
Market Notice

15 November 2016
MN_96/2016

ESES - activation of internal link to T2S: operating and tax impact

Attention:	DCPs, ICPs
Priority:	HIGH
Topic:	ESES: activation of internal link to T2S

Dear Client,

Following successful testing, we are pleased to announce the **activation of the ESE model as a CSD Investor as of 21 November 2016**.

In view of the new operating methods described in the [Market Notice 83/2016 “ESES activation on internal link to T2S - client test”](#), the impact for clients resulting from the adoption of the Investor CSD model is described below:

- **Custody:** no direct impact on client operations is envisaged.

However, it should be noted that during the changeover of the operating model indicated above, Monte Titoli will migrate *French securities subject to registration* on the Euroclear Bank CSD during the weekend of 18-21 November.

A list of the securities concerned is available in the documentary section of MT-X (“Documentation” > “Monte Titoli operating information”)

- **Settlement:** at the end of the business day on 18/11/2016 (EoD), pending settlement instructions will be cancelled by the respective CSDs (Monte Titoli and ESES).



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Participants can re-instruct the said operations on Monday 21/11/2016, according to the new operating methods.

Note that, as announced in [Market Notice 73/2016](#), up to the moment of release of the CAoF OTC & User Facility (12/12/2016), cross-CSD settlement instructions with internal CSDs in T2S in which Monte Titoli acts as an investor CSD (whether entered by participants or by the respective foreign counterparties) are not subject to the CAOF process by Monte Titoli. To avoid a situation where the CAOFs with ESES are not managed, we suggest setting settlement instructions to 'NOMC'.

CAoF (MARKET CLAIM)

From a regulatory standpoint, as of 21 November 2016, “*market claims*” will be processed as a price adjustment and therefore credited gross, without any tax deduction.

Note that as of 12 December 2016, the operating methods for “*market claims*” management in favour of a participant that is a member of the French market will provide for the transfer of the amount indicated in the DCA of Monte Titoli, as withholding agent, and subsequent transfer to the account of the final beneficiary.

Tax credit

As of 21 November 2016, Monte Titoli shall proceed to withhold tax credits arising from dividends on share financial instruments subject to French taxation as an appendix to the original dividend instead of as a reduction in the maximum applicable French rate.

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Consequently, the following scenarios arise:

1. The original dividend and the tax credit are communicated to Monte Titoli before the date of payment: they are withheld according to the applicable French tax procedure, applying the rate indicated by the non-resident agent, which is currently 30%, to the total dividend and tax credit.

The gross total amount of the dividend and the amount of the tax credit will be indicated in the corporate action information notes.

2. The original dividend will be communicated to Monte Titoli prior to the date of payment, while the tax credit will be communicated subsequently.

In this case the tax credit will be treated in the same way as the dividend, i.e. the 30% rate indicated by the non-resident agent will be applied, and the notes to the corporate action information will indicate that it is a tax credit.

CAoF test for ESES

A further test period is scheduled for the Corporate Action on Flow in ESES functionality.

Clients concerned can carry out the necessary testing in the period between 28 November 2016 and 9 December 2016.

Text execution:

- Monte Titoli has identified a list of securities traded on ESES markets to use for tests. The list is available in the "T2S Change Management" \ "W3" folder of the documents section of MT-X;

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- After the clients concerned have communicated with the address settlement.international@lseg.com, Monte Titoli will credit an account indicated by the client with the pre-defined quantity/amount for each security to be tested;
- During the said test period, Monte Titoli will provide company events in order to create the necessary test conditions. The scheduling of company events is available in the "T2S Change Management" \ "W3" folder of the documents section of MT-X;
- Monte Titoli provides support for any requirements and awaits feedback on the status of execution of the tests by individual clients concerned by the close of business on Tuesday, 6 December 2016.

For further information, please contact the following offices according to the area concerned:

Offices of reference:	
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