

OUTCOME

22nd meeting of the T2S Harmonisation Steering Group

DATE	26 - 27.10.2017
VENUE	European Central Bank

1. Chairman's introduction and revised mandate

Outcome

The HSG chairman welcomed Ms Cornelia Raif from BNP Paribas as new member of the HSG and introduced Mr Gergely Koczan as new HSG secretary. He reminded participants that the HSG dinner of the day has been set up to thank George Kalogeropoulos for the fantastic job he has done as HSG secretary.

Action Points

- *None*
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2. EU public authorities initiatives

Outcome

The EC representative provided an update on the Commission initiatives.

CSDR Level II

The only CSDR level 2 standard that has not yet been adopted is the regulatory standard on buy-in procedures (related to settlement discipline requirements in the CSDR) which is under review by the relevant Commission services. No firm date can be communicated yet as to by when this standard would be finalised.

Code of Conduct to simplify withholding tax procedures The Commission established a project group on simplification of withholding tax relief procedures, which is composed of tax experts from 13 Member States. The project group has drafted a Code of Conduct on withholding tax procedures which was discussed by Member States in an attaché-level meeting in October 2017. No major opposition seems to exist from any Member States to the draft Code of Conduct which is expected to be finalised and presented to the Council (at the latest) by the end of 2017.

HSG members welcomed the progress achieved on the Code of Conduct and thanked the Commission for its efforts to have the Code adopted. It was noted that the T2S AG and the HSG were instrumental in highlighting the issue to the European lawmakers and provided valuable input to this process.

Revision of the Shareholders Rights Directive (SRD)

The revision of Directive (EU) 2017/828 (SRD) has been published in the Official Journal on 20 May 2017.¹ The European Commission services (DG JUST) are now working on the implementing acts of the Directive which are expected to be adopted by 10 September 2018. The revision of the SRD will become applicable on 10 June 2019, the date by which it shall be transposed by the Member States into national legislation.

Conflict of laws

The Commission is analysing the outcome of the public consultation launched in April 2017 on this topic and advice provided by the Expert group on conflict of laws regarding securities and claims. As a follow-up, the Commission will hold a meeting with Member States on 8 November 2017 in order to discuss possible options. The Commission is expected to present a legislative proposal in Q1 2018.

Action Points

- **None**
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¹ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:132:FULL&from=EN>

3. **AMI-SeCo response to the European Commission consultation on post trade in CMU**

Outcome

As agreed in the previous HSG meeting, the ECB staff has prepared a draft AMI-SeCo response to the EC consultation on post-trade in CMU (23 August – 15 November 2017). Following an HSG teleconference, on the draft response, the text was circulated among AMI-SeCo Members for comments and guidance. The HSG discussed the comments received from AMI-SeCo Members and agreed to carefully point out in the response that the implementation of the follow-up measures to the EPTF report and the consultation should be monitored to keep track of progress made and related developments in EU post trade markets.

Action Points

- ***ECB team to implement agreed changes to the draft AMI-SeCo response***
 - ***Draft to be circulated to HSG members for final review before it is submitted to AMI-SeCo for final approval***
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4. **T2S Harmonisation**

The HSG will discuss the on-going work regarding the T2S harmonisation agenda.

4.1 PORTFOLIO TRANSFERS

Outcome

The HSG discussed a note on the potential redrafting of T2S harmonisation standard 4 (tax-related information in T2S settlement messages). The proposal is to allow tax-related information to be passed as long as it does not have external effects on other T2S participants and on the T2S settlement process in general, i.e. it does not prevent cross-CSD settlement and is not imposed on T2S participants in any ways. Such a reformulation of the standard would allow the passing on of tax-related info in special cases, e.g. portfolio transfers.

The majority of HSG members expressed openness to the approach although it was

noted that the HSG may need more time to analyse the proposal.

Action Points

- ***The HSG members will comment on the note and the proposal in a written procedure with a view to discuss the topic in the teleconference of the HSG on 27 November***
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4.2 T2S CALENDAR

Outcome

In light of a significant number of T2S CSDs not complying with the T2S harmonisation standard on the T2S Calendar (by remaining closed on Good Friday, Easter Monday and 1 May) and the related discussion in the last HSG meeting, the ECB team prepared a note outlining the options to handle the issue and giving pros and cons (see *Issue note on T2S markets on T2 closing days*).

