ADVISORY GROUP ON MARKET INFRASTRUCTURES FOR SECURITIES AND COLLATERAL

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VERSION 6.0

Impact analysis report

Non-compliance with T2S harmonisation standards

Contents

1. Introduction

The T2S Board (now MIB),[1] based on the input received from the T2S Advisory Group (AG, now AMI-SeCo[2]), published on 10 December 2013 its [View on the T2S harmonisation standards compliance framework](http://www.ecb.europa.eu/paym/t2s/pdf/View_of_the_T2S_Board_on_the_T2S_harmonisation_standards_compliance_framework.pdf?ccdface5ac02badcfedbf05b6e44e7a1) (the T2S Board View).[3]

In the same publication, the T2S Board invited the AG to analyse, on a case-by-case basis, the impact of a particular T2S market's non-compliance with the Priority 1 T2S harmonisation standards on the T2S community as a whole.[4] Accordingly, the AMI-SeCo should provide an advice to the MIB on the course of action to be taken.

The impact analysis is carried out whenever the respective T2S National Stakeholder Group (NSG) notifies the AMI-SeCo that it is unlikely for the respective T2S market to comply fully with one or several T2S harmonisation standards by the migration date of the relevant CSD to T2S.

The MIB view also includes a number of potential measures that the AMI-SeCo could consider when proposing to the MIB a course of action to be taken:

1. Ex ante measures
    - raise awareness of the impact analysis results to the non-compliant market;
    - escalate bilaterally with the relevant actors in the non-compliant market;
    - escalate the matter to the Governing Council of the ECB.
2. Ex-post measures:
    - 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;
    - (the AMI SeCo) to consider measures of limiting the asymmetry of non-compliance with the complying T2S markets;
    - consider the postponement of the migration date of the relevant CSD, provided that non-compliance makes migration impossible from a technical and legal perspective.

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[1] Market Infrastructure Board (MIB) since Q1 2016.

[2] The T2S AG role as per the T2S Framework Agreement, is now covered under the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) mandate.

[3]http://www.ecb.europa.eu/paym/t2s/pdf/View_of_the_T2S_Board_on_the_T2S_harmonisation_standards_compliance_framework.pdf?ccdface5ac02badcfedbf05b6e44e7a1

[4] The T2S Board decided to focus the impact assessments on the Priority 1 standards which are necessary to ensure efficient and safe cross-CSD settlement in T2S. Hence, this report covers non-compliance cases identified with regards to these T2S harmonisations standards.

As of 8 December 2017 10 T2S markets have been assessed as not fully-compliant with certain T2S harmonisation standards following their migration to T2S.

Section 2 summarises the impact of the non-compliance cases on the rest of the T2S markets, including the AMI-SeCo proposals to the MIB, which have been agreed at AMI-SeCo meeting on 7 December 2017 and have been endorsed by the MIB at its meeting on 18-19 December 2017.

Annex 1 provides the methodology for assessment of the non-compliant markets.

Annex 2 provides further details and background information regarding the non-compliance of individual markets.

2. Summary of results

This impact analysis (version 6.0) covers the following non-compliant cases (in brackets the overall impact assessment for the given market and standard):

- **Austria (Medium), Germany (High), France (Medium), Belgium (EoC) (Medium), Netherlands (Medium), Hungary (Medium), Denmark (Medium), Luxembourg (LuxCSD) (Low), Slovakia (CDCP) (Medium) and Slovakia (NCDCP) (Low)** for the T2S corporate actions (CA) standards;
- **Slovakia (CDCP) (Low), Slovakia (NCDCP) (Low), Spain (High) and Hungary (Low)** for the T2S standard on matching fields;
- **France (Medium)** for the T2S standard regarding the restrictions on omnibus accounts.

2.1 Austria

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

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

The Austrian market does not comply fully with the T2S CA standards. The non-compliance covers four market claims standards:

- 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;
- standards 19 and 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 transaction.[5]

During its meeting on 30 November 2016, the AG assessed the non-compliance with the above standards as having a ‘medium’ severity impact (qualitative) on the rest of the T2S

[5] 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 standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community.

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 figures for 06/02/2017 – 15/09/2017 are:

- standards 6 and 7 (instructions with cum/ex/opt-out indicator) : 24
- standards 19 and 23 (claims flagged with automatic party hold at account level): 392

As this estimation is below 1,000 settlement instructions per year, the AG assessed it as having a low quantitative impact on the rest of the T2S community (see Annex 1 on the AG agreed methodology). However, the affected volumes may increase when all markets have migrated to T2S, depending on the number or relevant CSD link arrangements.

Finally, since the Austrian market is not considering any plan for achieving full compliance, there is a high risk for not implementing a compliance resolution in the foreseeable future.

On 13 December 2016, the MIB:

• agreed on a medium overall impact on the rest of the T2S Community;

• requested from the Austrian market to closely monitor the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) following its migration to T2S;

• agreed to escalate bilaterally with the relevant actors in the Austrian market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

2.2 Germany

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

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

The German market does not comply fully with the T2S CA standards.

Although the German market achieved a major milestone on 1 January 2017, by introducing the “record date”, the following compliance gaps are still present:

1. Market claims standards no. 9, 10, 11, 14, 15 and transformation standard no. 11. These standards refer to management of cash entitlements related to market claims and management of securities fractions. Non-compliance with these standards has a high impact on the T2S Community from qualitative perspective.

2. Market claims standards no. 7, 19 and 23. Gaps refer to the “CUM” indicator in the T2S messages and the generation of market claims only after the underlying transaction has settled. Implementation is either dependant on the consent of German public authorities and agreement in the German Market Practice Committee. Non-compliance with these standards has a low impact on the T2S Community from qualitative perspective.

According to the volumes data provided by the German NSG and CBF there were 85,527 market claims in the German market in the first half of 2017, down from 404,086 market claims in the first half of 2016. According to the AG agreed methodology this volume is assessed as having a high quantitative impact to the rest of the T2S community. The German NSG has committed to monitor closely the affected volumes and provide statistics to the ECB team as soon as data are available.

The German market informed the ECB team that, due to changes in tax law, it could not achieve compliance with the high impact standards in August 2017, as initially planned and the new deadline for that has been changed to end 2018. The German market has not announced a full compliance date yet for the low impact standards.

Based on the information provided by the German NSG, the AMI SeCo has concluded that the German market’s non-compliance will have a high impact overall, both qualitative as well as quantitative, until it achieves compliance with the high impact standards, currently scheduled for end 2018. The impact is expected to be low thereafter.

