

# Changes in CBF supporting migration of security clearing to the C7 SCS platform applying Trade Date Netting (TDN)

Clearstream Banking AG (CBF)<sup>1</sup> informs customers about the content of the June 2021 release which supports the introduction of the C7 SCS platform applying Trade Date Netting (TDN) by Eurex Clearing AG (ECAG).

The implementation of the enhancements for CBF will be effective

**14 June 2021**

## 1. Introduction

Clearstream Banking<sup>2</sup> supports the introduction of ECAG's C7 Securities Clearing Service (C7 SCS) project. Within this project, TDN will be introduced as sole net processing model for securities clearing of transactions involving CCP-eligible instruments concluded at the Frankfurt Stock Exchange (MIC<sup>3</sup>: XETR and XFRA) and at Eurex Deutschland (MIC: XEUR) that result in physical deliveries. Securities Lending and Repo business are not affected by the changes.

For further information refer to [Eurex Clearing's C7 SCS](#).

Clearstream Banking, as settlement locations for ECAG, support the transition of ECAG's business areas into a more standardised settlement agent setup at CSD (CBF) and ICSD Clearstream Banking S.A. (CBL). This support implies changes at Clearstream Banking which potentially impact all customers.

The service updates that are described in this document impact CASCADE instructions with the instruction types AA01 and AA02 for:

- Standard Over the Counter (OTC) instructions;
- Central Counter Party (CCP) instructions from C7 SCS and ECAG accounts 8501, 7525, 7530 as counterparty.

Central Counter Party (CCP) instructions from C7 SCS and ECAG accounts 8501, 7525, 7530 as counterparty.

Asset servicing of LMP-flagged ISIN is handled by CBL's IT systems, the description of the changes are covered in Announcement [C20069](#). For further information please refer to the [OneClearstream Customer Handbook](#).

CCP instructions from C7 SCS will be handled like standard OTC instructions. Therefore, customers will be able to subscribe to existing Clearstream Banking settlement and asset servicing reporting.

For C7 SCS, CBF will receive CCP instructions from ECAG on the trade date.

Which types are affected by which service update, along with their potential impact on customers are described in Chapter 2 and 3.

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<sup>1</sup> This Announcement was published by Clearstream Banking AG (CBF), registered office at Mergenthalerallee 61, 65760 Eschborn, Germany, registered with the Commercial Register of the District Court in Frankfurt am Main, Germany, under number HRB 7500.

<sup>2</sup> Clearstream Banking refers collectively to Clearstream Banking S.A. (CBL), registered office at 42, avenue John F. Kennedy, L-1855 Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B-9248, and Clearstream Banking AG (for Clearstream Banking AG customers using Creation Accounts), registered office at 61, Mergenthalerallee, 65760 Eschborn, Germany and registered in Register B of the Amtsgericht Frankfurt am Main, Germany under number HRB 7500.

<sup>3</sup> Market Identifier Code (ISO 10383: Exchanges and other trading places).

## 2. Scope of the service enhancements

### 2.1 New functionality of transaction management on pending matched instructions

For CCP instructions from C7 SCS, market claims will be generated additionally for pending matched instructions while generation for settled instructions for market/reverse claims will be continued.

Standard OTC instructions for market/reverse claims will stay as is, which means asset servicing will be applied on settled instructions<sup>4</sup>.

For CCP instructions from C7 SCS, transformations in cash and securities on pending matched instructions will be added. For standard OTC instructions, the process for setting the indicators stays the same for transformations in securities and changes for transformation in cash.

The functionality will be available:

- For standard OTC instructions as of 14 June 2021;
- For CCP instructions from C7 SCS as of 27 September 2021.

#### Description of the changes

Depending on the transaction management and type of underlying instruction, the content of the party hold indicator, the partial settlement indicator and the modification/cancellation allowed flag will be determined.

#### Market/reverse claims

Market/reverse claims are processed for income and non-income distribution events.

Table 1 defines the rules for setting the hold indicator, partial settlement indicator, and modification/cancellation allowed flag.

	Income		Non-Income	
	Market/reverse claims based on underlying settled instruction (existing process)	Market claims based on underlying pending matched instruction	Market/reverse claims based on underlying settled instruction (existing process)	Market claims based on underlying pending matched instruction
Party hold indicator	Released	Copied from underlying instruction.	If the delivering party has selected account blocking in the account settings in KUSTA (Kompinstr=2), then, hold. Else, released.	If the delivering party has selected account blocking in the account settings in KUSTA (Kompinstr=2), then, hold. Else, copied from the underlying instruction.
Partial settlement indicator	NPAR <sup>a</sup>	NPAR	NPAR	Copied from underlying instruction.

