T2S: status update and next steps

Operations managers contact group (OMCG)
Frankfurt, 18 October 2012

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T2S Programme Office
European Central Bank
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2 Functioning of T2S
3 Current status and next steps
What is T2S?

Purpose and Benefits of T2S

http://www.youtube.com/watch?v=WpgLqy6dHj4&list=PL347E929CBF4A76F7&index=3&feature=plpp_video
Scope of T2S

Purpose and Benefits of T2S

A Service offered to CSDs for Settlement only

Registration of issuer indebtedness and investor holdings

- e.g. coupon payments, redemptions, stock splits

Settlement Function

Change of ownership among investors

- e.g. lending and borrowing only in some (I)CSDs

Notary Function

Custody/asset-servicing Function

Banking Function
Fragmented Infrastructure
Purpose and Benefits of T2S
One integrated settlement process (domestic and cross-border)
T2S is a Multi-currency Platform
Purpose and Benefits of T2S

- Higher economies of scale: win-win situation for all euro and non-euro participants

- Non-euro NCBs have same rights as euro NCBs;
  - Sovereignty over their currencies
  - Participation in governance bodies at all levels

- Transparent public debates on all new developments
Benefits for CSDs

Purpose and Benefits of T2S

- A technologically advanced, state-of-the-art, and robust settlement engine
- Economies of scale by pooling together settlement volumes across Europe
- New business opportunities through access to new markets
- Long-term savings from efficient re-shaping to T2S
Benefits for Users

Purpose and Benefits of T2S

- Same processing and reduced settlement fees for domestic and cross-border transactions
- Possibility to access all securities from one account in one CSD
- Potential to optimise collateral and liquidity requirements
- Reduced back-office costs
- New business opportunities through access to new markets
Benefits for Markets

Purpose and Benefits of T2S

- Higher level of competition in post-trade industry
- A Single Market for financial services in Europe through harmonized clearing and settlement
- Reduced costs of capital for firms to contribute to economic growth
- Reduced settlement risks on cross-border transactions to positively affect financial stability
- Investors can more easily diversify their portfolios
- Issuers more easily reach European investors
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How does T2S work?
Functioning of T2S

http://www.youtube.com/watch?v=QUV1zEauxzs&list=PL347E929CBF4A76F7&index=11&feature=plpp_video
Technical platform of all securities and cash accounts to settle all securities transactions in central bank money
Schedule of a T2S Settlement Day
Functioning of T2S

Start of day

6.45-7.30 p.m.
- Change of business date
- Static data update Instruction revalidation based on Start-of-day maintenance

7.30 p.m. -3.00 a.m.
- First night-time cycle
  - Liquidity transfers
  - Settlement sequences
  - End of sequence reporting
  - Static data update* Maintenance instructions*

3.00-5.00 a.m.
- Maintenance window
  - Interface services restricted
  - Other services unavailable

End of day

5.00 a.m. -6.00 p.m.
- Real-time settlement
  - Liquidity transfers
  - Partial settlement period
  - Real-time closure period
  - DVP cut-off
  - Release of EoD cash restrictions
  - EoD intraday credit reimbursement
  - BATM#, CBO## cut-off
  - Inbound liquidity transfer cut-off
  - EoD Liquidity Transfers (cash sweep)
  - Securities restriction cut-off
  - FOP cut-off

6.00-6.45 p.m.
- Stop settlement
- Recycling and purging
- Securities accounts consistency check
- Statement and reports

* Static Data updates & maintenance instructions are accepted throughout the night-time settlement but are implemented at the end of sequences, if impacting current settlement process

# BATM: Bilaterally Agreed Treasury Management instructions
## CBO: Central Bank Operations
Main Functionalities of T2S

Functioning of T2S

- Optimised settlement model
  - CSD securities
  - CeBM cash
- Real-time gross settlement (RTGS), combined with
  - Auto-collateralisation
  - Continuous Optimisation
  - Recycling mechanisms
- In addition, T2S provides i.a.
  - Matching services
  - Conditional securities delivery
  - Automated real-time realignment of cross-CSD positions
  - Single account repository
  - Standardised interfaces
  - Message subscriptions & reporting
### User Connectivity

