

OUTCOME

14TH MEETING OF THE T2S HARMONISATION STEERING GROUP

24 – 25 February 2015, ECB

1. Chairman's introduction and updates from members

HSG members will provide updates on T2S-relevant initiatives and recent meetings on post trade harmonisation not covered in the agenda (e.g. T2S Board, European Commission).

The Group will discuss the remaining open action points from the 13th HSG meeting.

HSG members to approve any changes in the HSG membership (including its substructures)

Background Documentation:

28//11/2015, Outcome of the 13th HSG meeting

Outcome

Paul Symons to be replaced by Edwin de Paw in the HSG. In addition Silvia Buicanescu replaces Adriana Tanasoiu. Both replacements to be formally approved by the AG on 23 March 2015.

Paul Bodart provided an update on the work of the two task Forces in the context of the European Post Trade Group (EPTG), on ETFs and on Shareholder's transparency. The first forum has identified the lack of harmonisation in ETF issuance across EU Member States and plans to present to the EPTG some proposals for further action. Regarding the second forum, a paper is being drafted to be delivered to EPTG, possibly by mid-June 2015. Six major EU markets, plus the Nordic ones markets, are covered in this note focusing on the national divergences on shareholders' transparency and registration and the possible way forward. .

The Commission representatives updated the HSG on the CSDR level II consultation. The relevant ESMA Task force is in the process of assessing the responses to the consultation. EBA

is also working on their own consultation on the relevant technical standards they have been mandated to draft. According to the adoption plan, the Commission should receive the relevant proposals by 18 June 2015.

Regarding the Commission Green Paper on Capital Markets Union (CMU), the deadline for responses to the consultation is 15 May 2015. Over the summer period, the Commission will assess the feedback and will publish, in Q3-Q5 2015, an Action Plan (White Paper) on the issues it intends to pursue in its agenda. There are short and medium term topics in the Green Paper. The first focus is on SMEs, prospectuses and securitisation. The second includes some post trade related topics such as Securities Law Legislation (SLL), withholding tax procedures and Insolvency/Company Law. The SLL could also be relevant for the cross-border use of collateral.

The HSG members agreed to propose to the AG that a T2S community response to the CMU Green Paper is delivered to the Commission. This work should commence immediately and not wait for the 23 March 2015 AG meeting for formal approval.

Follow up/Action points:

- Paul Symons to be replaced by Edwin de Paw (subject to AG approval)
- Adriana Tanasoiu to be replaced by Silvia Buicanescu (subject to AG approval)
- ECB Team to start drafting an AG response to the EU Commission's Green Paper on Capital Market's Union (CMU); a first draft will be delivered to HSG members by Wed 4 March 2015 (for concrete drafting comments by 10 March 2015).
- The draft AG response on the EU Commission Green paper will be presented to the AG on 23 March 2015

2. HSG Action Plan

The ECB Team will present a proposal for the HSG action plan in 2015

Background Documentation:

24/02/2015, presentation on the HSG objectives for 2015

Outcome

The ECB Team presented a proposal for the objectives of the T2S harmonisation agenda, and the HSG, during 2015. The HSG agreed to focus the work on preparing the sixth T2S harmonisation report and in particular the monitoring of the migration wave 2 T2S markets. In addition, the HSG agreed that the focus of the priority of the work on standards definition should gradually move to priority 2 topics. The AG contribution to the Capital Markets Union (CMU) is an excellent opportunity to foster the position of these topics (e.g. Securities Law, Withholding tax procedures) in the EU political agenda.

Regarding the future harmonisation efforts in the wider EU securities services, the HSG members raised concerns about the efficiency of the work of the European Post Trade Group (EPTG). Although the value of a European group for exchange of information between EU public authorities and the market was recognised, HSG members questioned the added value of its concrete deliverables (i.e. Annual report, lack of clear mandates for the sponsored task forces).

Some HSG members argued that a new “CESAME2” style of group is needed at EU level with a clear mandate for steering the securities harmonisation agenda. In the context of this discussion, the role of the HSG in positioning itself in the wider, post-T2S, harmonisation agenda was mentioned.

Follow up/Action points:

- None

3. CASG reporting

The chairman of the CASG will present the results of the 2015 gap analysis. The outcome of the results will be part of the fifth harmonisation progress report

Background Documentation

17/02/2015, T2S CA standards gap analysis report

17/02/2015, Detailed responses to the T2S CA gap analysis

Outcome

James Cunningham, chairman of the CASG, presented the results of the latest T2S corporate actions (CA) gap analysis. Good progress in all markets was reported. The results show a change from 11 red status T2S markets to five.