In April 2015, the T2S Board agreed that given the information provided by the German market, there will be a high impact of the German market non-compliance to the rest of the T2S Community for a maximum period of six months following CBF's migration to T2S. This impact is expected to be low thereafter. Based on that, the T2S Board decided to:

• raise awareness of the impact analysis results to the German market;

• monitor (via the ECB team) very closely the implementation of the compliance plan of the German market;

• ask the German NUG to provide as soon as possible to the ECB Team the relevant statistics on the settlement volumes which still will be affected by the non-compliance after the six months period.

In addition, on 13 December 2016, the MIB decided to escalate bilaterally with the relevant actors in the German market the lack of a plan to eventually fully comply with all T2S CA standards.

2.3 France

2.3.1 T2S Corporate Actions standards

FR market impact – T2S CA standards (migration wave 3: 12 September 2016)

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

The French market (EoC FR) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the non-compliance of the French market with the underlying EU market standards[6] (for elective CAs), ii) the decision of the French market to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior to the end of day on Record Day (RD) and for compensations by multiple outturns and iii) a decision of the French market to comply with the buyer protection standards at a later stage.

The gap has the following consequences:

[6] Corporate Actions Joint Working Group (CAJWG) standards

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear France;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear France. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear France;
- The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants[7].

As a consequence participants in investor CSDs, linked to Euroclear France, are not able to process some types of market claims, transformations and buyer protection instructions fully according to the T2S CA standards. The AMI-SeCo has assessed that this non-compliance translates in a medium impact (severity) for T2S CSDs and their participants. The affected actors have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the French market.

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear France and the other CSDs in T2S.

The plan of the French market is to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e. the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear France.

On 13 December 2016 the MIB:

[7] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

• confirmed the overall medium impact of the non-compliance of the French market till March 2017. The impact is expected to be low thereafter; • requested from the French market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

2.3.2 Restrictions on Omnibus Accounts

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**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

There is a legal requirement in France to segregate holdings in dedicated accounts based on the legal form of the security (i.e. bearer or fully registered)[8]. 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 securities. As a result, the French market is not compliant with the T2S standard on Restrictions on Omnibus accounts" due 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 securities mapped to the two omnibus accounts in Euroclear France.

This mandatory replication down the holding chain presents a number of high impact functional/IT and non-standard operational challenges to the T2S community, hampering the T2S key objective of facilitating efficient harmonised cross-border settlement.

Volumetric measurements show that there are around 500 affected cross-border transactions on fully registered securities per year. Furthermore, the opening of additional accounts for the servicing of French registered securities is, 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 translates into the need for these Investor CSDs to open 500 additional securities accounts for their clients in T2S. However, even though the current cross-border instruction volume is considered low, it could increase once all T2S markets have completed their migration to T2S.

[8] The two forms of the security are represented by a single ISIN.

The risk of non-achieving full compliance is high as there is not yet a defined implementation plan by the French market to achieve full compliance with the standard. No solution is expected in the short term (e.g. using separate ISINs for bearer and registered forms of a security as done by other markets), provided the legal nature of the requirement.

The above factors make the overall impact on the T2S community resulting from the French market's non-compliance to be considered as medium. However, this assessment could change provided that the cross-CSD volumes of registered securities increase significantly in the future.

On 13 December 2016, the MIB:

• agreed on an overall medium impact on the T2S Community;

• requested from the French market to closely monitor the actual and affected transaction

volumes and provide the relevant statistics to the MIB (via the ECB team);

• agreed to escalate bilaterally with the relevant actors in the French market regarding the lack of a plan to eventually fully comply with the T2S standard on restrictions on omnibus accounts.

2.4 Belgium

2.4.1 Euroclear Belgium

2.4.1.1 T2S Corporate Actions standards

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

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

The Belgian market (EoC) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the non-compliance of the Belgian market with the underlying EU market standards[9] for elective CAs, ii) the decision of the Belgian market to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior end of day on Record Day (RD) and for compensations by multiple outturns

[9] Corporate Actions Joint Working Group (CAJWG) standards

and iii) a decision of the Belgian market to comply with the buyer protection standards at a later stage.

The gap has the following consequences:

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear Belgium;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Belgium. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Belgium;
- The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants[10].

As a consequence participants in investor CSDs, linked to Euroclear Belgium, are not able to process some types of market claims, transformations and buyer protection instructions according to the T2S CA standards. The AMI-SeCo has assessed that this non-compliance translates in a medium impact (severity) for T2S CSDs and their participants. The affected actors have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Belgian market.

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear Belgium and the other CSDs in T2S.

In order to achieve full compliance with the transformations and BP standards, the Belgian market is looking to effect a change in its securities law by Q1 2018. The plan of the Belgian market is to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e.

[10] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear Belgium.

On 13 December 2016, the MIB:

• confirmed the overall medium impact of the non-compliance of the Belgian (EoC) market till March 2017. The impact is expected to be low thereafter;

• requested from the Belgian market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

2.5 Netherlands

2.5.1 T2S Corporate Actions standards

Euroclear (NL) market impact (migration wave 3: 12 September 2016)

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

The Dutch market (Euroclear Nederland) does not comply fully with the T2S CA standards on market claims, transformations. The reasons behind this implementation gap are i) the non-compliance of the Dutch market with the underlying EU market standards[11] for elective CAs, ii) the decision of Euroclear to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior end of day on Record Day (RD) and for compensations by multiple outturns.

The gap has the following consequences:

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear France;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Netherland. In addition, transformations related to fractions on

[11] Corporate Actions Joint Working Group (CAJWG) standards

securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Netherland.

As a consequence participants in investor CSDs, linked to Euroclear France, are not able to process some types of market claims and transformations fully according to the T2S CA standards. The AMI-SeCo has assessed that this non-compliance translates in a medium impact (severity) for T2S CSDs and their participants. The affected actors have to support non-standard and manual processing for managing some market claims and transformations instructions generated in the Dutch market.

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear Netherland and the other CSDs in T2S.

The plan of the Dutch market is to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e. the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear Netherland.

On 13 December 2016, the MIB: • confirmed the overall medium impact of the non-compliance of the Dutch market till March 2017. The impact is expected to be low thereafter; • requested from the Dutch market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

2.6 Slovakia

2.6.1 CDCP

2.6.1.1 T2S standard on matching fields

Slovakian market (CDCP) impact (migration wave 4: 6 February 2017)

SK (CDCP) non-compliance: T2S standard on matching fields	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market does not comply fully with the T2S standard on matching fields. The Slovakian market will use matching fields in the legacy matching engine of the Slovakian CSD (CDCP) which are not part of the T2S list of matching fields.

These matching fields are used in domestic transactions which are not available to T2S directly connected parties (DCPs). These transactions are therefore not available for T2S cross-CSD settlement, although they are settled in securities accounts maintained on T2S.

