

## OUTCOME

### 21<sup>th</sup> meeting of the T2S Harmonisation Steering Group

DATE	08 - 09.06.2017
VENUE	European Central Bank

#### 1. Chairman's introduction and revised mandate

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##### **Outcome**

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The HSG chairman welcomed the new members of the HSG in its revised composition:

*Katharina Tobiasch - Bundesbank (replacing member Matthias Schmudde)*

*Jyrki Leppänen – Intebolsa*

*Teresa Castilla – BME Clearing*

*Gesa Benda – BoNYM*

*Vincent Dessard - EFAMA*

*Alex Dockx – JPMorgan*

Thomas Bo Christensen – VP Securities

The enlarged participation reflects the revised scope of the HSG to cover the collateral management harmonisation work. This is also reflected in the revised HSG mandate as agreed by the Advisory Group on Market Infrastructures for Securities and Collateral (AMI SeCo) in March 2017.

As reflected in the HSG mandate, HSG members are expected to participate actively in the HSG meetings and contribute substantially to its work. As already agreed in the past,

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the attendance list will form part of the meeting outcome.

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**Action Points**

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

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**Outcome**

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The ECB team provided an update on the Commission initiatives.

**CSDR Level II**

The first CSDR level 2 package has entered into force on 30<sup>th</sup> March 2017. The outstanding regulatory technical standards (RTS) on settlement discipline remain under the European Commission services scrutiny. At this stage it is difficult to determine when it will be adopted, hopefully before late summer 2017.

**Capital Markets Union (CMU) and the follow up actions relevant for post trade harmonisation work**

The European Post Trade Forum (EPTF) finalised its Report in mid-May 2017. The European Commission will publish the EPTF Report along with a consultation document inviting stakeholders to provide feedback on current state of post-trade services and remaining barriers. There is no concrete date for the publication yet.

**Withholding Tax Code of Conduct**

DG FISMA and DG TAXUD are working together to address the recovery of withheld taxes on investment income. As committed in the CMU Action Plan and in the last 2016 Communication, DG FISMA and DG TAXUD set up a withholding tax (WHT) project group to draft the Code of Conduct on WHT simplification and standardisation (focussing on reclaim and refund) procedures. The group is composed of tax experts from 13 Member States and started working in March 2017. The final text of Code of Conduct on WHT is expected to be ready by end 2017.

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## 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.<sup>1</sup> 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 SRD will become applicable on 10 June 2019, the date by which it shall be transposed by the Member States into national legislation.

The HSG members welcomed the SRD adoption but also raised two concerns regarding the follow up actions on the topic of shareholders' transparency and registration. First, there is the risk of non-harmonisation, or not-enough harmonisation, as an outcome of the level II adoption and the transposition process. The issue of the timeline between Sept 2018 (implementing acts) and June 2019 (transposition) was also raised by one member. Second, the SRD does not cover the full range of issues reflected in the T2S harmonisation agenda, i.e. cross-border shareholder transparency and registration issues. The HSG will be proposing to the AMI SeCo that these issues are raised during the EPTF consultation process.

### Conflict of laws

On 7 April 2017, the Commission launched the public consultation on the conflict of laws rules for third party effects of transactions in securities and claims (deadline for responses: 20 June).<sup>2</sup> The purpose of this public consultation is to gather stakeholders' views on the practical problems and types of risks caused by the current state of the conflict of laws rules on third party effects of transactions in securities and claims and to gather views on possibilities for improving such rules.

In parallel to the consultation, the European Commission has set up an Expert group on conflict of laws regarding securities and claims.<sup>3</sup> The group will provide the European Commission with specialist advice from experts (from 9 jurisdictions) on private international law and financial markets as a sound basis for policymaking.

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### Action Points

- **AMI SeCo to raise the T2S relevant (SRD and WHT) issues during the EPTF**
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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>

<sup>2</sup> [https://ec.europa.eu/info/consultations/public-consultation-conflict-laws-rules-third-party-effects-transactions-securities-and-claims\\_en](https://ec.europa.eu/info/consultations/public-consultation-conflict-laws-rules-third-party-effects-transactions-securities-and-claims_en)

<sup>3</sup>

<http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=3506&NewSearch=1&NewSearch=1>

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*report consultation process*

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### 3. T2S Harmonisation

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

#### 3.1 LEI usage in T2S message fields

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##### ***Outcome***

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The chairman of the T2S Subgroup on Message Standardisation (SGMS) presented the feedback from the Securities Market Practice Subgroup (SMPG) and SGMS discussions regarding the usage of the LEI in the ISO 20022 message standard.

