

Review of the T2S harmonisation monitoring framework

1. Background

With the successful completion of the final wave of migration to T2S in September 2017 the T2S community reached a major milestone and entered into a new phase. This has an impact on the T2S harmonisation framework and in particular on the monitoring of compliance with the T2S harmonisation standards. The Harmonisation Steering Group (HSG) of the AMI-SeCo had a preliminary high-level discussion in October 2017 about the approach to adapt the framework to such a new phase of securities market integration. In its meeting in December 2017 the AMI-SeCo endorsed the approach of the HSG. The HSG further discussed the approach in its March 2018 meeting.

The objective of this note is to outline – on the basis of the HSG and AMI-SeCo agreements – the changes to be made to the framework in order to adapt it to the new environment. It is noted that there are still open questions related to certain elements of the new framework which cannot be answered at this stage. One of these is the definition of collateral management harmonisation activities and the related harmonisation standards / recommendations or market practices which will need to be taken into account once the monitoring of progress on these starts. Another one relates to the modalities of monitoring T2S CA standards which may be affected by the potential exploitation of synergies between the monitoring of T2S and CAJWG CA standards. This discussion is taking place in parallel to the review of the T2S harmonisation framework.

This note is structured as follows: Section 2 presents the key considerations that stem from the December 2017 AMI-SeCo and following HSG discussions for the review of the monitoring framework; Section 3 presents the elements of the new framework and their relation to the broader HSG / AMI-SeCo harmonisation agenda; Section 4 presents an outline for future T2S harmonisation reports and Section 5 presents the suggested next steps.

2. Key considerations on the review of the harmonisation monitoring framework

The current framework of T2S harmonisation activities and their monitoring were defined in the context of building and migrating to T2S. This also naturally implies that with the completion of migration to T2S by 22 CSD¹ in 20 European markets resulted in a very high proportion of full compliance statuses with T2S harmonisation standards. On most standards an overall blue status (all markets fully comply) has been achieved, nevertheless T2S corporate actions (T2S standard 6) and matching fields (T2S standard 2)

¹ The three Baltic CSDs of Estonia, Lithuania and Latvia legally merged into one single CSD (Nasdaq CSD SE) operating three SSSs upon completion of their T2S migration in September 2017. The new Slovakian CSD (NCDCP) joined T2S in October 2017 after the final migration wave. Thus, the current number of CSDs (legal definition) in T2S is 21 while the number of T2S markets remains unchanged at 20.

remain as the main areas for further improvement in compliance. Assuming 'no turning back' on the achieved level of harmonisation and compliance by individual markets, it can be expected that the T2S community does not need significant resources for monitoring compliance with the vast majority of existing T2S harmonisation standards.

Status of compliance with T2S harmonisation standards by T2S markets as at 20/12/2017

T2S markets	Priority 1																Priority 2	
	1 T2S messages ISO 20022	2 T2S matching fields	3 Interaction with T2S (registration)	4 Interaction with T2S (tax procedure)	5 Schedule for the settlement day	6 T2S CA standards	7 T2S settlement finality I	8 T2S settlement finality II	9 T2S settlement finality III	10 Outsourcing IT settlement services	11 Settlement cycle	12 Availability of omnibus accounts	13 Restrictions on omnibus accounts	14 Securities account number	15 Cash account number	16 CA market standards (CAJWG)	17 Securities amount data	
AT	B	B	B	B	Blank	R-?	B	B	B	B	B	B	B	B	B	G	B	
BE Euroclear	B	B	B	B	Blank	R-Mar 2018	B	B	B	B	B	B	B	B	B	G	B	
BE - NBB-SSS	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
CN	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	N/A	G	B	
DE	B	B	B	B	Blank	R-?	B	B	B	B	B	B	B	B	B	R-No Info	B	
DK	B	B	B	B	Blank	R-?	B	B	B	B	B	B	B	B	B	G	B	
EE	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
ES	B	R-?	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
FI	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
FR	B	B	B	B	Blank	R-Mar 2018	B	B	B	B	B	B	R-?	B	B	G	R	
GR - BOGS	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	B	B	
HU	N/A	R-?	B	B	Blank	R-?	B	B	B	B	B	B	B	B	N/A	R	B	
IT	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
LT	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
LU - LUX CSD	B	B	B	B	Blank	R-Mar 2018	B	B	B	B	B	B	B	B	B	G	B	
LU - VP LUX	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
LV	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
MT	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
NL	B	B	B	B	Blank	R-Mar 2018	B	B	B	B	B	B	B	B	B	G	B	
PT	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	R-No Info	B	
RO	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	G	B	
SI	B	B	B	B	Blank	B	B	B	B	B	B	B	B	B	B	B	B	
SK (CDSP)	B	R-?	B	B	Blank	R-Mar 2018	B	B	B	B	B	B	B	B	B	R-No Info	B	