Therefore, CDCP's participants willing to use these market specific operations, i.e. securities in co-ownership and pledged securities, have to do it via sending their settlement instructions in Indirectly Connected Parties (ICP) mode to the legacy system of CDCP. Following matching in CDCP, "already matched instructions" will be sent to T2S for settlement.

According to CDCP, the number of such transactions with securities held in co-ownership on an annual basis was low. The most recent estimate is that there were altogether 18 such transactions in 2017.

While there is not yet a clearly communicated plan to resolve this non-compliance, the Slovakian market is working to address this issue.

Based on the above, the Slovakian market's non-compliance is assessed by the AG as having a "LOW" overall impact on the T2S Community.

On 22 February 2016, the MIB (then T2S Board) agreed on an overall low impact on the rest of the T2S Community. In addition it decided to:

- raise awareness of the impact analysis results (by means of the AG publishing the Impact Analysis Report);
- monitor (via the ECB team) the implementation plan of the Slovakian market.

In addition, on 13 December 2016, and given the lack of plan to achieve full compliance with T2S standard on matching fields, the MIB decided to escalate bilaterally with the relevant actors in the Slovakian market regarding the lack of a plan to eventually fully comply with the T2S standard on matching fields.

2.6.1.2 T2S Corporate Action Standards

Slovakian market (CDCP) impact (migration wave 4: 6 February 2017)

Slovakian (CDCP) non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*MEDIUM*

The Slovakian market does not comply fully with the T2S CA standards on transformations.

The reasons behind this implementation gap is the delay in full compliance with the transformations standards related to managing fractions and multiple outturns, which currently are not generated by the Slovakian CSD.
The non-compliance of the Slovakian CSD in a cross-CSD scenario may result in lack of matching of instructions related to transformations if the other CSD generates the instructions in accordance with the standards. Thus there is a medium severity in the case of non-compliance.

In terms of the affected volumes, no information has been provided by the Slovakian market. Nevertheless, the impact is considered to be low from quantitative perspective as events resulting in multiple outturns and fractions of securities are very rare.

The Slovakian market plans to become fully compliant with the transformations standards by the end of March 2018.

2.6.2 NCDCP

2.6.2.1 T2S standard on matching fields

Slovakian market (NCDCP) impact (migration 30 October 2017)

SK (NCDCP) non-compliance: T2S standard on matching fields	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market (NCDCP) does not comply fully with the T2S standard on matching fields. In particular, matching in the legacy system of NCDCP is not compliant with the T2S standards, because the transaction code is a mandatory matching field in order to prevent incorrect intra-CSD matching of e.g. ordinary OTC trades with securities transfer stemming from inheritance, matching of instruction with available securities with instruction with pledged securities, etc.

Therefore, NCDCP's participants willing to use these market specific operations, i.e. securities in co-ownership and pledged securities, have to do it via sending their settlement instructions in Indirectly Connected Parties (ICP) mode to the legacy system of NCDCP. Following matching in NCDCP, "already matched instructions" will be sent to T2S for settlement. However, the impact can be considered low for DCPs and Investor CSDs in T2S, which decide not to engage in cross-border business with securities held in co-ownership in NCDCP. Furthermore, what limits the negative impact is that currently NCDCP has only one link with the other Slovakian CSD – CDCP SR.

The number of such transactions with securities held in co-ownership and pledges is estimated to be low based on the low overall annual volume of transactions (less than 100).

While the Slovakian market is working to address this issue, there is no plan yet which has been elaborated in order to solve it.

Based on the above, the Slovakian market's non-compliance is assessed by the AG as having a "LOW" overall impact on the T2S Community.

2.6.1.2 T2S Corporate Action Standards

Slovakian market (NCDCP) impact (migration 30 October 2017)

Slovakian (NCDCP) non-compliance: T2S corporate actions standards	
Overall impact	**LOW**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*LOW*

The Slovakian market (NCDCP) does not comply with the T2S CA standards on transformations and buyer protection. In particular, currently NCDCP does not do transformations (by cancelling and replacing) transactions and has not implemented the buyer protection standards.

The non-compliance of the Slovakian CSD in a cross-CSD scenario may result in lack of matching of instructions related to transformations if the other CSD generates the instructions in accordance with the standards. Similarly, standardised BP will not be possible in T2S for NCDCP participants. Thus there is a high severity in the case of non-compliance.

In terms of the affected volumes, NCDCP estimates that the affected volume is very low – near zero as distributions and reorganisations with options are not common for the Slovakian market.

The Slovakian market (NCDCP) plans to become fully compliant with the transformations standards by the end of June 2018. In addition, it plans to introduce manual buyer protection on bilateral basis between buyer and seller by the same deadline, which will be implemented with changes in NCDCP´s Operation Rules.

Based on the above, the Slovakian market's (NCDCP) non-compliance is assessed as having a "LOW" overall impact on the T2S Community.

2.7 Hungary

2.7.1 T2S Corporate Actions standards

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

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

The Hungarian market does not comply fully 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). Furthermore, the Hungarian market has decided to opt-out, by default, from the generation of market claims and transformation until the introduction of the new system, which would allow A2A interaction with T2S.

Manual intervention is required by CSD participants (including Investor CSDs) 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. Similarly, in some cross-CSD transactions, this requires the Investor CSD to either i) recognise the scenarios where KELER will not generate market claims or ii) cancel in T2S the already generated market claim which will not match in T2S due to the fact that KELER does not generate the corresponding leg of the market claim instructions. Thus the qualitative impact on the T2S Community is estimated to be high.

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 around 400-

600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF)

- For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 so far was 0 for the most liquid foreign equities traded in Hungary.

The opt-out field will be populated by the counterparties, and not with a default opt-out indicator, as of the introduction of KELER's new A2A system, which was planned to go live on 3 July 2017 but was eventually postponed. No new date for introduction of their new A2A system or full compliance with the T2S CA Standards has been communicated by the Hungarian market, which will is expected to complete its re-planning exercise in the course of the first half of 2018.

On 13 December 2016, given the high severity, low volume and an implementation plan to achieve full compliance with all T2S corporate action standards by end 2017, the MIB agreed on a medium overall impact of the non-compliance of the Hungarian market on the rest of the T2S Community.

2.7.2 T2S Matching fields

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

HU non-compliance: T2S standard on matching fields	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

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

Non-compliance is limited to a subset of intra-CSD settlement activity, where KELER continues to follow its current matching practices in its legacy platform before sending the instructions to T2S, in an already matched status.

The non-compliance is due to the fact that KELER does not use some of the T2S matching fields (and not due to the usage of some proprietary matching fields) when matching takes place in the legacy platform.[12] The non-compliance issue is not applicable when matching takes place in T2S, i.e. DCPs' or cross-CSD instructions, since this is only possible by following the T2S matching fields. The only actors, which are affected, are the HU market

[12] As a consequence and for some T2S matching fields, KELER will use default values: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as "already matched". It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well

participants, which have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S. This will result in low severity impact on the T2S Community.

