

16 February 2017

DRAFT

OUTCOME

20TH MEETING OF THE T2S HARMONISATION STEERING GROUP

DATE	25.01.2017 to 26.01.2017
VENUE	European Central Bank, Frankfurt am Main, Germany

1. Chairman's introduction and updates from members

Outcome

The HSG chairman, Joel Merere, welcomed Gesa Benda, Laurence Caron-Habib and Adam Bate (dialled in) as observers to this meeting. He clarified that formal nominations for the AMI-HSG composition will be discussed by the AMI SeCo in March.

Paolo Carabelli, chairman of the T2S message standardisation subgroup (SGMS) reported that on 8 February, the group will discuss the issue of the LEI usage in the client of the CSD participant message fields. The SGMS chair will report to the HSG in June 2017.

Action Points

- **SGMS to report to the HSG on the LEI usage in June 2017**

2. EU public authorities initiatives

Outcome

Based on information provided by the European Commission (EC) services, the ECB team debriefed the HSG on the current status of the relevant initiatives and the impact on the T2S harmonisation agenda.

CSDR: On 11 November 2016 the EC adopted all level 2 measures under CSDR with the exception of the technical standards on settlement discipline which are expected to be adopted in the first half of 2017. The delegated act and the regulatory technical standards are currently subject to scrutiny by the European Parliament and the Council. All measures are expected to enter into force in 2017.

CMU: EC published a mid-term review of the CMU action plan. The review includes updated information regarding the state of play of key CMU actions as well as a consultation on missing elements (deadline: 17 March 2017). The input from this consultation will help the EC to take stock of the already adopted measures as well as integrate complementary measures to implement a CMU. The EC will present its mid-term review of the CMU Action Plan in June 2017.

The HSG members agreed that all relevant T2S harmonisation issues are already under the CMU and EPTF agenda, i.e. conflict of laws, withholding tax procedures and registration/shareholder identification. As a result, the HSG members agreed that there is no need for further input to the mid-year CMU report.

*At the same time the EPTF is working on finalising the Phase 1 report (stock taking) which will come as an annex to the Phase 2 report (on existing and emerging barriers) which will be the formal EPTF report to the EC. EPTF constituencies will be consulted on the full report, in principle after the 17 February EPTF meeting. The report will then be published and be subject to public consultation (around March 2017). **The HSG agreed that the AMI SeCo should provide input to the EPTF consultation on the above well identified issues.***

Shareholders Rights Directive (SRD): On 7 December 2016 a political agreement on the SRD was reached. The text of the Directive is currently in the process of being finalised. It will then be submitted for a formal vote at an EP plenary session, most probably in March 2017, and then to the Council. The Directive will require further implementing acts to be adopted by the Commission at the latest 15 months after entry into force of the Directive

The HSG members were of the view that the current SRD text is in the right direction and supportive of cross-border shareholder identification.

Action Points

- **AMI SeCo will be invited in due time to provide input to the draft EPTF report, prior to European Commission's publication for official consultation.**
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- **HSG chairman to report to AMI SeCo the reasons why HSG members agreed that there is no need to provide input to the CMU mid-term review consultation.**
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3. T2S Harmonisation Activities

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

3.1 MID-YEAR HARMONISATION UPDATE

Outcome

The HSG members agreed to the 2017 action plan for the T2S harmonisation activities. The key actions include:

- *Two harmonisation progress publications (mid-year update in Summer 2017 and 8th report by end 2017);*
- *Launching the compliance monitoring for Settlement Finality I (i.e. entry of transfer order into the system) for all T2S markets;*
- *T2S corporate action gap analyses to feed into the harmonisation progress publications.*

The HSG had a forward looking discussion regarding whether there is a need for pursuing further the T2S harmonisation agenda, i.e. beyond the planned T2S migration waves and after 2017.

