

## OUTCOME

### 23<sup>rd</sup> meeting of the T2S Harmonisation Steering Group

DATE	05 - 06.03.2018
VENUE	European Central Bank

#### 1. Chairman's introduction

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##### *Outcome*

The HSG chairman welcomed Mr Gerd Heinen as the new observer from the European Commission to the HSG. The group was debriefed on the key points discussed in the latest meeting of the CSG.

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##### *Action Points*

- *None*
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#### 2. EU public authorities initiatives

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##### *Outcome*

The EC representative provided an update on the Commission initiatives relevant to post trade.

##### **CSDR Level II**

The only CSDR level 2 regulatory standard (RTS) that remains to be finalised are on settlement

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discipline requirements. The EC aims at adopting the standards in Q2 2018. Following the adoption, the standards will be subject to scrutiny by the EU legislators for a period of up to 3 months. After this a 2-year phase-in period is envisaged before the RTS starts to apply. Some HSG members expressed concerns that market feedback might not have been sufficiently taken into consideration and advocated ample time for adjustment by the market after the final adoption of the standard. As for level 3 measures ESMA is expected to soon publish its final guidance on reporting on internalised settlement.

**Code of Conduct to simplify withholding tax procedures** The Code of Conduct was finalised at the end of 2017. A public hearing held in January 2018 provided relevant information as well as the way forward. Member State tax experts will meet twice this year to monitor developments and share experiences and potential obstacles in the implementation of the Code by Member States. HSG members emphasized the importance of monitoring the implementation of the Code of Conduct in practice.

#### **Revision of the Shareholders Rights Directive (SRD)**

The revision of Directive (EU) 2017/828 (SRD) was published in the Official Journal on 20 May 2017.<sup>1</sup> The European Commission services are now working on the implementing acts of the Directive which are expected to be adopted by 10 September 2018. This will be preceded by a public consultation presumable in Q2 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 will publish on 8 March a legal proposal on claims (proprietary effects of cross-border assignments of claims) and a communication providing a clarification on conflict of laws with regard to securities (proprietary effects of transactions) which was considered more proportionate than a legal proposal given insufficient evidence of material risks..

#### **Financial regulatory reporting**

A fitness check for financial regulatory reporting will be undertaken until end 2018 to assess the effectiveness, efficiency and coherence of the current framework and to evaluate whether there are potential opportunities for the streamlining of reporting requirements.

#### **SFTR**

8 remaining technical standards will be soon finalised (aiming at Q2 2018) and adopted at the same time in one package.

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#### **Action Points**

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<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:132:FULL&from=EN>

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- **None**
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### 3. Review of the T2S harmonisation monitoring framework

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#### **Outcome**

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On the basis of the discussion and agreement by the AMI-SeCo in December 2017, the HSG discussed a more elaborated set of proposals to amend the harmonisation monitoring framework with a view to the new phase after the completion of T2S migration. Overall HSG members agreed to propose to the AMI-SeCo to

- rename current priority 1 to 'core T2S settlement harmonisation and priority 2 to 'Harmonisation of post trade environment of securities settlement' while emphasizing that there is no ranking of importance between the two lists
- keeping the traffic lights as means to assess and communicate progress on monitored activities by keeping the two-colour scheme (red and blue) on already migrated markets for core standards while allowing for four-colour scheme for all post trade environment activities (current priority 2)
- rely on a reactive monitoring on markets and standards where fully compliant status has been achieved and focus monitoring on non-compliance cases and new activities
- rely on an annual (end of year) publication of harmonisation progress reports which would focus on non-compliance cases and impact assessments as well as new standards and activities

Furthermore, the HSG considered that under the new framework

- a potential reclassification of some existing standards by moving them between the two categories could be investigated (e.g. securities amount data to core T2S settlement, and T2S CA standards to post trade environment)
- the possibility to introduce impact assessments (possibly with different methodology) for post trade environment standards should be explored

In terms of next steps:

A fully fledged proposal would be presented to the AMI-SeCo once there is more information on the existing dependencies (CMU / EPTF follow-up by the EC and definition of collateral management harmonisation activities).