The estimated number of impacted EUR DVP transactions is thus expectedly to be between 300 and 500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes. The Hungarian market has committed to comply with this standard for all settlements by 3 July 2017. However, this did not materialise and no new date for full compliance has been announced by the Hungarian market, which is expected to complete its re-planning exercise in the course of the first half of 2018.

On 13 December 2016, given the low severity, low volume and an implementation plan to achieve full compliance with the T2S standard on matching fields by 3 July 2017, the MIB agreed on a low overall impact of the non-compliance of the Hungarian market on the rest of the T2S Community.

2.8 Luxembourg

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

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

The Luxembourgish market (LuxCSD) is not fully compliant with the T2S CA standards, and in particular with:

- market claims standards no. 19 and 23;
- all the transformations standards.

With regards to non-compliance with market claims standards no. 19 and 23, although, LuxCSD *detects* the market claims according to the T2S CA Standards, it *generates* and *sends* the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the T2S standards). This practice is followed for market claims on all transactions settled on the accounts in the books of LuxCSD irrespectively of the underlying ISIN. The reasoning for applying this process is that i) it guarantees today’s quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.

According to the volume projection provided by the LU NSG, the affected settlement instructions will be less than 1,000 per year. In particular, the actual affected volumes communicated by LuxCSD in the period since its joining T2S in February 2017 till 15 September 2017, are altogether 16 market claims. This is assessed by the AG as having a low quantitative impact to the rest of the T2S community (for the methodology see Annex 1).

The LU market (LuxCSD) has elaborated a plan to achieve full compliance with the T2S CA Standards by Q1 2018. In particular, it has achieved full compliance with market claims standard 19 in November 2017 and plans to achieve full compliance with standard 23 by Q1 2018. Similarly, it has already implemented functionalities to detect transformations and cancel the underlying transactions. The plan to become compliant is composed of enhancements in Nov 2017 to cover transformations standards 2 and 3 and finally the implementation of a re-instruction process in February 2018.

On 26 April 2017, given the low severity, low volume and a lack of an implementation plan of the Luxembourgish market (LuxCSD), the MIB

• agreed on a low overall impact on the rest of the T2S Community;

• requested 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);

• agreed to 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.

2.9 Denmark

Danish market impact (Migration wave 3: 12 September 2016)

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

The Danish market does not comply fully with the T2S CA standards.

The implementation gap is with regards to:

a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S.

b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.

More specifically, with regards to non-compliance with MC standard 10, VP will not detect market claims on events involving DK ISINs with DKK CA payments during a transitory period (currently scheduled for October 2018). As a consequence of the above, investor CSDs connected to VP DK, have to decide on what type of CA transaction management service they wish to provide to their participants or alternatively leave it to them to manage bilaterally with their counterparties market claims in DK ISINs, which are paying CAs in DKK. This compliance gap has a high qualitative impact from a competition perspective as it will result in an un-level playing field for the foreign entities connected to VP (investor CSDs and market participants). However, the quantitative impact is expected to be limited because of the technical limitation to settle only CA securities entitlements with DK ISINs in T2S (since DKK CA cash entitlements cannot be settled anyway in T2S). This was confirmed by the Danish NSG in September 2017, when it communicated that only 20 market claims have been affected since its migration to T2S in September 2016.

When VP acts as an investor CSD, it uses the rate specified by the respective issuer CSD as specified by the market claim standard 14. However, there is one exception to that rule for two specific ISINs of securities issued by Swedish companies, which are handled in accordance with a special agreement between VP and the Swedish tax authorities. This set-up means that for these two ISINs, VP applies the Danish tax rate and not the Swedish one as required by the standards. According to statistics provided by VP DK, there were no settlement instructions affected by this non-compliance since its migration to T2S in September 2016.

The DK market has a plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S. In order to resolve the non-compliance with regards to market claims standard 14, VP is currently preparing an Investor CSD link to the non-T2S Issuer CSD, which will eliminate the non-compliance issue around the two particular securities. However, no timeline has been provided by the Danish market by when it plans to resolve the issue.

Overall, the impact is assessed by the AG as being medium, but it will turn low after compliance with market claim standard 10.

On 26 April 2017, given the high severity, low volume and a lack of an implementation plan of the Danish, the MIB

• agreed on a medium overall impact on the rest of the T2S Community, which will become low after the migration of DKK on T2S;

• requests 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);

• agreed to 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.

2.10 Spain

2.10.1 T2S Matching fields

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

ES non-compliance: T2S standard on matching fields	
Overall impact	**HIGH**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*HIGH*
Risk of not achieving full compliance	*HIGH*

The Spanish market does not comply fully with the T2S standard 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, and therefore results in a misuse of the 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 impact on the T2S Community is expected to be medium.
The volumes involved are expected to be high as all the intra-CSD volumes on equities are affected.

Currently, there is no plan of the Spanish market to fully comply with the T2S Standard so the risk of not achieving full compliance is high.

3. AMI-SeCo proposals to MIB

During its meeting on 18 December 2017, and based on the AMI-SeCo advice, the Market Infrastructure Board took the following decisions[13]:

Germany

Given the lack of compliance with the high impact T2S CA standards six months after migration to T2S and higher than estimated non-compliant volumes, the MIB agreed on a high overall impact on the rest of the T2S Community till compliance with the high impact standards is resolved.

France

T2S Corporate Actions Standards

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

• agreed on a medium overall impact on the rest of the T2S Community;

• will invite the French market to develop a plan for full compliance with the remaining T2S CA Standards.

Belgium

Euroclear Belgium

T2S Corporate Actions Standards

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

• agreed on a medium overall impact on the rest of the T2S Community;

• will invite the Belgian market (Euroclear Belgium) to develop a plan for full compliance with the remaining T2S CA Standards.

Netherlands

T2S Corporate Actions Standards

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

[13] There are no proposals for MIB decisions in this version of the Impact Analysis Report with respect to the non-compliance of the AT and DK markets with the T2S CA Standards, the French market non-compliance with the T2S Standard on Restrictions on omnibus accounts and the Slovakian market non-compliance with T2S Standard on matching fields as there is no new information for these markets which would warrant a change of their assessment compared with the one made in the previous version of the Impact Analysis Report..

• agreed on a medium overall impact on the rest of the T2S Community;

• will invite the Dutch market to develop a plan for full compliance with the remaining T2S CA Standards.

Slovakia

CDCP

T2S Corporate Actions Standards

Given the medium severity of non-compliance, low affected volumes and an implementation plan for full compliance by the end of March 2018, the MIB:

• agreed on a medium overall impact on the rest of the T2S Community;

• requests from the Slovakian market (CDCP) to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team).