The HSG members agreed that there is still need for the T2S community of stakeholders to continue pursuing the T2S harmonisation agenda for the following key reasons:

- *Despite work at EU level, definition gaps will most probably remain in the priority 2 harmonisation topics on legal, fiscal and other regulatory issues. AMI SeCo should be in position to contribute to the on-going work;*
 - *Need for further monitoring either non-migrated (e.g. DK currency migration and Euroclear FI) or non-compliant red markets (e.g. on corporate actions) especially after those markets migrate and operate in T2S;*
 - *maintaining and/or updating the T2S standards given the need for clarifications and detailed analysis after the T2S production experience of T2S stakeholders.*
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Action Points

- **HSG chairman to present to the AMISeCo the key T2S harmonisation agenda actions for 2017 and the first ideas for 2018;**
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3.2 PORTFOLIO TRANSFERS

Outcome

The HSG did not have a discussion due to lack of supporting documentation. The respective drafters agreed to provide the deliverables before the HSG meeting, planned for 8-9 June 2017.

Action Points

- ***Pierre Colladon to present in June HSG a non-paper proposal, with pros and cons, on a short term solution for portfolio transfers, including the analysis on the current relevance of standard 4;***
 - ***Clearstream and Deutsche Bank experts to present in June HSG, a non-paper proposal 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 SETTLEMENT FINALITY I

Outcome

See outcome on agenda item 3.1

Action Points

See action on agenda item 3.1

3.4 REGISTRATION

Outcome

Joel Merere reported that the EPTF is working on the registration issue in the context of drafting the new EPTF barriers. The HSG members agreed that EPTF is the forum where the issue is discussed at EU level and reconfirmed the long standing AG view that differences in registration can be a barrier for cross-border securities services (and thus CMU).

The HSG members re-iterated their support for the revised Shareholder Rights Directive (SRD) and the positive impact it will have on cross-border shareholder identification requirements.

Some HSG members raised the issue that shareholder identification data

fields may require further harmonisation. This is not covered in SRD Level I but may be there in the SRD level II proposals. The HSG may need to provide input to any potential consultation on the level II.

Action Points

- **HSG to re-assess the registration issue, and provide input if needed, within the context of the upcoming EPTF report consultation and the SRD level II definition.**
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4. CASG reporting

Outcome

James Cunningham (CASG chairman) provided an update version of the corporate actions Frequently Asked Questions (FAQs). The current update focuses on aligning the FAQs with the “explanatory note on CAs”, i.e. a complementary text to the T2S CA standards.

The HSG approved the final draft for further publication on the ECB website.

Action Points

- **ECB team to publish the FAQs document on the ECB website**
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5. XMAP reporting

Outcome

Ignazio Terol (XMAP chairman) presented the revised Catalogue of CSDs’ restriction rules. It now covers EoC FI plus any latest information on the other CSDs. This is the first complete version of the catalogue, covering for the first time all T2S CSDs and markets.

The HSG will review the final version prior to its presentation to the AMI SeCo for approval and publication.

Action Points

- **ECB Team to consult the HSG via a written procedure prior to delivering the revised catalogue to AMI SeCo**
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6. Impact Analysis monitoring update

Outcome

The ECB team presented the on-going monitoring results in the context of the Impact Analysis report:

- *The German market has introduced Record Date as of 1 January 2017*
- *The Italian market fully complied with T2S CA Standards as of 23 January*
- *The Romanian market is on track to fully comply with the T2S CA Standards as of 6 February [confirmed in the meantime].*

The next version will be presented to the first AMI SeCo meeting for approval prior to delivery to the MIB. The HSG will be consulted prior to the AMI SeCo via a written procedure.

Two HSG members raised the issue for re-assessing the T2S harmonisation standard regarding the T2S opening days when the TARGET2 is closed. There are high costs for remaining open during these days. In this context, the Italian market has decided and announced, unilaterally, that it will remain closed on 1 May 2017. This would trigger a change of its compliance status and an assessment of its impact.

