

DATE: 20 DECEMBER 2019

MARKET: EURONEXT CASH MARKETS

OPTIMIZED STRUCTURED PRODUCTS MARKET MODEL AND NEW SEGMENT ON EURONEXT ACCESS PARIS

Executive Summary

Euronext will dedicate a new segment on Euronext Access Paris (XMLI) for Structured Products trading with optional clearing (replaced by bilateral settlement for trading members who will choose to opt-out of clearing). Optional clearing will allow members to trade Structured Products until 22:00 CET.

Euronext informs clients that it will create a new segment (thereafter the XMLI Segment) on Euronext Access Paris (MIC code: XMLI), an MTF regulated by the French regulator AMF. The XMLI Segment will be for Structured Products (including Warrants & Certificates and Structured Notes).

DESCRIPTION

On the XMLI Segment:

- Euronext will use its proprietary multi-market trading technology, Optiq®.
- Minor changes will be required from members at Order Entry level.
- Issuers will choose instruments to trade on the Order Driven or the Hybrid (aka Request For Execution) market model.
- Members will be able to decide to opt-out of clearing. For non-cleared trades, settlement will be initiated by Euronext on a netted bilateral basis via SWIFT messages sent directly to trading members' settlement agents.
- Trading until 22:00 CET will be available. (Bilateral settlement will be a prerequisite for trading until 22:00 CET)

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SCOPE OF THE PROJECT

- Structured Products (incl. Warrants & Certificates and Structured Notes) currently trading on Euronext Regulated Markets (in Belgium, France and The Netherlands) and on Euronext Access Lisbon.
- The Hybrid (aka Request For Execution) market model, on which most of these instruments currently trade, will only be available on the XMLI Segment.
- Structured Products currently trading on the Hybrid market model will migrate to the XMLI Segment at the request of their respective issuer if they wish to keep them on the Hybrid market model.
- Structured Products currently trading on the Order Driven market may remain on their current market, unless their respective issuer requests their migration to the XMLI Segment.

IMPACT OF THE MIGRATION TO THE XMLI SEGMENT

- After the launch of the XMLI Segment, issuers will have to provide additional referential data at the time of admission to trading of new instruments.
- Issuers processing their corporate actions automatically are therefore required to amend their systems to be able to provide Euronext with the expected additional referential data.
- Prior to the launch of the XMLI Segment, Euronext will contact issuers of existing instruments to collect the additional referential data.
- Euronext will distribute the additional reference data via its Masterfile service.
- Through further communication, Euronext will share with clients details of the additional referential data.
- Euronext draws clients' attention, in particular, to the fact that each instrument listed on the XMLI Segment will be available for public distribution in one or more countries. This information, received from the issuer, will be distributed by Euronext.
- Euronext strongly encourages distributors and retail brokers to retrieve the country(ies) of distribution of each instrument, either directly from Euronext or indirectly through their data vendor, so that they can present their clients only with instruments eligible to them.

IMPACT OF CLEARING OPT-OUT

- A trade done on the XMLI Segment by two counterparts having opted-out of clearing will not be sent to the CCP for clearing.
- Instead, both counterparts of the trade will be informed of the identity of their counterpart in the execution report.
- At the end of the trading day, Euronext will calculate all bilateral net positions at instrument, counterpart and account type level.
- From these bilateral net positions, Euronext will instruct all trading members' settlement agents via SWIFT messages.
- Euronext will delegate the calculation of the net bilateral positions and the instruction of the settlement agents via SWIFT message to LCH SA. In that regard, LCH SA will not operate as a CCP but as a service provider. Net bilateral positions will not be guaranteed by LCH SA or by Euronext.

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MIGRATION OF INSTRUMENTS TO THE XMLI SEGMENT

- Issuers willing to migrate (some of) their Structured Products onto the XMLI Segment will have to contact Euronext's Corporate Actions team or Structured Products team formerly to request the migration.
- Euronext will gather additional referential data from issuers in order to distribute it to Euronext market data clients such as data vendors, trading members, distributors and retail brokers.

BILATERAL SETTLEMENT MEMBER ONBOARDING

- Members wishing to opt-out of clearing for instruments trading on the XMLI Segment will have to apply for bilateral settlement with Euronext's Membership team.
- This opt-out will apply to all instruments on the XMLI Segment for which clearing is optional and against all trading counterparts who will also opt-out of clearing.
- The member requesting to opt-out of clearing will have to provide Euronext's Membership team with:
 - A generic set of bilateral settlement instructions or multiple sets to be used based on the CSD, counterpart or account type,
 - A Power Of Attorney authorising Euronext, daily, to calculate net bilateral positions and instruct its settlement agent via SWIFT messages,
 - A memorandum of understanding that trades settled bilaterally will not be guaranteed by Euronext or any CCP.

More details on the bilateral settlement onboarding process will be shared in future communication.

SCHEDULE

Euronext informs clients of the below EUA and production dates:

Scope	Phase	Date
Migration to Euronext Access Paris	EUA	Beginning of March 2020
Referential Data Enhancement	EUA	Beginning of March 2020
Bilateral Settlement	EUA	Mid-April 2020
Migration to Euronext Access Paris	Production	Mid-May 2020
Referential Data Enhancement	Production	Mid-May 2020
Bilateral Settlement	Production	Mid-May 2020
Trading Until 22.00CET	EUA & Production	Planning TBC in 2020

Further and more detailed communication regarding each of these EUA and production phase will be sent in due time.

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TESTING REQUIREMENTS

- For the different EUA phases presented in the above table, issuers, trading members, data vendors and settlement agents will be required to pass some conformance tests.
- Details of these conformance tests will be communicated at a later stage.

This project is currently subject to regulatory approval.

Further information:

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