NCDCP

T2S standard on matching fields

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

• agreed on a low overall impact on the rest of the T2S Community;

• requests from the Slovakian market (NCDCP) to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);

• will invite the Slovakian market (NCDCP) to develop a plan for full compliance with the T2S standard on matching fields.

T2S Corporate Actions Standards

Given the high severity of non-compliance, low volumes and an implementation plan for full compliance by the end of June 2018, the MIB:

• agreed on a low overall impact on the rest of the T2S Community;

• requests from the Slovakian market (NCDCP) to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team).

Hungary

T2S corporate actions standards

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

• agreed a medium overall impact on the rest of the T2S Community;

• will invite the Hungarian market to develop a plan for full compliance with the remaining T2S CA Standards.

T2S standard on matching fields

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

• agreed on a low overall impact on the rest of the T2S Community;

• will invite the Hungarian market to develop a plan for full compliance with the T2S Standard on matching fields.

Luxembourg

LuxCSD

T2S corporate actions standards

Given the low severity, low volume and an implementation plan to fully comply with the T2S CA Standards by Q1 2018, the MIB agreed on a low overall impact on the rest of the T2S Community.

Spain

T2S Matching fields

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

• agreed on a high overall impact on the rest of the T2S Community;

• requests from the Spanish market to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);

• will invite the Spanish market to develop a plan for full compliance with the T2S standard on matching fields.

In addition the Market Infrastructure Board will:

- **raise awareness of the impact analysis results (i.e. impact analysis results of all markets to be published);**
- **monitor, with the help of 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.**

Annex 1: Methodology for assessment of non-compliant markets

For the purposes of being able to compare consistently the different cases of non-compliance, the AG/AMI-SeCo used three assessment categories. When reading the assessment of non-compliance below, the reader should take into account the following definitions:

Assessment Category	Definition of grades for the respective category
Severity (qualitative) 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 in T2S.	***HIGH*** 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. ***MEDIUM*** 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. ***LOW*** 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.
Expected volume/frequency (quantitative) is a quantitative assessment of the number of settlement instructions that will require non-standard processing in T2S.	On the basis of affected estimated/current volumes of the respective markets in T2S the following criteria for this category have been defined: ***HIGH*** In absolute terms, the estimate is that more than 10,000 instructions per year in T2S will be affected. ***MEDIUM*** In absolute terms, the estimate is that 1,000 – 10,000 instructions per year in T2S will be affected. ***LOW*** In absolute terms, the estimate is that less than 1,000 instructions per year in T2S will be affected. Where available relative figures (% of volume) are also provided.
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 migration/ implementation date.	***HIGH*** No commitment/concrete plan by a market to reach full compliance with a T2S standard by a certain date. ***MEDIUM*** There is a commitment/concrete plan of a market to achieve full compliance with a T2S standard but the implementation date is more than 9 months after its migration to T2S. ***LOW*** There is a commitment of a market to achieve full compliance with a T2S standard no later than 9 months after migration to T2S.

Annex 2: Detailed impact assessment of individual markets

1. Austria

1.1 T2S Corporate Action Standards

1.1.1 Status

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

The AT market does not comply fully with the T2S CA standards following its migration to T2S on 6 February 2017. In particular, the Austrian market does not comply with four T2S CA standards at the time of its migration to T2S:

a) market claims standards 6 and 7 – to mitigate the risk of tax fraud, the AT market decided not to take into account the “opt-out”, “ex” and “cum” flags when generating market claims;

b) market claim standards 19 and 23 – the AT CSD does not provide a user friendly facility to control the interdependence of the settlement of the market claim and the underlying transaction as required by the standard. Instead the CSD participants are provided with an optional facility to put automatically on hold the market claims generated by the AT CSD at securities account level. However, this mechanism is against T2S CA standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community.

Assessment of severity of impact (qualitative): MEDIUM

Non-compliance with the above standards has ‘medium’ impact from severity perspective on the T2S Community. This is based on the assessment that in some scenarios the non-compliance results 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 will not 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.

Assessment of expected volume/frequency (quantitative): LOW

According to the volumes estimation provided by the Austrian CSD prior to its migration to T2S, only a few settlement instructions are 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 they will be used in the settlement instructions and ii) the harmonisation of the sequence of key dates used for corporate actions processing with the harmonised settlement cycle (T+2) results in much lower volumes of market claims. As this estimation is well below 1,000, it is assessed as having a low quantitative impact on the rest of the T2S community (see Annex 1 on the AG agreed methodology).

The actual figures reported by Austrian CSD for 06/02/2017 – 15/09/2017 are:

- standards 6 and 7 (instructions with cum/ex/opt-out indicator) : 24
- standards 19 and 23 (claims flagged with automatic party hold at account level): 392

These confirm the initial assessment of low quantitative impact on T2S..

Assessment of risk of non-achieving full compliance: HIGH

There is currently no plan to resolve the non-compliance of the Austrian market.

Overall impact assessment of non-compliance: MEDIUM

Based on the fact that there is no plan for achieving full compliance with these standards after migration to T2S, the medium severity of the non-compliance and the low volumes involved, the non-compliance of the Austrian market results in medium overall impact on the T2S Community.

1.1.2 Detailed impact analysis of non-compliance of the Austrian market with the T2S CA Standards

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
T2S CA standard	Detection and generation of CAs on flows (market claims) upon migration to T2S in February 2017.
Compliance gaps	CSD.Austria will detect and raise market claims, but not fully in accordance with the T2S CA Standards. In particular, the Austrian NUG stated that it will not be compliant by its migration to T2S with the following four standards: a) market claims standards 6 and 7 – the AT market decided not to take into account the “opt-out”, “ex” and “cum” flags when detecting and generating market claims. The reasoning for this decision is that there is a

