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Impact analysis report

Non-compliance with core T2S settlement harmonisation standards

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1. Introduction

This report provides an assessment of the impact resulting from the fact that so far compliance with agreed TARGET2-Securities (T2S) harmonisation standards has not been achieved for all standards and/or in all T2S markets. The impact assessment thus complements the 13th report on securities settlement and collateral management harmonisation progress in T2S markets.¹ The report is provided by the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) and focus on the non-compliance with the core T2S securities settlement harmonisation standards (former Priority 1 T2S harmonisation standards).

The impact analysis is carried out as part of the monitoring exercise, whenever a T2S National Stakeholder Group (NSG) reported to the AMI-SeCo that their respective T2S market has not fully complied with one or several of the core T2S harmonisation standards up until mid-November 2022. Since the publication of the previous report in February 2022, the overall impact of the remaining cases of non-compliance on the T2S community has remained stable, with four markets having a low impact and three markets having a medium impact (the assessment of one market is now under review). These cases do not represent severe obstacles in the functioning of T2S although, in some cases, they do create frictions in cross-border settlement / asset servicing or imply manual exception handling. However, several improvements are noticed in terms of progress from the markets in initiating discussions and advancing in their plans to reach full compliance (more details in Section 3 - Summary of results).

In line with the agreement by the former Market Infrastructure T2S Board (now MIB) in 2013, this report contains also the advice given by the AMI-SeCo (former T2S Advisory Group (AG)) to the MIB on the course of action to be taken as regards each case of non-compliance.

The report is structured as follows. Section 2 describes the methodology according to which the assessment was done. Section 3 provides an overview table on the overall impact per T2S market. Section 4 provides a detailed description of the non-compliance cases, the respective impact and plans including estimated timelines for achieving compliance for each non-compliant T2S market. Section 5 describes the current status of compliance and an overview of its impact for the markets preparing to migrate to T2S, currently Euroclear Finland (FI), SKDD (HR) and Euroclear Bank (BE). Section 6 concludes the report with the AMI-SeCo's proposals to the Market Infrastructure Board (MIB) for further action, which have been agreed by the AMI-SeCo in December 2022 and have been endorsed by the MIB in January 2023.

¹ For more information and the published report, see [AMI-SeCo](#).

2. Methodology for assessment of non-compliant markets

For assessing as to whether the expected impact in terms of expected severity, volumes/frequency and risk of not achieving full compliance is high, medium, or low, the below methodology was used.

	Impact category		
	Severity (is a 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)	Expected volume/frequency (is a quantitative assessment of the number of settlement instructions that will require non-standard processing in T2S)	Expected risk of not achieving full compliance (is an assessment of whether a plan for full compliance exists and how far the implementation date of that plan is from publication date of this report)
High impact	Complex adaptation required from users/investor CSDs to adapt to non-standard processing. It may involve setting up of restriction rules by Investor CSDs, onerous manual processing or require IT development to implement deviating processing for the respective market.	In absolute terms, the estimate is that more than 10,000 instructions per year in T2S will be affected.	No commitment/concrete plan by a market to reach full compliance with a T2S standard by a certain date.
Medium impact	Significant adaptation is required from users/investor CSDs to adapt to non-standard processing. This may require IT development to implement deviating processing for the respective market or involve regular use of manual processing.	In absolute terms, the estimate is that 1,000 – 10,000 instructions per year in T2S will be affected.	There is a commitment/concrete plan of a market to achieve full compliance with a T2S standard, but the implementation date is more than 12 months after publication of the report.
Low impact	Small or no IT adaptations required from users/investor CSDs to adapt to non-standard processing. Some manual processing may be required or processing in T2S could be delayed.	In absolute terms, the estimate is that less than 1,000 instructions per year in T2S will be affected.	There is a commitment of a market to achieve full compliance with a T2S standard no later than 12 months after publication of the report.

3. Summary of results

The non-compliant cases from this impact analysis are summarised in the table below:

T2S markets	Non-compliance with T2S harmonisation standard							
	#2 on Matching Fields		#5 on Schedule for Settlement day and T2S Calendar		#6 on Corporate Actions		#14 on Restriction of Omnibus Accounts	
	2021	2022	2021	2022	2021	2022	2021	2022
AT					Medium	Medium		
BE – Euroclear					Low	Low		
CH					Low	Low		
DE					Low	Under review		
ES	Low	Low						
FR							Medium	Medium
HU			Medium	Medium	Medium	Medium		
LU					Low	Low		

The number of T2S markets assessed in the thirteenth Harmonisation Progress report remained stable at 20 markets with 21 central securities depositories (CSDs) using T2S decreasing. Progress towards reaching full compliance with all standards has been observed in several markets:

- The French market have established a dedicated task force to explore different scenarios that could be envisaged to comply with T2S standard 14. The task force aims at finding a solution (i) without significant impact throughout the entire holding chain and (ii) that would avoid T2S CSDs opening two accounts for the management of French registered securities.
- The German market is progressing in their plans for achieving full compliance with T2S Standard 6.
- The Hungarian market is progressing in their plans for implementing and achieving full compliance with T2S Standard 5 and 6.
- The Luxembourgish market is progressing in their planning for achieving full compliance with T2S Standard 6, currently foreseen for Q4 2023.

4. Impact assessment of non-compliance per T2S Market

4.1 Austria

Austrian market impact (Migration wave 4: 6 February 2017)

AT non-compliance: T2S corporate actions standards	
Overall impact	MEDIUM
Severity (qualitative)	<i>MEDIUM</i>
Expected volume/frequency (quantitative)	<i>LOW</i>
Risk of not achieving full compliance	<i>HIGH</i>

The Austrian market does not comply fully with the three T2S CA standards:

- Market Claims Standards 6 and 7: to mitigate the risk of tax fraud, the Austrian market is not considering the “opt-out”, “ex” and “cum” flags when generating market claims in T2S.