As agreed previously in the AMI-SeCo for 2018 a milestone report would be presented looking back on the achievements and reflecting on on the contribution of the T2S harmonisation agenda to the

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efficiency of the market and presenting the new framework.

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**Action Point**

- **Updated proposal reflecting HSG discussion (after a quick HSG written procedure) to be submitted to the AMI-SeCo meeting of March 2018**
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#### **4. Synergies between T2S CA and CAJWG standards compliance monitoring**

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**Outcome**

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Based on the agreement in the last HSG meeting held in October 2017 the chairmen of the CASG and the CAJWG and E-MIG prepared a note elaborating whether and how the E-MIG could take over monitoring of the T2S CA standards and consolidate the exercise with the monitoring of the CAJWG CA standards.

HSG members agreed that this avenue of consolidation is worth further exploring stressing however that there still remain key open questions to be answered (in particular on governance and secretariat resources) before a clear stance could be taken by the HSG and the AMI-SeCo. Thus, the timeline for possible change in the monitoring framework on this aspect would not occur before 2019 but the E-MIG could already coordinate the 2018 autumn survey also for CASG (e.g. as pilot).

In terms of next steps the analysis should continue and an oral update will be provided to the AMI-SeCo in their March meeting. NSGs should be asked via a survey on their views and on the feasibility of amending the governance arrangements for monitoring the two sets of CA standards.

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**Action Points**

- **AMI-SeCo to be orally updated on ongoing discussions in their March meeting**
  - **HSG members to provide comments on the note in writing by end of March**
  - **ECB team to launch a survey with NSGs seeking their views and input**
  - **Further discussions are necessary with the E-MIG to understand how synergies could be exploited and efficiency increased**
  - **CASG and E-MIG co-chairs review of the note for discussion in the next HSG meeting (30 May)**
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## 5. Portfolio transfers – review of T2S Harmonisation Standard 4 (tax info)

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### **Outcome**

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On the basis of the discussions in the HSG in October and November 2017 the ECB team carried out a survey with NSGs on the potential impact of changing T2S harmonisation standard 4 – tax information. The rationale for such a change would be to enable the adoption of a market practice for portfolio transfers that require the transfer of tax info via T2S settlement messages by some T2S markets. In some T2S markets the current wording of the standard is considered too restrictive and prevents previous practice of exchanging tax-related information in the context of portfolio transfers. The survey highlighted that the suggested rewording of the T2S standard 4 could give room for differing interpretations. On the substance of the proposal, HSG members' views differed as to whether changing the standard and allowing the misuse of an ISO 20022 field of the T2S settlement instruction (i.e. Party 3) to transmit tax information should be supported or not. The HSG acknowledged that the message field that would be misused is not currently used for settlement in T2S; nevertheless it cannot be excluded that it might be used in the future for T2S processes (e.g. matching) in compliance with the ISO 20022 definition. Some HSG members pointed out that probably only a few markets would use T2S messages to transmit tax information thus such move could create a precedent of adjusting standards to the needs of a few T2S markets for very specific business cases. Other HSG members highlighted that the current wording of the standard is suboptimal as it bans a use case which would have no direct or indirect effect on the rest of the T2S Community and therefore prevents an efficient use of T2S. It was pointed out that the business case of portfolio transfers for changing the standard could be articulated better and it could even be considered to restrict transmission of tax info only for the special case of portfolio transfers. It was agreed to draft a set of principles as preconditions for potentially allowing tax information to be transmitted via T2S messages with a view to prevent any impact on those stakeholders that do not want to transmit tax info and to ensure that fields in T2S messages remain available for any potential future T2S harmonised use in T2S.