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
	risk that those flags could be used for tax fraud. b) market claim standards 19 and 23 – CSD.Austria will not provide a user friendly facility to control the interdependence of the settlement of the market claim and the underlying transaction as required by the standard and explained in the FAQ. Instead the CSD participants will be provided with an optional facility to put automatically on hold the market claims generated by the AT CSD at securities account level. However, this mechanism is against T2S CA standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community. The reason for this deviation is that not all CSD participants have the means (technically and personally) to detect in time possible market claim situations for putting the underlying instructions on hold by themselves.
Consequences of non-compliance on T2S Community	The non-compliance (by its migration date to T2S) of the Austrian market has the following consequences for the various T2S stakeholders and actors: As regards non-compliance with market claims standards 6 and 7, the following main scenarios, both for AT and non-AT ISINs should be taken into account: <u>Scenario 1: CSD.Austria generates a market claim when it should not have done so under the T2S CA Standards.</u> Under this scenario, in the intra-CSD case, the participants of CSD.Austria have to reverse manually and on a bilateral basis the wrongly generated market claim. However, in the cross-CSD case, when one of the parties in the transaction is a participant in CSD.Austria, the generated market claim will not match in T2S as the CSD of the other party will not, in compliance with the T2S CA Standards, generate a market claim instruction. <u>Scenario 2: CSD.Austria does not generate a market claim when it should have done so under the T2S CA Standards</u>. In this case the parties to the transaction have to bilaterally and manually generate the necessary transfers of securities or cash, related to the market claim. Similarly, in case of cross-CSD settlements involving a participant of CSD.Austria, the CSD of the other party in the original transaction will have to either i) cancel its market claim instruction, which has been generated fully in accordance with standards, as it will never match in T2S or ii) establish a process to decide when it should not generate a market claim instruction because of the Austrian market non-compliance. As regards non-compliance with market claim standard 23, the use of the optional facility provided by CSD.Austria may result in undue delay of settlement of market claims, generated on settlements on securities accounts, on which the participants of CSD. Austria have chosen to activate it.
How will this be solved?	The Austrian market does not plan to solve this non-compliance with the four market claims standards.
Plan for compliance	There is no plan for full compliance.
Impact of non-compliance on the different	The main negative impact will be on CSD participants (both in CSD.Austria and those of other CSDs) which will not get an automated service for managing market claims fully in accordance with the T2S CA Standards. In

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
T2S actors	particular, this will materialise in the cases when CSD.Austria does not generate market claims as required by T2S CA Standards in scenarios involving the use of ex/cum and opt-out flags. In this case, the buyer and the seller will have to generate on a bilateral basis the necessary transfers (of securities and/or funds) associated with i) the non-generated market claim and ii) the reversal of a wrongly generated market claim. In addition, the facility being used by the Austrian market to manage the interdependence between the settlement of a market claim and the underlying transaction, may result in undue delays in settlement of market claims in certain cases when this is not intended because it works at the account level and not at the level of individual transactions. There is also impact on the other CSDs in T2S. In particular, in the case when CSD.Austria does not generate a market claim when it has to do so, the impacted CSD may have to either i) cancel its market claim instruction, which has been generated fully in accordance with standards, as it will never match in T2S or ii) establish a process to decide when it should not generate a market claim instruction because of the Austrian market non-compliance. The Austrian CSD has indicated that only a few settlement instructions should be affected for the reasons listed below: - According to the usage agreed in the Austrian NUG, Austrian banks will not actively use the flags cum/ex and opt-out. As other markets also try to minimize tax fraud risks, therefore fewer cases are expected, where cum/ex and opt-out flags will be provided in the settlement instructions; - Ex date and record date are normally set to fit with T+2 settlement cycle. This means that Market claims can only occur in case of settlement periods of less than 2 days or in case of longer settlement periods. As this estimation is well below 1,000, it is assessed as having a low quantitative impact on the rest of the T2S community. This estimate has been confirmed by the actual volumes reported by the Austrian CSD for the period from its migration to 15 September.
<u>Conclusions</u>	The main negative externalities of the Austrian market's non-compliance are on participants in CSD.Austria, as well as those of other CSDs having a link with CSD.Austria, which will not get the automated service on market claims from the CSDs in T2S fully in accordance with the T2S CA Standards and will need to manage deviations bilaterally and manually with their counterparties in scenarios, when CSD.Austria is deviating from the T2S CA Standards. This entails potentially costs and risks for their back offices. Similarly, there is an impact on CSDs in T2S, having a link to CSD.Austria, as when they generate the necessary market claim in accordance with the T2S CA standards, in some scenarios it will not be generated by CSD.Austria. This has to be managed by the compliant CSD. Overall, based on the medium qualitative impact assessment, the expectation of the low volumes affected and the lack of plan for the Austrian market to fully comply with the T2S CA Standards, the impact of the T2S Community is assessed as medium. However, the affected volumes may increase when all markets migrate to T2S.

2. Germany

2.1 T2S Corporate Actions Standards

2.1.1 Status

Overall impact	**HIGH**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*HIGH*
Risk of not achieving full compliance	*HIGH*

The German market, and as a consequence Clearstream (CBF) when acting as **issuer CSD**, will not raise market claims and transformations in full compliance with the T2S CA standards.

Non-compliance consists of:

- processing cash market claims on a net basis. In addition, CA payments regarding securities other than German Government bonds, are scheduled to take place on the TARGET2 (T2) RTGS accounts and not on the T2S dedicated cash accounts (DCAs);
- processing of securities fractions on market claims and transformations by use of interim securities;
- not recognizing “CUM” indicator in detecting market claims;
- detecting the market claims on the pending transactions but generating (sending the transfer order) only after the underlying transaction has settled;

In all of these cases, investor CSDs in CBF will have to replicate the German market non-standard custody process in their systems.

In its role as **investor CSD**, CBF will generate CAs on flows broadly in accordance with the T2S CA standards, with the exception of the management of securities fractions and the detection/generation of market claims.

Assessment of severity of impact (qualitative): HIGH

The severity impact is very significant for investor CSDs in CBF and their participants, which have to support non-standard and possibly manual processing for managing market claims and transformations on transactions on DE ISINs. There is only a minor impact from a technical perspective on CBF and other CSDs participants for processing CAs on non-DE ISINs.

However, from a competition perspective this set-up results in a non-level playing field for non-German T2S Actors, as the lack of harmonisation on the processing of CAs on flow for those DE-ISINs creates a access barriers. On the other hand German market participants can freely access all other ISINs in T2S (assuming that other T2S markets are more compliant). The high severity of non-compliance is underlined by the decision of a wave 1 Investor-CSD to set-up a restriction rule in T2S for settlements in DE ISINs. This restriction rule is necessary for the respective Investor CSD, as it will have to replicate the German market non-standard custody process in its own system and procedures. Other Investor CSDs may have to act accordingly.

The AG welcomed the introduction of a Record Date in the German market custody framework prior to Clearstream's migration to T2S. However, the delay of compliance with some of the standards (processing of cash entitlements on market claims and management of fractions) expected within six months after migration, would result in a high impact on the rest of the T2S community. Otherwise, the qualitative impact resulting from the non-compliance with the remaining standards (on cum flag and generation of market claims after settlement of the underlying transaction), is expected to be low.

Assessment of expected volume/frequency (quantitative): HIGH

According to the volumes data provided by the German NSG and CBF there were 85,527 market claims in the German market in the first half of 2017, down from 404,086 market claims in the first half of 2016. Therefore, despite the significant decrease in the number of market claims, the quantitative impact of the German market non-compliance is high. All of those

Assessment of risk of non-achieving full compliance: HIGH

The initial implementation plan targeted to achieve full compliance with the high impactstandards within 6 months after Clearstream migration to T2S in February 2017. However, this plan did not materialise due to changes in German tax law, so the German market now plans to become fully compliant with these standards by end 2018.