- Market Claims Standard 23 – the Austrian CSD does not provide to its participants a “user friendly facility” in order for them to control the interdependence of the settlement of the market claim with the settlement of the underlying transaction².

The AMI-SeCo continues to assess the non-compliance with the above standards as having a ‘medium’ severity impact (qualitative) on the rest of the T2S Community. This is based on the assessment that in some scenarios the non-compliance would result in the need for Austrian CSD participants, as well as participants in CSDs having a link with the Austrian CSD, to manually and bilaterally generate market claims. In other scenarios, the same counterparties may need to reverse the wrongly generated market claims by the Austrian CSD. In addition, the same actors may need to wait for the settlement of market claims generated by the Austrian CSD with “on hold” status on securities accounts on which the optional facility to control settlement of market claims has been activated by the Austrian CSD participants. Similarly, there is an impact on investor CSDs, whose market claim instructions cannot match in T2S with those generated by the Austrian CSD in the scenarios when the latter does not generate market claims in accordance with the T2S CA Standards.

Only a few settlement instructions were expected to be affected per year. The reasons for this are that i) the Austrian banks agreed not to actively use the cum/ex and opt/out flags; thus, few cases are expected where these flags will be used in the settlement instructions and ii) the harmonisation of the sequence of key dates used for corporate actions processing within T+2 will result in much lower volumes of market claims. The actual number of settlement instructions concerned for the period from 16 August 2021 to 15 August 2022 is estimated to be below 1000 settlement instructions per year:

- Standards 6 and 7 (instructions with cum/ex/opt-out indicator): 18
- Standard 23 (claims flagged with automatic party hold at account level): 287

As this estimation is below 1,000 settlement instructions per year, the AMI-SeCo assessed it as having a low quantitative impact on the rest of the T2S community. However, the affected volumes may increase in the future, depending on the number or relevant CSD link arrangements to be established.

The Austrian MIG, Corporate Actions National Implementation Group (CANIG), discussed the issue again at the end of 2020. The involved market participants concluded that they do not want to alter the status quo for the time being as the risk of an improper use of the cum/ex indicators, which could lead to unforeseen tax fraud cases, is too high. Until a final plan has been determined by the Austrian market for achieving full compliance, there continues to be a high risk for not implementing a compliance resolution in the foreseeable future.

Given the above, AMI-SeCo assesses the overall impact as medium.

4.2 Belgium

4.2.1 Euroclear Belgium

BE market (EoC) impact (migration wave 3: 12 September 2016)

BE market (EoC) non-compliance: T2S corporate actions standards	
Overall impact	LOW
<i>Severity (qualitative)</i>	<i>LOW</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>HIGH</i>

² Instead, OeKB provides its participants with an optional facility allowing them to indicate that all market claims, generated by the CSD on certain securities accounts, should be with ‘on hold’ status. This mechanism is against T2S CA standard 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community.

The Belgian market (EoC) reported being fully compliant with all T2S CA Standards as a result of the migration of Euroclear Belgium to its new CA processing platform in March 2021.

Although Euroclear Belgium is technically capable to process capital increase events in a fully compliant way, the Belgian market is not processing them in accordance with the standard. It was therefore agreed to downgrade the compliance status of Buyer Protection Standard 9 (on buyer protection deadlines) and the CAJWG CA Standards 12,13 and 14 related to the key dates for mandatory reorganisations with options.

Capital increase events are only occurring once or twice a year. As in the previous year, there was only one capital increase event in 2022. Even though such capital events are rare, an awareness campaign was launched in January 2021 via the Belgian Market Implementation Group (BE-MIG) to inform front offices and issuers about the applicable standards and to encourage them to adjust. Nevertheless, Belgian issuer agents explained that for commercial reasons they will not adjust their market practice. Following failed attempts to change the way of working, there is currently no specific action plan to address this issue. The Belgian market is well aware of its non-compliance.

Given the low severity and volumes affected, the AMI-SeCo assesses the overall impact as low.

4.3 Switzerland

SIX SIS (CH) market impact (migration wave 1 June 2015)

CH non-compliance: T2S corporate actions standards	
Overall impact	LOW
<i>Severity (qualitative)</i>	<i>LOW</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>HIGH</i>

The Swiss market complies with all T2S CA standards, except with the T2S CA Transformation Standard 2, for which no implementation date has been defined:

- The aim of T2S CA Transformation Standard 2 is that CSD participants should have the possibility to send settlement instructions to the T2S System during the 20-day period following the maturity date of a security ("old" ISIN). During this 20-day period instructions sent by CSD participants will be validated and allowed to match but not to settle. Transformation detection process should be performed at least once per day. Only transformed settlement instructions will be sent to T2S for settlement. After the end of this 20-day period all instructions from CSD participants, irrespective of their matching status, will be cancelled by T2S.
- The Current Swiss Market Practice (incl. Liechtenstein) is that settlement instructions can be sent for matching until EOD on Record Date. At the EOD on Record Date all pending settlement instructions that are matched will be transformed automatically. Unmatched transactions will be cancelled by SIX SIS and will not be transformed. After Record Date all incoming instructions from CSD participants will be rejected by SIX SIS. The static data of the ISIN are inactivated after the record date/maturity date on the SIX SIS legacy system (SECOM). Consequently, Swiss Market Practice will overrule any incoming instruction of "old ISINs" in Euro centrally held by SIX SIS and accordingly, instructions in "old ISINs" will no longer be matched on T2S.

Since the implementation of the relevant change on T2S (June 2018), SIX SIS has not experienced any such affected instructions. Therefore, in view of the very limited number of affected transactions (if any), the effect of non-compliant practice with the Transformation Standard 2 is estimated to be low (zero) for the near future.