The majority of HSG members agreed that a change in the standard in the direction of allowing T2S CSDs to do as they see best was not an option to be supported as it would run counter to the spirit of harmonisation (i.e. *Option 3- Changing the standard*). It was noted that a CSD's decision to open on the three holidays does not only have cost implications on itself but also on its participants and possibly also on the clients of the participants. However, if DvP transfers in Euro were available that could present a stronger business case to be open on these days (i.e. *Option 2-c, Increasing the number of opening days of T2*). With regards to the demand for FOP settlement on these days the importance of collateral mobilisation was highlighted as a key driver of FOP volumes (even though for the time being FOP volumes on these three days for CSDs that make their services available are low as compared to FOP volumes non "normal days"). It was also highlighted that in 2017 no complaints have been made by market participants on the decisions by the non-complying CSDs to close on these days.

With regards to the options presented in the ECB analysis there was no consensus among HSG members. The discussion focused on options 1 (no change to the standard and to T2 or T2S calendars), 2B (decreasing the opening days of T2S by not opening it on Good Friday and Easter Monday) and 2C (Increasing the number of T2 opening days to keep T2 also open on Good Friday, Easter Monday and 1 May). This order of the option also reflects

the global order of preference by the majority of HSG members.

As a conclusion the HSG agreed that

- 1) The current situation is not satisfactory as results in a lack of harmonisation and likely implies continued non-compliance by a high number of CSDs
- 2) Other factors also need to be considered (e.g. the demand for FOP volumes from the collateral side)
- 3) There is a need for consistency between the opening days of CSDs of T2S markets (pan-European solution) and both cash and securities aspects need to be considered
- 4) There is a need to assess the wider ramifications of potentially extending the T2 calendar from a global perspective

The HSG agreed to continue the discussion in its 27 November teleconference based on the survey to be carried out by the CMH-TF on the demand for FOP settlement by collateral movements. In addition the discussion and analysis should continue in the relevant fora also involving the cash side. The joint meeting of the AMI-SeCo and AMI-Pay on 7 December 2017 will be a good forum to seek strategic input also from the cash side.

Action Points

- **ECB team to update the note based on the HSG discussion and ECB to debrief the MIB on the HSG discussion**
 - **CMH-TF to survey the need for collateral mobilisations on the three days and report to the HSG by 27 November**
 - **HSG to discuss the matter further in its 27 November teleconference with a view to prepare the AMI-SeCo – AMI-Pay discussion on 7 December.**
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4.3 T2S Corporate Actions gap analysis and CASG update

Outcome

The CASG chairman presented the activities of the CASG since the June 2017 HSG meeting. Inter alia the CASG performed a compliance survey for the CA gap analysis, reviewed the T2S CA standards FAQ, discussed the interaction with the CMH-TF and the possible synergies between the monitoring of the T2S CA standards and the CAJWG (market) standards (see next item).

Regarding the Gap Analysis and the status of compliance many markets are still not fully

compliant with the T2S CA standard although overall compliance has further improved. One of the reasons of non-compliance is lack of full compliance with the CAJWG (market standards). The issue of asymmetric access (between compliant and non-compliant markets) due to the non-compliance with the T2S CASG and the CAJWG standards was highlighted as source of concern. With regards to the changes at individual market level the Baltic markets are now assessed as red due to non-compliance with Market Claims standard 25. In addition several markets were identified as being non-compliant with CASG Transformation Standard 3 (which requires compliance with an underlying CAJWG standard). Six of these markets are already marked as red due to non-compliance with other CA standards (ESES and NASDAQ markets) but 5 markets (CH, ES, IT, PT and RO) were assessed as red only due to this newly discovered case of non-compliance. With regards to non-compliance with Transformation Standard 3 HSG members discussed the appropriateness of taking this information into account, as the assessment was based on information that had been received outside of the standard compliance assessment process and on information that was potentially incomplete and out-of-date, and as the specific issue was an issue for which the proposed revision of the FAQ document provided additional explanatory text. The HSG decided not to take this Transformation Standard 3 compliance issue into account in the assessment of markets for the purposes of the End 2017 CASG Gap Analysis and the 8th Harmonisation Progress Report on the basis that the next CASG Gap Analysis in 2018 will review the issue thoroughly, and with the understanding that the affected markets will ensure compliance by this next CASG Gap analysis. In case any of the markets are not compliant by that time it will be assessed as non-compliant with this Standard.