In addition, the German market has not provided a deadline for compliance with two T2S CA standards, with expected low volumetric impact:

a) compliance with the standard on the "CUM" indicator is currently not planned and made subject to the approval of the ministry of finance;

b) the German Market Practice Committee, based on its interpretation of irrevocable instructions (matched instructions are not considered irrevocable as they can still be bilaterally cancelled), does not see currently a reason to change the current practice of the German market for generation of market claims, namely the generation of market claims only after the underlying transaction has settled.

Overall impact assessment of non-compliance: HIGH

The AG has concluded that there is a high overall impact of the German market non-compliance due to the high impact standards (processing of cash entitlements on market claims and management of fractions), for which compliance is expected at the latest 6 months after migration to T2S. Otherwise, the overall impact resulting for the German market remaining non-compliance (with the standards on cum flag and generation of market claims after settlement of the underlying transaction) is expected to be low.

2.1.2 Detailed impact analysis of non-compliance of the German market with the T2S CA Standards

<table>
<tr><th colspan="2">Detailed impact analysis of non-compliance of German market with T2S CA Standards</th></tr>
<tr><td>T2S CA standard</td><td>Detect and generation of CAs on flows (i.e. market claims and transformations) upon migration to T2S in February 2017.</td></tr>
<tr><td>Compliance gaps</td><td>The German NUG stated that it will not be compliant following its migration to T2S with seven standards with regards to market claims and one standard with regards to transformations. Therefore, CBF will detect and raise market claims and transformations, but not fully in accordance with the T2S CA Standards.

Cash entitlements

Importantly, based on a decision of the German market, most CA payments will be done in the TARGET2 (T2) RTGS accounts and not in the T2S Dedicated Cash Accounts (DCAs). In particular, payments on all market claims on securities for which CBF acts as Issuer CSD (except for German government securities) will be done on T2 RTGS accounts with a possibility for their clients to have a subsequent standing liquidity transfer option from the T2 RTGS account to DCAs in T2S. With regards to CAs on government securities, payments will be made on the T2S DCAs. However, payments on all instruments will be made on a net basis (taking into account all incoming and outgoing payments related to CAs processing); therefore, payments on market claims will not be on a transaction per transaction basis.

Only in the case, where CBF is acting as Investor CSD, market claims will be generated directly on DCAs in T2S for cross-CSD but not for intra-CBF transactions.

Market claims generation

In the case of securities distributions, market claims will be detected on pending transactions (as required by the T2S CA Standards) but will be generated in T2S, i.e. send T2S instructions, only after the underlying transaction has settled. The same processing will be followed also for market claims on cash distributions except in the case of pending instructions from CCPs, on which market claims will be generated when detected, in line with the T2S CA Standards. The decision of the German market for this type of processing of market claims, both for DE and non-DE ISINs, is based on local tax authorities' regulations.

CUM indicator

In addition, the German Market Practice Committee, also based on national tax requirements, decided not to use the "CUM" indicator for identification of market claims on transactions with DE ISINs. This will result in differences in the scenarios for identification and generation of</td></tr>
</table>

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	market claims compared with the scenarios required by the T2S CA Standards[14]. In short, market claims will not be detected when, according to the CASG, should be detected. *Fractions* The German market has decided to maintain its current market practice for managing fractions by using interim securities both in case of market claims and transformations (for both DE and non-DE ISINs). This is not in line with the respective T2S CA standards which prescribe the round down approach for securities and compensating remaining fractions with cash for each transformation separately. In some cases of cross-CSD settlement between a participant of Clearstream and a participant of another CSD in T2S this will result in non-matching of the market claims or transformations instructions generated by CBF and the CSDs of the other participant in the transaction.
Consequences of non-compliance on T2S Community	The non-compliance of the German market has the following consequences for the various T2S stakeholders and actors:
Scenario 1: ***Settlement between CBF participants***	**DE ISINs** For domestic transactions in DE ISINs, CBF, and the German market, plans to maintain some of their current market practices with regards to managing market claims and transformations, which will not be raised in full according with the T2S CA Standards (see above under non-compliance). However, a number of changes have been introduced already with the migration to T2S, resulting in a significant increase in the compliance status (e.g. introduction of Record Date, taking into account "OPT-OUT" flag both in case of managing market claims and transformations, meeting almost all T2S CA transformations standards, etc.) **Non-DE ISINs** CBF and the German market is mostly compliant with the T2S CA standards when processing non-DE ISINs transactions between its participants, provided of course that the respective issuer CSD market is fully compliant with the T2S CA standards. The German market processing diverges from the standards with respect to: management of market claims on cash distributions and transformations in cash which will be posted on the T2 accounts of its participants, generation of market claims on pending transactions only after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations.
Scenario 2: ***Settlement between a participant in CBF and one in another CSD***	**DE ISINs** For cross-CSD transactions in DE ISINs between one of its participants and a participant in another CSD, CBF and the German market, maintain the previous market specific practices with regards to managing market claims and transformations [as in scenario 1]. In case of market claims on cash distributions and transformations in cash, the T2 cash account of the

[14] Please refer to annex 1 of the Frequently Asked Questions for the complete list of scenarios for detection of market claims: https://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/20170127_t2s_ca_standards_faq_january_2017.pdf?785e813f27f3aa18eb2f85f4e2defc21

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	respective Investor CSD in CBF will be credited. **Non-DE ISINs** CBF plans to be almost fully compliant with the T2S CA standards when processing CA related settlement in its capacity as Investor CSD. The only exceptions are generation of market claims on pending transactions only after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations by use of interim securities. Therefore, limited impact from a technical perspective on other CSD participants, since the German market practices does not affect the issuer CSD market practice (assuming it is a T2S compliant one). However this means that there may be non-level playing field issues: harmonised T2S CA practices are available to the German investors (investing in foreign ISINs) but not available to foreign investors (investing in DE ISINs).
Scenario 3: ***Settlement between two participants of Investor CSDs (other than CBF)***	**DE ISINs** **a) Settlement between participants of one Investor CSD** In case of intra-CSD settlement on DE ISINs, the Investor CSD may decide what kind of service it will provide to its participants for generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[15] that when the issuer CSD market is not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards. In this case Investor CSDs have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be differences between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[16] **b) Cross-CSD Settlement in T2S not involving movements on securities accounts at Clearstream** In this case two different Investor CSDs are involved in managing the CA on flow, without securities accounts at CBF being affected. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[16]. This could result in a situation where the two different Investor CSDs may have a different default option on how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S (i.e. settlement instructions will not match in T2S).