<sup>a4</sup> Further information about corporate action processing can be found in the [Compensation Handbook](#).

	Income		Non-Income	
Modification/cancellation allowed flag	Not allowed	Allowed	Allowed, if party hold indicator is hold.  Else, not allowed	Allowed

a. NPAR = no partial settlement allowed

Table 1: Rules for indicators/flags for market/reverse claims

## Transformations

Table 2 defines the rules for setting the hold indicator, partial settlement indicator, and modification/cancellation allowed flag for transformations based on underlying pending matched instruction.

	Transformations in securities	Transformations in cash
Party hold indicator	Copied from underlying instruction.	Copied from underlying instruction.
Partial settlement indicator	Copied from underlying instruction.	NPAR
Modification/cancellation allowed flag	Copied from underlying instruction.	Allowed

Table 2: Rules for indicators/flags for transformations

## 2.2. Impact on transaction management detection cycle

On a given business day, KADI performs the trade detection and calculation of proceeds in intraday processing cycles (batches). In the future, a new morning processing cycle dedicated to the detection of late instructions will be introduced.

The functionality will be available:

- For standard OTC instructions as of 14 June 2021;
- For CCP instructions from C7 SCS as of 27 September 2021.

### Description of the changes

This new KADI processing cycle at 06:00 CET will process detection on late settlement instructions of:

- Income market claims on pending matched and settled instructions;
- Transformations in cash and securities.

Other processing cycle times for income and non-income market/reverse claims and transformations in cash and securities remain and will get enhanced to consider CCP instructions from C7 SCS on pending matched and on settled instructions. This includes the existing 06:00 CET processing cycle for non-income market claims.

At present, compensations and transformations on late settlement instructions are processed at the end of the next business day. With the additional processing cycle, CBF customers can expect to receive asset servicing reporting, depending on the individual customer subscription, in the morning.

## 2.3. Impact on interest payments

CBF differentiates between two different types of interest payments:

- Interest payments for flat bonds<sup>5</sup>; and
- Other interest payments (non-flat bonds).

Market claim processing will be enhanced to also consider non-flat bonds if there is an interest payment.

For CCP instructions from C7 SCS, automatic market claim generation of flat and non-flat bonds will be added on pending matched instructions.

The functionality will be available:

- For standard OTC instructions as of 14 June 2021;
- For CCP instructions from C7 SCS as of 27 September 2021.

### Description of the changes

At present, for standard OTC business, market claims are only automatically generated for flat bonds. In the future, market claims for flat and non-flat bonds will automatically be generated by KADI.

Currently, for Securities CCP instructions, market claim generation is already available for flat and non-flat bonds on pending gross transactions. For CCP instructions from C7 SCS, market claims will also be generated on pending matched instructions.

The criteria for trades to be eligible for market claim are provided in Table 3.

Bond type	Status	Rule	Applicable for
Flat bonds	Pending matched	Trade date <= Entitlement date <sup>a</sup>	<ul style="list-style-type: none"><li>• CCP instructions from C7 SCS.</li></ul>
Flat bonds	Settled	Trade Date <= Entitlement date and actual settlement date > Entitlement date	<ul style="list-style-type: none"><li>• CCP instructions from C7 SCS;</li><li>• Standard OTC instructions.</li></ul>
Other interest payments	Pending matched	Intended settlement date <= Entitlement date	<ul style="list-style-type: none"><li>• CCP instructions from C7 SCS.</li></ul>
Other interest payments	Settled	Intended settlement date <= Entitlement date and actual settlement date > Entitlement date	<ul style="list-style-type: none"><li>• CCP instructions from C7 SCS;</li><li>• Standard OTC instructions.</li></ul>

a. < before; > after.

Table 3: Criteria for market claims on interest payments

If the last interest payment (TA110 INTR), and the final redemption (TA130 REDM) or price claim (TA220 REDM) of a bond both have the same entitlement date, the processing sequence is defined in Table 4.

<sup>5</sup> Definition of flat bonds can be found in the [Compensation Handbook](#) (Section 3.2).