On the basis of the discussion the HSG approved the End 2017 T2S CASG gap analysis report (with the changes to be made to the assessment described above) and the revised version of the T2S CASG FAQ document. These documents will be distributed to HSG members for information before publication on the relevant T2S webpage. Finally, the HSG approved the appointment of Mr Jonathan Branagan (Citi, replacing Mr Dean Little) as a CASG member.

Action Points

- ***HSG approved the CASG gap analysis and the updated T2S CASG FAQ document for publication;***
 - ***ECB team to distribute the updated CASG gap analysis and FAQ for information to HSG members before publication on ECB website***
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- ***HSG approved Mr Jonathan Branagan (Citibank) as a new member of the CASG.***
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4.4 Synergies between CASG and CAJWG monitoring

Outcome

The CASG and CAJWG chairmen presented the outcome of the discussions in their constituencies on exploiting possible synergies between monitoring of the T2S CASG standards (performed currently by the ECB and the CASG) and monitoring of the CAJWG market standards (performed currently by the E-MIG and AFME). Overall, there seems to be support in the CASG and the CAJWG to synchronise the timing of the monitoring surveys on the two sets of standards in order to improve efficiency. However, consolidating the compliance monitoring processes under the CASG (as assisted by the ECB and the AMI-SeCo NSG governance) was perceived to be a less efficient solution due to the differences in expertise (i.e. NSGs vs. MIGs), as well as in terms of scope of the standards (i.e. on flow vs. on stock), of governance structure (i.e. Eurosystem-based vs. industry's self-coordination) and of the stakeholders involved (i.e. T2S participating markets vs. all European countries). It was stressed that neither the HSG nor the Eurosystem initiated this discussion but they are looking forward to any consensual suggestions emerging from the CASG and the CAJWG / E-MIG. It was noted that the topic also needs to be discussed by the E-MIG in their meeting in November 2017. HSG members agreed that in general synchronising the timings of the surveys could be beneficial. However it was pointed out that the T2S monitoring harmonisation framework has 17 currently monitored standards and the timing of the whole compliance monitoring exercise cannot be determined by considerations related to only 1 of these standards. The issue of sharing the results of the CASG surveys with a wider set of stakeholders (i.e. outside the T2S community) was highlighted as potentially raising questions. Finally, the idea of the MIGs and the E-MIG taking over the monitoring of the T2S CASG standards was raised and agreed to be tested with the E-MIG constituency.

Action Points

- ***The CASG and CAJWG chairs to present the outcome of the HSG discussion in the E-MIG meeting in November 2017 (including the idea of the MIGs / E-MIG taking over monitoring the T2S CA standards)***
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4.5 8th Harmonisation Progress Report

Outcome

The ECB team presented the draft report which mainly focuses on the post-migration compliance status of the T2S Final migration wave.. Overall, the number of fully compliant (i.e. blue) statuses has increased since the 2017 mid-year update mainly due to the final T2S migration wave achieving compliance according to plan. However, two areas of significant non-compliance gaps remain among priority 1 harmonisation standards: corporate actions and the T2S Calendar. The report will also cover the post-migration assessment of NCDPCP (the new SK CSD joining T2S at the end of October 2017). The ES case of non-compliance with standard 3 on interaction with T2S (registration) was highlighted where the ECB expects further interaction with the ES NSG also with regard to the impact assessment of non-compliance. The 8th report is likely to be the last in the current structure as the T2S migration plan has been completed. The completion of T2S migration would also be marked with a foreword by the AMI-SeCo chair looking back on the progress made in harmonisation over the last 4 years. The target date for publication is end-January 2018. HSG members agreed in principle with the intended key messages of the report. It was agreed that the draft will be updated based on any new information that reaches the ECB from NSGs and will be shared with the HSG members again before submitting to the December AMI-SeCo meeting.