Nevertheless, building also on a fully operational T2S, new harmonisation activities or significant new information affecting existing activities are or may be emerging within the AMI-SeCo or the broader T2S Community related to:

- a) **practical experiences with the use of T2S in a truly domestic European market:** With the practical usage of T2S services by all 21 CSDs and 20 markets additional experience may reveal a need for further work related to existing T2S harmonisation activities / standards or trigger the creation of new ones. This is of course without prejudice to the mandatory compliance by T2S markets with standing T2S harmonisation standards.²
- b) **follow-up on the work on post trade integration in the context of the Capital Markets Union initiative:** The European Commission set up the European Post Trade Forum in early 2016 to assess the evolution of the EU post-trade landscape and progress in removing barriers. The group delivered its report³ based on which the European Commission launched a public consultation⁴ in August 2017. The AMI-SeCo was among the 58 respondents to the consultation which is expected to inform the European Commission on the existing key barriers to market integration in post trade services in

² A recent example of an issue emerging in this category is the discussion and resolution of the lack of harmonised approach by T2S markets to the T2S calendar.

³ https://ec.europa.eu/info/publications/170515-eptf-report_en

⁴ https://ec.europa.eu/info/consultations/finance-2017-post-trade_en#about-this-consultation

Europe. Thus, it is expected that the European Commission will take action in this field which may also affect AMI-SeCo harmonisation activities.

- c) **collateral management harmonisation:** Based on the work and report by the HSG Collateral Management Harmonisation Task Force (CMH-TF) in December 2017 the AMI-SeCo endorsed 10 harmonisation activities (broken down to 59 priority 1 and 17 priority 2 harmonisation needs). Based on these needs, harmonisation proposals will be defined which may result in collateral management harmonisation standards. The definition of harmonised solutions or standards and the progress of compliance with these would need to be monitored and regularly assessed by the AMI-SeCo. These collateral management harmonisation standards (and eventually also market practices or recommendations) would have to be taken into account in the harmonisation monitoring framework and also in public reports on the activities and the progress on post trade harmonisation in general.

Overall, the existing T2S harmonisation framework proved to be a very useful tool to promote harmonisation among T2S markets and to focus discussions on the key areas where harmonisation was most important and necessary. Therefore, there seems to be no need for dramatic changes in the monitoring framework and its adaptation should be more an evolution and an increase in its flexibility to reflect the new phase of work and the future T2S community needs. In particular the framework's clearly defined list of activities and its user friendly traffic lights-based compliance assessment methodology are assets which should be preserved.

Depending on further progress in the collateral management domain, at this juncture there seems to be broadly three groups (categories) of harmonisation activities by the AMI-SeCo in the foreseeable future: 1) the current priority 1 list of harmonisation activities closely related to settlement in T2S, 2) the current priority 2 list of harmonisation activities which pertain to a broader post trade harmonisation agenda related to securities settlement and 3) the collateral management harmonisation activities started by the AMI-SeCo in June 2017. It is important to highlight that any potential actions decided by the EU Commission as a follow-up to the EPTF report and the related public consultation may affect the harmonisation activities falling in groups 2 and 3.