At least for the time being, SIX SIS has decided not to replicate the specific T2S functionality of the 20-day Transformation Period following the maturity date of a security. SIX SIS arrived at this conclusion (i) after assessing the number of impacted transactions which turned out to be zero; (ii) as current Swiss (incl. Liechtenstein) market practice for CHF currency transactions in its legacy system will remain unchanged and (iii) against the background of a disproportionate financial impact on SIX SIS. The latter

is mainly caused by the home market settlement system (SECOM) running in parallel to the T2S system and the fact that SIX SIS has to cover additional market practices that are different to those of T2S. A change of practice to reach compliance with the Transformation Standard 2 is considered to be a major technical change in the SIX Settlement System (SECOM) which the Swiss NSG assesses as disproportional in terms of cost versus current number of affected transactions.

The implementation gap could have the following consequences:

- SIX ICP-participants, SIX DCP-participants and participants in investor CSDs linked to SIX SIS are not able to instruct after record date/maturity date in the “old ISINs” in a fully automated way according to the T2S Standard.
- The affected actors will have to support manual processing for managing transformations (mostly actors over SIX SIS for ISINs centrally held at EU CSDs, or for ISINs centrally held by SIX SIS also those actors of other CSDs on T2S are affected):
 - As indicated above, after Record Date unmatched instructions are rejected by SIX SIS;
 - Upon request by the actors, SIX SIS will re-open the ISIN on a case-by-case basis that allows participants to re-instruct for matching;
 - After matching under the “old ISIN” the transformation will proceed normally, and the transformed settlement instruction will be sent to T2S.

In terms of the scope of the implementation gap the main relevant events affecting transformation are: Repurchase Offer, Conversion, Mandatory Exchange, Early Redemption, Merger, Partial Redemption with Reduction of Nominal, Spin-Off, Split and Reverse Split.

The Swiss market achieved full compliance with all T2S CASG Standards soon after its migration in the first wave in June 2015. Subsequent to the T2S Release in June 2018, this Transformation Standard 2 is the only one SIX SIS is not compliant with. As long as above-mentioned circumstances remain unchanged, Transformation Standard 2 is not scheduled to be replicated by SIX SIS in its legacy system, i.e., no plans are in place to implement the standard. The current integration of the Bolsas y Mercados Españoles (BME) into the SIX Group does not change the current situation of having two different jurisdictions with two different home market legacy systems. No synergies can be applied in terms of the non-compliance case and the disproportional financial impact on SIX SIS remains unchanged.

Given the above, the AMI-SeCo assesses the overall impact as low.

4.4 Germany

German market Impact (Migration wave 4: 6 February 2017)

DE non-compliance: T2S corporate actions standards	
Overall impact	UNDER REVIEW
<i>Severity (qualitative)</i>	<i>UNDER REVIEW</i>
<i>Expected volume/frequency (quantitative)</i>	<i>HIGH</i>
<i>Risk of not achieving full compliance</i>	<i>HIGH</i>

Since the launch of T2S the German market has made a very significant progress in eliminating the major gaps in compliance with the T2S corporate actions standards. The following compliance gaps remain:

- Market Claims Standard 8, 19, 20, 21, 22, 25: Market claims are detected on the basis of pending, matched trades on record date; Market and Reverse Claims are generated at CBF on the basis of settled transactions. Claims on open instructions caused several problems (late trades, Rec-Date) when this processing was standard in the German market. CAJWG and CASG Standards apply on ‘irrevocable transactions’ which would not be fulfilled by ‘matched transactions’ solely as stated in the definition/example of irrevocableness. There the underlying OTC transaction could be set ‘on hold’ (without settlement) in T2S while the Market Claim settles. Based on this fact the German tax-related law does not treat a matched underlying transaction as irrevocable. The German market would like to highlight the current discussion regarding the status of irrevocability. Market participants request support to cancel Market

Claims when the underlying transaction matched but did not settle on Payment Date (or ISD) as was the case in T2S for a handful of transactions in non-German securities. An open question remains regarding the transfer of ownership and tax liability. The ‘Zuflussprinzip’ from tax point of view is not in time with the processing of Market Claims when the underlying transaction is matched. Non-compliance with these standards has a low impact on the T2S Community from a qualitative perspective.

- Market Claims Standard 7: There are some conflicts by implementing the ‘CUM’ flag with the German laws e.g., in respect of ‘manufactured dividends’ when non-entitled transactions can be flagged as ‘entitled’ and tax vouchers will be created accordingly. From a qualitative perspective, non-compliance with this standard has a low impact on the T2S Community.
- Buyer Protection Standard 10: the German market is not yet fully compliant with this standard. Implementation is currently in consultation with market and data provider and is planned for 2023. The German market would like to use the data provider Wertpapier-Mitteilungen as central source for providing and publishing Buyer Protection key data, like the Buyer Protection Deadline. With the participation of CBF on T2S Buyer Protection Deadline, information shall be incorporated in SWIFT MT56X. This development is on the agenda for 2022. Filling depends on when the central data vendor will provide this information.
- Transformation Standard 13: the German market is progressing towards full compliance, currently targeting June 2023 for the remaining Transformation Standard to be implemented.

According to the volumes data provided by the German NSG, for the period from August 2021 to July 2022, the number of settlement instructions in which the cum flag was used (related to the non-compliance with Market Claims Standard 7) amounted to 58 (among them 44 related to DE ISINs and 14 related to European and non-European ISINs). In the same period, Clearstream generated a total of 86,472 market claims. Considering the non-compliance with Market Claims Standard 25, a probable volume of over 10 000 transactions is in principle in line with the methodology assessed as having a high quantitative impact to the rest of the T2S community.