The majority of the HSG members commented that there were valid reasons for establishing the current T2S calendar. First, in order to facilitate interoperability with non-T2S markets, at least for FOP transactions. Second, to facilitate collateral pooling which may be required globally and independently of the TARGET2 opening days.

Some HSG members noted that the issue is with the gap between T2 and T2S and thus one possible solution could be to expand the T2 calendar.

Action Points

- *Paolo Carabelli and Jesus Benito to present the cons and pros of revising the standard on the T2S calendar for the June HSG*
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7. DLT-TF reporting

Outcome

HSG approved the revised composition of the DLT TF.

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- *AFME to replace its representative: Mr. Emmanuel Le Marois*
 - *Iberclear to replace its representative: Ms. Berta Ares*
 - *ESMA to join (as an observer): Ms. Anne Choné*
 - *Banque de France to join: Ms. Cécile Becuwe*

The HSG members welcome the interim analysis provided by the DLT-TF on DvP, account structures and reporting. No decisions or proposals were agreed for the time being.

DVP on DLT

The key outcome of the interim deliverable is that DLT models are compatible with DVP settlement. There are different models to do so on either a commercial (CoBM) or a central bank money (CeBM) basis.

No impact identified so far on the T2S harmonisation activities but further analysis is required by the DLT-TF on whether there is need for new activities (outside T2S).

DLT and account structures

The TF analysis shows that DLT models are flexible as far as different account structures and asset segregations are concerned. The DLT TF proposed to the HSG that a survey is launched with the T2S National User Groups (NUGs) on certain issuance, registration and securities rights issues. The HSG members agreed as long as this survey does not duplicate previous (see T2S AG) or on-going (see EC) surveys on securities rights.

It was agreed that DLT TF survey will be reviewed by the HSG prior to distribution to the NUGs.

Action Points

- ***DLT-TF consolidated deliverable to be presented in the June HSG with a view of discussing possible proposals and AMI SeCo follow up actions thereafter***
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8. COLLATERAL HARMONISATION

8.1 SCOPE OF COLLATERAL HARMONISATION

Outcome

In view of the first AMI SeCo meeting, the HSG had a first exchange of views regarding the harmonisation work on collateral management. The starting point

was the harmonisation work as prepared by the COGESI.

COGESI Workstream 1 (WS 1): Collateral Mobility

Laurence Caron-Habib (BNP Paribas) presented the outcome of the WS1 on “collateral mobility”. The workstream covered topics such as ISO 20022 collateral messages, product definition, reporting etc.

WS1 concluded that regarding messages, the work should be merged with WS3 topics (see below). Further work may be required in the area of cut-off times for non-T2S markets.

COGESI Workstream 2 (WS 2): Collateral holding and segregation

Gesa Benda, BNYMellon presented the work and outcome of WS2 (collateral holding and segregation). The work covered transparency where the need for ISO 20022 collateral messages were also discussed (see again on WS3 below).

On asset segregation, WS 2 agreed that recent regulatory requirements may have an impact on collateral management (bilateral and tri party collateral arrangements) as they may negatively affect collateral pooling. This topic is currently discussed under the EPTF agenda.

On insolvency issues, the WS concluded that it was not fully equipped to resolve the topic or make proposals. This topic is currently discussed in the EPTF although there is no clarity as to the way forward.

COGESI Workstream 3 (WS 3): Collateral messaging

The ECB team presented the work of WS3 which was focused on the need for harmonisation in collateral messages (e.g. standard, syntax, content and format). ISO collateral messages could be the way forward (ISO 20022) but the ISO framework needs to evolve in order to capture the collateral business needs.

The issue is also a topic the Eurosystem is currently looking at, due to its preparatory work on the Eurosystem Collateral Management System (ECMS).

WS3 has concluded on the need for further work on mapping and inconsistencies, as well as a call for universal standard collateral ISO 20022 messages.