3. Elements of harmonisation work in relation to T2S by the HSG and the AMI-SeCo

In the following a suggested approach to adjust the individual elements of the T2S harmonisation monitoring framework is put forward:

3.1 List and presentation of existing T2S harmonisation activities

There seems to be consensus in the T2S community that the current list of activities should be kept on the radar of T2S harmonisation (compliance) monitoring and assessment. To recall the framework currently consists of 16 'Priority 1' and 8 'Priority 2' activities. This prioritisation followed the significance and relevance of the harmonisation activities for the launch and migration to T2S. The Priority 1 activities are necessary to ensure efficient and safe cross-CSD settlement in T2S. The HSG and the ECB T2S team focused on these activities as first priorities for resolution and implementation by the time of migration to T2S as these were directly relevant to a smooth migration to T2S and smooth use of T2S by participating CSDs and their markets. 'Priority 2' activities were considered not essential to ensure safe and efficient cross-CSD settlement in T2S but key for enhancing the competitive environment and the

efficiency of T2S. With the migration to T2S completed it could be considered to apply new labels to these sets of activities / standards to more transparently reflect that they no longer represent different levels of priorities from a project point of view but aim at different aspects of harmonisation. There should be no difference or ranking in terms of importance between these two groups but only in the scope and relation to the core settlement activity in T2S. Therefore, the current 'Priority 1' group of activities could be renamed '**Core T2S settlement**' activities and standards and the current 'Priority 2' group could be renamed '**Harmonisation of post trade environment of securities settlement**' to reflect that it encompasses a wider post trade harmonisation related to securities settlement. As a potential consequence and based on further reflections related to the relabelling of the groups the AMI-SeCo (at a later stage once there is more clarity on the highlighted dependencies related to the follow-up on EPTF and on the future collateral management harmonisation activities) may consider moving certain standards between the groups. As pointed out above, it is suggested to retain sufficient flexibility with regards to how collateral management activities will be labelled once the AMI-SeCo has determined in more detail the scope of those activities.⁵

Proposal 1:

The current list of T2S harmonisation activities should be preserved and continue to be presented in future AMI-SeCo reports. Current 'Priority 1' activities should be labelled '**Core T2S settlement harmonisation**' while current 'Priority 2' activities should be labelled '**Harmonisation of post-trade environment of securities settlement**'. The framework and the presentation of the two groups should not suggest any difference in importance between these groups of standards. The above is without prejudice to the labelling and grouping of collateral management activities since the latter will be defined in the second half of 2018

3.2 Compliance monitoring, assessment and reporting on progress on harmonisation activities

3.2.1 Continued reliance on traffic light approach

Given that the chances of already fully compliant markets giving up their compliant practices are slim there is no need for an active monitoring on standards and markets which achieved blue (i.e. fully compliant) status. Active monitoring and updates would focus on the remaining non-compliance cases and the standards where a blue status has not been achieved yet. In practice, this means that the ECB team would rely on a more reactive approach on fully blue standards expecting the respective NSGs to signal in case issues emerge in relation to those standards in their markets. This does not exclude the possibility of the HSG / AMI-SeCo to request an ad-hoc update of compliance assessments via the ECB team if it is considered necessary.

⁵ The relation between the potential future standards and harmonisation activities on collateral management harmonisation and the existing standards and activities (e.g. in the field of corporate actions) will be considered and overlaps will be avoided of course.

The approach to present the progress on definition, monitoring and compliance is to be preserved with a continued reliance on a traffic light system. For markets that already migrated to T2S only blue or red status would be presented for assessing compliance for “Core T2S settlement harmonisation” activities (former ‘Priority 1’ activities) with indication of the existence of plans to ensure compliance by their target dates. For standards in the group ‘Harmonisation of post-trade environment of securities settlement’ (former Priority 2 activities) given the nature of the harmonisation activities (less direct relationship to the operation of T2S) and the status of definition, monitoring or compliance (activities on some them have not yet been defined and few of them are monitored at present) a four-colour scheme would provide a better tool to present the status of compliance going forward. This could also have the added benefit of avoiding exceptions such as the case in the current framework with CAJWG corporate action standards.

