



EUROPEAN CENTRAL BANK

EUROSYSTEM

Update on SEG topics

AMI-SeCo meeting

16 June 2023

ECB, DG-MIP



Overview

- 1 Near term focus of the SEG
- 2 Assessment of compliance by onboarding markets with T2S standards
- 3 AMI-SeCo survey on remaining barriers to post-trade integration
- 4 Optimisation of the T2S message customisation

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Near-term focus of the SEG

#	Topic / issue	Time horizon	Remark / priority / urgency
1	Maintaining and monitoring T2S harmonisation standards (T2S Harmonisation Progress Reports, onboarding markets)	H2 2023	High, according to regular T2S HPR cycles (NSG survey from July to September each year, report by December each year)
2	Preparing and executing AMI-SeCo survey on remaining barriers to post-trade integration	One-off, H2 2023	High
3	Withholding tax – analysis / advise on AMI-SeCo views on upcoming EC proposal on WHT procedures	After publication of EC's proposal (June / July 2023)	High
4	Message customisation and common AMI-SeCo schema for broader use of ISO20022 settlement messages	H2 2023 – H1 2025	High
5	T+1 settlement of cash securities transactions in Europe	H2 2023 / H1 2024	Medium, the topic is being analysed by the industry with the lead by AFME, ICMA and other industry organisation. The SEG can have a role in advising the AMI-SeCo's position on the matter in light of the outcome of the industry work
6	Portfolio transfers	tbd	Medium
7	Registration frameworks	tbd	Medium
8	Impact of UK's post-Brexit reforms on European post-trade integration	tbd	Medium
9	Potential end-to-end enhancements to cross-CSD settlement	tbd	Medium

Near-term focus of the SEG

The AMI-SeCo is invited to:

- *discuss and give guidance on the near term focus on the SEG work*

Based on such guidance the SEG will finalise its work programme for 2023-2025

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- 2 **Assessment of compliance by onboarding markets with T2S standards**
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Background

Five markets are expected to migrate to TARGET2-Securities (T2S) in September 2023:

- Euroclear Bank
- Bulgaria – BNBGSSS
- Bulgaria – CD AD
- Finland - Euroclear Finland
- Croatia – SKDD

In March 2023 an **ad-hoc monitoring exercise** was launched to assess the status of compliance of the five markets with the T2S harmonisation activities.

Background

In **September 2023** the Market Infrastructure Board (MIB) will take a **final go/no-go decision** on the migration of the five markets to T2S.

To support the MIB decision and ensure that there are **no obstacles to the migration from a harmonisation standpoint**, the AMI-SeCo will provide the MIB with the results of the finding and its assessment.

Market	Signing of the Framework Agreement	MIB go-no-go decision	Migration date
Euroclear Bank	21 December 2021	early September 2023	11 September 2023
BG – BNBGSSS	20 December 2022		
BG - CD AD	18 October 2022		
FI – Euroclear Finland	2012		
HR - SKDD	19 May 2022		

Overview - Methodology

A four-colours methodology is used for the assessment of migrating markets. The AMI-SeCo Corporate Events Group (CEG) is responsible for the assessment of the Corporate Actions (CA) standards.

Blue - compliance has been achieved

Green - changes are pending; no obstacles to achieving full compliance in time

Yellow - changes are pending; obstacles may affect the implementation by the deadline

Red - changes are pending; obstacles have halted the implementation plan for the market and/or will prevent its full implementation by the deadline.

The assessment of the CA standards (T2S Harmonisation Activities 6 and 18) is being discussed by the AMI-SeCo CEG. The methodology is the same except for Activity 18, for which only two colours are used: **blue** (full compliance) and **red** (gaps in compliance exist), due to the standards being applicable also to non-T2S markets.