**Functioning of T2S**

- **Three T2S network providers to maintain competition:** 2 value-added and 1 dedicated-line providers

- **Eurosystem licensing procedures lead to selection of SIA/Colt and SWIFT as the value-added network providers**

- **Governing Council decided on Eurosystem’s CoreNet to be the dedicated-line provider**
Indirect vs Direct Connection
Functioning of T2S

CSD participants can connect directly to T2S...

...but their CSD determines their access rights
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• 23 CSDs have confirmed their participation, representing nearly 100% of settlement volumes in euro

• Other CSDs may join later but will have to pay an entry fee

• So far only the euro and DKK (as of 2018) will be settled in T2S, but other currencies may join later
T2S Governance
Current status and next steps

Central Bank Decision-Making Bodies

Non-euro central banks’ governors / boards

Governors’ Forum

ECB Governing Council

T2S Board

CSD Steering Group (CSG)

Non-euro Currencies Steering Group (NECSG)

National User Groups (NUGs)

Advisory Group (AG)

ECB

Operations Managers Group (OMG)

Project Managers Group (PMG)

Change Review Group (CRG)

ECB Decision-Making Bodies

Steering Level Bodies

Market advisory bodies

Technical Groups

Reporting

Escalation

CRG reporting to CSG

Technical Groups reporting to T2S Board

Advisory Group (AG)
## T2S Governance

**Current status and next steps**

<table>
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<th>Group</th>
<th>Description</th>
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</thead>
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<tr>
<td>T2S Board</td>
<td>Chair: ECB senior manager + 9 members from other Eurosystem NCBs + 1 member from a non-euro area central bank + 2 non-central bank board members (all members are appointed by the Gov. Council)</td>
</tr>
<tr>
<td>Non-euro Currencies Steering Group</td>
<td>Senior managers from all non-euro NCBs that signed the Currency Participation Agreement</td>
</tr>
<tr>
<td>Governors Forum</td>
<td>Governors of non-euro NCBs with their currencies available in T2S. Plus an equal number of members of the ECB Governing Council</td>
</tr>
<tr>
<td>CSD Steering Group</td>
<td>CEOs/ Board members of CSDs that signed the Framework Agreement + T2S Board members and up to 6 user representatives as observers</td>
</tr>
<tr>
<td>Advisory Group</td>
<td>Participating CSDs and users in equal number + relevant public authorities (ECB, euro NCBs, non-euro NCBs) + observers (EU Commission, regulators, oversight, 4CBs, etc.)</td>
</tr>
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</table>
Where we are?
Current status and next steps

The “4CB” (four central banks developing and operating T2S) have completed around 80% of software development and more than 40% are already tested.
What T2S has delivered so far

Current status and next steps

- Legal framework has been defined:
  
  Agreements with CSDs and Central Banks have been endorsed and signed by counterparties

- Technical documentation has been finalised:
  
  Mature versions of User Requirements Document, User Detailed Functional Specifications, and Business Process Description have been published

- Feasibility assessments by CSDs/NCBs completed

- Connectivity solution for T2S:
  
  SWIFT, SIA/Colt and Eurosystem’s existing communication network have been selected as connectivity providers
Main challenge: Timely preparation of all stakeholders

Current status and next steps

- Challenge: all T2S stakeholders (Eurosystem as provider, central banks, CSDs, users of CSDs) need to be ready in time for T2S go-live / their migration to T2S