For new-comer markets migrating to T2S, the four-colour traffic light assessment would be kept across all standards. The progress in the implementation of the T2S standards would be monitored at different points in time throughout their preparation and migration process starting with a pre-assessment as part of the feasibility assessment by the MIB before a candidate CSD signs the T2S Framework Agreement (FA). After signing the FA and once the migration testing plan is made available, the formal compliance monitoring will be launched together with the respective NSG (pre-migration assessment). Finally, immediately after full migration to T2S the compliance of the new market will be re-assessed, with only blue or red status assessments used (post migration assessment).

Proposal 2:

Traffic lights will continue to be used for monitoring of progress on definition, monitoring and compliance.

For standards in the group ‘Core T2S settlement harmonisation’

- in case of already migrated markets only blue (fully compliant) or red (not compliant) statuses will be used for assessment of compliance. Red statuses will indicate if a plan exists to ensure full compliance showing the targeted date by the respective T2S market.
- in case of new markets migrating to T2S the four-colour traffic light scheme will continue to be used to assess their pre-migration harmonisation status and progress.

For standards in the group ‘Harmonisation of post-trade environment of securities settlement’ the four-colour traffic light scheme will be applied.

3.2.2 Reporting – means and frequency

With T2S migration complete and a very high level of overall compliance achieved on ‘Priority 1’ standards there is a room to decrease the frequency of regular overall updates of compliance assessments by T2S markets. In general the expected pace of progress from this high level of compliance does not warrant more than one annual public harmonisation progress report by the AMI-SeCo. The timing of the annual report should be the end of the calendar year (i.e. draft for approval to target the last AMI-SeCo meeting of the year). To complement this, the ECB team via the NSGs

concerned will call on all T2S markets with remaining non-compliant statuses to provide input in order to update the assessments of compliance before each HSG/AMI-SeCo meeting in order to give an up-to-date view to HSG/AMI-SeCo members. Thus, such interim updates to the HSG/AMI-SeCo will focus on the progress on existing non-compliance cases and will not take the form of publications (but – together with all other AMI-SeCo documents – will be published on the ECB website). However, such updates would be taken into account for the next annual harmonisation report. On standards and markets which are already assessed as fully compliant (blue) the responsibility would fall on the respective NSGs to indicate to the ECB team (and via the ECB team to the HSG / AMI-SeCo) in case they believe there is any deterioration in the assessment (i.e. by not providing information NSGs confirm that the blue status remains valid and unchanged). On the ECB website the overview table of the compliance by T2S markets would be updated (if any changes are made) after each AMI-SeCo meeting.⁶

As for monitoring compliance on the T2S corporate action standards (Standard 6) the currently separate CASG reports could also be aligned with and feed into the annual harmonisation report. In case a higher level of compliance is reached on T2S CA standards there may not be need for standalone CASG reports to be published. Compliance with T2S CA standards should nevertheless continue to receive special attention within the regular updates to AMI-SeCo.

As mentioned above in the case of newcomer markets the assessments will be aligned with their migration plans. The outcome of the progress assessments on these migrating markets will be shared with the T2S Community via the HSG (and potentially other relevant substructures) and the AMI-SeCo alongside the general updates on their migration. Post migration impact assessments of newcomers to T2S will be presented to the AMI-SeCo at its meeting following the migration date and will also be highlighted in the annual harmonisation progress reports.

Finally, as pointed out above, the exact modalities of monitoring of progress on collateral management harmonisation activities would have to be determined once such activities are elaborated by the AMI-SeCo based on the work of the CMH-TF. Collateral management harmonisation activities may require a more frequent progress assessment to be provided to the AMI-SeCo. This does not exclude presenting the progress also on collateral management in the annual public reports by the AMI-SeCo but may require more interim updates (e.g. to each AMI-SeCo meeting).

Proposal 3:

Harmonisation progress reports will be published once a year in principle at the end of the calendar year (drafts to be submitted to last AMI-SeCo meeting of the year). NSGs with existing non-compliant statuses will be invited to update their assessments and provide further information before each HSG/AMI-SeCo meeting. Post-migration impact assessments of new-joiners will be reported in the AMI-SeCo meeting following their migration date and covered in the annual harmonisation progress reports.

