



Impact Analysis on non-compliant T2S markets v.5.0

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T2S Board (MIB) View on T2S harmonisation standards compliance framework (Dec 2013):

- All T2S harmonisation standards **are mandatory**: T2S “Priority 1” standards to be met latest by T2S migration date
- AG (AMI SeCo) to analyse the externalities of each non-compliance case (**RED** status) on the T2S community and advise the MIB on the course of action to be taken
- MIB to decide on the measures regarding the non-compliant markets

Non-exhaustive list of examples of ex-ante measures :

- to **raise the awareness** in the non-compliant T2S market of the actions undertaken in other T2S-markets and the externalities of not complying with the standard;
- to **escalate the matter bilaterally with the relevant actors** in the non-complying T2S market;
- **as a last resort, to escalate the matter to the Governing Council.**

Non-exhaustive list of examples of ex-post measures that MIB could consider, based on AMI SeCo advice:

- in case non-compliance raises issues of **asymmetric access** between the non-compliant T2S market and other T2S markets which have invested in implementing the standard, AMI SeCo could discuss how the T2S community could consider **means to limit this asymmetry**;
- to consider whether **to postpone the migration of the relevant CSD to T2S, but only as measure of last resort**, if this would be a proportionate measure and if it is an inevitable consequence of the T2S technical and legal design that the migration has to be postponed.

| | Severity (qualitative) |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DEFINITION | Qualitative assessment of the impact on the T2S community, i.e. the level of adaptation needed by users and investor CSDs to manage non-standard settlement in T2S |
| HIGH | Complex adaptation effort involving setting up of restriction rules by Investor CSDs, other IT development or onerous manual processing |
| MEDIUM | Significant adaptation effort involving IT developments or regular use of manual processing |
| LOW | Small or no adaptation effort involving some manual processing or a delay in processing in T2S |



| | Expected volume/frequency (quantitative) |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DEFINITION | Quantitative assessment of the number of settlement instructions that will require non-standard processing in T2S. On the basis of affected current/estimated volumes of the respective markets in T2S the following criteria for the grades of this category have been defined: |
| HIGH | > 10,000 T2S instructions per year affected |
| MEDIUM | 1,000 – 10,000 T2S instructions per year affected |
| LOW | < 1,000 T2S instructions per year affected |



| | Risk (of not achieving full compliance) |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| DEFINITION | Assessment of whether a plan for full compliance exists and how far the implementation date of that plan is from migration date. |
| HIGH | No commitment/concrete plan to reach full compliance with a T2S standard by a certain date. |
| MEDIUM | Commitment/concrete plan to achieve full compliance with a T2S standard but the implementation date is more than 9 months after migration to T2S. |
| LOW | Commitment/concrete plan to achieve full compliance with a T2S standard less than 9 months after migration to T2S. |

Compliant :

- **IT** - full compliance with T2S CA Standards as of January 2017
- **RO** - full compliance with T2S CA Standards as of February 2017

New non-compliance cases:

- **DK and LU (LuxCSD)** - T2S CA Standards as of T2S migration

No change of overall non-compliance status:

- **DE, ESES (BE, FR, NL), AT and HU** - T2S CA standards
- **FR** (registered/bearer securities) and **BE(NBBSSS)** (for exempt/non-exempt accounts) - T2S Standard on restrictions on omnibus accounts
- **HU and SK** - T2S Standard on matching fields

Monitoring:


- **DE** – Introduced Record Date as of 1 Jan 2017 (but other gaps remain)

| | LU (LuxCSD) |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | Detecting market claims according to the requirements of the T2S CA Standards but generating and sending settlement instructions to T2S only after the underlying transactions have settled (<i>MC standards no.19 and 23</i>) |
| SEVERITY <i>(qualitative)</i> | LOW Delays in generation and settlement of market claims instructions |
| EXPECTED VOLUME | LOW Less than 1,000 instructions per year (<1 daily) |
| RISK <i>(of not achieving full compliance)</i> | HIGH No plan to solve non-compliance; to re-consider the need and feasibility to comply in 2018 |
| OVERALL IMPACT | LOW |



Given the low severity, low volume and a lack of an implementation plan, the AMI SeCo invites the MIB to:

- **agree** on a low overall impact on the rest of the T2S Community;
- **request** from the Luxembourgish market to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);
- **escalate** bilaterally with the relevant actors in the Luxembourgish market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

| | DK |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | i) No market claims on DK ISINs (<i>MC standards no.10</i>) ii) Using DK tax rate for two non-DK ISINs (<i>MC standards no.14</i>) |
| SEVERITY (qualitative) | <p style="text-align: center;">HIGH</p> T2S Actors connected to VP need to use non-harmonised processes for managing this non-compliance |
| EXPECTED VOLUME/FREQUENCY | <p style="text-align: center;">LOW</p> 1) Only securities entitlements (not cash) will be settled in T2S due to non-availability of DKK in T2S 2) No affected volumes in the first 4 months in T2S |
| Risk of not achieving full compliance | <p style="text-align: center;">HIGH</p> Plan to comply with MC standard 10 as of DKK becoming settlement currency in T2S (<i>currently scheduled for October 2018</i>) No plan for compliance with MC standard 14 |
| OVERALL IMPACT  EUROPEAN CENTRAL BANK | <p style="text-align: center;">MEDIUM</p> <p style="text-align: right;">harmonisation</p> |

Given the high severity, low volume and a lack of an implementation plan, the AMI SeCo invites the MIB to:

- **agree** on a medium overall impact on the rest of the T2S Community, which will become low after the migration of DKK on T2S;
- **request** from the DK market to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);
- **escalate** bilaterally with the relevant actors in the DK market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

AMI SeCo is invited to

Approve the Impact Analysis Report v.5.0 for
submission to the MIB (*26-27 April 2016 meeting*)

Thank you for your attention

www.harmonisation.t2s.eu

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