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| AMI-SECO HARMONISATION STEERING GROUP**Collateral Management Harmonisation Task Force (CMH-TF)** | ECB-UNRESTRICTED |
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| CMHA2: Corporate Actions | 30 November 2018 |
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| Issues Note: CA Events where Participation Requires the Blocking of Securities |

*This note analyses CA processes, for which further follow-up work is required (as identified in the* [*CMH-TF report on corporate actions*](http://www.ecb.europa.eu/paym/initiatives/shared/docs/d5f88-ami-seco-2018-06-22-item-04.1-cmh-tf-report-on-corporate-actions.pdf)*).*

Background

A harmonisation need was identified by the CMH-TF with regard to the blocking[[1]](#footnote-1) of securities subject to a CA event as described below.

Issue Description

**Priority 2 - No. 3: CA Events where Participation Requires the Blocking of Securities**

Description: Identification of those CA events where participation in the CA event requires the blocking of securities.

**Harmonisation Need: Further input / analysis is required in order to clarify if the same set of CA events are subject to blocking across all CSDs. Accordingly there may be a need for harmonisation in this area.**

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Blocking is typically used on elective events from the moment a clients' election has been positioned and an instruction to the agent has been sent until debit (surrender) of accepted securities must occur and payment takes place. Blocking is not used in case only record date positioning is required (This method is used when the exercise security that does not need to be surrended by entitlement is defined only by record date holding basis (such as rights distribution, often voting etc.). The movement of securities to ensure acceptance of instruction is required in the majority of markets, however when, and how, differs (see Annex 1). In addition, when securities are subject to blocking, different message types may be sent to confirm the blocking and subsequent unblocking of these securities.

Fundaments underpinning potential harmonisation proposal

Of the CA events identified as relevant to Eurosystem debt instruments, the participation in predefined list of CA events should lead to a blocking of the underlying security (together with the exceptions identified). It is understood that the blocking is performed automatically if participating in any of the identified event types i.e. the customer does not have to request a blocking of securities. The standard market practice should be based on an ISO 20022 message by which market participants are notified of a blocking/unblocking of securities. Based on the feedback received from (I)CSDs in ECSDA, the following harmonisation proposal is made for blocking of securities in T2S markets.

* **Securities should be blocked upon receipt of an instruction on certain elective events**

This is a blocking of the instructed positions so that clients cannot instruct. If there is no record date (RD), on an elective event, there is a blocking of securities; if there is a RD, there is a blocking only if instruction is received before the RD[[2]](#footnote-2). The table illustrates this:

| **CA Event** | **Mandatory / Voluntary** | **CMH-TF Proposal: CA events for which participation should lead to a blocking of the underlying security** |
| --- | --- | --- |
| **BIDS** | **VOLU** | Yes, blocking |
| **BMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **BPUT** | **VOLU** | Yes, blocking |
| **CERT** | **CHOS** |  Yes, blocking |
| **CMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **CONS** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **DSCL** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **DTCH** | **VOLU** | Yes, blocking |
| **EXOF** | **VOLU** | Yes, blocking |
| **EXOF** | **CHOS** | Yes, blocking |
| **EXTM** | **CHOS** | Yes, blocking |
| **INTR** | **CHOS** | Yes, blocking |
| **LIQU** | **CHOS** | Yes, blocking |
| **MCAL** | **CHOS** | Yes, blocking |
| **MEET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **MRGR** | **CHOS** | No RD => blocking |
| **OMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **OTHR** | **CHOS** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **OTHR** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |
| **REDM** | **CHOS** | Yes, blocking |
| **TEND** | **VOLU** | Yes, blocking |
| **XMET** | **VOLU** | If RD is in the past, no blocking. If RD in the future, blocking until RD. If no RD, blocking |