### **Action Points**

- ***James Cunningham to offer alternative drafting for the new standard by limiting the opening to portfolio transfers only***
  - ***Pierre Colladon would start working on a draft handbook for portfolio transfers by preparing an outline***
  - ***Set of principles to be drafted by HSG Secretariat based on discussion and to be included in updated note***
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- ***HSG Secretariat would update the note based on these contributions and circulate it on a written procedure within the HSG. The updated note will be discussed in the May 2018 HSG meeting.***
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## **6 Collateral Management Harmonisation – CMH-TF reporting**

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### ***Outcome***

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The HSG discussed the progress made in the CMH Task Force since the approval of the CMH-TF's first report to the AMI-SeCo in December 2017. The first key deliverables by the Task Force are harmonisation proposals for collateral management in the fields of tri-party and corporate actions expected to be brought to the AMI-SeCo in June 2018. The CMH-TF is making good progress and had also involved ECSDA and SWIFT in their fact finding exercise and also received valuable input from the CASG. Furthermore in the future all CMH-TF documents will also be shared with NSGs as soon as they are submitted to CMH-TF meetings. The Task Force welcomes any feedback from NSGs on its work. Additional expertise on cash / liquidity and treasury management would be useful and HSG members were encouraged to spread the news on the work of the Task Force within their institutions/constituencies targeting colleagues working in that field.

Some HSG members noted that the timeline to achieve the objectives set by the AMI-SeCo in December 2017 is ambitious in particular for harmonisation in corporate actions. However, it was highlighted that there is momentum for harmonisation in view of the ECMS project and there is also a unique opportunity for the market to contribute to the harmonisation of collateral management in general and to the harmonisation efforts in the context of ECMS in particular. Some HSG members noted that actual use of ISO20022 messaging by market participants is still low as a high number of stakeholders still use conversion services also to interact with T2S. On this aspect it was pointed out that SWIFT created a Task Force to analyse the use of ISO20022 and how the use in the securities industry could be further promoted. It was pointed out that collateral management harmonisation is also highly relevant for buy-side market participants not only for banks or financial market infrastructures.

### ***Action Points***

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- ***Ad-hoc HSG meeting to be held on collateral management harmonisation in June 2018 (tbc);***
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## 7. Fintech-TF reporting

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### ***Outcome***

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The HSG took note of the progress made in the Fintech-TF since its formation in January 2018 and the TF's work plan for 2018 was agreed. It was also agreed that the European Commission's Fintech Action Plan (published after the meeting on 18 March 2018) should also be taken into account in the planning of the work of the Task Force. The need to monitor existing market initiatives (taking into account the sensitivity of commercial interests) was also highlighted.

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### ***Action Points***

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## 8. CASG update

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### **Outcome**

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The HSG took note of the update on CASG activities since the last HSG meeting. Inter alia the CASG provided feedback and input to the CMH-TF on corporate actions on harmonisation needs related to corporate actions, discussed the synergies between T2S CA and CAJWG standards compliance monitoring (see item 4) and discussed and supported the global initiative by the SMPG to introduce new ISO20022 messages related to market claims. The HSG approved the updated FAQ on T2S CA standards clarifying the treatment of partial settlements in case of reverse market claims.

The CASG – on the basis of a draft AFME discussion paper – also had a discussion on the relationship between withholding tax (WHT) procedures and market claims and noted the existing barriers to harmonisation inherent in individual Member States' practices. In general some HSG members perceived the risk that the recently adopted Code of Conduct on WHT procedures may not give detailed guidance to Member States with regard to their WHT procedures and might hence not provide full harmonisation. HSG members agreed to highlight to the EC that WHT procedures and in particular their potential effect on execution of corporate actions are of key importance from a harmonisation perspective.

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### **Action Points**

- ***James Cunningham and Marcello Topa will prepare a draft letter to the EC highlighting the importance of the topic and aiming at keeping momentum in terms of procedures and follow-up***
  - ***Gerd Heinen will informally check whether there would be openness among EC tax experts to receiving an input from the HSG / AMI-SeCo***
  - ***The updated T2S CA FAQ will be uploaded to the ECB website***
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## 9. XMAP reporting

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### ***Outcome***

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The HSG took note of the update on recent XMAP discussions. In particular

The XMAP continues to analyse potential changes to T2S matching practices and is collecting ideas in this field. The continuation of this discussion will depend on whether any ideas that are worth analysing further emerge.