Implementation of some of the Market Claims Standards with high impact on the T2S Community (payment on T2S DCA accounts) has been completed. The German market continues to progress on the remaining compliance gaps as far as this is compatible with German law. There are differing views among AMI-SeCo members with regards to the severity and the overall impact of the remaining non-compliance gaps. In particular, regarding the timing of generation of market claims (Standard 8, 19, 20, 21, 22, 25) further discussions seem necessary within the Corporate Events Group, in particular with regards to the impact in the context of the CSDR late matching penalties.

4.5 Spain

Spanish market impact (final migration wave: 18 September 2017)

ES non-compliance: T2S standard on matching fields	
Overall impact	LOW
<i>Severity (qualitative)</i>	<i>LOW</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>LOW</i>

The Spanish market does not comply fully with the T2S standard 2 on matching fields.

The non-compliance stems from the fact that for intra-CSD settlements on equities there is a requirement in place in the Spanish market by which the T2S optional matching field “Client of the CSD participant” is filled in with the end-investor information which is not necessarily the client of the CSD participant in case the custody chain is longer than the usual CSD-custodian-end-investor. Therefore, this can result in special cases a non-compliant use of this optional matching field.

The requirement forces participants in the Spanish market which are active also in other T2S markets to support a deviating non-harmonised process for instructing and reconciling intra-CSD settlements on equities in the Spanish market. However, the Spanish market follows this practice only for intra-CSD on equities and not for cross-CSD instructions or for fixed-income securities, for which the practice is not in

conflict with the T2S Standard. Therefore, the qualitative impact on the T2S Community is expected to be low.

The potential volumes involved are difficult to estimate. Based on the above those intra-CSD volumes on equities are affected where the client of the CSD participant is not the end-investor. According to the ECB Statistical Data Warehouse, Iberclear had 7.5 million intra-CSD equity transactions in 2018.

Based on a market consultation by the Spanish authorities a legislative proposal has been made in Spain which is expected to allow removal of the requirement of using the matching field “Client of the CSD participant” to pass on end-investor information for registration purposes. Consequently, with high probability, the non-compliance gap will be eliminated in the near future.

4.6 France

4.6.1 Euroclear France

FR market impact – Restrictions on Omnibus Accounts (migration wave 3:12 September 2016)

FR non-compliance: T2S standard on restrictions on omnibus accounts	
Overall impact	MEDIUM
<i>Severity (qualitative)</i>	<i>HIGH</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>MEDIUM</i>

There is a legal requirement in France to segregate holdings in dedicated accounts based on the legal holding form of the security (i.e., in bearer or in registered form).³ The requirement also applies on omnibus accounts of Investor CSDs, i.e., two distinct omnibus accounts are required for the servicing of registered and bearer holdings. As a result, the French market is not compliant with the T2S standard on “Restrictions on Omnibus accounts” due to the obligation for Investor CSDs and their participants to replicate the account segregation requirement in their books down the holding chain, i.e., requirement to open two mirror accounts, one for bearer and one for registered positions mapped to the two omnibus accounts in Euroclear France. This mandatory replication presents high impact challenges to the T2S community, hampering the T2S key objective of facilitating efficient harmonised cross-border settlement.

Root-causes:

Euroclear France and the French market have analysed in detail this non-compliance case and the possible options to remediate it. In a letter addressed in September 2021 to the MIB Chairman by the French NSG Chairman, on behalf of the French NSG, the French market reiterated its commitment to resolve this situation in order to reach full compliance with T2S harmonisation standards.

However, the current non-compliance situation results from barriers that the French market actors are unable to remove by their sole action. Aligning French market practices on omnibus accounts with those of the other national markets would require an overhaul of the French securities law, with possible impacts on several legal texts (all those dealing with securities’ ownership, which in France can take different forms for the same ISIN as explained). These legal adjustments would in turn require major adaptations for the entire French post-trade ecosystem (the issuing landscape as well as the internal processes and account structures along the holding and custody chain). It is the view of the French market that these impacts and costs should be taken into account when considering possible remedial actions, as well as the low number of transactions involved. Finally, and most importantly, the decision to envisage a legal overhaul to align the French market practices with those of the other national markets participating in T2S should take into account the ongoing efforts, at European level, to harmonise the treatment of registered securities. The European Commission has recently identified such harmonisation efforts as a priority.

The French market is committed to solve this non-compliance case:

³ The two forms of the security are represented by a single ISIN.

In line with such priority, the French market decided to set up a dedicated task force in September 2021 to assess potential “quick win” solution. The task force delivered to the French Post Marché (former AFTI) a report describing different scenarios and solutions in regard to solving this non-compliance case. However, the task force also came to the conclusion that there were no “quick-win” solutions but only high impacts ones. Furthermore, the Task Force made a report to the France Post Marché Board that describes these different technical solutions. The report was presented together with a recommendation to continue the work and analyses on this topic in a permanent France Post Marché working group called GEN (Groupe Expert Nominatif, meaning Expert Group on Registered Securities) that was to be set up in autumn 2022. The GEN kicked off its work in September 2022 and one of its sub-groups has taken over the lead on this report to continue the work.

Impacted volumes:

Volumetric measurements showed that there were around 336 affected cross-border transactions on French securities held in registered form between August 16, 2021, and August 15, 2022. The opening of additional accounts for the servicing of French registered securities was, in many cases, imposed on Investor CSDs and their participants in order to comply with their respective client service level agreements (e.g., settlement services should be made available on all French securities independently of the legal form of the security). According to estimates, around 500 participants in Investor CSDs, which hold French securities, may be affected. This would translate into the need for these Investor CSDs to open 500 additional securities accounts for their clients in T2S. The impact of this non-compliance case is thus very limited in comparison of the total volumes of cross-border transactions.⁴

Overall assessment:

Given the above, while taking note of the French market commitment to resolve this situation in the best delays, and the low volumes of impacted transactions, the AMI-SeCo assesses the overall impact as medium. However, this assessment could change provided that the cross-CSD volumes of registered securities increase significantly in the future.

