**US Market Practice for Lottery Based Events**

**Overview**

This document details US Market practice principles regarding lottery based events. The document will describe general market practice principles for lottery events as well as specific rules per usage of each ISO20022 Corporate Action message used in the lottery full lifecycle flow. These principles are being driven by The Depository Trust Company’s Corporate Action Transformation Program. The SR2014 approved changes related to Lottery processing are also documented within this paper. Please note that this market practice is based upon the SR2014 standards implementation in November 2014 and thus is not in effect until such changes are in production. Please also note that the seven messages which are documented as part of the lottery message flow are meant to be used together. The market practice rules implied in this document assume that the sender of such messages will utilize all messages outlined in this flow.

**ISO 20022 Corporate Action Messages within Lottery Flow**

|  |  |
| --- | --- |
| **MESSAGE TYPE**  **ISO 20022 / ISO 15022** | **Lottery Lifecycle Stage** |
| CANO / MT564 | Lottery Announcement |
| CANO–E / MT564 | Eligible Balance Prior to Lottery |
| CAPA / MT564 | Lottery Results (Affected and Unaffected Balances)  Projection of Securities Debit / Cash Movement Credit |
| CAPC / MT564 | Lottery Results Cancellation Advice or Projection Cancellation |
| CACO / MT566 | Security or Cash Movement Confirmation |
| CARE / MT566 | Lottery Reversal or Lottery Cancellation |
| CACN / MT564 | Lottery Event Cancellation Notice |
| CAPS / MT567 | Unallocated Positions of Processed Lotteries |

**General Market Practice Principles for Lottery Events**

* US Lottery based events occur for both DRAW and PDEF events.
* .PDEF events can be either Partial Pre-refunding or Partial Defeasement. Both of these events involve no cash payout as they debit the underlying CUSIP and credit two (or more) new CUSIPs.
* Partial Defeasement events will result in the debit of the underlying CUSIP and the credit of 2 new CUSIPS for the defeased (called portion) and non-defeased (remaining after lottery). SR2014 introduces a new qualifier within the Securities Movement Section of the CANO / MT564. This indicator will be within the New Securities Issuance Indicator and will be either DEFE for the defeased CUSIP or NDEF for the non-defeased CUSIP.
* Partial Pre-refunding event will debit the underlying CUSIP and the refunded (called portion) is moved to a new CUSIP with an earlier maturity date. The non-refunded (remaining balance after lottery) is moved to a new CUSIP with the existing maturity date as the original underlying CUSIP.
* All accounts that are notified of eligibility in a lottery event via the CANO-Eligible message, or the MT564 should be notified of the lottery results via the CAPA lottery results or MT564 regardless of whether their accounts were affected by the Lottery.
* Clients with “short” position after the Lottery will be notified utilizing Obligated Balance within Lottery results message via the CAPA or MT564 Message.
* Supplemental Lottery events occur when an issuer calls an additional amount for the CUSIP with the Publication Date, Rate and Payment Date. Supplemental lotteries for DRAW events will always be performed under the same Official Corporate Action Identifier (COAF)
* Supplemental Lottery Events for PDEF will occur under the existing Official Corporate Action Identifier only if the Original Lottery has not been run. If an original lottery has been run (CAPA or MT564 REPE received) and a supplemental lottery announcement is received, a new Official Corporate Action Identifier will be used to announce the supplemental event as the prior underlying CUSIP has been debited (exited) and will not be used for such an event. The underlying CUSIP for this Supplemental scenario will be the non-defeased CUSIP (Partial Defeasement event) or the non-refunded CUSIP (Partial Pre-refunding) as both contain the unaffected balance from the original lottery.
* Concurrent Lotteries can occur for the same CUSIP whereby two or more lotteries are run with the same publication date but for different rates. Because of the different terms, two events are created with different Official Corporate Action IDs (COAFS).
* The Event Stage Code will be utilized for Lottery events to identify non-standard lottery status across the lifecycle messages. Such scenarios involve Reversal / Reruns or Supplemental Rescissions only. This field must be assessed along with the Lottery Type (Original / Supplemental) to understand the context of the message. For instance, a Supplemental (SUPP) lottery type with a PART Event stage code means that only the supplemental lottery is being re-run. There are three possible values within the Event Stage for Lottery processing which will be described within the message rules section in this document :
  + FULL - Cancellation and Re-Run of an Original lottery or an Original and Supplemental Lottery. A subsequent lottery will be performed under a new Event (new COAF)
  + PART - Cancellation and Re-Run of Supplemental Lottery only. A subsequent new Supplemental lottery will performed under the Original Event (same COAF )
  + RESC - Supplemental Lottery is being cancelled by the issuer. No subsequent lottery will be performed
* The Lottery Type field is also being added for SR2014 across all messages in the lottery flow. This field will help distinguish on Eligible Balance messages involving Supplemental Lotteries that the Eligible Balance is for the Supplemental Lottery. As well, for payments, the Lottery type will help clarify when there is an original and supplemental payout which is from the original and which is from the supplemental lottery.