- Programme management solution: 17 regular checkpoints ("synchronisation points") to monitor progress of all stakeholders, including
  - SP5: Start of Internal Eurosystem Acceptance Testing (Feb 2014)
    By this point 4CB need to deliver T2S software (notably, relations with 4CB have improved but Eurosystem control remains limited)
  - SP6: Eurosystem Ready for User Testing (Sept 2014)
    User Testing environments must be set-up, and relevant training material and testing documentation delivered
  - SP16: Ready for T2S Go-Live (June 2015)
    CSDs and Eurosystem NCBs in first migration wave need to be ready for migration (several migration waves planned)
**Synchronisation point 3 (SP3):** marks the mutual assessment and confirmation that the T2S Programme Plan is fully comprehensive and adequately reflects all specifications and planning elements. The migration of CSDs remains a challenge.

- CSDs and Central Banks: Update of feasibility studies following the coordination between the various parties (in particular the CSDs within their own country) and the feedback from the ECB;

- Confirmation of the T2S programme plan by the Eurosystem;

- Confirmation of the migration waves composition and timing by the Eurosystem;

- Completion of SP3 (December 2012).
A wide frame is needed...

...Harmonisation
T2S harmonises settlement and thus indirectly fosters further alignments of EU market practices

Progress is defined in line with T2S stakeholders and other market initiatives

The Eurosystem co-operates with market participants and public authorities to align the harmonisation process

T2S is a unique opportunity to remove Giovannini barriers by harmonising EU post-trading
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<tr>
<td>1.1 T2S ISO 20022 messages</td>
<td>G G G G</td>
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<tr>
<td>1.2 T2S matching fields</td>
<td>G G Y</td>
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<td>T-FAX work</td>
<td>Y x x</td>
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<td>4. <strong>T2S CORPORATE ACTIONS STANDARDS</strong></td>
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<td>5. <strong>LEGAL HARMONISATION</strong></td>
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<td>5.1 Settlement finality I (moment of entry)</td>
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<td>5.2 Settlement finality II (irrevocability of transfer order)</td>
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<tr>
<td>5.3 Settlement finality III (irrevocability of transfers)</td>
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<td>5.4 Location of securities accounts (Law applicable)</td>
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<td>5.5 Outsourcing IT</td>
<td>Y x x</td>
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Draft 3rd Progress Report of the T2S Harmonisation Steering Group to be presented to the T2S Advisory Group in November 2012
**ACTIVITIES - HIGH PRIORITY**

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<th>DEFINITIVE</th>
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<th>IMPLEMENT</th>
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<td>6. SETTLEMENT DISCIPLINE REGIME</td>
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<td>7. SETTLEMENT CYCLES</td>
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<td>9. REGISTRATION PROCEDURES</td>
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<td>10. ACCOUNTS NUMBERING</td>
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### ACTIVITIES - LOW PRIORITY

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<td>11. CORPORATE ACTIONS MARKET STANDARDS</td>
<td>CA market (CAJWG) standards</td>
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<td>12. PLACE OF ISSUANCE</td>
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<td>13. TAX PROCEDURES</td>
<td>13.1 Withholding tax procedures</td>
<td>G</td>
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<td>13.2 Transaction tax procedures</td>
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<td>14. CROSS-BORDER SHAREHOLDER TRANSPARENCY</td>
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Competition
Current status and next steps

The new framework will lead to increased competition

**T2S**

DVP will no longer be a bilateral relationship between one CSD and one NCB.
Any CSD in T2S is potentially in a DVP relationship with any NCB in T2S

**CSDs regulation**

Same safety and efficiency rules all over Europe

**Harmonisation**

Same market practice all over Europe: national boundaries will be broken down
More information on T2S

T2S on the web: www.t2s.eu
- Publication of all relevant information and key documents
- Access to documents of all T2S working groups
- "Spotlight" on latest information on the project
- Insights on project plan, governance, pricing, harmonisation
- Ad hoc sections dedicated to all stakeholder categories (CSDs, banks, NCBs, others)
- Publication of quarterly newsletter ‘T2S OnLine’
Thank you for your attention

www.t2s.eu