4.7 Hungary

KELER’s system renewal project (KELER Service Development Program, KSDP) went live on 6 December 2021. As a result of the system modernisation, KELER complies with T2S matching standards.

As a part of the project, KELER harmonised its calendar and operating hours with T2S to the maximum extent in light of KELER’s current operating model in T2S. KELER is not fully compliant with the harmonised T2S operating hours as it opens the settlement day / daytime settlement period from 07:00 instead of 04:45. However, this does not result in any risks to the T2S community, as KELER neither has DCP participants nor cross-CSD links in T2S.

Due to the SRD requirements, in September 2020 partial compliance with CA Market Standards has been reached in connection with Golden Operational Record for listed equities. For other securities, compliance is planned to be reached by 2023 November.

Further Corporate Action related developments are to be performed in two phases. The first phase is planned to be carried out by November 2023 in order to comply with AMI-SeCo Corporate Action Harmonisation Standards for mandatory events. This development phase includes full compliance with T2S Corporate Action Standards and with CA Market Standards for Golden Operational Record, and compliance with CA Market Standards for non-elective events.

KELER plans to implement the processing of elective corporate actions by end-2024. Therefore, the Hungarian market is expected to fully comply with CA Market Standards and AMI-SeCo CA Harmonisation Standards by that time.

Currently KELER does not have any cross-CSD link or DCP participant. Further, currently KELER settles in T2S only against payment instructions in euro, therefore non-compliance is relevant only for this subset of transactions.

⁴ In the period between July, 2021 and June, 2022 98,701 cross-CSD transactions were settled in T2S (T2S Operations Report - June 2022)

4.7.1 Schedule for Settlement Day and T2S Calendar

Hungarian market impact (migration wave 4: 6 February 2017)

HU non-compliance: T2S standard on schedule for the settlement day	
Overall impact	MEDIUM
<i>Severity (qualitative)</i>	<i>MEDIUM</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>HIGH</i>

KELER adopted the T2S calendar by taking the following measures:

- KELER is compliant with the T2S calendar by using a separate calendar for all T2S transactions
- KELER provides operating hours for T2S transactions on Hungarian bank holidays and national holidays
- KELER harmonised its operating hours within a business day with those of T2S in terms of EUR DVP and FOP transactions, meaning that unified cut-off times will be introduced for settlement transactions in T2S and KELER in this respect (only the COT of HUF DVP transactions is not harmonized based on market needs)
- KELER submits eligible value-dated transactions into T2S night-time settlement, however, these transactions will be booked in KELER's system only when the next daytime settlement period starts at 4:45 am.

However, based on the above the Hungarian market does not fully comply with the T2S schedule for settlement day and will continue to open the settlement day / daytime settlement period from 07:00 instead of 04:45. Due to the lack of affected transactions, this difference to the standards does not have impact on the T2S community.

The number of settlement instructions impacted is estimated to be low as KELER settles only EUR DVP transactions of securities with HU ISIN in T2S. KELER further highlights that these transactions cannot be settled when T2 is closed. The volume of impacted transactions is estimated to be similar to the expected impact of non-compliance with the T2S standard on matching fields, for which the number of impacted EUR DVP transactions for the period from 16 August 2021 to 15 August 2022 was 483. Given that KELER's commitment to fully comply with the schedule of the settlement day standard is not clear at this stage the risk of achieving full compliance is assessed as high.

Given the medium severity, low volume, and no plan for implementation in the near future the AMI-SeCo assesses the overall impact as medium.

4.7.2 T2S Corporate Actions standards

Hungarian market impact (migration wave 4: 6 February 2017)

HU non-compliance: T2S corporate actions standards	
Overall impact	MEDIUM
<i>Severity (qualitative)</i>	<i>MEDIUM</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>MEDIUM</i>

The Hungarian market does not fully comply with the T2S CA standards. The non-compliance refers to market claims on transactions in equities, which are not detected and generated by the Hungarian CSD (KELER). To help mitigate this issue the opt-out and ex-cum indicators have been introduced by KELER and the indicators can be used by participants. However, manual intervention is required by CSD participants to detect and generate market claims bilaterally where relevant. During the transitory period, the counterparties have to inform KELER for each transaction for which they would like CAs on flow to be generated. Due to the fact that KELER's only investor CSD link has been terminated in 2019 the qualitative impact on the T2S Community is estimated to be medium.

The number of settlement instructions impacted, i.e., the expected volume of non-generated market claims, is estimated to be very low. This is due to the fact that in practice almost all market claims that would need to be generated involve cash entitlements in the domestic currency (HUF), i.e., they have to be generated outside T2S. As a result, only transactions involving securities entitlements or cash entitlements in EUR are affected. The following estimates have been provided by the Hungarian market on the affected volumes:

- For HU-ISINs the estimated number of settlement instructions impacted by market claim and transformations – for FOP and HUF DVP pending transactions on RD is estimated to be around 400-600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF)
- The opt-out field is populated by the counterparties, and not with a default opt-out indicator. Full compliance with the T2S CA Standards is planned by end 2023.

Given the above, the AMI-SeCo assesses the overall impact of non-compliance as medium.

4.8 Luxembourg

Luxembourgish (LuxCSD) market impact (Migration wave 4: 6 February 2017)

LU non-compliance: T2S corporate actions standards	
Overall impact	LOW
<i>Severity (qualitative)</i>	<i>LOW</i>
<i>Expected volume/frequency (quantitative)</i>	<i>LOW</i>
<i>Risk of not achieving full compliance</i>	<i>LOW</i>

The Luxembourgish market is not compliant with the Buyer Protection Standards of the T2S corporate action standards.

