

30 November 2016

## OUTCOME

# 19<sup>TH</sup> MEETING OF THE T2S HARMONISATION STEERING GROUP

DATE	8 - 9 November 2016
VENUE	European Central Bank, Main Building, Sonnemannstr. 20, Frankfurt am Main, Germany

### 1. Chairman's introduction and updates from members

#### *Outcome*

The HSG chairman welcomed two new members in the group: Mr Ivan Odonnat (ECB Market Infrastructure Board) and Mr Florentin Soliva (SIX-group) replacing Christophe Lappaire. The formal approval of the new HSG composition should take place during the next AG meeting (30.11.2016).

The ECB team updated the HSG members on the Eurosystem decision to launch the "Vision 2020" investigation phase. This work may cover three key areas: the Eurosystem internal collateral management system (ECMS), T2-T2S consolidation and the TIPS (Target Instant Payments Settlement). For all three work streams, new task forces have been established with the aim of completing the user requirements by March 2017 (for TIPS and ECMS) and by Summer 2017 (for T2-T2S consolidation). It was clarified that when the Vision 2020 forums identify issues of relevant for T2S, these topics will be brought to the attention of the T2S governance.

Finally, the ECB team reported on the plans to work further on consolidating the work-streams undertaken by the ECB contact groups on securities and collateral. This may have some impact on the way forward as well as the composition of such groups as COGESI, AG and HSG. More information will

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become available in the forthcoming T2S AG meeting on 30 November 2016.

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## 2. EU public authorities initiatives

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### **Outcome**

*The ECB team updated the HSG members on the on-going work on the EU initiatives to financial integration<sup>1</sup>:*

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- **the CSDR Level 2 regulation adoption process;**

*Work on CSDR level 2 measures is at a very advanced stage with most (but not all) measures expected to be adopted by the Commission very soon.<sup>2</sup> Those measures that require parliamentary scrutiny (i.e. RTSs and Delegated Act) will then be sent to the EP and Council. The RTS on settlement discipline were still subject to the ongoing internal processes within the Commission.*

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- **the Capital Markets Union (CMU) and the work progress of the European Post Trade Forum (EPTF);**

*The EPTF has advanced with its Phase I tasks to describe the current and upcoming post-trade landscape in Europe and is now focussing on the second phase tasks to assess the relevance of the Giovannini, or newly identified, barriers to the post trade process. At the end of the EPTF work, we may have a new set of defined barriers. The EPTF will deliver a report to the Commission services, outlining its conclusions, by early 2017. As announced in the recent Communication on CMU (14.09.2016), this report will be subject to a public consultation.*

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- **Experts Group on barriers to the free movement of capital (CMU):**

*The Expert Group on barriers to the free movement of capital in the CMU context discusses in particular (i) national barriers to the cross-border distribution of investment funds (which was the topic of a sub-group meeting on 11 July), (ii) possible national limitations to the possibility for pension funds to invest cross-border, (iii) barriers linked to burdensome national withholding tax procedure and (iv) the lack of financial literacy. On withholding tax, the Expert Group built also on the results of the survey on impacts of withholding relief procedures that was conducted by the AG earlier in 2016 with the help of the T2S National User Groups. On the basis*

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<sup>1</sup> The ECB team provided this update as the representative of the European Commission could not attend the meeting

<sup>2</sup> Were adopted on 11.11.2016

[http://ec.europa.eu/finance/financial-markets/central\\_securities\\_depositories/index\\_en.htm#maincontentSec2](http://ec.europa.eu/finance/financial-markets/central_securities_depositories/index_en.htm#maincontentSec2)

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*of this survey and Member States' contributions, the Expert Group discussed the existing issues posed by current withholding tax procedures and existing best practice in some Member States. Next steps will include discussing a way forward, leading to a Code of Contact, with the national tax authorities.*

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### **3. T2S Harmonisation Activities**

#### **3.1 SCHEDULE OF SETTLEMENT DAY**

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##### **Outcome**

*The ECB team presented the current status of the T2S standard (no 5) regarding the single schedule of the settlement day in T2S. A question arises as to whether this schedule is or should be currency specific. This question is relevant for the Danish NCB and the future introduction of Krona in T2S but it is primarily a question of long term harmonisation principle regarding the removal of Giovannini Barrier 7 in the EU.*

*On the one hand, the T2S standard seems to refer to a single schedule in T2S, independently of the currency. This principle is in line with the effective removal of the Giovannini barrier 7 in the EU (and not just in the euro-area).*