Overview – Monitoring results

Migrating markets	Priority 1 standards															Priority 2 standards	
	1	2	3	4	5	6	7	8	9	10	12	13	14	15	16	18	23
Euroclear Bank	G	G	G	G	R-?	Y-?	G	G	G	G	G	G	G	G	B	R-?	G
BG - BNBGSSS	G	B	B	B	G	R-Q4 2024	B	B	B	Y-Q3 2023	G	B	B	B	B	R-Q4 2023	B
BG - CD AD	G	G	G	G	G	G-Q3 2023	B	B	B	G	B	B	B	B	B	R-Q4 2023	B
FI - Euroclear Finland	B	B	B	B	R-?	R-?	B	B	B	B	B	B	R-?	B	G	R-?	B
HR - SKDD	Y-Q3 2023	G	B	B	Y-Q3 2023	G-Q3 2023	G	G	G	B	B	G	G	G	G	R-Q3 2023	B

- This is the **first monitoring for the Bulgarian CSDs** BNBGSSS and CD AD.
- Both CSDs have already implemented several standards and they have plans to close the remaining gaps.
- The implementation of the CA standards **will be finalised post migration** by Euroclear Bank, BNBGSSS and Euroclear Finland (and CD AD, with a small delay for very few sub-standards).
- For 3 other Activities (EB - Act.5, Efi – Act. 5 and Act. 14) there is no concrete target date for full compliance at this stage.

Next Steps

The AMI-SeCo is invited to:

- *agree on the proposed assessments of the migrating markets*
- *agree to send the report to the MIB for their information and consideration in the discussions on the onboarding of these markets to T2S*

Migrating markets	Priority 1 standards															Priority 2 standards	
	1	2	3	4	5	6	7	8	9	10	12	13	14	15	16	18	23
Euroclear Bank	G	G	G	G	R-?	Y-?	G	G	G	G	G	G	G	G	B	R-?	G
BG - BNBGSSS	G	B	B	B	G	R-Q4 2024	B	B	B	Y-Q3 2023	G	B	B	B	B	R-Q4 2023	B
BG - CD AD	G	G	G	G	G	G-Q3 2023	B	B	B	G	B	B	B	B	B	R-Q4 2023	B
FI - Euroclear Finland	B	B	B	B	R-?	R-?	B	B	B	B	B	B	R-?	B	G	R-?	B
HR - SKDD	Y-Q3 2023	G	B	B	Y-Q3 2023	G-Q3 2023	G	G	G	B	B	G	G	G	G	R-Q3 2023	B

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Background

- T2S, the CSDR and the associated work by the industry and the authorities on post-trade harmonisation have removed or reduced the majority of the Giovannini barriers
- Nevertheless, barriers still exist when it comes to market access, level playing field and optimal market integration in the post-trade domain
- In recent months several stakeholders flagged concrete issues to the ECB which could be worth highlighting / exposing in a systematic manner
- The aim is to receive detailed feedback from the whole of the AMI-SeCo / T2S community on remaining issues / barriers in a detailed fashion (not at the level of generalities)
- The proposal is to launch a survey among AMI-SeCo members and NSGs to identify these issues and expose them in detail

Areas targeted by the survey

- Legal / administrative barriers:
 - Different regulatory treatment of the domestic CSD or domestic post-trade service providers vis-à-vis other EU CSDs or foreign service providers (incl. tax-related regulation, related to access to primary issuance system by sovereign issuers).
 - Different regulatory treatment of foreign CSDs based on their business strategies (e.g. treatment of the 'ICSDs' under national law).
 - Potential national regulatory incentives for domestic issuers to issue in the domestic CSD rather than other EU CSDs.
 - Decision by the sovereign debt issuer (DMOs or Treasuries) to only allow the domestic CSD to offer settlement services for public debt issuance (e.g. by not allowing Primary Dealers to settle using securities accounts held in non-domestic CSDs).