Option 3, i.e. the exclusive usage of LEI, which was endorsed by the T2S Advisory Group (AG) in 2016, is not seen as a feasible solution in the medium term: it requires a change request at ISO level, which is very likely to meet a lot of resistance from international bodies.

HSG members agreed that the so called “option 2” of the clarification regarding the T2S market practice on the client of the CSD participant<sup>4</sup> was the best solution given the current ISO messages development context. This option allows the continuity of the T2S market practice while populating the dedicated LEI field as per ISO recommendation.

HSG members agreed that option 2 should be subject to further internal T2S analysis regarding the feasibility of the relevant change request (CR) in T2S

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##### ***Action Points***

- ***The XMAP chairman to present to the July AMI SeCo, on behalf of the HSG, the agreed proposal regarding option 2, subject to the relevant CR feasibility***
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#### 3.2 PORTFOLIO TRANSFERS

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##### ***Outcome***

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[https://www.ecb.europa.eu/paym/t2s/progress/pdf/subadapt/report/technical\\_guideline\\_client\\_of\\_csd\\_participant.pdf?7b6df6f4cf1cc9af3b1ce6a1cc154d40](https://www.ecb.europa.eu/paym/t2s/progress/pdf/subadapt/report/technical_guideline_client_of_csd_participant.pdf?7b6df6f4cf1cc9af3b1ce6a1cc154d40)

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The HSG members agreed that the discussion regarding the possible definition of a T2S standard has lasted too long in the context of this harmonisation activity. The chairman invited the HSG to aim at concluding the discussion in the next, (October) HSG meeting. In addition HSG members agreed that given the difficulties faced to come up with a widely agreed solution, the proposal to the AMI SeCo, if any, would most probably aim at establishing a T2S market practice rather than a T2S harmonisation standard. Alternatively, the HSG deliverable could take the form of a T2S markets' handbook, covering the different procedures for processing portfolio transfers across T2S markets.

In any case, and whatever the final format of the deliverable, the HSG members agreed that any HSG proposal to the AMI SeCo should be consistent with the current or a potentially revised, standard 4 (tax information in T2S messages).

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**Action Points**

- ***Clestream to provide a description of the “tax box” solution;***
  - ***Pierre Colladon and James Cunningham to provide to the next HSG a proposal for a clarification on the wording of T2S harmonisation standard 4;***
  - ***Pierre Colladon, James Cunningham, Paolo Carabelli and Karla Amend to prepare for the October HSG meeting, a proposal for a T2S Market Practice/Handbook on portfolio transfers.***
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### 3.3 Schedule of the settlement day and Calendar

#### **Outcome**

#### **Schedule**

The ECB Team presented the Market Infrastructure Board (MIB) guidance regarding the clarification on T2S harmonisation standard 5 (Schedule of the settlement day and calendar). The HSG members agreed with the pragmatic approach taken by the MIB and agreed to propose the clarification to the AMI SeCo during its July meeting.

The clarification would accommodate that the NCBs should manage their non-Euro cash sweeps any time during the RTS closure period (16:30 to 17:45).

#### **Calendar**

Some members of the HSG argued for the alignment between TARGET2 and T2S calendars. This is mainly for reasons of operational costs for CSDs and their participants.

Other HSG members argued for maintaining the current standard on the T2S calendar which provides extra opening days for the mobilisation of collateral independently of the TARGET2 opening days. This is also important for making T2S attractive to international securities businesses (e.g. Eurobonds settlement). This justification is also in line with the T2S AG decision on the matter.

In any case, and if any proposals were to be made from the HSG to the AMI SeCo for clarifying or potentially revising the T2S calendar, this should only be effective as of 2019 at the earliest (due to the forward or future dated settlement instructions already in T2S for 2018).

The HSG members invited the MIB to have a strategic discussion on the T2S calendar on the base of a thorough analysis of the issue. The analysis should include all relevant elements for the MIB to have a strategic discussion including the statistical volumes of settlement activity during the T2 closing days.