The HSG welcomed the report and the progress achieved in terms of compliance. Some HSG members asked for further clarity on the methodology used. For example a clear distinction should be made in the report between the (current) statistical compliance of T2S markets and the projected assessment of their implementation plans.

The chairman also reported on the remaining issues currently under discussion in the CASG: tax treatment of market claims, risks in case of cancellation of underlying transaction or CA event and the minimum settlement unit. For some of these topics, the CASG will need to maintain a close cooperation with the Corporate Actions Joint Working Group (CAJWG), i.e. the forum that maintains the market CA standards.

Some HSG members suggested that the CASG could also include in its priorities, the need for clarification on the usage of the message field “COAF” in the settlement instructions related to a corporate action.

Follow up/Action points:

- To update section 1.1 on the T2S markets' compliance status and resend to HSG for final comments. The explanatory text and the relevant Table 6 should distinguish between present stock taking (i.e. current compliance level, statistical value) and overall compliance assessment (i.e. expected future compliance by migration date).
- The clarification of the usage of the "COAF" field in the messages should be a follow up point in the CASG planned work in 2015

4. Impact analysis of non-compliance

The ECB team will present the updated impact analysis to the HSG for further discussion. The document will be presented to the AG on 23 March 2015 for approval and dissemination to the T2S Board afterwards.

Background Documentation:

19/02/2015, Updated Impact Analysis Report

19/02/2015, Summary Note on the Impact Analysis Report

CBF_DE NUG presentation on Implementation Plan

Outcome

The ECB Team presented the update impact analysis of the non-compliant T2S markets. The main change to the previous version is the inclusion of the assessment of the German market's implementation plan.

The HSG took note that a record date will be introduced to the German market on 1 January 2016. This is a major achievement well before the migration of the German market to T2S. The majority of the remaining gaps with the T2S CA standards will be covered within six months after the migration of the German market to T2S. The HSG agreed that there will be a high impact on the rest of the T2S markets for this limited period. The HSG also agreed that after this period the impact is expected as low, since the non-compliance thereafter will only affect the timing of the generation of the market claims (after the settlement of the underlying transaction). However, the rest of the T2S community will still be impacted since there is no firm date for the full compliance of the German market with the remaining T2S CA standards (i.e. the red compliance status will remain). The HSG agreed that the German non-compliance impact should be monitored by the T2S community taking into account the volume affected (German NUG to provide this analysis after migration to T2S).

The HSG took note, and will include in the impact analysis, that the implementation plans of the remaining T2S markets covered in the report are on track.

Follow up/Action points:

- To redraft the text on the German market assessment and in particular to distinguish between the high impact until the end of the six months period after the migration to T2S and the expected low impact thereafter; ECB team to check with the HSG prior to submission to the AG
- The HSG agreed with the current proposal to the T2S Board. However a reference should be made to the re-assessment of the issue of the remaining non-compliance subject to the statistical analysis of volumes to be provided to the T2S Board/ECB Team by the German NUG and to the future monitoring.

5. Fifth T2S harmonisation progress report

The ECB team will present a first draft of the fifth T2S harmonisation progress report. The report will be presented to the AG for approval on 23 March 2015. Publication is planned for 13 April 2015.

Background Documentation

17/02/2015, Fifth T2S Harmonisation Progress Report _ Draft version

Outcome

The ECB Team presented the draft Fifth T2S harmonisation progress report to the HSG for their approval in principle and for further delivery to the AG on 23-24 March 2015.

The HSG welcomed the high quality of the draft report, agreed on the key messages and invited the ECB team to take into account the following points:

- To add a clarification on the impact of not having a standard agreed on settlement discipline regime prior to the launch of T2S and to strengthen the message on the impact of the non-existence of a standard on SDR on the launch of T2S.
- To check with NBB SSS on their compliance with T2S standards on ISO messages and mandatory matching fields since there is now a new IT platform in production
- HSG members agreed on the status changes in the T2S CA standards
- HSG members agreed on the revised statuses for Finland (from Green to Blue) on ISO messages, mandatory matching fields, securities amount data and securities accounts numbering. This is due to a new IT system development in the Finnish CSD.
- HSG members also agreed on the revised status for the Maltese market (from yellow to Green) regarding the compliance with the standards on the schedule of the settlement day (due to the new timetables of the Maltese CSDs)

The ECB Team will revise the report and deliver it to the AG on 16 March 2015.

