T2S and financial integration – opportunities and remaining barriers – update on HSG discussion

AMI-SeCo meeting, 2 July 2019 – Item 6.5
I. Background / conclusions from previous AMI-SeCo discussions

T2S contributes to financial integration and a truly domestic EU post-trade landscape through:

a) More efficient settlement systems with harmonised and improved functionalities
b) Harmonisation of settlement-related processes across markets by T2S
c) Consolidating access to core infrastructures on both the securities and cash sides
d) Euro liquidity management and access to central bank money settlement
e) Sourcing, pooling and managing collateral for both bilateral and tri-party collateral arrangements

However, cross-CSD settlement in T2S remains low. This has been explained by:

i. T2S facilitates cross-border settlement of securities in multiple ways
ii. T2S actors may still need time to adapt to the new realities and opportunities brought by T2S
iii. Further harmonisation may be necessary to facilitate new CSD links (WHT, CA, etc.)
I. Background / motivation

- In October 2018, the HSG discussed further fine-tuning of the harmonisation framework and found several topics / areas relevant from a T2S harmonisation point of view

- In its June 2019 meeting, the HSG continued the discussion on the basis of a discussion paper prepared by the HSG Secretariat, containing an inventory of topics raised / on the radar so far

- The same or similar topics / areas as well as additional ones have been raised in other T2S fora or in the margins of meetings

- In the HSG domain the discussion has two purposes:
  - Reaching a common understanding of how T2S contributes to deeper financial market integration
  - Identifying the areas of harmonisation (beyond T2S) which have the biggest potential from a financial integration perspective
I. Background / approach to the discussion

- The inventory of topics comes with the following caveats:
  
a) Not all these topics are necessarily relevant for the T2S community to work on at this stage (or ever?)

b) Even if relevant, not all the topics may be dealt with by the T2S community / AMI-SeCo due to limited influence or limited resource

c) Some of the areas may belong more to other groups in the T2S governance (e.g. CSG and its substructures) as may not be harmonisation topics in the strict sense

- However, having these topics on the radar screen could help to understand the landscape in which harmonisation needs to be pursued by the AMI-SeCo
II. Overview of topics on the radar screen

Changes in the way T2S actors use T2S

• CCP’s use of T2S – cross-CSD settlement for CCP transactions
• Fund processing / settlement
• Eurobond cross-CSD settlement
• Existing restrictions on settlement requirements on primary issuance (e.g., by DMOs)
• Balance sheet netting of T2S cross-CSD transactions
• Intraday liquidity and inventory management
II. Overview of topics on the radar screen

Work on harmonisation:

• Collateral management harmonisation (ongoing)
• Withholding tax procedures
• Registration / shareholder identification
• Primary markets: pre-issuance and issuance procedures
III. High-level summary of HSG discussion

- Market participants’ behaviour needs to evolve. This requires more time (e.g., network building, consolidating access, etc.). Many stakeholders still rely on legacy procedures from pre-T2S times.

- Further education needs to be made by direct T2S actors towards those stakeholders that do not have a direct exposure to T2S settlement processes.

- Cross-CSD settlement and holding assets via investor CSDs is only one of the models of cross-border securities servicing.
  
  - It is often the lack of business case and / or the different business models used by market stakeholders that might explain the low cross-CSD volumes in T2S.
  
  - On the other hand, smooth cross-CSD settlement in T2S contributes to the use of T2S as a single pool of liquidity / collateral.

- Importance of smooth movement of liquidity and securities between T2S CSDs and ICSDs
III. High-level summary of HSG discussion

Among the harmonisation dossiers already on the T2S agenda:

- High expectations with regards to positive effects of collateral management harmonisation (covering inter alia corporate actions and tri-party collateral management).

- On withholding tax procedures, the WHT CoC is a good step forward, the AMI-SeCo has provided more specific input on potential future steps already.

- On registration, it is not yet clear whether SRD2 processes could obviate the need for traditional registration processes.

- Primary market (pre-issuance and issuance) future actions could be considered based on the outcome of EDDI consultation.