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#### **Action Points:**

- ***HSG to propose to the AMI SeCo in July, the clarification on the T2S Schedule;***
  - ***ECB team to prepare the MIB discussion on the calendar before the next HSG meeting;***
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### 3.4 T2S Corporate Actions gap analysis

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#### *Outcome*

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The CASG chairman presented the results of the May 2017 T2S corporate actions (CA) gap analysis report. There is progress in overall compliance of the T2S markets but implementation gaps still remain.

Regarding the fiscal status of market claims, the HSG agreed that this is an important issue, which goes beyond the CA standards analysis, and which requires further analysis from a fiscal harmonisation perspective. The T2S AG provided a paper to the European Commission last year on the same topic. The CASG chairman clarified that the market claim standards are currently neutral as to the fiscal status of market claims.

The HSG had a first discussion regarding the non-compliance of Issuer CSDs and the impact this may have on Investor CSDs' compliance with the T2S and the market CA standards.

The Corporate Action Joint Working Group (CAJWG) chairman reported that the CAJWG will ask market participants for feedback regarding the potential refinement and clarifications on the underlying market CA standards.

Regarding the limited effectiveness experience in the market CA standards, the HSG invited the CASG and the CAJWG chairmen to investigate how further synergies could be exploited between the monitoring processes of the two stakeholder communities. The proposal should be presented to the October HSG meeting.

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#### *Action Points*

- ***HSG approved the CASG gap analysis for publication;***
  - ***CASG and CAJWG chairmen to prepare a proposal for the next HSG regarding the compliance monitoring.***
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### 3.5 Mid-year harmonisation update

#### **OUTCOME**

The ECB team presented the T2S mid-year harmonisation update. The results show stable progress of T2S markets regarding their compliance after their migration to T2S.

The HSG members agreed on the proposed statuses for the T2S harmonisation activities, subject to gathering further information on the T2S markets compliance with standard 5 (T2S Schedule and Calendar).

The midyear update text should reflect the fact that the CMU/EPTF initiative on Withholding Tax and the EU authorities adoption of the revised Shareholders Rights Directive (SRD) are very welcomed but fall short of covering the full scope of the relevant T2S harmonisation activities (therefore the Red definition status should remain in the T2S dashboard).

#### **Action Points**

- **ECB Team to distribute the revised midyear update to the HSG for a short written procedure prior to delivery to the AMI SeCo;**
- **HSG chairman and ECB team to present the mid-year harmonisation update to the AMI SeCo July meeting for endorsement and publication.**

### **3.6 Impact Analysis monitoring update**

#### **Outcome**

Agenda item was not discussed due to time constraints

## **4. Collateral Management Harmonisation**

#### **OUTCOME**

The HSG had a first discussion on the proposed initial draft list of Collateral Management Harmonisation Activities (CMHAs). The HSG chairman (Joel Merere) will update the AMI SeCo (6 and 7 July 2017) on the HSG discussion:

- Taking due account of the COGESI work on collateral management harmonisation, and keeping in mind the ongoing Eurosystem investigations to develop a common Eurosystem Collateral Management System, the HSG has begun work on establishing a comprehensive, but likely non-exhaustive, list of collateral management harmonisation activities. The approach the HSG has

applied when establishing this list is similar to the approach followed by the AG when it defined the T2S harmonisation agenda.

- A draft list of 20 CMHAs was circulated to the HSG in advance of its meeting on 8/9 June 2017. The 20 CMHAs were subdivided into the following four categories:
  - ⇒ Collateral messaging: Harmonisation of messaging standards (ISO20022).
  - ⇒ Collateral Dynamic and Static Data: Harmonisation of data transmission (content/fields) and consistent usage of data/identifiers.
  - ⇒ Collateral operating frameworks (business processes): Harmonisation of the interaction/ use of messages between collateral management service providers (CMSPs) and the users of collateral management services (UCMS).
  - ⇒ Non-euro collateral: Harmonisation of procedures for the mobilisation of non-euro collateral
- The HSG members agreed that the draft list of activities is a good starting point for conducting further analysis. The HSG members took the view that the focus of the upcoming harmonisation work should be on further analysing and explaining the harmonisation issues before reaching any conclusions on the activities, stakeholders, actors and priorities. In analysing the potential CMHAs, the HSG members agreed that the results of ongoing harmonisation initiatives (e.g. EPTF analysis) and existing standards (e.g. T2S CA and CAJWG standards) should also be taken into account.