The XMAP carried out a survey on the usage of the Restriction Rules Catalogue the outcome of which suggests that there is very limited use of the document. For CSDs the information is available from other sources hence the catalogue is not required for transparency purposes. The HSG invited the XMAP to investigate whether such alternative source of information is also available for CSD participants.

The XMAP prepared a note clarifying T2S functionalities and the boundaries between T2S processes and external (issuer) CSD processes when settling non-T2S issued securities in T2S. The HSG supported the conclusions of the XMAP in particular:

- it is up to each CSD's business decision to decide how it wants to use available T2S functionalities and set up its links
- for cross-CSD settlement of Eurobonds on T2S the ICSDs suggested solution would not require a change request to T2S but would assume that only two T2S investor CSDs would link directly to the ICSDs as (technical) issuer CSDs.
- should other solutions potentially allowing for other non-T2S issued securities and more than two direct links from T2S CSDs to the external issuer CSD be contemplated, a T2S change request could be one of several solutions in case cross-CSD settlement between all those T2S CSDs is requested, i.e. justified by the business case. In any case, on top of a possible T2S change request the investor CSDs would have to put in place a mechanism for realignment outside T2S (i.e. in the books of the external issuer CSD).

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### ***Action Points***

- ***Clarification note on cross-CSD settlement of non-T2S issued securities will be submitted to 20 March AMI-SeCo meeting***
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## 10. Presentation on ES market practice on matching fields

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### ***Outcome***

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As a follow-up and the discussion in context of the 8<sup>th</sup> Harmonisation Progress Report on the ES market practice on matching fields representatives from Iberclear presented the ES market practice.

The ES market uses the Party2 field of T2S settlement messages to include not only the client of the CSD participant but also often the end investor which is further up the settlement chain than the client of the CSG participant. The key motivation is to prevent cross-matching which is considered a high risk in the ES practice particularly in the field of settlement related to funds.

The ES market proposes to change the T2S matching logic or allow for greater flexibility on the use of the Party2 field (by adding Party 3 as a new matching field in T2S).

The HSG agreed to rely on the ongoing discussion within the XMAP on matching practices within the T2S community as a whole to see whether there is a business case to propose a change in T2S matching rules.

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### ***Action Points***

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## 11. Any other business, next meetings

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### ***Outcome***

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On the occasion of his last HSG meeting the Chair – on behalf of all HSG members and the ECB – thanked Stephen Lomas for his invaluable contribution to the work of the HSG and the T2S harmonisation agenda in general throughout the last almost 10 years.

The next HSG meeting will be held on 30 May between 9:00 and 17:00 (confirmed, moved from previously agreed 23-24 May due to AFME conference).

The date for an ad hoc HSG meeting to be set (envisaged to be in June) to discuss CMH-TF report to the AMI-SeCo

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### ***Action Points***

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### List of 23<sup>rd</sup> HSG meeting participants

Market Infrastructure Board	Mr Joël Mérére	Chairperson
European Central Bank	Mr Gergely Kóczán	Secretary
Market Infrastructure Board	Mr Audrey Metzger	
Deutsche Bundesbank	Ms Christine Moser	
BME Clearing	Ms Teresa Castilla	
BNP Paribas	Ms Cornelia Raif	
BNY Mellon	Mr James Cunningham	
Citibank	Mr Marcello Topa	
Clearstream Banking	Mr Mathias Papenfuß	
Deutsche Bank	Mr Stephen Patrick Lomas	
EFAMA	Mr Vincent Dessard	
Euroclear	Mr Edwin De Pauw	
Iberclear	Mr Jesús Sanchez	
Iberclear	Mr Francisco Béjar Nunez	
Interbolsa	Mr Jyrki Leppanen	
JP Morgan	Mr Alex Dockx	
Monte Titoli	Mr Paolo Carabelli	
Nordea Bank Abp	Mr Janne Palvalin	
SIX Securities Services	Mr Florentin Soliva	
Société Générale	Mr Pierre Colladon	
VP Securities	Mr Thomas Bo Christensen	
European Commission	Mr Gerd Heinen	
European Central Bank	Mr Helmut Wacket	
European Central Bank	Mr Ignacio Terol	