**Message rules for Lottery Flow**

**Corporate Action Announcement (CANO or MT564)**

* The Corporate Action Notification (CANO) for lottery events contain the following key fields:
  + Official Corporate Action Identifier (COAF)
  + Corporate Action Reference Number (CORP)
  + Results Publication Date
  + CUSIP (underlying)
  + Record Date
  + Lottery Date
  + Payment Date
  + Generic Cash Price Received Per Product (Rate)
  + Lottery Type (Original / Supplemental)
  + Base Denomination
  + Incremental Denomination
  + Accrued Interest (if applicable)
  + Premium (if applicable)

* For DRAW events, a supplemental lottery will be run under the same COAF but with the Lottery type supplemental (SUPP). The CANO announcement of a supplemental lottery will be a Replacement (REPL) message.
* For PDEF events, a supplemental lottery will be performed under a new Official Corporate Action Identifier (COAF) with new announcements if the original lottery has already occurred. Because the original underlying CUSIP has been moved into new two new CUSIPS (either Refunded / Non-Refunded or Defeased / Non-Defeased) there cannot be a supplemental announcement based on the original underlying CUSIP.
* **Event Stage**– The event stage would be used within an announcement message to indicate that a Supplemental Call is being cancelled (RESC). The Lottery Type field within this scenario would be Supplemental (SUPP). The combination of these two fields indicates that ONLY the supplemental portion is being rescinded and the original lottery is valid. This is the only scenario involving the Event Stage within the CANO or MT564.
* **Reversal Rerun of DRAW / PDEF and CANO** –If the key terms of a DRAW or PDEF event change, the lottery event will be withdrawn (WITH) using a CACN or MT 564 and a new event will be announced with a NEW Official Corporate Action Identifier (COAF).
  + For PDEF (Partial Defeasance or Partial Pre-refunding ) events, an event would be withdrawn if the refunded amount is less than the original refunded amount(called amount)
  + For DRAW events, if the redemption date, publication date or amount (if less than original called amount) changes from the original notification, then the event is reversed and re-run under a new COAF.

**CORPORATE ACTION NOTIFICATION ELIGIBLE BALANCE (CANO-E, MT564)**

* The CANO-Eligible Balance Message is a subset of the CANO message with its sole purpose to provide the eligible balance per account before the lottery has occurred. The following key balance fields will be present:
  + Eligible Balance
  + Settlement Position Balance
  + Pending Receipt and/or Pending Delivery Balance
* For ISO20022, The CANO-Eligible message should follow the CANO message in the lottery flow.
* Bulking - The CANO-E message or MT564 can be bulked for DRAW or PDEF events to provide one message with repetitive account balance information pre-lottery. Please see existing US Market Practice rules for bulking. Please see appendix c for example.

Example: The following shows how a CANO-E message for accounts AAA, BBB and CCC have separate eligible balances for COAF 76658662 CUSIP **54626XAH1**

* The CANO-E message will always display the Lottery type (Original / Supplemental)
* For Supplemental lotteries, the CANO-E will announce the lottery type as SUPP meaning that the eligible balance is now what is eligible to be called after the Original lottery has occurred. The unaffected balance (uncalled portion) from the CAPA lottery results will become the Eligible balance for the Supplemental Lottery.

For example:

Original Lottery Results - CAPA

Supplemental Lottery

CANO -E (REPL)

Original Lottery Eligible Balance

CANO-E

Eligible Balance 100

Settled Balance 100

**Unaffected Balance 60**

*Affected Balance 40*

Eligible Balance 100

Settled Balance 100

**Eligible Balance 60**

Settled Balance 60

**Corporate Action Preliminary Advice (CAPA, MT564)**

The Corporate Action Movement Preliminary Advice (CAPA, MT564) message will serve two purposes for Lottery Events: (1) display lottery results and (2) provide preliminary advice of cash / security allocation based upon lottery results.

