



XMAP - Restriction Rules Analysis – Presentation of Catalogue v1.0 & Results of the assessment as per methodology

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DG-Market Infrastructure and Payments
European Central Bank



ECB-RESTRICTED

What is the XMAP mandate?

Created in 2013 as a substructure of the HSG, the XMAP is mandated:

- ✓ To analyse known or potential issues with respect to the impact of existing and diverging market practices/rules on cross-border settlement efficiency in T2S
- ✓ To analyse, upon request from the HSG, other issues with the aim to determine the impact on cross-border settlement efficiency in T2S
- ✓ To propose T2S best market practices to the HSG regarding the above mentioned topics. The results shall be documented in a format deemed appropriate by the Sub-Group
- ✓ To potentially propose Change Requests for subsequent T2S releases to the relevant forums, in order to address the above mentioned issues

What are the main XMAP activities?

1. Analysis of T2S optional matching fields

- ✓ Assess national market practices regarding usage of non-mandatory matching fields with migration to T2S, with the aim to identify potential cross-CSD issues, and address them through best market practices and or standards
- ✓ Long-term objective behind harmonisation of usage of non-mandatory matching fields is to maximise matching rates while minimising cross-matching rates
- ✓ Outcome led to the definition of a T2S best market practice for the optional matching field “Client of the CSD participant” published on the ECB website, which also promotes the usage of LEI.
- ✓ **Activity is completed**, further work may be conducted after all CSDs have migrated to T2S, if issues related to matching fields are identified based on T2S production data

2. Catalogue of restriction rules

What are restriction rules?

- ✓ Restriction rules are additional controls applied on settlement instructions at the time of validation or settlement eligibility. They affect settlement flows by rejecting settlement instructions or preventing the settlement of transactions
- ✓ They are not part of T2S standard set of validation rules and can be seen as a way for T2S CSDs to tailor T2S to their needs, in order to support their service offering. Restriction rules may use Market-Specific Attributes (custom ref. data)

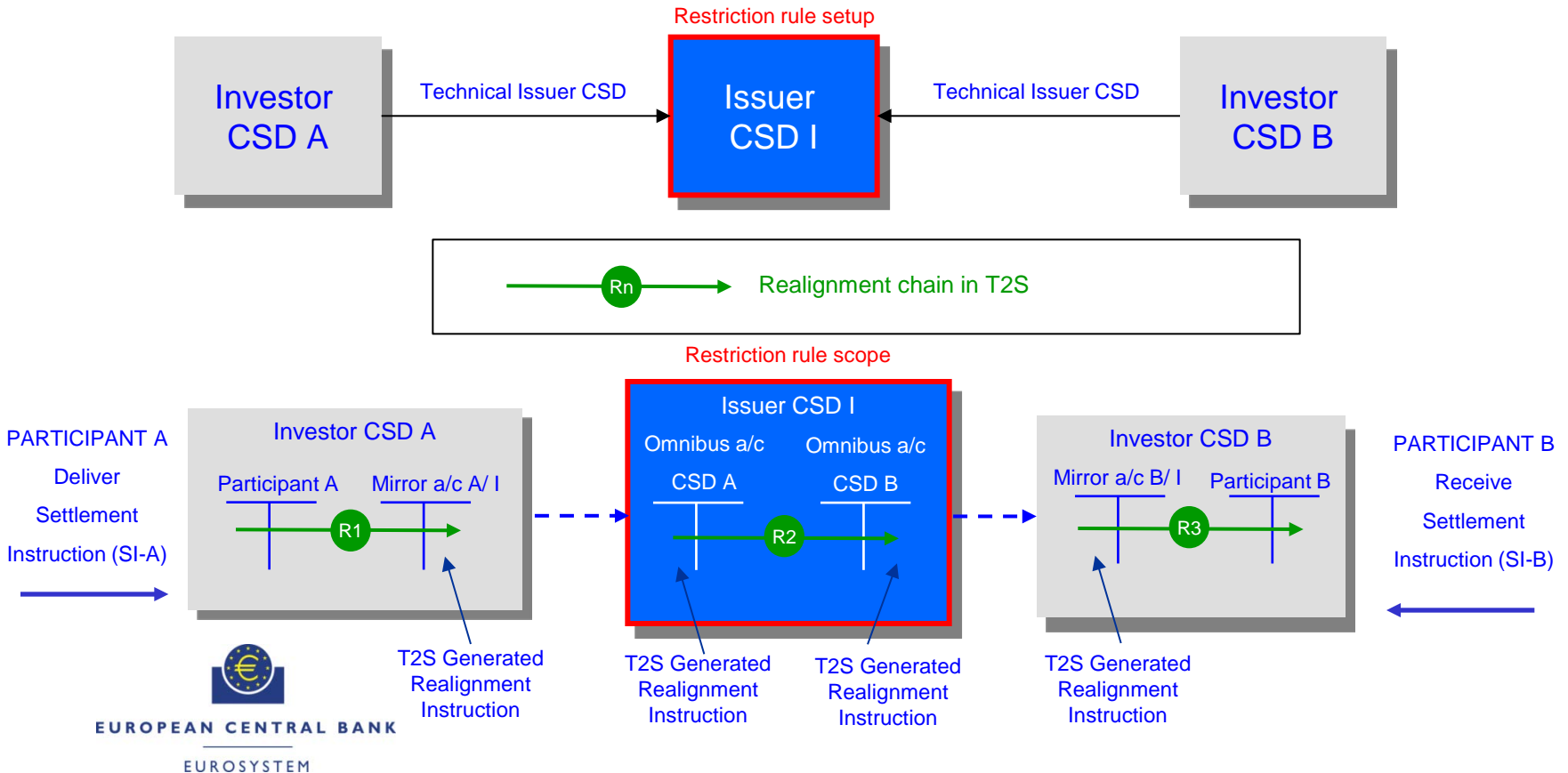
Why are they important in a cross-CSD context?