The lack of full compliance stems from the fact that the key Buyer Protection dates are not yet notified although the CSD is technically ready to transmit this information in the CA notifications. Buyer Protection deadlines cannot be complied with if the CSD does not notify Buyer Protection dates. In order to facilitate a bilateral Buyer Protection process between counterparties, LuxCSD has published in October 2019 a final version of Buyer Protection invocation template agreed by CAJWG and T2S CASG as well as all the requirements of the market and T2S Buyer Protection standards, including the agreed timeline.⁵ LuxCSD sends MT564/568 Corporate Action notification messages to buyers in relation to their pending receipt positions and includes the buyer protection deadlines whenever it is communicated by the market.

Generally, the non-compliance with these standards by T2S markets could hamper the efficient management of corporate actions on flows, especially in the context of cross-CSD settlement. In the case of the Luxembourgish market, the qualitative impact of non-compliance is estimated as low. LuxCSD is working on the implementation of these standards. The planned date of the implementation had been set at the end of year 2023. This date is now being reviewed in relation to the new timeline for compliance with the SCoRE standards.

LuxCSD's proposal to calculate such dates as per standards and notify the participants accordingly was presented to the LuxCSD User Committee and approved. This notification will be developed and implemented.

The expected volume of transactions affected by the non-compliance is low.

Based on the above, the overall impact of the non-compliance is assessed as low.

⁵ For more details please refer to the LuxCSD website: <https://www.luxcsd.com/luxcsd-en/products-and-services/assetservices/119023-1642862>

5. Migrating T2S Markets

Markets that are in the process of migrating to T2S are not deemed non-compliant until it becomes certain that they will not comply with any of the T2S standards by their date of migration. However, it is considered useful to note the areas where potential challenges exist and where potential non-compliance might arise in the future based on the information and plans communicated by such markets. Therefore, non-compliance cases are not expected or cannot yet be confirmed to arise for the migrating markets on the standards below and hence no impact assessment on these is provided. The description below has been included in this report in order for the AMI-SeCo and the MIB to understand the potential challenges in these markets in detail. As these are not non-compliance cases no impact assessment but a background of the implementation challenge is provided.

5.1 Euroclear Finland (FI)

Euroclear Finland has commenced the process for the migration of the Finnish market to T2S and has had its target date for full migration confirmed as September 2023 by the MIB. The Euroclear Finland settlement model, as direct holding market, has not given rise to any blocking issues to migrate to T2S with its full set of securities accounts. However, the substantial increase of securities accounts will require an update of Service Level Agreement provisions and possibly create some constraints on the operating model for Euroclear Finland. The potential impact and technical adjustments needed to ensure a smooth migration is being analysed by Euroclear Finland, the ECB and the 4CB as operators of T2S. As part of this analysis detailed user testing, migration testing, and volume testing will be conducted at different stages.

Below you can find a brief overview of the Standards where further work will be necessary before the Finnish market reaches full compliance. However, as technical details and functionality are still to be determined following the analysis by Euroclear Finland, the ECB and the 4CB, a detailed impact analysis will not take place until all details for the migration have been finalised.

5.1.1 T2S Corporate Action Standards

The non-compliance with the T2S Corporate Actions standards is not expected to constitute in itself an obstacle to migrate to T2S, however Euroclear Finland needs to ensure full compliance with the T2S Corporate Actions Standards (covering standards for Transformations, Buyer Protection and Market Claims).

Several of the Transformation Standards have been implemented and Euroclear Finland is on track to achieve full compliance by the time they join T2S in September 2023.

Buyer Protection in the Finnish market is currently based on bilateral agreement between trading parties on a case-by-case basis, and there is an ongoing discussion on implementing manual Buyer Protection in the Finnish Market with Depository Participants and CCPs. The full implementation of the Buyer Protection Standards is pending agreement between market participants on the process and changes to Market Practice, currently foreseen to be fully complied with by the time Euroclear Finland joins T2S in September 2023.

Euroclear Finland only partly complies with the standards for Market Claims; a mechanism for market claims is implemented in the CSD system and market claims are detected for security distributions and for other cash distributions, however not for dividend payments. The reason for this exception is that dividends are paid in commercial bank money outside the CSD system, which hence excludes them from market claim detection. Dividend payment is the most common cash distribution event in Finland and would cause the majority of market claim transactions, especially since the number of market claims in other events is minor. Market claims will be implemented for dividend payments once the proceeds are paid in CeBM.

Full compliance with T2S Corporate Action Standards for Market Claims still requires further work and significant delay is possible before full implementation can be achieved. Currently, the ultimate deadline for full compliance with the market claims standards is foreseen for December 2029, but with a stepwise implementation to cover the remaining gaps). EFi plans to develop a precise roadmap after the successful migration to T2S and ECMS.

5.1.2 Restrictions on omnibus accounts

According to applicable EU and Finnish national level legislation, participants are required to offer both segregated and nominee accounts for their clients. Finnish investors are obliged to maintain their Finnish securities' holdings in a segregated account.⁶ In compliance with the legal requirements, participants in the Finnish CSD need to be able to operate both account types, in addition to being obliged to comply with other relevant rules in the finance sector, including but not limited to tax laws, companies' legislation, settlement finality and proprietary laws. The participation requirement is same and equal to all participants regardless of their nationality. Full compliance requires legislative and regulatory changes, currently not foreseen before the Euroclear Finland migration to T2S. Nevertheless, from the perspective of the objectives and spirit of the respective T2S standard 14 (restrictions on omnibus accounts), for foreign custodians serving non-Finnish customers' holding of securities issued in Euroclear Finland and for foreign investor CSDs having a link to Euroclear Finland the issue is alleviated by the fact that in these cases the use of omnibus accounts (and nominee registration) is allowed. All securities accounts (incl. the owner accounts) will be T2S eligible and thus, the requirements set forth in the Finnish legislation will not impact Finnish market's migration to T2S or production usage of T2S at operational level.