* The CAPA message will contain the following balances:
  + Eligible Balance
  + Affected Balance
  + Unaffected Balance (portion not called)
  + Obligated Balance (portion of called balance that account owner is obligated to redeem but not currently present within their settlement balance (short).

**Example: Partial Call Lottery Results with an Obligated Balance**

This scenario happens when an account is eligible for the lottery based on the ( (Results Publication Date – 1) position. However, the account does not have position when the lottery is run due to a late call announcement. The Eligible Balance of 100 units is called (affected) but since there is no Settled Balance, the account is Obligated for 100 units.

**Original Lottery (CANO-E/ MT564) Lottery Results (CAPA / MT564)**

Eligible Balance 100

Settled Balance 0

ttled Balance 0

**Eligible Balance 100**

Settled Balance 0

Unaffected Balance 0

**Affected Balance *100***

***Obligated Balance 100***

* A lottery results message should not be sent unless an account has received a CANO-E eligibility notice of the lottery.
* For DRAW events, the CAPA / MT564 message will display the projected cash movement as well as the debit movement of the underlying CUSIP based on the affected balance of the given account number.
* For PDEF events, there will be no cash movement as both Partial-Refunding and Partial Defeasement events involve the debit of the underlying CUSIP into two new CUSIPS.
* Bulking – Lottery results can be supported in a bulk announcement. The bulked lottery results message (CAPA, MT564) would provide one message per receiving BIC that displays the lottery results of all eligible accounts received on the CANO-E message. Each account balance would display. Please see Appendix D for example.
  + Eligible Balance
  + Affected Balance
  + Unaffected Balance
  + Obligated Balance
* Lottery Scenarios involving CAPA / MT564 message
  + If an event is cancelled after the lottery results have been published but before allocation, the Corporate Action Preliminary Advice of Cancellation (CAPC )message must be sent as well as a CACN event cancellation / MT564 23G::WITH
  + If a lottery event is cancelled after it has allocated (CACO - Corporate Action Confirmation) a CAPA message must be sent as a pre-advice of reversal (Corporate Action Reversal - CARE)
  + If an original lottery has allocated (CACO) and needs to be reversed and rerun, a CAPA / MT 564 pre-advice must be sent indicating the Event Stage- FULL. The event stage signifies that the lottery results are being fully reversed and a new lottery will be run under a new Corporate Action Event ID (COAF). The CAPA message will also be the pre-advice of CARE allocation reversal advice.
  + If an Original and Supplemental both need to be cancelled, there should be two CAPA messages which are a pre-advice of the Original and Supplemental reversals which need to occur.

**Corporate Action Movement Preliminary Advice Cancellation (CAPC, MT564)**

The Corporate Action Preliminary Advice Cancellation (CAPC) message is used within the lottery flow whenever lottery results have been published through a CAPA / MT564 and either a reversal or cancellation of the lottery occurs before the lottery has allocated. The following scenarios occur with the CAPC:

* The CAPC message will be used when a lottery has been run (CAPA) and then the event is cancelled before the lottery allocates. The CAPC message will cancel the lottery results and projected movements and a CACN event withdrawal message would also be sent withdrawing the event.
* A CAPC message will be used when a lottery has been run (CAPA/ MT564 23G::REPE) and the event needs to be reversed and rerun before the lottery has allocated. In this case the CAPC message would use the **Event Stage Code FULL** to indicate that the lottery results are being cancelled and a new event (COAF) will be utlized to re-run the lottery. A client should expect an event withdrawal (CACN / MT564 ) message of the original event .
* A CAPC message will be used when a Supplemental Call is being cancelled after a lottery is run but before it has allocated. The CAPC message would indicate an **Event Stage Code RESC** and a Lottery Type of SUPP. The receiver of the message will receive no furhter message as only the Supplemental lottery is being cancelled and the Original lottery is valid.
* A CAPC message will be used when a Supplemental lottery has run but needs to be reversed pre-allocation. The client should receive a CAPC message with an **Event Stage code PART** indicating that only the Supplemental Call needs to be reversed. A new supplemental lottery will be rerun under the existing Official Corporate Action id (COAF)
* A CAPC lottery cancellation message should not be output unless there has been a CAPA lottery results message which has been output.