Follow up/Action points:

HSG members agreed to:

- keep Annex 3 on the high level summary of the non-compliance impact analysis;
- include in the report some explanatory/clarification text on the impact of non-resolution of the Single Settlement Discipline Regime activity prior to the launch of T2S;
- the ECB Team's proposals on the status changes for Malta and Finland
- indicate in the report that in the next reporting cycle the AG will not only focus on migration wave 2 markets but will also assess the actual compliance achieved by the markets in the first T2S migration wave after go-live;
- indicate in report that T2S is not solving issues stemming from lack of legal harmonisation (as wrongly written in COM papers related to CMU);
- provide their written comments as track changes by 4 March 2015;
- have a reference to the CMU in the key messages.
- ECB Team to prepare a revised version for the 23-24 March AG meeting

5.1 Portuguese market non-compliance with omnibus account restriction

Based on new information provided by the Portuguese NUG, the ECB team has prepared a note on the non-compliance of the Portuguese market.

Background Documentation

06/02/2015, Restrictions on omnibus accounts segregation for the Portuguese market

Outcome

The ECB Team presented a note which was drafted with the help of the Portuguese NUG. The HSG agreed to propose to the AG that the compliance status of the Portuguese market regarding the restrictions on the usage of the omnibus accounts is turned from Yellow to Blue.

The HSG based its agreement on the clarification that the account segregation applicable to certain custodian holding assets of Portuguese investment and pension funds does not need to be propagated down the holding chain of custody (i.e. by the clients of Interbolsa's direct participants). In addition there is no issue for the foreign intermediaries in Interbolsa to offer this segregation at CSD level. Finally the HSG could not identify any business case for Investor CSDs to offer such custody services to Portuguese funds at the level of the Portuguese CSD.

This status is differentiated from the Yellow on the Finnish market, since the account segregation propagation is valid for all intermediation covering Finnish investors.

Follow up/Action points:

- To change the status of the Portuguese market from yellow to blue
- Paul Bodart to present the topic to the AG meeting

5.2 Proposal on withholding tax procedures

The AG has invited the HSG to analyse further the reasons why the “T-BAG recommendations are particularly important for a level playing field in T2S” (see below the outcome of the AG).

The HSG will have a discussion on the way forward

Background Documentation

19/02/2015, Withholding Tax Relief Procedures

Outcome

The HSG members agreed that the harmonisation in the withholding tax procedures should be part of the AG response to the Commission’s Green Paper on CMU. The HSG would like to raise the point, within this response, that all EU intermediaries should be able to offer Authorised Intermediary services to all EU markets.

Follow up/Action points:

- To include a clear input regarding the need for withholding tax harmonisation in the AG response to the EC Green Paper consultation process

5.3 European Working Group on Portfolio Transfers (EWGPT)

Pierre Colladon to update the HSG members on the on-going work of the EWGPT and the expected timelines for delivering a proposal for a new standard on the exchange of information regarding portfolio transfers.

Outcome

Based on the AG invitation in June 2014, the European Banking Federation (EBF) has set up working group on a harmonisation proposal regarding the exchange of portfolio transfer information between intermediaries.

The chairman of the European Working Group on Portfolio Transfers (EWGPT), Pierre Colladon, informed the HSG that the group plans to have a proposal ready in March 2015.

The proposal will have to be assessed by the ECB Team prior to submission to the HSG and to the AG for approval. The ECB Team will have to provide its opinion on whether the proposed solution is in line with the T2S message and reporting functionalities.

Follow up/Action points:

- ECB Team to assess the EWGPT proposal prior to submission to the HSG/AG

6. XMAP reporting

The XMAP chairman to present the following deliverables to the HSG

1. Catalogue of CSDs' restriction rules and their cross-border impact assessment
2. XMAP analysis on the non-mandatory matching fields in T2S
3. Clarification on the T2S standard on mandatory matching fields

The HSG will be invited to discuss the notes and decide on the way forward.

Stephen Lomas to report on the latest regulatory requirements which may impose changes in the matching fields for the securities industry

Background Documentation:

13/02/2015, XMAP consolidated Catalogue of CSDs' restriction rules_v.0.2

15/01/2015, Non-Mandatory matching fields in T2S, XMAP analysis based on a NUG survey

19/02/2015, XMAP note on clarification on mandatory matching fields

Outcome

Restriction Rules

Nacho Terol, XMAP chairman, presented the report on the consolidated catalogue of CSDs' restriction rules (version 0.2). This version takes into account restriction rules of Wave 1 CSDs as well as restriction rules of other CSDs considered stable for publication. Some restriction rules of a Wave 1 CSD still needed to be integrated in the report as per the version presented to the HSG, as they were reported to the ECB Team after the deadline of end December 2014. These rules will however be included for the version 0.2 to be approved for publication after the AG meeting on 23 March 2015

The XMAP chairman clarified that any harmonisation proposals regarding the CSD restriction rules or changes in the T2S functionalities is for the longer term development in the T2S programme.