* **Reporting of Blocking in T2S Markets**
	+ Depending on the message subscription options of the T2S account holder the following message types may be received following the processing of a CA:
		- The blocking results in a restricted usage of the securities in the same account, after which intra-position movement messages (semt.013, semt.014 and semt.015) can be generated to the account owner informing them of the securities movement (if the account owner subscribes to receive such messages).
	+ For clients receiving their reports in ISO 20022 directly from T2S, the statement of holdings report should show the relevant positions remaining on the relevant safekeeping account and blocked with one of the blocking sub-positions below (even if blocked position has been booked on a specific sub-account). Accordingly from a statement of holdings point of view (semt.002 message) will see a sub-balance which equals the amount of securities blocked. The different qualifiers available include:
		- BLCA - Blocked for Corporate Action
		- BLOK – Blocked (from settlement activities)
		- DRAW – Drawn (blocked for Redemption)
		- RSTR – Restricted (blocked for Certification)

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| **Blocking type** | **Corporate event type (CAEV)** |
| **BLCA - Blocked for corporate actions** | **Any reorganisation event requiring a position to be blocked(for example, EXOF, TEND, MRGR, DVOP etc)** |
| **BLOK - Blocked from settlement activity** | **MEET, CMET, BMET, XMET, CONS**  |
| **DRAW - Blocked for redemption** | **DRAW** |
| **RSTR - Blocked for certification** | **CERT** |

**This will be represented in T2S as follows:**

**<ISIN> IT01234567890**

**…**

**<SfkpgAcct> DAKV12345678**

**…**

**<SubBalanceType> BLCA 100000,**

* + In additional to the settlement and reconciliation messages mentioned above a harmonisation proposal for reporting of blocking via corporate actions messages is currently under consideration whereby a flag/indicator could potentially be added in the MT564/CANO to show that securities will be blocked when instructed (or alternatively having a flag indicating that securities would not be blocked). The feasibility of adopting this flag across markets is currently being assessed.

**Annex 1: Current market practices**

* Spain - For all events where a client election is required, financial intermediaries need to block the instructed position in T2S. Accordingly there are no corporate actions in Iberclear for which participation should lead to a blocking of the underlying security in another account. Participants have to move their holdings with restrictions to a sub-balance in the same account in order to participate in the voluntary corporate action. Once the securities are in that sub-balance, participants cannot use them for securities movement or settlement, so it is similar to a blocking. Furthermore, movement of securities is done by Iberclear with the communication of a semt.013 message. Finally, participants have to send MT565 to the issuer’s agent in order to participate in the voluntary corporate action, as well as transfer their holdings to a specific sub-balance identified in the CA announcement as it was described before
* Portugal - The blocking of elected positions in T2S take place after the market instruction is accepted and are instructed by Interbolsa. For tender offer events in Euronext, position needs to be surrendered to a specified Euronext account
* Finland - blocked securities are not transferred to another securities account or sub account. Instead, instructed securities are kept as blocked on the same account to which the instruction to participate in the event was sent. Please correct the table above.
* Germany - When ongoing tenders or exchange offers take place, the securities are moved to Cascade (CBF system) on a daily basis, while for capital increase events, securities and cash are normally blocked and sent to the CSD and paying agent respectively close to the market deadline of the event.
* Switzerland - Swiss market securities are moved to SIX SIS webmax platform on ongoing basis (if ongoing events i.e. ongoing tenders/exchanges) or at market deadline date, cash holding is taken from the custodian’s account with Six SIS.
* Austria - Austrian market holdings (securities and/or cash) are moved to OEKB close to market deadline date.
* ESES markets - All voluntary events will require transfer of securities to the agent in order to participate in the CA event. Some mandatory events cannot be processed STP via T2S due to technical limitations in the market, for example mergers (MRGR) where the ratio is unknown at announcement and cash dividends (DVCAs) on US securities (due to tax reasons) cannot be processed without manual intervention by the custodian.
* Nasdaq CSD markets (EE, LV, MT) - Nasdaq CSD blocks securities for elective events, but doesn’t transfer the securities to another account, in T2S from position available (AWAS) to blocked (BLOK).
1. Blocking refers to a period of time in which an investor's securities are prevented from being accessed. [↑](#footnote-ref-1)
2. Some event types (e.g. DSCL or CONS) exist with or without record date. So, the table with the list of CA Events cover most of the cases but that there are exceptions (blocking depends on the presence of a record date). [↑](#footnote-ref-2)