Action Points

- ***HSG members are invited to send written comments on the draft report***
 - ***The ECB will update the draft based on the comments received and any additional factual information received after the HSG meeting and recirculate an updated draft to the HSG in the second half of November.***
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4.6 Impact Analysis monitoring update

Outcome

The ECB team presented the draft report on the impact assessment of non-compliance cases which is kept fully aligned with the draft 8th harmonisation progress report. The report covers all existing and new non-compliance cases. Among the new non-compliance cases the impact of the non-compliance with the T2S calendar (standard 5) is assessed based on an extrapolation of volumes assumed for the days on which the affected markets were closed. The overall impact is assessed either as medium or high, the main driver being the market-specific volumetric assessment. As for non-compliance with T2S CA standards (NASDAQ CSD markets and Slovakia) the overall impact assessments are medium. The previously identified (and maintained) non-compliance cases retain their overall impact assessments. HSG members endorsed the report with the understanding that updates may be made to it based on new information arriving from NSGs in November.

Action Points

- ***HSG members are invited to send written comments on the draft impact assessment report***
 - ***The ECB will update the draft based on the comments received and any additional factual information received after the HSG meeting and re-circulate an updated draft to the HSG in the second half of November.***
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5. High-level discussion on the future organisation of harmonisation monitoring

Outcome

The HSG discussed at a high level the possible changes to the harmonisation monitoring framework in light of the completion of T2S migration. Overall, HSG members supported a flexible approach while keeping the key elements of the current framework (clear traffic-light based assessment, list of harmonisation activities and scope of activities and monitoring). It was stressed that new activities are expected to arise and they should be flexibly covered by the framework in the future. As for the current priority 1 and 2 activities they could be kept with additional activities potentially to be added to the list. A change in the categorisation (e.g. operational vs contextual standards) could also be contemplated. On corporate actions it was raised that the CAJWG standards could be handled in the same category as the CASG standards. As for the geographical scope there was an initial agreement to keep the focus on T2S markets, while noting that additional activities might have a different focus. In general an annual (once per year) public reporting was deemed sufficient in the future environment without T2S migration waves. It was agreed that a milestone report could be envisaged for 2018 (to be published in the second half of the year) marking the end of the T2S migration era methodological framework and presenting the new framework. As for the compliance monitoring methodology, the majority of HSG members favoured keeping the current methodology with only blue or red statuses given to migrated markets with a clear indication for red statuses of whether plans for compliance exist. As for the pre-migration assessment of new joiners the current four-colour scheme should be kept.

Action Points

- ***HSG members are invited to send any written comments / ideas on a possible future framework to the Secretariat***
 - ***The ECB will prepare a note based on the discussion to be presented in the December 2017 meeting of the AMI-SeCo***
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6. Collateral Management Harmonisation

Outcome

The chair of the CMH-TF presented the progress made in the Task Force. The CMH-TF chose an approach to (as a first step) 1) identify the business processes related to the relevant preliminary collateral management harmonisation activities (CMHAs) then 2) Identify the critical data elements involved and finally 3) to define standard ISO20022 messaging related to the given business process. The CMHAs are allocated to either a priority 1 or a priority 2 list (similarly to the current T2S harmonisation methodology). Prioritisation is mainly driven by the ECMS initiative of the Eurosystem at this stage but the demands of the private market should also be reflected. HSG members welcomed the progress made in the Task Force and in general endorsed the approach taken. The CMH TF report should include explanations of the prioritisation methodology. It was noted that the CMH-TF could benefit from more treasury / front office expertise and such colleagues could be encouraged to participate in the work from the member institutions. Furthermore, it was highlighted that the views of the buy-side (asset managers) should also be taken into account. The identified CMHAs and business processes could be cross-checked with the collateral aspects of the EPTF barriers to see whether they cover the whole spectrum of potential barriers to market integration.

Action Points

- ***The CMH-TF report will be discussed by the HSG in its teleconference on 27 November. After HSG approval it will be submitted to the joint meeting of the AMI-SeCo – AMI-Pay in their meeting in December 2017***
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7. DLT Task Force reporting

Outcome

The chair and the rapporteur of the DLT-TF presented the progress made on the follow-up activities approved by the AMI-SeCo in July. Two use cases have been elaborated by the DLT-TF, one on shareholder registration and one on corporate actions. On shareholder registration, also with a view to the implementation of the revised Shareholder Rights Directive, the Task Force has identified several potential solutions to use DLT to transmit registration information in parallel to settlement infrastructures by making use of synchronised bilateral ledgers and either push or pull mechanisms to facilitate interaction between the issuer and the relevant intermediaries. On corporate actions the Task Force has emphasized that compliance of the existing CA standards is a pre-requisite for rolling out a DLT-based solution. Such a solution would add most value if it facilitated a seamless, integrated and standardised information flow between stakeholders based on a publicly available golden copy.