**Corporate Action Movement Confirmation (CACO) / MT566**

The Corporate Action Movement Confirmation Advice (CACO / MT566) is utilized in the lottery message flow to indicate the settlement of security or cash movements resulting from the lottery redemption. Several key points regarding the usage of this message in the flow:

* As per SR2014, the CACO message will now relate the Lottery Type within the message. This field will provide more clarity to understand when there are multiple allocations resulting from an original and supplemental lottery.
* The lottery type field will also clarify the payouts when an original and supplemental lottery allocate with separate allocations. There will be two movement confirmation messages (CACO / MT566) indicating one having a lottery type of ORIG and the other SUPP.
* The CACO / MT566 message should indicate for DRAW scenarios a debit of the underlying CUSIP along with the credit of Cash.
* CACO / MT566 messages for Partial Pre-refunding and Partial Defeasement events will be security movements only. There will be three security movements for these scenarios with a debit of the original CUSIP and two credits security for the NEW CUSIPS.
* The CACO / MT566 message can be used to output multiple securities movements within the same message for PDEF events. Because the Securities debit of the underlying CUSIP and the Securities credit movement of the two new CUSIPS are known together, one CACO / MT566 message with multiple movements can be used to convey the three transactions.
* Partial Defeasement CACO / MT566messages as per SR2014 will now utilize the New Security Issuance Indicator to indicate DEFE for the defeased CUSIP and NDEF for the non-defeased CUSIP.
* For Partial Pre-refunding CUSIPS, each new security should indicate the maturity date of the new security as the refunded new CUSIP will have an earlier maturity date than the non-refunded CUSIP.
* For DTCC event s involving Partial Call Conversions or Partial Mandatory Puts, the allocation of a DRAW event will be to a contra CUSIP.

**Corporate Action Movement Reversal Advice (CARE)**

The Corporate Action Movement Reversal Advice is utilized within the lottery flow to indicate that a reversal or cancellation of the lottery is occurring post allocation. The CARE message in this scenario would have been preceded by a CAPA pre-advice message advising when the security or cash reversals will occur. Several key points regarding the use of the CARE message:

* For SR2014, the CARE message will now indicate the Lottery Type and the Event Stage. In combination these two fields explain why the reversal is occurring.
* For an original lottery being fully reversed, the lottery type ORIG and the Event Stage FULL would be utilized. This would indicate that the lottery will be fully reversed and rerun under a new Official Corporate Action Identifier (COAF)
* For an original lottery which is cancelled after allocation, the Lottery Type ORIG will be used but no Event Stage code will used. The lottery allocations are being fully reversed but the event has been cancelled. This message will be sent in conjunction with a CACN event withdrawal message. When a supplemental call has allocated but is being cancelled, a CARE message will be sent indicating a lottery type of SUPP and an Event Stage of RESC. The lottery proceeds from the supplemental lottery are only being reversed. The original lottery results are valid.
* When a supplemental call has allocated but is being reversed / rerun, a CARE message will be sent indicating a Lottery type of SUPP and an Event Stage of PART. This indicates that only the supplemental call results are being reversed and another supplemental lottery will be run within the same Official Corporate Action ID.

**Corporate Action Cancellation Advice (CACN / MT564)**

The Corporate Action Cancellation Advice is used within the lottery workflow to indicate the cancellation of a lottery event. There are several key points concerning the CACN / MT564 message:

* The CACN message will utilize the Event Stage field to indicate when an event cancellation is occurring because of a full reversal (FULL). This situation can occur if either the Original Lottery will be reversed and rerun under a new COAF id or the Original AND Supplemental lottery are both being reversed and rerun under a new COAF Id.
* The CACN message should link using the Event Linkage section to the new event being created.

**Corporate Action Event Processing Status Advice**

The Corporate Action Event Processing Status Advice message is used to convey Lottery events in which no payment was received on or after payment date. This message is not part of the lifecycle flow. However, the status advice can be used to indicate lottery events

* The CAPS / MT567 Event Processing status message will be used only for DRAW events. PDEF events do not involve Cash and will always allocate on payment (settlement date).
* The Processing Status would be Pending and the Reason Code would be NPAY (no payment).