HSG members acknowledged the relevance of this issue but noted that some market actors although they welcome ISO 20022, may show little appetite for immediate implementation due to other priorities (T2S, regulatory compliance etc.)

The HSG members welcomed the upcoming expansion of the post trade harmonisation work which goes beyond T2S. They agreed that this is the right time for starting thinking on how to implement the collateral harmonisation agenda (see agenda item 8.2). The on-going EPTF work should be closely monitored by the HSG, where relevant for collateral topics too.

The HSG members also welcomed further evidence and data which would be helpful to be provided in order to substantiate the relevance of some issues in the AMI SeCo.

Action Points

- *ECB team to prepare a non-exhaustive list of potential harmonisation activities (sub-workstreams) for discussion in the June HSG meeting, prior to AMI SeCo, and taking into account the COGESI work (see action point 8.2)*
 - *HSG members to provide support in drafting the list via written procedures*
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8.2 Methodology and organisation

Outcome

The HSG had a first discussion on how to structure and approach the collateral management harmonisation methodology within the context of the AMI SeCo mandate.

The first preliminary conclusions of the HSG discussion will be presented by the HSG chair (Joel Merere) to the AMI SeCo during its first meeting on 6 and 7 March 2017:

- Based on the COGESI work on collateral management harmonisation and also taking into account the on-going work on ECMS harmonisation, the HSG will establish a comprehensive, but non-exhaustive, **list of collateral management harmonisation activities**, similarly to the approach followed by the AG at the early stages of defining the T2S harmonisation agenda.

The HSG will aim at presenting a first draft of this list to the AMI SeCo during its July 2017 meeting.

- This list of activities will aim at describing clearly and concretely i) the identified **barrier** covered under the activity, ii) the **objective** of the activity, iii) the **deadline** for compliance with the standard or best market practice (after been endorsed by the AMI SeCo) and iv) the **relevant**
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actors for defining, monitoring and implementing the endorsed rule (standard/best market practice).¹

- Where the endorsed collateral harmonisation rule is relevant for the efficiency of collateral mobilisation in the T2S markets and/or ECMS, it would be considered as a **mandatory standard as per the T2S Board view**² and would be covered under the present T2S harmonisation methodological approach, including compliance statuses, impact analysis and escalation measures via the MIB, where relevant.
- In the cases where the AMI SeCo considers that the collateral harmonisation rule is not directly related to the T2S framework of operations and/or ECMS, the **methodology to be applied would be assessed on a case by case basis**. One proposal discussed by the HSG members was to consider the methodology to be followed based on the perceived incentives of the relevant AMI SeCo stakeholders to achieve full compliance. For example, there may be no need for a mandatory standard approach to be followed in these non-T2S cases when the AMI SeCo harmonisation rule is perceived as being subject to immediate and smooth implementation by the relevant stakeholders.

In any case, the HSG will be proposing to the AMI SeCo that the HSG will monitor, via the T2S/AMI SeCo National User Groups, all AMI SeCo endorsed collateral management harmonisation rules, independently of their T2S and/or ECMS relevance or standard/best market practice status.

Action Points

- ***HSG chairperson to present the outcome of the HSG discussion regarding collateral management harmonisation approach to the AMI SeCo on 6 - 7 March***
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¹ The current T2S harmonisation methodology distinguishes between two sets of harmonisation rules, i.e. mandatory standards and best market practices. The first are closely monitored by the AG and compliance statuses are published on the ECB website. An impact analysis, including follow up actions proposals are prepared by the AG and provide to the MIB.

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https://www.ecb.europa.eu/paym/t2s/pdf/View_of_the_T2S_Board_on_the_T2S_harmonisation_standards_compliance_framework.pdf?28a03b0eb7e991a25f05a610bbc37bbe

9. ANY OTHER BUSINESS

9.1 2017 MEETING DATES

- *8-9 June 2017 (ECB)*
 - *26-27 October 2017 (ECB)*
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