⁶ Flow charts comparing the information flow and output under current and the new frameworks are presented in the Annex

3.2.3 Non-compliance impact assessments

The methodological framework for non-compliance assessments has proved to be robust and a good tool to assess the impact of non-compliance on the T2S Community and drive T2S markets towards full compliance. No changes are proposed in the methodology of the non-compliance assessments for 'Core T2S settlement harmonisation' standards (current Priority 1) but their presentation is expected to be made leaner and more reader-friendly. Barring special circumstances the non-compliance impact assessments will be updated in parallel with and presented as part of the annual harmonisation progress report at the end of the calendar year (draft to be approved in last AMI-SeCo meeting of the calendar year). Any proposed changes (delta) in the impact assessments during the year will be brought to the attention of the AMI-SeCo as part of the regular harmonisation update to the AMI-SeCo in each AMI-SeCo meeting. The ECB team will also keep the MIB up-to-date on any related changes by internal reporting to the MIB throughout the calendar year.

Under the current framework impact assessments are not carried out for non-compliance with standards in the Priority 2 group (to be renamed 'Harmonisation of post-trade environment of securities settlement'). The possibility of introducing impact assessments also for these standards would be further considered by the HSG (possibly with different methodology taking into account the different nature of such standards).

The system of potential measures to be taken in case of non-compliance (by the MIB⁷) is also not expected to change. It is recalled that the key purpose of non-compliance assessments is to keep up momentum for harmonisation in non-compliant markets primarily via providing transparency on the issue to the whole T2S Community and by keeping up peer pressure.

Proposal 4:

The methodology of non-compliance impact assessments for 'Core T2S settlement harmonisation' standards (current Priority 1) will be preserved. Non-compliance impact assessments will be published as part of the annual harmonisation progress reports.

The HSG will analyse the possibility to extend impact assessments of non-compliance for standards in the current Priority 2 (to be renamed 'Harmonisation of post-trade environment of securities settlement') group.

3.3 Ad-hoc work related to T2S harmonisation by HSG / AMI-SeCo

The high level of compliance with the T2S harmonisation standards also implies that the work on harmonisation may make use of more ad-hoc analysis and reports on potential harmonisation issues conducted by the HSG and its substructures. Actual practical experience with the real-life use of T2S by all T2S markets may give rise to such issues which can be dealt with by such ad hoc fact finding and analysis. The AMI-SeCo NSGs will be key interlocutors in detecting and gathering information on such potential issues via multilateral surveys or bilateral contact.

⁷ For a description of such potential measures please see:

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

4. High-level considerations on the outline of future harmonisation reports

A more detailed presentation of the new outline of future harmonisation progress report is expected to be included in 2018's milestone report on T2S harmonisation (see below). However, it is worth outlining some key considerations on how future harmonisation reports should look like.

The high-level of compliance with the T2S standards provides an opportunity to significantly streamline the presentation of progress on harmonisation. The parts of previous harmonisation progress reports describing methodology and giving a full description of standards could be left out and replaced with a reference to previous harmonisation progress reports (8th report or before) as well as a standalone document on the ECB website (describing the standards and the methodology in more detail). A similar approach could be used towards the market specific annexes. The focus of the text of the annual reports should be on new developments and the remaining non-compliance assessments. Furthermore, it is expected that the AMI-SeCo will present progress on any other harmonisation activities (see section 2) as well, in particular in the collateral management domain.

Proposal 5:

The annual harmonisation progress reports will be streamlined with a focus on non-compliance cases, the related issues, impact assessments and the plans for resolving non-compliance. For methodological notes and detailed description of the standards the reader would be referred to previous harmonisation progress reports and the ECB website. The report is expected to cover also additional post trade harmonisation activities that are or may be pursued by the AMI-SeCo in the future (in particular in the collateral management harmonisation domain).