- ✓ Restriction rules defined by an Issuer CSD apply within a predefined data scope according to a leading principle of T2S and affect the settlement instructions of its participants...
- ✓ ...but may also affect settlement instructions of linked Investor CSDs in case of cross-CSD transaction involving realignment at the Issuer CSD



2. Catalogue of restriction rules

Example: *Investor CSD A and Investor CSD B have not defined restriction rules, however due to the restriction rules defined by Issuer CSD I, SI-A and SI-B may be affected due to the principle of settlement on all-or-none basis of business and realignment instructions*



2. Catalogue of restriction rules

What is the purpose of the Catalogue?

- ✓ Document all restriction rules put in place by T2S CSDs and perform analysis of the potential impact on cross-CSD settlement as well as the underlying implications for Investor CSDs taking into account the business context
- ✓ Living document which reflects CSDs' current/envisaged production setup of restriction rules, regularly published since end 2014 on the ECB website following approval by the AG
- ✓ As the analysis includes over 300 pages, a methodology has been elaborated to highlight those areas where Investor CSDs in T2S should pay attention. Based on services defined as necessary or optional, the methodology evaluates:
 - i. How difficult it is for Investor CSDs to implement such controls,
 - ii. What are the consequences for the participants of the Investor CSD if the controls are not implemented



Necessary Service or Process		Risk of not implementing controls			
		High	Medium	Low	None
Effort of implementing Controls	Not available				
	High				
	Medium				
	Low				
	None	- (*)	-	-	

(*) Impossible combination

Optional Service or Process		Risk of not implementing controls			
		High	Medium	Low	None
Effort of implementing Controls	Not available				
	High				
	Medium				
	Low				
	None	-	-	-	

A red/black colour does not imply any wrongdoing on the Issuer CSD side.

The aim is to draw attention of Investor CSDs on potential complexities of a process

What's new?

- ✓ This version contains the full scope of T2S CSDs
- ✓ New CSD in this version: Euroclear Finland
- ✓ Changes from KELER and OeKB

A few stats

- ✓ 21 CSDs have defined restriction rules in T2S
- ✓ 251 restriction rules (including Conditional Securities Delivery) assessed as per methodology (logical grouping is performed) classified into 16 business processes
- ✓ 79 Market-Specific Attributes, all CSDs are well under agreed software configuration limit (10 per CSD)

Overview per CSD and Business Process

- The summary table (High-level Impact Overview as described in the Executive Summary) represents the combinations per CSD and business process
- Whenever a CSD sets one or more controls/restrictions rules per business process, the cell is filled with a colour. Otherwise it is left blank
- In case there is more than one control/restriction rule per business process, the colour of the one that has the highest impact for Investor CSDs is used.

XMAP - Restriction Rules Analysis – Catalogue v1.0

Methodology – Summary Table Overview

Changes compared with previous version are circled

T2S CSDs	Business Processes – Necessary							Necessary/Optional ^(*)		Business Processes – Optional							MSAs	
	Corporate Actions	Registration	Taxation	Insolvency Procedures	Other Regulatory Compliance	Limitations due to CSD Legacy Platform	Operational Procedures	External CSD Settlement	Foreign Securities	Collateral Management	External Cash Settlement	Issuance	Investment Funds Processing	Non-European Regulations	Non-Standardised Securities	Static Data Configuration		
Baltic CSDs (CSDL)																		5
Baltic CSDs (ECSD)																		6
Baltic CSDs (LCSD)																		4
BOGS																		4
CDCP						4% (**) transactions												0
Clearstream																		8
Depozitarul Central																		5
Euroclear FR																		6
Euroclear BE		0.18% transactions																6
Euroclear NL																		6
Euroclear FI																		5
Iberclear																		2
Interbolsa																		1
KDD																		1
KELER																		5
Monte Titoli																		1
NBB-SSS																		5
OeKB CSD																		3
SIX SIS																		2
VP Lux																		0
VP Securities																		0
MSAs	7	4	4	14	10	0	2	0	5	5	0	6	2	6	4	10		

(*) The Business Processes "External CSD Settlement" and "Foreign Securities" are considered necessary or optional depending on whether the CSD is defining the restriction rules as Issuer or Investor CSD

(**) All settlement instructions sent by DCPs and Investor CSDs would be put on CSD Validation Hold for a short lapse of time, but only 4% of transactions incur a risk of cancellation due to restricted securities positions (based on 2015 statistics).

Potential improvements for next versions of the Catalogue...

- ✓ To do as follow-up from last HSG: review the methodology for the categorisation (Necessary vs Optional) of the different business processes and reflect in assessment results
- ✓ Implementation of CR558 in November 2016: it will be checked with CSDs if some of the current rules and MSAs related to Insolvency Procedures could be removed
- ✓ Compare the restriction rules in the Catalogue with the rules installed in Production
- ✓ Do a sanity check with Investor CSDs in those cases where replication of restriction rules are assessed necessary as per the Catalogue

Thank you for your attention

www.harmonisation.t2s.eu

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