5.2 SKDD (HR)

The Croatian market will join the Eurozone and plan to implement the euro from 1 January 2023. Related to this the Croatian CSD SKDD has also confirmed its intention to join T2S on 11th September 2023.

While some work remains before full implementation can be reached SKDD is largely on track to implement the T2S Standards by the time of their migration to T2S. The sections below describe the current status for each of the T2S Standards where some work still remain, but the ongoing work is not expected to constitute an obstacle for SKDD to migrate to T2S.

5.2.1 T2S messages

In order to reach full compliance with T2S Standard 1 on T2S ISO messages SKDD will need to implement some major technical changes in their system in order to communicate directly with T2S. Currently SKDD does not use the ISO 20022 messages because the Croatian market does not have the capability to communicate using ISO 20022 messages. These changes will be implemented when SKDD joins the T2S, with the testing phase starting in Q2-2023 and lasting until implementation on 11 September 2023.

5.2.2 Schedule for the settlement day

In order to reach full compliance with T2S Standard 5 on T2S Schedule of settlement day SKDD will need to implement some major technical changes in their system and adapt to the T2S Schedule as well as the T2S calendar. Currently SKDD's schedule is mostly aligned with T2S schedule, but minor changes will need to be made, after which the T2S Standard 5 will be fully implemented. SKDD's calendar will be adjusted to the calendar of TARGET services from January 1, 2023.

These changes will be implemented when SKDD joins T2S, with the testing phase starting in Q2-2023 and lasting until implementation on 11 September 2023.

5.2.3 T2S Corporate Actions

Implementation of Standards for processing CA, as a necessary pre-condition for implementation of T2S Standard 6 (comprising of the CASG CA standards for market claims, buyer protection and transformations), is in progress. Implementation of the standard requires development of IT system and SKDD is currently analysing and developing an application which will implement the T2S standards.

In June 2019 SKDD d.d., Zagreb (CSD) started the project Alignment of Croatian Central Depository and Clearing Company with the Standards for Corporate Action Processing. Part of this project includes analysis of legal, regulatory, and technical specifications to align the Croatian market practices with harmonisation standards. SKDD is continuously working on alignment of Croatia's securities settlement

⁶ For more details see Finnish Act on the book-entry system and settlement operations (348/2017) and Finnish Act on Book-Entry Accounts (827/1991).

IT infrastructure with the Corporate Actions Standards that includes system analysis and design software solution and technology specification.

Although the implementation has not yet started the current planning for SKDD confirms that the necessary changes will be implemented when SKDD joins the T2S, with the testing phase starting in Q2-2023 and lasting until implementation on 11 September 2023.

5.2.4 Availability of Omnibus Accounts

SKDD still require some time to adapt and analyse the regulatory and legislative changes that need to be implemented before full compliance can be reached on Standard 13 on Availability of Omnibus Accounts. At the time of their joining T2S SKDD will offer omnibus accounts to their foreign participants (investor CSDs and intermediaries) to ensure interoperability and efficient cross-CSD settlement, in accordance with T2S access criteria.

5.2.5 Restrictions on Omnibus Accounts

SKDD still require some time to adapt and analyse the regulatory and legislative changes that need to be implemented before full compliance can be reached on Standard 14 on Restrictions of Omnibus Accounts. At the time of their joining T2S SKDD will provide appropriate services on omnibus accounts to foreign participants, as prescribed and required by participants.

5.3 Euroclear Bank (BE)

Euroclear Bank (ICSD) will join the T2S community on the 11th of September 2023. While they are already compliant with several of the T2S standards there are some that still require additional efforts.

Euroclear Bank will migrate to T2S in several phases, gradually making available a wider array of services in relation to its T2S service. In the first phase, Euroclear Bank will put in place the technical connectivity with the T2S platform and deploy the necessary infrastructure to set up and maintain reference data on the T2S platform, acting as a Securities Maintaining Entity (SME) for the securities where they act as issuer (as well as co-issuer) CSD. In the ECMS phase, Euroclear Bank will offer settlement services in T2S to the Eurosystem NCBs via the Eurosystem Collateral Management System (ECMS), allowing the NCBs to receive and service collateral on the T2S platform for monetary policy operations. As of this phase, settlement of ESCB-eligible securities for monetary policy operations, for which Euroclear Bank either acts as issuer (as well as co-issuer) CSD or has an eligible link to the issuer CSD, will be made available to NCBs in T2S. In the “Intra-CSD” phase, Euroclear Bank will offer to its participants central bank money settlement services in T2S with counterparties in Euroclear Bank. Finally, in the “Cross-CSD” phase, Euroclear Bank will start offering to its participants cross-CSD settlement in T2S via the gradual set-up of T2S cross-CSD links.

5.3.1 Schedule for the settlement day

The T2S Standard 5 on T2S Schedule of settlement day specifies that the T2S market/CSD’s operational model should ensure four criteria in order to fully comply with the standard⁷. Out of these, Euroclear Bank expects to comply with 3 criteria, whilst Euroclear Bank does not foresee offering access to T2S to Directly Connected Parties (DCPs) (except for NCBs which will be DCP for their ECMS activity).

5.3.2 T2S Corporate Action Standards

As Euroclear Bank migrates to the T2S platform it will deploy a new corporate action service for positions held on its T2S platform. In case of a corporate event, all positions held on the T2S platform will be subject to the new service offering, while positions held on the Euroclear Bank settlement platform will be subject to the same asset service as today, i.e., the Euroclear Bank Global Asset Servicing.