**Appendix A: KEY DEFINITIONS:**

**Concurrent Call -** Two (2) Partial calls announced with the same Redemption and/or Publication dates, but different rates. Contra CUSIP is required in this scenario (currently, CONTRA CUSIP is used only if it is a late announcement. Otherwise, 2nd Redemption will be processed once the 1st Redemption is mainlined)

**Eligible Balance:**  Total Eligible balance based on Publication Date -1

**Event Stage -** ISO field used to further indicate the workflow stage of reversal / rerun or lottery cancellation scenarios. Three values are utilized for lottery events: FULL, PART and RESC

**FULL** – An Original or An Original and Supplemental lottery are being fully reversed and rerun. A new Official Corporate Action Identifier (COAF) will be used to announce the new event.

**PART –** Used in combination with the lottery type code, PART indicates that only the Supplemental portion of a lottery is being reversed and rerun. This would occur under the existing Official Corporate Action Identifier (COAF)

**RESC -** The Supplemental lottery is being cancelled only.

**Lottery Reversal / Rerun** - Key terms of the lottery have been changed by the issuer which will result in the unwinding of the lottery results previously announced. A new lottery announcement will occur under a new Official Corporate Action Identifier.

**Partial Defeasance** – event takes place when the trustee or escrow agent takes action to ensure future payment for the sum defeased to maturity.

**Partial Pre-Refunding** - event takes place when the issuer, trustee or paying agent hold funds in escrow for a portion of funds to pay some of the security on a scheduled date before the original maturity date.

**Supplemental Call –** issuer calls additional quantity for the CUSIP with the same Publication Date, Rate and Payment Date. Supplemental calls for Partial Call events (DRAW) are processed with the same Official Corporate Action Identifier. Supplemental Calls for Partial Pre-refunding or Partial Defeasance events are only processed under the same COAF id if the lottery has not yet been run. Otherwise, the supplemental call would be run under a new COAF.

**Appendix B. Event Stage Matrix – DRAW EVENT example**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Scenario (powerpoint scenario #)** | **Lottery Type** | **First Message / Function Indicating Event Stage** | **Event Stage** | **Definition** | **Lottery Cancelled or Rerun** | **New COAF Issued** |
| DRAW (1) | ORIG | CANO - NEWM | N/A |  | N/A | NO |
| DRAW with Rescission (2, 3, 4) | ORIG | CACN - WITH | N/A |  | Cancelled | NO |
| DRAW with Reversal (5, 6, 7) | ORIG | CACN –  WITH | FULL | Cancellation and Re-Run of an Original lottery or an Original and Supplemental Lottery. A subsequent lottery will be performed under a new Event | Re-Run | YES |
| DRAW with Supplemental (8,9, 10) | SUPP | CANO - REPL | N/A |  | N/A | NO |
| DRAW with Supplemental Cancellation  only (11, 12) | SUPP | CAPC-  REPL or  CANO-REPL if post allocation cancellation | RESC | Supplemental Lottery is being cancelled by the issuer. No subsequent supplemental lottery will be performed | Cancelled | NO |
| DRAW with Supplemental Reversal Only  (13, 14) | SUPP | CAPC – NEWM or  CAPA – NEWM if post allocation reversal | PART | Cancellation and Re-Run of Supplemental Lottery only. A subsequent new Supplemental lottery will performed under the Original Event | DRAW with Supplemental  Reversal Only | NO |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Scenario** | **Lottery Type** | **Message Function** | **Event Stage** | **Definition** | **Lottery Cancelled or Rerun** | **New COAF Issued** |
| DRAW with Original and Supplemental Reversal (15,16) | CACN / ORIG (will signify that both ORIG and SUPP will be reversed ) | WITH | FULL | Cancellation and Re-Run of an Original lottery or an Original and Supplemental lottery. A subsequent lottery will be performed under a new Event | Reversal / Rerun | YES |

The group agreed it would be beneficial to add the Redemption Sub Group Matrix to the ISITC MP document

**Appendix C. CANO-E Bulking example**

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**Appendix D. BULKING CAPA LOTTERY RESULTS EXAMPLE**

In the example below, 3 accounts are included in the notification of lottery results. These are the same three accounts shown in the CANO-e example above: AAA, BBB and CCC. In this example, AAA was called for 100,000 (affected balance) leaving an unaffected balance of 325,000. Account BBB was called for 50,000 (affected balance) leaving an unaffected balance of 250,000. Account CCC was called for 50,000 (affected balance) but because the settlement position balance was zero, the account has an obligated balance of 50,000.

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