*On the other hand, there is a need to ensure that the non-Euro NCBs wishing to join T2S (for non-Euro settlement) should be able to retain their prerogative regarding the integrity of their own national currency (see relevant provisions in the T2S Currency Participation Agreement).*

*Most HSG members were of the view that there should be a single common schedule of the settlement day in T2S. This is important for removing the relevant barrier to a truly integrated financial market in Europe and not just in the euro area.*

*Some HSG members also questioned the necessity for having, as a standard rule and not just for contingency needs, divergences in the availability of DCAs across T2S based on the availability of the relevant RTGS. This is in particular relevant taking into account recent developments, e.g. on financial innovation and instant payments, indicating a tendency to 24/7/365 payment system availability. The issue is not so much relevant for cross-CSD DVP settlement in T2S, since the schedule for against payment settlement is common for both counterparties (i.e. the one of the single settlement currency). It may be more relevant for its potential impact on the timely corporate actions distributions*

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*across the EU and the overall impact on back office rules and procedures.*

*The HSG agreed that this is a strategic discussion that should be addressed to the MIB since on the one hand the T2S community welcomes new currencies in T2S but on the other this should not be done at the cost of sound and existing harmonisation agreements. The HSG will re-discuss the issue after the MIB discussions.*

#### **Action Points**

- *ECB team to present an ECB team paper on the schedule issue to the MIB, taking into account the HSG discussion*
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### **3.2 PORTFOLIO TRANSFERS**

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#### **Outcome**

*During its 18<sup>th</sup> meeting in June 2016, the HSG invited the XMAP to provide its analysis regarding the following two questions:*

- 1. Is the EWGPT proposal in line with the T2S functionalities?*
- 2. Is the EWGPT proposal in line with the T2S harmonisation standards, and in particular st. 4?*

*On the first question, i.e. functional compatibility, the XMAP analysis shows that the EWGPT proposal is compatible with the current T2S functionalities. However, the EGPT proposal implies the usage of certain ISO fields (i.e. “trade identifier” or “party level 4 identification”) in a way not initially designed for by the standards setting authorities.*

*On the second question, the XMAP agreed that the proposal is not in line with the T2S harmonisation standard 4 (message interaction on tax info). According to this standard, tax information should not be passed over the T2S settlement messages.*

*As a consequence of the above, the EWGPT proposal cannot be proposed to the AG as a potential new T2S harmonisation standard or market practice. The HSG members agreed to revisit the issue during the next HSG meeting on the basis of further documentation and analysis.*

#### **Action Points**

- ***Pierre Colladon to make a non-paper proposal, with pros and cons, on a short term solution for portfolio transfers, including the analysis on the current relevance of st. 4;***
  - ***Clearstream and Deutsche Bank experts to make a non-paper proposal to the next HSG meeting, with pros and cons, on a general long term solution for portfolio transfers (e.g. tax box) or other tax relevant data***
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### 3.3 REGISTRATION

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#### **Outcome**

The ECB Team presented the T2S community's work regarding the registration issue, including the ECSDA study results of July 2016. The ECSDA results confirm the long standing AG view regarding the present divergences on registration rules across the EU.

The HSG chairman informed the group on an on-going market initiative on registration. This latest initiative is done with a view of contributing to the current EPTF work.

HSG to discuss this issue during its next HSG meeting, including the potential activation of the previous work stream on registration and cross-border shareholders' transparency.

#### **Action Point**

- **HSG chairman to make a proposal on the follow up actions regarding follow up actions within the T2S governance in the next HSG meeting.**
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## 4. CASG reporting

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#### **Outcome**

The HSG took note of the CASG gap analysis results and in particular the statistical progress in the compliance rates of some T2S markets. The HSG members agreed that further work is required from the CASG in the area of detailed issues arising out of the implementation and migration processes in T2S. **The HSG members approved the publication of the CASG gap analysis report.**

As invited by the HSG in June 2016, the CASG chairman presented the revised version of the T2S corporate actions FAQs document. **The HSG members took note of the updates and approved the revised version for publication, including the clarification on the market claim standard no. 23 (user friendly facility).**

Following the discussion in the June HSG meeting, the CASG chairman presented further analysis regarding the fiscal treatment of market claims on corporate action entitlements. The analysis included some potential AG proposals as input to the EPTF on-going work on withholding tax procedures in the context of the CMU Action Plan. **The HSG members agreed to ask the**

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CASG chairman to update the note in view of presenting it to the AG for approval on 30 November 2016.