Areas targeted by the survey

- Market practice and technical barriers:
 - Technical limitations / potential functional improvements in T2S for cross-CSD settlement (e.g. the way CSD links are set up and used in T2S and vis-à-vis non-T2S CSDs).
 - Charging for cross-CSD settlement / realignment within T2S (some CSDs charge for realignment transactions within T2S while others do not).
 - Remaining issues in cross-CSD settlement between T2S and non-T2S ecosystems (the ease of moving assets between T2S and non-T2S CSDs, in particular the ICSDs / Eurobond markets has been the subject of past discussions. If there are any remaining issues these should be captured by this survey).
 - Access by CCPs to settlement services / CCP-restrictions on settlement locations.

Areas targeted by the survey

- Limited awareness among stakeholders of market access options
 - Limited use of CSD links and cross-CSD settlement
 - Limited use of T2S auto-collateralisation and T2S settlement optimisation features
 - Outdated references to settlement arrangements and use of legacy conventions in issuance programme documents (e.g. use of national settlement calendars)
- Other barriers
 - ?

Proposed next steps

- 1) Outline and scope to be presented to AMI-SeCo in June 2023 meeting
- 2) Design of the survey questions by the ECB team after the AMI-SeCo meeting and wp in SEG / AMI-SeCo
- 3) Launch of survey in Sept / Oct 2023
- 4) Reporting of findings to December AMI-SeCo

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Background

- In December 2021, the AMI-SeCo mandated the HSG to analyse harmonisation of ISO20022 message schemas for the AMI-SeCo community
- In May 2022, the HSG discussed the topic and agreed in principle to look at it in more technical detail
- On 22 May 2023, the HGS/SEG discussed the topic again
- Clearstream presented the topic, illustrating with concrete example the benefits of aligning T2S message schemas to the SMPG Guidelines

Implications of the current T2S message customisation approach

- The current T2S approach implies that T2S messages only contain minimum elements and CR(s)/higher efforts needed to enrich the message customization
- While such an approach was reasonable when designing and launching T2S, over time it adds complexity to the processing of all actors, which results in higher cost and workload
- In addition to the effort for the T2S Operator (CRs) and T2S Actors, the current approach hinders potential re-use of T2S messages throughout the custody chain
- In effect, CSDs have to define their own customizations, and their customers have to deal with a variety of customized messages, even if all concerns settlement on T2S
- This also prevents the T2S community to immediately benefit from the options offered by latest ISO Standard Releases as unfreezing of T2S messages would not automatically result in better customization of T2S messages

Potential solution and way forward

The following revisions to the T2S customization approach should be considered in order to provide message standard for the broader T2S community - DCPs, CSDs and ICP clients:

- **Only minimal customizations using SMPG templates** (where applicable) as a basis are to be implemented
- Customizations are to be **agreed with the T2S community** so that the customized schemas could be used within the broader T2S remit
- **New and updated elements** from future ISO upgrades could be **automatically included** in the message schemas, thus reducing the maintenance effort on T2S side. Currently planned for T2S to be in step with the annual Swift Releases from November 2025 onwards

Potential solution and way forward

Current state	Potential future state
When possible, T2S customization drops all the message elements with no direct connection to the user requirements of T2S	T2S customization drops only those message elements with no usage need within the broader T2S community including T2S, CSDs, DCPs and ICPs
When possible, T2S customization restricts element types to the T2S-specific usage	T2S customization restricts element types to the usage pattern of the broader T2S community
T2S customization sets the occurrence of message elements to the occurrence applicable in T2S	T2S customization sets the occurrence of message elements to the occurrence applicable in the broader T2S community
T2S customization restricts the list of possible code values to the sole codes allowed in T2S	All possible code values are supported, i.e. no customization in this area.

Next steps

- The SEG agreed by consensus that this needs to be analysed further
- In particular, the SEG agreed to set up an ad-hoc Task Force including message specialists and also inviting the 4CB to delegate a representative
- Work should focus first on the core settlement messages and on the key message elements and should take the SMPG usage guidelines as a starting point
- Clearstream has already provided a few concrete suggestions which provide a good starting point
- Ideally, the proposal related to the core settlement-related messages should be made in time for T2S governance to consider these potential changes to be implemented in parallel with the planned ISO unfreeze in November 2025