Instruction status	Definition of processing sequence
Pending matched	<ol style="list-style-type: none"> <li>1. Execution of transaction price claim (TA220 REDM).</li> <li>2. Execution of redemption price claim (TA130 REDM).</li> <li>3. Generation of market claim for interest payment (TA110 INTR).</li> <li>4. Deletion of the underlying instruction.</li> </ol>
Settled	<ol style="list-style-type: none"> <li>1. Execution of transaction price claim (TA220 REDM).</li> <li>2. Execution of redemption price claim (TA130 REDM).</li> <li>3. Deletion of underlying instruction.</li> </ol>

Table 4: Processing order if the last interest payment and final redemption or price claim of a bond have the same entitlement date.

For settled instructions, the generation of a market claim for an interest payment (TA110 INTR) is not possible. This is because, at this time, the settled trade is already deleted by the transformation process.

For standard OTC business, only settled instructions are relevant.

## 2.4. Change in transaction management reporting

For custody reporting of transaction management for CCP instructions from C7 SCS, in KADI, the following procedures will be established:

- The usage of the existing lists (KD111 and KD118) with a separate reporting for transaction management CCP instructions from C7 SCS;
- The current "Corporate Action Notification" (MT564) "REPE" (Eligible Balance Notification) on record date evening and 20 business days compensation cycle on basis of a single trade. To distinguish MT564 REPE and MT566 (Corporate Action Confirmation) between the new CCP instructions from C7 SCS and the existing Securities CCP instructions, the text in :70E::ADTX will be adjusted.

The functionality will be available for CCP instructions from C7 SCS as of 27 September 2021.

### Description of the changes

In MT564 and MT566 messages for CCP instructions from C7 SCS, the first line of the field :70E::ADTX contains a specific text to identify the type of transaction management:

- MARKET CLAIM OF C7 SCS TRADE;
- REVERSE CLAIM OF C7 SCS TRADE;
- REDEMPTION PRICE CLAIM C7 SCS TRADE;
- TRANSACTION PRICE CL. C7 SCS TRADE;
- TRANSFORMATION C7 SCS TRADE.

The format of the other lines in the free-text field remains as is.

### Timeline

The transmission timeline for MT564 messages remains as it is currently. Due to the new 06:00 CET processing cycle for income events (see Section 0), additional reporting can be expected.

In general, MT566 confirmations are generated and transferred soon after receiving the settlement confirmation from the respective platform.

CBF customer reporting will be provided based on the connectivity settings defined by the customer.

## 2.5. Impact on settlement instructions (free-text field)

Extension of the free-text field :70E::SPRO from 70 to 140 characters in MQ, SWIFT messages and File Transfer to support input from Clearstream Banking asset servicing processes will be introduced. At present, this is already available via Xact Web Portal.

This applies only on MT544-MT547, MT548 and MT537 messages for settlement instructions generated by asset servicing. For DCP customers, the content of the free-text field will be provided in field: <SttlmInstrPrcgAddtlDtls> within the sequence: <TradDtls> in sese.023.

For instructions sent by CBF customers, the field length will still be limited to 70 characters in MQ, SWIFT messages and File Transfer.

The functionality will be available:

- For standard OTC instructions as of 14 June 2021;
- For CCP instructions from C7 SCS as of 27 September 2021.

### Description of the changes

The "TEXT" field in CASCADE will be extended by an extra 70 characters to allow asset servicing transmission of additional narrative information in the settlement instructions.

If there are LMP-flagged ISINs, then asset servicing will be handled by CBL's IT systems and settlement instructions generated by asset servicing will be provided by CASCADE with the extension of the free-text field.

KADI will insert the T2S Actor Reference of the underlying instruction in the CASCADE free-text field, :70E::SPRO. Different formats will be used for the composition of the :70E::SPRO field depending on the type of transaction management.

In MT548 messages:

- The respectively generated string value for the different transaction management events will be mentioned after "/FREE" in the :70E::SPRO field:  
:70E::SPRO//FREE [generated string]
- If there is an event cancellation and rerun, the free-text field will contain the T2S Actor Reference of the original underlying instruction.

### Income market/reverse claims and transformations in cash

For income market/reverse claims and transformations in cash (TPC/RPC), at present, Termin-Art, BID and ISIN are inserted by KADI in the free-text field. In the future, KADI will additionally append space, then the "TR" keyword, then space and then the T2S Actor Reference of the underlying instruction. Sample string:

```
120 2020115511500 DE0005785604 TR SAM1706M12345678
```

### Non-Income market/reverse claims

Currently, for non-income market/reverse claims, KADI inserts Termin-Art, BID, ISIN and the event description in the free-text field. In the future, KADI will additionally append space, then the "TR" keyword, then space and then the T2S Actor Reference of the underlying instruction after the TA, BID, and ISIN and before the event description. Sample string:

```
211 2020080301600 US0378331005 TR SCS4567890123456 SPLITxxxxxxxxxxxxxxxx
```

If the event description does not fit in the remaining space, then it will be shortened.