**Action Points**

- **ECB team to publish the CASG gap analysis and the FAQs**
  - **CASG chairman to present the fiscal treatment of market claims proposal to the AG members for approval and subsequent distribution to the EPTF**
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## 5. **Seventh T2S Harmonisation Progress Report**

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**Outcome**

The ECB team presented the draft 7<sup>th</sup> T2S harmonisation progress report including the detailed results per T2S market and the key messages thereof. The results show a 7% increase in the overall level of compliance of the T2S markets with the T2S harmonisation standards since the 2016 mid-year update. This is mainly the impact of the wave 3 markets migrating to T2S, evidencing the effectiveness of the AG harmonisation methodology and the efforts of the migrating markets in achieving full compliance by their migration to T2S.

The compliance gaps in the corporate actions standards still remain as the main challenge, and translated into a marginal increase (by 1%) in the number of red statuses. However, even in this case, the statistical compliance of red markets with a number of T2S corporate action standards has increased due to the increased and coordinated efforts of all relevant national actors.

The HSG approved the draft report and the tentative results for AG distribution, subject to the comments made during the HSG meeting and further input and comments to be sent to the ECB team by 15 November 2016.

**Action Points**

- *HSG members to provide to the ECB team comments on the draft 7<sup>th</sup> report by 15 November 2016.*
  - *HSG chairman to present the report to the AG on 30 November for approval prior to publication.*
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## 6. **Impact Analysis monitoring update**

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**Outcome**

The ECB Team presented the revised version of the AG impact analysis report (version 4.0) regarding the non-compliance of T2S markets with the T2S standards.

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This version covers the following non-compliant cases:

- **Austria, Germany, Romania, France, Belgium, Netherlands, Italy and Hungary** for the T2S corporate actions (CA) standards;
- **Slovakia and Hungary** for the T2S standard on matching fields;
- **Belgium and France** for the T2S standard regarding the restrictions on omnibus accounts.

*Some HSG members invited the ECB team to propose some further escalation measures that the MIB could potentially consider in particular regarding the markets which have no plan for full compliance. The ECB team will make a proposal to the HSG prior to presenting the report to the AG.*

#### **Action Points**

- *ECB team to revise the report and invite the HSG members for comments by 22 November 2016*
  - *ECB team to present the impact analysis report to the 30 November AG meeting for approval and subsequent distribution to the MIB*
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## **7. XMAP reporting**

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### **Outcome**

#### **CSD restriction rules**

*The XMAP chairman presented the updated catalogue of the CSD restrictions rules (version 0.6). This version includes the rules of the three Baltic CSDs and Iberclear. Euroclear Finland has not provided yet sufficient information to assess the impact of its restriction rules.*

*The XMAP Chairman indicated his readiness to review the methodology for the impact assessment of restriction rules if concrete cases were put forward that attention is not drawn to the cases which merit more attention. The classification of necessary and optional services will be reviewed in this context.*

*The next versions would look into actual cases of how investor CSDs manages the restriction rules in production.*

#### **Client of the CSD participant**

*The XMAP chairman presented a proposal on how to use the LEI (how to populate the relevant message field) in the context of the T2S market practice on the “client of the CSD participant”.*

*The HSG members invited the XMAP chairman to present a long term (ISO*

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change) and a short term solution (no ISO change) to the AG. The SG substructure on messages (SGMS), and potentially the CRG, should also review the long term solution, in particular with a view to provide advice on the ISO approval process.

**Action Points**

- XMAP chairman to present the Catalogue of restriction rules to the AG (30 November 2016), taking into account the HSG members' comments
  - XMAP to present the short term solution to the AG regarding the LEI usage in the client of the CSD participant market practice. A long term solution should also be presented (ISO change)
  - SGMSS to review the long term solution (LEI usage)
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**8. DLT-TF reporting**

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**Outcome**

The DLT-TF chairman presented the current state of the group's work.

The group plans to report to the next HSG meeting on progress achieved in analysing the potential impact of DLT in the following areas:

- issuance of securities using DLT;
- DvP against central bank money settlement on DLT basis;
- interoperability between DLTs and with traditional environment;
- impact of DLT adoption on asset servicing;
- use of DLT for regulatory reporting;
- finality issues

A final deliverable to the HSG, covering further areas of work, is planned for September 2017.

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**9. Any other business****9.1 HSG MEETING DATES IN 2017**

- 25-26 January 2017 (ECB)
  - 8-9 June 2017 (ECB)
  - 26-27 October 2017 (ECB)
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