



EUROPEAN CENTRAL BANK

EUROSYSTEM

HSG update

AMI-SeCo meeting,
item 4.4

24-25/06/2021

AMI-SeCo HSG Secretariat



Overview

- a)** Long-standing non-compliance cases in T2S harmonisation framework
- b)** Interpretation of Standard 15 – T2S account numbers
- c)** Focus of HSG work on registration

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Long-standing non-compliance cases in T2S harmonisation framework

Spain – matching fields (T2S standard 2)

Italy – tax info (T2S standard 4)

Background

- Mandate by AMI-SeCo to HSG
 - finding ways to enforce achieving full compliance with AMI-SeCo standards (following discussion on non-compliance with T2S Harmonisation standards)
- Current T2S Harmonisation Framework
 - Relies on voluntary commitment to comply with harmonisation standards
 - MIB (T2S Board view 2013):
 - Lack of benefit from efficient cross-CSD processes in T2S if not all markets adhere to harmonization standards
 - Standards considered as mandatory
 - Non-compliance only in exceptional cases
- **Future incentives/enforcement measures should be applicable for all AMI-SeCo harmonisation standards (not only T2S standards).**

Recommendations for future in-depth analysis

1. Spain – Matching fields

“Client of the CSD participant”-field is filled in with the end-investor information

2. Italy – Tax info

Market practice to manage Portfolio Transfers through T2S

3. Germany and Austria – Corporate Actions (Market Claims)

Use of “Cum”-indicator in T2S messages and the generation of market claims only after the underlying transaction has settled.

4. France – Restrictions on Omnibus Accounts

Requirement to segregate holdings in dedicated accounts based on the legal form of the security (i.e. bearer or fully registered).

Spain – Activity no.2 T2S Matching fields

T2S STANDARD

T2S actors are required to use as matching fields only the ones described in the relevant T2S system specification documents.

Activity description [extract]:

This standard does not exclude CSDs and their participants from using additional information/fields in their settlement instructions where applicable. The information may be required by CSDs providing certain ancillary services to their participants (e.g. repo and collateral services). In any case, any such market practice in respect of additional information fields should be compliant with all relevant T2S harmonisation standards.

SPAIN: Summary of analysis

- The Spanish market is not compliant with T2S Standard 2 on Matching fields since there is a market practice in place whereby the optional matching field “Client of the CSD participant” is filled in with the end-investor information.
- **The impact of this market practice is limited:**
 - Concerns the use of an optional matching field seldom used by the T2S community.
 - Only applies to a small sub-set of transactions:
 - applies only to equities,
 - in case of a Spanish beneficial owner and,
 - when the custody chain is longer than the usual ‘CSD-custodian-beneficial owner’
- There is very little evidence of a negative impact materializing in practice. However, in the HSG discussion the point was made that there could be some impact on international brokers.

SPAIN: Summary of discussion in the HSG

- The HSG notes the relatively small impact of the Spanish non-compliance with activity 4 (matching fields) and recognises the efforts made in the Spanish market to support a reform of the local legislation that could potentially mitigate the issue.
- However, since no further progress can be made before the legislation is changed the Spanish market practice to use the optional matching fields will not be considered in compliance with T2S harmonisation standard 2.
- **The recommendation from the HSG is that Spain will continue to be assessed as non-compliant (Red) on standard 2 in the T2S Harmonisation Progress Report, while awaiting the outcome of the legislation discussions currently taking place in Spain.**
- **Further, to ensure full transparency the Spanish market have been asked to draft a footnote containing a detailed description of the issue to be included in the next Harmonisation Progress Report.**

ITALY: Summary of analysis

- The Italian market is not compliant with T2S Standard 4 on tax info requirement since there is a market practice in place to include in T2S messages tax related details regarding portfolios transferred through T2S.
- The non compliance only concerns transactions related to portfolio transfers. **For all other transactions the Italian market fully complies with the standard.** There is also **no impact on the rest of the T2S community**, other than requirements for transferring portfolios between Italian custodians.
- In the context of the development of an AMI-SeCo Handbook on portfolio transfers, the HSG and the AMI-SeCo have in the past years agreed to **review Standard 4 to allow the transmission of tax information in T2S settlement messages and the implementation of MPs that offer greater efficiencies to T2S actors.**
- Once the standard will be amended, the AMI-SeCo and the HSG took the view that the Italian non-compliance case will be resolved.

ITALY: Review of T2S Standard 4

- In May 2021, the HSG confirmed the view that the current text of T2S Standard (4) is outdated and that, for this reason, its revision does not need to be linked to the future publication of the Handbook on portfolio transfers.
- **The HSG agreed to propose to the AMI-SeCo to review the standard** and to put forward the previously agreed HSG proposal on the new text of the standard.

T2S Standard 4:

Tax-related information for domestic and cross-CSD transactions is not passed via T2S messages.

HSG revision:

Following a bilateral or a multilateral agreement, T2S actors may choose on a voluntary basis to include tax-related information in a T2S message; (in such a case, the content and/or format of such information may be subject to specific national legal requirements). T2S actors should not impose any mandatory obligation on their participants or on their counterparties to include tax-related information in T2S messages for settlement in T2S.