### Transformations in securities

For transformation in securities, at present, KADI inserts the text already mentioned in the free-text field of the underlying instruction into the new instruction. This will stay as is for standard OTC. However, for transformed CCP instructions from C7 SCS, KADI will additionally append space, then the "TR" keyword, then space and then the T2S Actor Reference of the underlying instruction at the end of the free-text field. CCP instructions from C7 SCS might contain the TIN (Tax Identification Number), if applicable, and Net Position ID in the free-text field. In this situation, the string of the free-text in the transformed instruction in CASCADE will, for example, be displayed as:

## 2.6. New functionality of modifying already matched instructions

CBF customers who act in directly connected party (DCP) mode will be allowed to modify their own leg already matched (ALM) instructions generated against ECAG's account number 8501. This is already possible for instructions against account numbers 7525 and 7530.

The functionality will be available for CCP instructions from C7 SCS as of 27 September 2021.

### Description of the changes

For equities traded at the Frankfurt Stock Exchange (FWB) and Eurex Physical Deliveries, DCPs that instruct against ECAG (account number 8501), will be able to:

- Modify ALM instructions in T2S;
- Modify corresponding market/reverse claims and transformations, in line with CBF rules.

For all ALM instructions such as this, CASCADE will not send any value for the "modification/cancellation allowed" field because T2S will then use the default rule, which is modifications/cancellations allowed.

## 2.7. Impact on U.S. tax reporting

Clearstream Banking, acting as ECAG's tax agent, changes the method of calculation and reporting and switches from trading member level to settlement agent level as it is the norm of Clearstream Banking for OTC and SE trades. With this change, U.S. tax reporting will be harmonised with the existing reporting standards for other settlement agents.

The functionality will be available for CCP instructions from C7 SCS as of 27 September 2021.

U.S. tax reporting for securities lending transactions will remain on trading member level.

### Description of the changes

Market claims on CCP instructions from C7 SCS will no longer be reported separately by ECAG but will be included in Clearstream Banking reporting.

The U.S. tax reporting on settlement agent level for all of 2021 will be sent to customers by 15 March 2022 by Clearstream Banking via Form 1042s.

Settlement agents will be able to see their FWB and Eurex Physical Deliveries positions for CCP instructions from C7 SCS in Xact Web Portal or CreationOnline.

## 3. Customer impact

CCP instructions from C7 SCS will be handled similarly to standard OTC instructions. Therefore, CBF customers will be able to subscribe to existing Clearstream Banking settlement and asset servicing reporting.

For CCP instructions from C7 SCS, market claims and transformation will be processed by Clearstream Banking asset servicing on pending matched instructions. Therefore, the rules for setting the hold indicator, partial settlement indicator, and modification/cancellation allowed flag will be modified accordingly. For standard OTC instructions, the rules for setting the indicators of transformations in cash instructions changes.

An additional processing cycle (batch) for detection of transaction management instructions and generation of CA feedback messages will be implemented. With the additional morning processing cycle, customers can expect to receive asset servicing reporting, depending on the individual customer subscription, in the respective time.

Customers acting in DCP mode will be able to modify ALM and asset servicing instructions, which are instructed against ECAG account 8501 in T2S.

In SWIFT messages MT544-MT447, MT548 and MT537 generated by CBF asset servicing, the free-text field :70E::SPRO will be extended from 70 to 140 characters for reporting purposes.

The existing market claim processing for standard OTC transactions will further be used for non-flat bonds (other interest payments) if there are interest payments.

Clearstream Banking, acting as ECAG's tax agent, changes the method of U.S. tax calculation and reporting and switches from trading member level to settlement agent level as it is the norm of Clearstream Banking for OTC and SE trades.

#### **4. Member simulation**

The common customer simulation between ECAG and Clearstream Banking for the C7 SCS (CCP instructions from C7 SCS) Release 1.0 is managed by ECAG.

Further details will be provided via a Member Simulation Guide that will be issued by ECAG in the beginning of 2021.

#### **5. Further information**

For further information, customers may contact Clearstream Banking Client Services or their Relationship Officer.

The relevant contact details are available on the website under [Contacts & Client Services](#).