With a view to the expiry of the mandate of the DLT-TF at the end of December 2017 and the future work within the AMI-SeCo on innovation in post trade services, HSG members agreed that the work should continue on broader fintech topics in a dedicated task force. It was stressed that concrete deliverables should be identified at the start in order to focus the work in such a broad area. The regulatory framework relevant to the adoption of innovative market solutions and the assessment of how fintech innovations could possibly solve specific issues in the area of post-trade services were mentioned as key areas of focus. It was also stressed that the work in other fora should be taken into account to avoid parallel workstreams. It was agreed that a high-level draft work programme (outlining at least the initial focus of the new task force) could be prepared to complement the new task force's terms of reference to achieve this.

Action Points

- ***The DLT-TF will continue to work on the use cases to be presented in the December 2017 AMI-SeCo meeting***
 - ***The ECB team will prepare a draft ToR and high-level work programme for a new HSG task force on Fintech in Post Trade services***
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8. XMAP items

Outcome

The chair of the XMAP presented:

- **An XMAP report on analysing cross-CSD activity on T2S:** HSG members welcomed the analysis and the conclusions to adapt the statistics on cross-CSD settlement. It was agreed that the report should be published after it is discussed in the AMI-SeCo in December 2017.
- **An XMAP survey on the usage of optional matching fields:** The aim of the survey was to identify any issues related to market practices on the usage of optional matching fields. The survey identified two deviations from the UDFS, agreed market practices and the relevant T2S harmonisation standard: ES for the usage of the client of the CSD participant field and SK (already known) for using matching information not in T2S. The survey and the XMAP discussion also revealed that the “best market practice” to fill in the Client of the CSD participant is not followed in practice which is mostly due to low penetration rate of the LEIs among the clients of CSD participants. HSG members were of the view that there are good prospects of a rapid growth in the adoption of the LEI in early 2018 which could alleviate the related concerns in the market. It was highlighted that the exercise is likely to be repeated next year which could corroborate this. Some HSG members expressed their views that the current Best Market Practice could be upgraded to a T2S harmonisation standard on this basis.
- Finally the HSG was informed that the XMAP is finalizing **the updated CSD Restriction Rules Catalogue** which is expected to be submitted to the HSG in a written procedure before it is submitted to the AMI-SeCo meeting in December 2017.

Action Points

- ***The XMAP will submit the updated CSD restrictions rule catalogue to the HSG via written procedure in November 2017***
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9. ANY OTHER BUSINESS

Outcome

The HSG meeting dates for 2018 are as follows:

AMI SeCo Meetings	HSG Meetings
20/21 March 2018	5/6 March 2018
21/22 June 2018	23/24 May 2018
20/21 November 2018	18/19 October 2018

Action Points

None

10. List of 22nd HSG meeting participants

Market Infrastructure Board	Mr Joël Mérére	Chairperson
European Central Bank	Mr Gergely Kóczán	Secretary
Market Infrastructure Board	Mr Odonnat Ivan	
Deutsche Bundesbank	Ms Katharina Tobiasch	
BME CLEARING	Ms Teresa Castilla	
BNP Paribas	Ms Cornelia Raif	
BNY Mellon	Mr James Cunningham	
BNY Mellon	Ms Gesa Benda	
Citi	Mr Marcello Topa	
Clearstream Banking AG	Mr Mathias Papenfuß	
Deutsche Bank AG	Mr Stephen Patrick Lomas	
EFAMA	Mr Vincent Dessard	
Euroclear	Mr Edwin De Pauw	

Iberclear	Mr Jesús Benito
INTERBOLSA	Mr Jyrki Leppanen
JP Morgan	Mr Alex Dockx
Monte Titoli	Mr Paolo Carabelli
Nordea Bank Abp	Mr Janne Palvalin
SOCIETE GENERALE	Mr Pierre Colladon
VP Securities A/S	Mr Thomas Bo Christensen
European Commission	Mr Lars Tomas Thorsén
European Central Bank	Mr Helmut Wacket
European Central Bank	Mr Ignacio Terol