## SR2006 - CR III.78 - MT 56x, 54X, claim process

### Origin:

Infrastructure: Euroclear group (including the markets: Belgium, France, The Netherlands, UK, Ireland)

### Nature of the change

Addition of fields to notification and processing messages.

New message to delete claim.

New message to elect or not on a transformation.

### Message Types:

MT 564 Corporate Action Notification.

MT 566 Corporate Action Confirmation

MT 567 Corporate Action Status and Processing advice

MT 548 Settlement Status and Processing Advice

New MT.

### Business Context:

The objective is to ensure that claims are consistently processed for all members and for an agreed set of transaction types.

In a CSD context, market claims are processed as settlement messages. Although Euroclear agrees that market claims should be processed using corporate action messages, customers are lobbying for the use of settlement type functionality such as prioritization, split, deletion which may lead to using settlement messages for claims. The maintenance group is asked to consider this.

Messages flows and business information required are as follows:

#### Claim notification to clients: ⇨MT 564

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| Information needed | Swift field |
| Need for a field that allow to report that the MT 564 is “for information only”e.g to indicate that there is a need for market claim but it cannot be settled by a CSD because (i) the cash currency is not allowed in the concerned domestic market or (ii) the transaction type falls in a category where compensation cannot be processed. | 23G: ? |

SWIFTStandards comments: If business need accepted, a sub-fund INFO could be added to the list of sub-functions available for :23G:NEWM.

#### Settlement of Claim is confirmed by MT 566

#### Claim cancelled by the CSD

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| Claim cancelled | Swift message used |
| Prior to Payment Date | MT 564 with 23G:CANC in Sequence A General Information |
| After Payment Date | Cancel the unsettled claimsStart new process: MT 564-566-567 |

There are no reason codes for an event cancellation (change) in a 564. We should have information such as “(underlying) event cancelled” or “transformation”.

SWIFTStandards comments: Processing status field 25D could be used for the providing of such information.

#### Claim deleted by the client or its counterparty

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| Claim deleted | Swift message used |
| By one party NB the claim remains valid and pending until both parties cancel it (“matched deletion” ) | → what message can a party use to delete the claim? → what message is used to advise the counterparty that a deletion has been alleged? |
| By both parties | → what message can the clients use to delete the claim?→ once deleted instructions matched, the CSD sends a MT 564 CANC or a MT 567? |

SWIFTStandards comments: on messages to be used, see chapter e. SWIFTStandards comments.

#### Settlement instructions or claims affected by a transformation

Any open position (including claims) can be effected by a reorganisation where the security is replaced by another resource.

The automatic transformation is the process by which pending transactions in a security affected by a reorganisation (e.g. exchange, takeover) are automatically transformed (by a cancellation of the ‘old’ settlement transaction and input of a replacement transaction(s) in the new resource(s)) as they cannot or should not anymore settle under their original terms.

Transformations on pending transactions will apply to all reorganisation events regardless of whether the event is mandatory, mandatory with options or voluntary.

There is currently no ISO 15022 dedicated standard to identify this feature.

Typically the (I)CSD’system will cancel and replace the instruction (thus no 54n type of instruction is generated) but there is no standard way to report these movements.

SWIFTStandards comments: A CH S&R request has been introduced in S&R for cancellation reason codes allowing the identification of cancellation due to transformations. This would cover the above described business need.

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| **a) mandatory corporate action** | **Swift message used** |
| Automatic transformation (performed by CSD) 1. cancel/replace of settlement instruction | MT 548 to report the cancelled trade:Sequence A:20C:SEME// message reference (of original, cancelled instruction)Sub-sequence A1 Linkages:20C: RELA// client reference of cancelled instruction 20C:CORP// event reference 🡺 this qualifier exists in the custody messages 564-568 but not in the 54n. The use of this field would enable the client to know what corporate action has triggered the transformationSub-sequence A2 reason: 24B:CAND//CANS = cancelled by EuroclearThe new instruction will also be reported in a 548:Sequence A: 20C:SEME// message- transaction reference (EB reference allocated to the new instruction after automatic transformation)Sub-sequence A1 Linkages:20C: RELA// client reference of cancelled instruction20C:CORP// event reference  |
| 2. Cancellation of the pending market claim | MT 564 CANC |
| 3. Replacement of the market claim | New MT 564 |
| 4. Client advises CSD not to transform settlement instruction or claim | no message? |

SWIFTStandards comments:

- A CORP reference could indeed be added to the linkage sequence in order to refer to the event leading to the cancellation (and replacement) of an instruction.

- More comments in chapter e.

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| **b) mandatory CA with option or a voluntary corporate action**  | **Swift message used** |
| 1. Client advises CSD not to transform | no message? |
| 2. Client elects to transform using resources associated with a specific option. This is needed when an event has 2 or more options. To transform the settlement instruction or claim into the correct resources the CSD must know which option the counterparts have agreed upon. This is also associated with buyer protection  | no message? |
| 3. Transformation of settlement instructions and market claims | As above |

### SWIFTStandards Comments

SWIFTStandards has determined that these processes could be handled using an MT 565. The claims and transformations relating to a CA would be notified by MT 564s and the natural instruction message in the MT 56x message suite is the MT 565. There would be a need to evolve the MT 565 to ensure all the needed business data is available in the message to fulfil the business requirements.

Please also note that currently, no new FIN (ISO 15022) standard messages are being developed by SWIFT for use on its network. SWIFT is however interested in getting  input from the maintenance working group on whether or not there is a business need for specific messages for transformation and claims election or cancellation. As approval is needed for development of new FIN messages, business justification, including potential message volumes and markets is requested.

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| Discussion:Note that subsequently SWIFTStandards are less certain that the claims processing could be satisfied by the existing corporate action messages. |
| Decision:As a business requirement, the need is accepted, however, it is unclear whether the corporate action and/or settlement messages should be used, or a dedicated suite of messages. SMPG and SWIFT to carry out further investigation, with the assistance of Euroclear Bank. |