5. Summary and next steps

To summarise, the new environment and in particular the high level of compliance with most T2S harmonisation standards allows flexibly (re)focusing the monitoring of harmonisation activities on remaining non-compliance cases and potential new activities. Given the proven track record of the existing framework there is no need for a dramatic shift or major changes in the methodology for T2S related harmonisation activities but the frequency of public reporting can be reduced and there is room to revert to a more reactive monitoring by the NSGs on those standards where fully compliant status has been achieved.

As agreed by the AMI-SeCo in 2018 a 'milestone' report would be prepared in the second half of 2018 looking back on the progress and contribution to market integration achieved under the current framework and during T2S migration and also present the new / updated framework and which principles should possibly be applied for non-T2S post trade harmonisation activities.

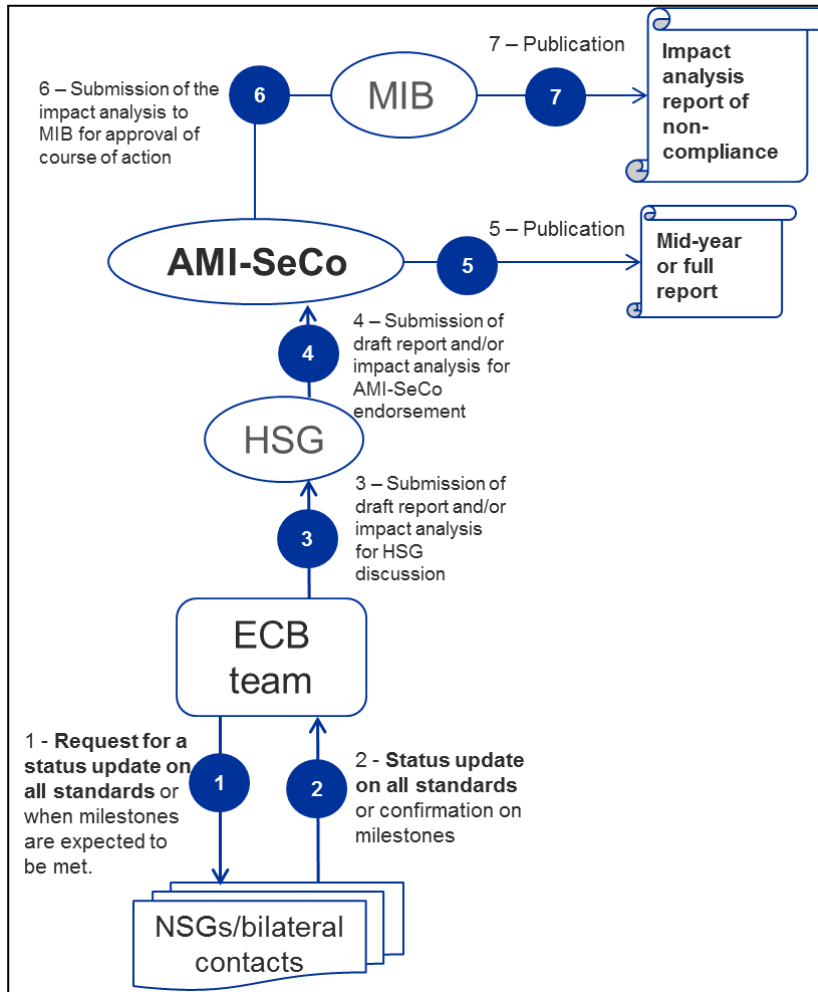
The exact timing of the publication of the milestone report is still to be determined. Considering that for this year no other report on securities harmonisation is expected to be published and that on corporate actions further significant progress in compliance is expected by the second half of 2018, it may be more suitable to aim for a publication in Q4 2018.

The new monitoring and reporting framework could be launched as of 2019.

The AMI-SeCo is invited to discuss and endorse the high-level proposals made in this note on the new framework for T2S harmonisation monitoring

Annex 1: Flow-charts of harmonisation monitoring under the current and the new framework

1. Harmonisation monitoring in T2S migration phase



2. Harmonisation monitoring after T2S migration completed