ITALY: Proposal for the AMI-SeCo members

The AMI-SeCo members are now invited to:

- discuss the proposal of the HSG to revise T2S Standard (4) i.e. not to wait for the publication of the AMI-SeCo Handbook on Portfolio Transfers.
- Consult and confirm with the T2S governing bodies (MIB, CSG) on whether the formulation proposed by the HSG is neutral to (has no impact on) the operation of T2S.
- based on the outcome of the above, agree to finally endorse changing T2S Harmonisation Standard 4 by the publication of the next T2S harmonisation progress report in December 2021



Interpretation of Standard 15 – T2S account numbers

Update on progress to AMI-SeCo

Standard 15: issues from different interpretations

- T2S Harmonisation Standard 15 defines a harmonised approach for the identification of securities accounts in T2S CSDs.
- Ongoing work on SCoRE and ECMS has highlighted that some markets interpreted Standard 15 in a narrower way i.e. only applying it to messages sent in or by T2S (settlement-related messages) and not to other types of messages relevant to the management of securities accounts.
- **This fragmentation brings multiple complexities:**
 - Different accounts may be identified as the “safekeeping account” depending on the business process involved despite the securities being held in a single account in T2S.
 - This is exacerbated when the account holder is a participant in multiple T2S CSDs, each of which may follow a different approach.
 - Uncertainty as the same security may be reported as being held in 2 different accounts depending on where the report is generated (e.g. by T2S or by the CSD).
 - ECMS relies on T2S account numbers to identify accounts when processing corporate actions messages.

Standard 15: issues from different interpretations

- Feedback from the CSDs affected has confirmed that, by the ECMS go-live, the vast majority of T2S CSDs will use (also) T2S account numbers to identify T2S accounts at least in their messages sent to the ECMS.
- The HSG members agreed to amend the Activity Description of Standard 15 to grant a univocal and broad interpretation of the standard, the implementation of which would solve the issues identifies. **The below proposal by the HSG Secretariat will be circulated to the HSG members and NSGs involved and discussed in the HSG meeting in October 2021.**

T2S Standard 15 - Activity description – HSG Secretariat proposal

The objective of this activity is for T2S CSDs to designate a harmonised number to securities accounts in T2S. The idea is to incorporate logic into the account numbers to facilitate the identification of account holders and providers *and use a harmonised identification of securities accounts that are managed in T2S. To this purpose, all T2S actors should be allowed to refer to T2S securities account numbers in all messages received from or sent to CSDs where a securities safekeeping account that is managed in T2S is identified, including also non-settlement related messages (e.g. corporate actions notification, billing ,etc.).*



HSG work on registration

Reporting on discussion in May 2021 HSG meeting

HSG reflections on remaining sources of fragmentation in T2S harmonisation agenda

Table 1
Status dashboard of the T2S harmonisation activities

(as at September 2020)

Core T2S settlement harmonisation		Definition	Monitoring	Compliance (number of non-compliant markets)	
1	T2S messages	T2S ISO 20022 messages	G	G	B
2		T2S matching fields	G	G	R (3)
3		Interaction for registration	G	G	B
4		Interaction for tax info	G	G	R (1)
5	Schedule of settlement day		G	G	R (1)
6	T2S corporate actions standards		G	G	R (10)
7	Legal harmonisation	Settlement finality I (moment of entry)	G	G	B
8		Settlement finality II (irrevocability of transfer order)	G	G	B
9		Settlement finality III (irrevocability of transfer)	G	G	B
10		Outsourcing of IT services	G	G	B
11	Settlement discipline regime		G	X	X
12	Settlement cycles		G	G	B
13	CDS account structures	Availability of omnibus accounts	G	G	R (1)
14		Restriction of omnibus accounts	G	G	R (2)
15	T2S account numbering	Securities account numbering	G	G	B
16		Dedicated cash account numbering	G	G	B
Harmonisation of post-trade environment of securities settlement		Definition	Monitoring	Compliance	
17	Legal harmonisation	Location of securities account/certificat of laws	G	X	X
18	Corporate actions market standards	CA market (CAJWG) standards	G	G	R (20)
19	Place of issuance		G	X	X
20	Tax procedures	Withholding tax procedures	Y	X	X
21	Shareholder transparency/registration		R	X	X
22	Market access		G	X	X
23	Securities account data		G	G	R (1)
24	Portfolio transfer		Y	X	X

Issues

- ↔ Spanish matching fields (registration)
- ↔ Italian portfolio transfers (tax)
- ↔ Corporate actions.... (including tax)