As a next step, given the complexity of collateral management and the required expertise to work on the matter, the HSG agreed to establish a dedicated HSG task force on collateral management harmonisation. This task force will be chaired by an HSG member and should start working as soon as possible. The task force will be tasked to deepen the analysis of the proposed draft list of CMHAs and to make concrete CMHA proposals to the HSG for approval by the AMI-SeCo. The task force will first aim at presenting a stable draft list of CMHAs to the next HSG meeting (26-27 October).

#### **Action Points**

- ***HSG to provide a status update to the AMI SeCo July meeting regarding the ongoing work on the Collateral Management Harmonisation work stream and to inform that the HSG will set up a dedicated task force to***

*deepen the analysis.*

## **5. XMAP**

### **OUTCOME**

#### **Cross-CSD activity in T2S**

The XMAP chairman provided an update on the XMAP work regarding the cross-CSD settlement activity in T2S.

HSG members welcomed the XMAP exercise but noted that it may be difficult to identify at this stage the impact of T2S on cross-border securities services. For example, analysing cross-CSD settlement development is only one measurement of the success and impact of T2S.

The XMAP will aim at presenting a note in the next HSG meeting.

#### ***Methodology for assessing the impact of CSD restriction rules***

The XMAP chairman presented a revised methodology regarding the assessment of the impact of the CSD restriction rules. The revised methodology takes into account the HSG members' comments during an earlier discussion on the issue. The HSG agreed with the proposal and invited the XMAP chairman to present it to the July AMI SeCo.

#### **Catalogue of the CSD restriction rules**

HSG agreed on new version of the CSD restriction rules catalogue for delivery to the AMI SeCo and publication thereafter.

#### **Action Points**

- **XMAP to report in the next HSG on the progress of the XMAP analysis regarding cross-CSD settlement in T2S**
- **XMAP to present the revised CSD restriction rules impact methodology to the July AMI SeCo for approval**
- **XMAP to present to July AMI SeCo the CSD restriction rules report (version 1.0) for approval and further publication**

## **6. DLT-TF reporting**

### **OUTCOME**

The Chairman and the Secretary of the DLT TF presented a stable version of the AMI SeCo report regarding the impact of DLT on T2S harmonisation and wider post trade integration. The HSG members welcomed the considerable amount of work and the level of analysis and detail as reflected in the DLT TF deliverable and praised the report. The content of the report would provide valuable analysis and educational material regarding the potential impact of DLT on concrete processes and flows of the post trade activities.

The HSG members agreed to present two deliverables to the AMI SeCo: (i) the core of the report, with no recommendations, for decision on the publication by the AMI SeCo; and (ii) a cover note from the DLT TF chairman (not for publication in any case) regarding the follow up actions of the DLT-TF that have been endorsed by HSG members.

**Action Points**

- ***DLT-TF chairman to present to the July AMI SeCo the report and the cover note on DLT***

**7. Any other business**

**8.1 2017 MEETING DATE**

- *26-27 October 2017 (ECB)*

**THE HSG IS INVITED TO:**

- Take note of the next HSG meeting date

**DOCUMENTS:**

- None

**8. List of 21<sup>st</sup> HSG meeting participants**

Market Infrastructure Board	Mr Joel Mérére	Chairperson
European Central Bank	Mr George Kalogeropoulos	Secretary
Deutsche Bundesbank	Ms Katharina Tobiasch	
Market Infrastructure Board	Mr Odonnat Ivan	
Euroclear SA	Mr Edwin De Pauw	

BME Clearing	Ms Teresa Castilla
BNY Mellon	Ms Gesa Benda
BNY Mellon	Mr James Cunningham
Citi	Mr Marcello Topa
Clearstream Banking AG	Ms Karla Amend
Deutsche Bank AG	Mr Stephen Patrick Lomas
Deutsche Bank AG	Ms Britta Woernle
EFAMA	Mr Vincent Dessard
Interbolsa, S A	Mr Jyrki Leppanen
JP Morgan	Mr Alex Dockx
Monte Titoli SpA	Mr Paolo Carabelli
Nordea	Mr Janne Palvalin
SIX Securities Services	Mr Florentin Soliva
SOCIETE GENERALE	Mr Colladon Pierre
VP Securities A/S	Mr Thomas Bo Christensen
European Central Bank	Mr Helmut Wacket
European Central Bank	Mr Ignazio Terol