity exists on the market.

The SMPG therefore seeks support on the above approach.

SMPG request your official endorsement of the approach and subsequently your recommendation of the adoption and implementation of the new market claim messaging solution.

APPENDIX

Markets	Generic Market Claim detection rule					Market Claim detected - claim detected				Market Claim compensated - compensation settled				
	Detecti on Period in Days	Trigger for detection Based on:	Compens ation tax basis	Opt-out indicator for detection in settlement	Cum/Ex indicator for detection in settlement inix	Asset Servicing		Settlement Reporting		Asset Servicing		Settlement Reporting		
						MT564 (M)	MT548 for Secu (M)	MT548 for Cash (M)	MT537 (M)	MT566 (M)	MT544/546 for Secu (M)	MT545/547 for Cash (M)	MT536 (M)	MT900/910 (cash claim via cash instruction) (o)
BE (ESES)	20	Matched trades	Gross	Used	Used	Mandatory	Optional	Not Applicable	Mandatory	Mandatory	Not Applicable	Not Applicable	Not Applicable	Mandatory
FR (ESES)	20	Matched trades	Gross	Used	Used	Mandatory	Optional	Not Applicable	Mandatory	Mandatory	Not Applicable	Not Applicable	Not Applicable	Mandatory
CH	20	Matched trades	Net	Used	Used	Not Applicable	Mandatory	Mandatory	Optional	Mandatory	Optional	Optional	Optional	Not Applicable
DE	20	Matched trades (generated after settlement.)	Depends on the Client (German or Foreign bank), type of transaction (credit or debit) and SLA (credit lines provided or not).	Used, but reverse claims are still generated. Market Standard is not to use the field.	Cum: not used. Ex: used Market Standard is not to use the field.	Optional  (even if a Clearstream participant elects to receive the MT564, they can separately elect, if they want to receive messages for Claims)	Mandatory  (if a Clearstream participant elects to receive the MT548 messages, they will receive MT548 messages for Claims, too)	Not Applicable  (Cash reported by MT566 messages)	Mandatory  (if a Clearstream participant elects to receive the MT537 messages, Claims will be included in the messages)	Mandatory  (if a Clearstream participant elects to receive the MT566 messages, they will receive MT566 messages for Claims, too)	Mandatory  (if a Clearstream participant elects to receive the MT544 messages, they will receive MT544 messages for Claims, too)	Not Applicable  (Cash is reported by MT566 messages)	Mandatory  (if a Clearstream participant elects to receive the MT536 messages, Claims will be included in the messages)	Not Applicable
ES	20	Matched trades	Gross	Used	Used	Not Applicable	Mandatory	Mandatory	Not Applicable	Not Applicable	Mandatory	Mandatory	Mandatory	Mandatory
FI	20	Matched trades	Net	Used	Used	Optional	MT540-43 RECO	MT540-43 RECO	Optional	Optional	Optional	Optional	Optional	Optional
NL (ESES)	20	Matched trades	Net	Used	Used	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional
DK (Oct. 2018)	20	Matched trades	Net	Used	Used	Not Applicable	Mandatory	Mandatory	Optional	Not Applicable	Mandatory	Mandatory	Optional	Not Applicable
UK&IE	10 days after Record	Matched trades	Net	No	Used	Not Applicable	Not Applicable	Not Applicable	Mandatory  (if a CREST participant elects to receive the MT537 messages, securities claims will be included in the messages)	Mandatory	Not Applicable	Not Applicable	Optional	Optional