Further, in November 2023 Euroclear Bank will join the T2S community in the frame of ECMS and its activity in this phase of migration will be strictly limited to collateral monetary policy operations (Debt instruments only) where counterparties will always ‘opt-out’ from market claims and transformations by quoting “NOMC” indicator.

⁷ [Description of AMI-SeCo core T2S settlement and wider post-trade harmonisation activities.](#)

Full compliance with the T2S Standard 6 on Corporate Actions requires some further analysis and adaptations. These standards are expected to be progressively implemented as of the launch of ECMS and with a broader compliance in terms of scope of instruments in Q4 2024.

6. AMI-SeCo proposals to MIB

It is recalled that, at the time when the T2S Board (now MIB) endorsed the T2S harmonisation standards compliance framework back in 2013, the T2S stakeholders considered “*the standards as mandatory, since they have taken a commitment to comply with the standards vis a vis the rest of the T2S community. Any situation of non-compliance with harmonisation standards should thus be exceptional and motivated by a barrier that the various actors in a specific T2S market are not able to remove*”. With this agreed principle in mind, the AMI-SeCo would like to stress the importance of efforts made towards achieving full compliance, in order to enable markets to reap fully the benefits from cross CSD processes in T2S.

To this end, and in line with the agreed potential measures to be taken⁸, *in parallel to endorsing the thirteenth T2S harmonisation progress report (2022), the AMI-SeCo proposes to the MIB, the below course of action for each respective non-complying T2S market.*

Based on the AMI-SeCo advice, the Market Infrastructure Board took the following decisions:

The Market Infrastructure Board will continue to monitor, with the help of the AMI-SeCo and the ECB team, the implementation plans of all markets covered in the impact analysis report. The ECB team will report on the monitoring results and any other relevant developments to the MIB during its meetings.

Austria

T2S Corporate Actions Standards

Given the medium severity of non-compliance, low volumes, and lack of an implementation plan for full compliance, the MIB:

- confirmed the medium overall impact on the rest of the T2S Community;
- based on feedback received from the Austrian market, took note of the ongoing discussion and analysis in the market. Furthermore, the MIB maintained its position of encouraging the Austrian market to develop a plan for full compliance with the remaining T2S CA Standards.

Belgium - Euroclear Belgium

T2S Corporate Actions Standards

Given the low severity of non-compliance, low volumes, and lack of an implementation plan for full compliance, the MIB:

- confirmed the low overall impact on the rest of the T2S Community;
- based on feedback received from the Belgian market, took note of the ongoing technical work towards full compliance in the market. Furthermore, the MIB maintained its position of encouraging the Belgian market to develop a plan for full compliance with the remaining T2S CA Standards.

Switzerland

T2S Corporate Actions Standards

Given the low severity of non-compliance, low volumes, and lack of an implementation plan for full compliance, the MIB:

⁸ As agreed by the MIB, this could entail ex ante measures, such as raising awareness of the impact analysis results to the non-compliant market, escalating bilaterally with the relevant actors in the non-compliant market or escalating the matter to the Governing Council of the ECB, and ex post measures, such as postponing the deadline for compliance of the T2S market in question, if there is satisfactory evidence that the T2S harmonisation standard(s) will be met or considering measures of limiting the asymmetry of non-compliance with the complying T2S markets.

- confirmed the low overall impact on the rest of the T2S Community;
- based on feedback received from the Swiss market, took note of the ongoing discussion and analysis in the market. Furthermore, the MIB maintained its position of encouraging the Swiss market to develop a plan for full compliance with the remaining T2S CA Standards.

Germany

T2S Corporate Actions Standards

Given the need to review the severity of non-compliance, high volumes, and existing implementation plan to improve compliance, the MIB:

- took note of the German market's progress and plans for achieving full compliance with some of the standards where gaps remain. Based on feedback received from the German market and AMI-SeCo members, the MIB welcomes additional discussions within the AMI-SeCo on the impact on the T2S community of the remaining gaps in compliance with the T2S CA standards.

Spain

T2S Matching fields

Based on further discussions and analyses in the AMI-SeCo, given the low severity, low volumes, and of the emerging good prospects of achieving full compliance, the MIB:

- confirmed the low potential overall impact on the rest of the T2S Community.

France – Euroclear France

T2S Standard on Restrictions on Omnibus Accounts

Taking note of the feedback received from the FR NSG and given the high severity of non-compliance, low volumes, and the welcome commitment in the French market to find solutions for an implementation plan to reach full compliance, the MIB:

- confirmed the medium overall impact on the rest of the T2S Community.

Hungary

T2S standard on schedule for settlement day and T2S calendar

Given the medium severity, low volume, and lack of an implementation plan to achieve full compliance, the MIB:

- confirmed the medium overall impact on the rest of the T2S Community;
- took note of the Hungarian market's compliance with the T2S calendar and the remaining compliance gap on the T2S schedule of the settlement day. Furthermore, the MIB maintained its position of encouraging the Hungarian market to develop a plan to ensure full compliance with the T2S schedule of the settlement day.

T2S corporate actions standards

Given the medium severity of non-compliance, low volume, and existing implementation plan to achieve full compliance with all T2S corporate action standards, the MIB:

- confirmed the medium overall impact on the rest of the T2S Community;
- took note of the Hungarian market's plan for full compliance with the remaining T2S CA Standards.

Luxembourg**T2S corporate actions standards**

Given the low severity of non-compliance, low volume, and existing implementation plan to achieve full compliance with all T2S corporate action standards, the MIB:

- confirmed the low overall impact on the rest of the T2S Community;
- took note of the Luxembourgish market's plan for full compliance with the remaining T2S CA Standards.