

T2S and financial integration – opportunities and remaining barriers – update on HSG discussion

AMI-SeCo meeting , 2 July 2019 – Item 6.5

I. Background / conclusions from previous AMI-SeCo discussions

- T2S contributes to financial integration and a truly domestic EU post-trade landscape through:
 - a) More efficient settlement systems with harmonised and improved functionalities
 - b) Harmonisation of settlement-related processes across markets by T2S
 - c) Consolidating access to core infrastructures on both the securities and cash sides
 - d) Euro liquidity management and access to central bank money settlement
 - e) Sourcing, pooling and managing collateral for both bilateral and tri-party collateral arrangements
- However, cross-CSD settlement in T2S remains low. This has been explained by:
 - i. T2S facilitates cross-border settlement of securities in multiple ways
 - ii. T2S actors may still need time to adapt to the new realities and opportunities brought by T2S
 - iii. Further harmonisation may be necessary to facilitate new CSD links (WHT, CA, etc.)

I. Background / motivation

- In October 2018, the HSG discussed further fine-tuning of the harmonisation framework and found several topics / areas relevant from a T2S harmonisation point of view
- In its June 2019 meeting, the HSG continued the discussion on the basis of a discussion paper prepared by the HSG Secretariat, containing an inventory of topics raised / on the radar so far
- The same or similar topics / areas as well as additional ones have been raised in other T2S fora or in the margins of meetings
- In the HSG domain the discussion has two purposes:
 - Reaching a common understanding of how T2S contributes to deeper financial market integration
 - Identifying the areas of harmonisation (beyond T2S) which have the biggest potential from a financial integration perspective

I. Background / approach to the discussion

- The inventory of topics comes with the following caveats:
 - a) Not all these topics are necessarily relevant for the T2S community to work on at this stage (or ever ?)
 - b) Even if relevant, not all the topics may be dealt with by the T2S community / AMI-SeCo due to limited influence or limited resource
 - c) Some of the areas may belong more to other groups in the T2S governance (e.g. CSG and its substructures) as may not be harmonisation topics in the strict sense
- However, having these topics on the radar screen could help to understand the landscape in which harmonisation needs to be pursued by the AMI-SeCo

Changes in the way T2S actors use T2S

- CCP's use of T2S – cross-CSD settlement for CCP transactions
- Fund processing / settlement
- Eurobond cross-CSD settlement
- Existing restrictions on settlement requirements on primary issuance (e.g., by DMOs)
- Balance sheet netting of T2S cross-CSD transactions
- Intraday liquidity and inventory management

II. Overview of topics on the radar screen

Work on harmonisation:

- Collateral management harmonisation (ongoing)
- Withholding tax procedures
- Registration / shareholder identification
- Primary markets: pre-issuance and issuance procedures

III. High-level summary of HSG discussion

- Market participants' behaviour needs to evolve. This requires more time (e.g., network building, consolidating access, etc.). Many stakeholders still rely on legacy procedures from pre-T2S times.
- Further education needs to be made by direct T2S actors towards those stakeholders that do not have a direct exposure to T2S settlement processes.
- Cross-CSD settlement and holding assets via investor CSDs is only one of the models of cross-border securities servicing.
 - It is often the lack of business case and / or the different business models used by market stakeholders that might explain the low cross-CSD volumes in T2S.
 - On the other hand, smooth cross-CSD settlement in T2S contributes to the use of T2S as a single pool of liquidity / collateral.
- Importance of smooth movement of liquidity and securities between T2S CSDs and ICSDs

III. High-level summary of HSG discussion

Among the harmonisation dossiers already on the T2S agenda:

- High expectations with regards to positive effects of collateral management harmonisation (covering inter alia corporate actions and tri-party collateral management).
- On withholding tax procedures, the WHT CoC is a good step forward, the AMI-SeCo has provided more specific input on potential future steps already.
- On registration, it is not yet clear whether SRD2 processes could obviate the need for traditional registration processes.
- Primary market (pre-issuance and issuance) future actions could be considered based on the outcome of EDDI consultation.