Based on the analysis of certain restriction rules used by Euroclear France (on registered securities positions) and NBB-SSS (tax issues) some HSG members proposed to change their compliance status from Blue to Yellow, on standard 14 (restrictions on omnibus accounts). The key argument in favour of the status change was the need for foreign intermediaries and Investor CSDs to replicate these national specificities in their own account structures, otherwise cross-CSD settlement is not possible.

Other HSG members argued that there is no mandatory segregation at Investor CSD and foreign intermediary level and thus they do not see the need for the status change. The HSG did not come to an agreement and the two views will be presented to the AG for further advice on the matter.

The HSG members provided their views on the methodology to be drafted by the XMAP in the coming months regarding the assignment of an impact status (Red, yellow, green) a CSD restriction rules will have on the CSD participants (i.e. Investor CSDs and foreign intermediaries).

Clarification on the T2S standard on Mandatory Matching Fields

The HSG agreed on the exhaustive nature of the T2S list of mandatory matching fields (for settlement in T2S accounts), independently of where the matching is taking place. This is to ensure harmonisation and level playing field for all T2S actors, independently of the CSD they settle in T2S. The ECB team was asked clarify in the relevant section of the report that T2S markets can use additional information in their messages they use for specific ancillary services CSDs may wish to offer to their participants (e.g. pledge, repo etc.)

XMAP analysis on non-mandatory matching fields

The XMAP chairman presented some proposals to the HSG on the future work regarding the possible harmonisation of the usage of the optional matching fields in T2S markets. The HSG will have a discussion in June on how this standard could be defined and endorsed at AG level. The HSG will also discuss whether it could potentially be included in the T2S harmonisation list in order to be properly monitored.

Follow up/Action points:

- Ask AG guidance regarding the status of FR and NBB-SSS on the restrictions on the usage of omnibus accounts (due to registration and tax issues);
- XMAP to present the next version of the Restriction Rules report to the HSG during its 15th HSG meeting (June 2015);
- ECB Team to update the T2S mandatory matching field standard in the text of the Fifth Report, clarifying that the mandatory matching fields list is “exhaustive” and cannot be modified by a T2S market /CSD. T2S markets could use additional information (other than mandatory matching fields) in settlement instructions to provide ancillary or other services to their participants. The HSG will launch a survey on the clarified standard immediately after the 23 March 2015 AG meeting
- the HSG will propose to the AG that a new priority 2 activity is added, in the Sixth T2S Harmonisation Progress Report, regarding the harmonisation of the usage of the non-mandatory matching fields in T2S;

- XMAP to come to the HSG in June 2015 with a harmonisation proposal for a new standard on the usage of optional matching fields.

7. Legal Entity Identifier

The ECB Team will present a note on the impact of the LEI on T2S

Background Documentation:

20/02/2015, Note on LEI impact on T2S

Outcome

HSG took note of the ESMA proposals not requiring CSDs to import the LEI in the settlement process. It seems though that CSDs could be requested to use the LEI in their reporting to the competent authorities.

The HSG invited the ECB Team to make sure that any initiatives on LEI and in particular on the potential introduction of LEI in the settlement process, are closely monitored and reported to the HSG.

Follow up/Action points:

- ECB team and HSG members to keep monitoring the LEI deployments and the possible impact on the settlement process

8. Possible harmonisation of insolvency procedures

The ECB team will update the HSG on the CSG TF on insolvency procedures and the related outcome of the December CSG meeting. The HSG will discuss the need for any follow up actions in the T2S harmonisation workstream.

Background Documentation:

February 2015, CSG Task Force on Insolvency procedures – Explanatory Note

Insolvency Procedures Survey

Outcome

The documents of the CSG TF on insolvency procedures were only distributed for information to the HSG. Pending the CSG decision on the way forward and in particular what could be the scope of harmonisation work for the HSG, the members agreed to wait the outcome of the CSG meeting on the matter.

A small drafting group of the HSG, will further work on providing relevant documentation on insolvency procedures when needed. This could be as part of the AG response on CMU or in the context of the CSG follow up work.

Follow up/Action points:

- In the context of the AG response to the Commission's CMU Green Paper, the HSG should include the topic for the need of harmonisation in certain aspect of national insolvency laws, i.e. in particular those related to the national insolvency procedures on SFI protected instructions.
- James Cunningham, Marcello Topa, Stephen Lomas and Paul Bodart to constitute the drafting group within the HSG in order to contribute to the AG response to CMU.

9. Any other business

9.1 HSG meeting plan in 2015

15th HSG meeting

Tue 9 June 2015 (starting at noon) – **Wed 10 June 2015**, ECB - Please note: AG is taking place on 2 July

16th HSG meeting

Wed 22 October 2015 (starting at noon) – **Thu 23 October 2015**, ECB - Please note: T2S Board is taking place on 21-22 October 2015 and AG on 6-17 November 2015