Tax procedures
Registration

- ↔ French registered shares

- ↔ Tax
- ↔ Registration

- ↔ Tax

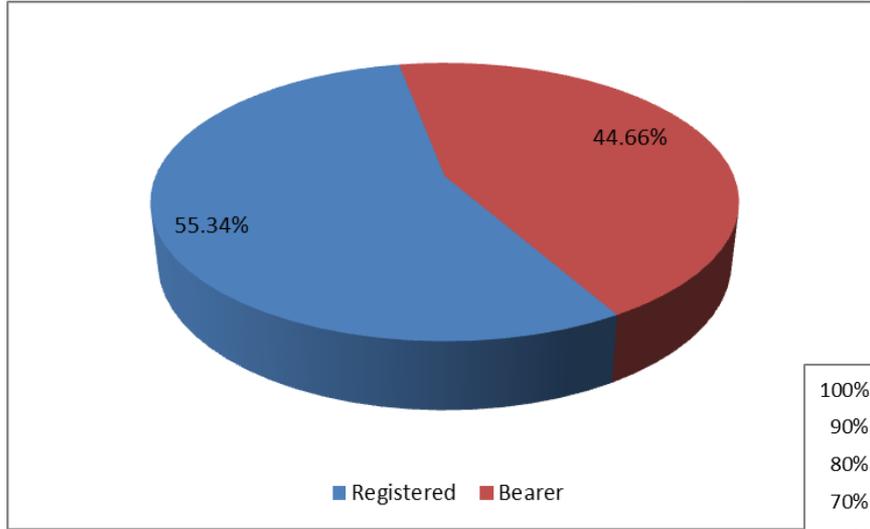
Withholding tax

- Withholding tax procedures are in the scope of the [European Commission's 2020 Capital Markets Union Action Plan](#) (*Action 10: Alleviating the tax associated burden in cross-border investment*)
- The EC is expected to put forward a legislative initiative by Q4 2022, subject to a positive impact assessment and in close consultation with Member States, as well as explore additional ways to introduce a common, standardised, EU-wide system for withholding tax relief at source
- To recall the AMI-SeCo sent 3 letters to the EC on or in relation to withholding tax procedures in the last two years
- In these letters – on top of collecting a number of concrete suggestions on a more efficient and harmonised framework of WHT procedures – it was confirmed that we stand ready to provide additional input to the EC or to the community of national tax authorities on existing pain points and avenues of harmonisation (and digitalisation)
- We are currently waiting for additional developments at the EC side on the concrete plans regarding engagement with the stakeholders to possibly provide further input

Registration

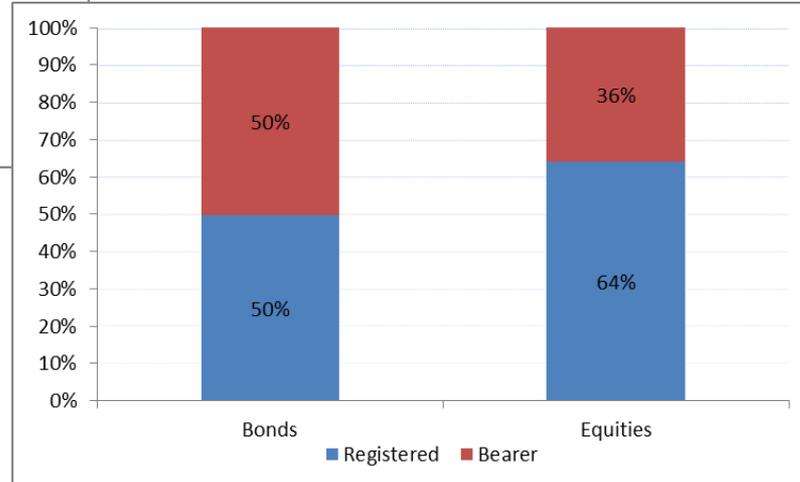
- Registration procedures are still highly fragmented across AMI-SeCo markets / even the concept of registration is different in some cases
- Registration requirements are deeply embedded in national securities and corporate laws
- The Shareholder Rights Directive 2 (SRD2) brings a more harmonised way of shareholder identification (for equities) and this might affect the role of registration in jurisdictions where the function of registration is to provide a snapshot on investors to the issuer
- Due to SRD2 and other factors some Member States are contemplating a potential review of their registration requirements (e.g. ES, FR)
- However, shareholder identification is not the sole purpose of registration; according to the EPTF report:
 - To legally record the transfer of securities between buyers and sellers
 - To give issuers accurate information on who their shareholders are
 - To allow issuers to develop a closer relationship with their shareholders
 - To allow issuers to control their shareholder base (by being able to refuse registration to some purchasers, based, for example, on nationality)
 - To allow issuers to attribute bonus rights to shareholders (based on length of time they have held the shares)
 -(?)

Registration



By value more than half of all securities issued in AMI-SeCo markets are registered

Half of outstanding debt instruments and 2 / 3 of outstanding equities are registered



Registration – next steps

- HSG to launch specific workstream on registration
- Objective will be to produce analysis and recommendations that can serve as input for the European Commission, and for member states reviewing national registration procedures.
- Intention is to look at registration from both an operational and a legal perspective, and from the perspective of both an issuer and an investor.
- Starting point of the work will be the 2016 report by ECSDA and the 2017 EPTF report.
- Objective will be to produce a report for the next AMI-SeCo (December 2021)