[15] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[16] There are several possibilities for Investor CSDs in case of Issuer CSD non-compliance:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the investor CSD may decide not to offer any CA on flow services for ISINs issued in markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed bilaterally by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	c) Cross-CSD settlement in T2S involving movements on securities accounts at Clearstream For cross-CSD transactions in DE ISINs between participants of different Investor CSDs, involving movements on securities accounts in CBF, the respective Investor CSDs have to replicate the processing of the corporate action as processed by CBF, i.e. not in accordance with the T2S CA Standards. **Non-DE ISINs** **Relevant for sub-scenarios a) and b) above:** There is no impact of the non-standard processing of CAs for transactions in non-DE ISINs when securities accounts at CBF are not involved. **Relevant for sub-scenario c) above:** CBF plans to be almost fully compliant with the T2S CA standards when processing CA related settlement in its capacity as Investor CSD. The only exceptions are generation of market claims on pending transactions only after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations by use of interim securities. Therefore, little impact from a technical perspective on other CSD clients, since the German market practices will not affect the issuer CSD market practice (assuming it is a T2S compliant one). However this means that there may be non-level playing field issues: harmonised T2S CA practices are available to the German investors (investing in foreign ISINs) but not available to foreign investors (investing in DE ISINs).
How will this be solved?	The following legislative/regulatory/market practice changes are required from the DE market: - The “record date” was already introduced on 1 January 2017. This has reduced substantially the number of market claims that need to be generated in the German market. - Tax procedure/law should be changed in way to enable processing of market claims in accordance with T2S CA Standards or alternative procedures, compliant with T2S CA standards should be implemented; - German market practice with payment of cash entitlements related to CAs will be changed to use the same payment mechanism as the one used for payments related to settlement instructions, i.e. on T2S DCAs instead on T2 accounts and on a transaction-per-transaction basis and not on a net basis; - Current market practice to manage fractions, resulting from market claims and transformations, will be changed in accordance with the requirements of the T2S CA Standards.
Plan for compliance	The plan targets to achieve full compliance with the high impact standards (processing of cash entitlements on market claims and management of fractions) within 6 months after Clearstream’s migration to T2S. Due to changes in German tax law, this plan has now been postponed to end 2018. In addition, the German market has not provided an implementation plan and deadline for compliance with the following two T2S CA standards: a) compliance with the standard on the “CUM” indicator is currently not

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	planned and made subject to the approval of the Ministry of Finance. It should be mentioned that other markets are facing problems with their authorities on this standard as well (due to on-going investigations of abuse of tax reclamation procedures) but this has not been taken into consideration by the CAJWG and the CASG so far. Frequency and severity of impact of this remaining non-compliance is however considered negligible. b) the German Market Practice Committee, based on its interpretation of irrevocable instructions (matched instructions are not considered irrevocable as they can still be bilaterally cancelled), does not see currently a reason to change the current practice of the German market for generation of market claims, namely the generation of market claims only after the underlying transaction has settled.
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>CBF participants, only settling on DE ISINs:</u>** There will be no effect for them as the current German market specific processing of market claims and transformations on DE ISINs, while being brought more in line with the T2S corporate actions standards, will be largely preserved. **<u>CBF participants, settling both DE and non-DE ISINs:</u>** These participants have to manage two different processes: 1) For transactions in DE-ISINs the current German market specific processing will be applied 2) For transactions in non-DE ISINs they have to manage a different process, which is more in line with the T2S CA standards (assuming that the issuance market is a compliant one). **<u>Investor CSD participants, which settle both DE (via CSD links) and non-DE ISINs:</u>** These participants in transactions with DE ISINs have to manage two different processes: 1) If the underlying transaction involves movements on securities accounts in Clearstream (see Scenarios 2 and 3c above), then they would continue to rely on the current non-standard processing of market claims and transformations by Clearstream, as facilitated by their CSDs. 2) If the underlying transaction does not involve movements on securities accounts in Clearstream (see Scenario 3a above), then they have to rely on the service provided by their CSD or will have to manage market claims bilaterally with their counterparties if no such service is provided. In case of cross-CSD settlement (see Scenario 3b above) there is the additional uncertainty what service they would get (if any) as the processing of the CSDs of the two counterparties could be different. In addition, for non-DE ISINs they have to manage a different process, which is almost but not fully in line with the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Clearstream:</u>** CSD in T2S, which can settle DE ISINs have to manage two different processes: 1) If the underlying transaction involves movements on securities accounts

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	in Clearstream (see Scenarios 2 and 3c above), then it would need to follow the non-standard processing of market claims and transformations of Clearstream 2) If the underlying transaction does not involve movements on securities accounts in Clearstream (see Scenarios 3a and 3b above), then it will have to decide what service it will provide to its participants in this case (if any) for processing of CA on flows. For settlements in non-DE ISINs, there is almost no impact on CSDs participants / other CSDs in T2S as there will be a highly harmonised processing of CAs on flow in accordance with the T2S CA standards supported by processing of Clearstream.
Conclusions	The negative externalities of non-compliance are considerable on CBF participants (other than those settling only DE ISINs) and other CSDs in T2S as they will not be offered processing of CAs on flows for DE ISINs in accordance with the T2S CA Standards. This entails potentially costs and risks for their back offices as they have to manage different processes depending on the scenarios (for DE ISINs either replication of non-standard processing at CBF via their CSDs or managing bilaterally the market claims with its counterparty when CBF securities accounts are not affected). In addition, investor CSDs have to replicate the German market specific processing of transaction management in DE ISINs in certain cross-CSD scenarios. In other settlement scenarios (when securities accounts at Clearstream are not affected) they will not generate market claims in T2S. Thus they have to manage different scenarios and different processing in each scenario. Overall, the above analysis shows that there will be very significant impact of the non-compliance of the German market with the T2S CA market claims standards both on investor CSDs as well as their participants when settling DE ISINs. When CBF is acting as Investor CSD there is little impact on its own as well as on other CSDs' participants, since these transactions will be managed almost fully in accordance with the T2S CA Standards. The only exceptions would be delays in generation of market claims on pending transactions and different practice of management of securities fractions, which may result in non-matching of the two legs of market claims or transformations in cross-CSD settlements in certain cases. From competition and level-playing field perspective this set-up (non-harmonised transaction management for DE ISINs versus almost fully harmonised one for non-DE ISINs) results in an undue advantage for the German market, which would benefit from harmonisation of processing CAs in other T2S markets whilst maintaining an entry barrier for the other Investor CSDs (and their participants) to its domestic market. Based on the German implementation plan, the AG has concluded that there is a high overall impact of the German market non-compliance until it complies with the high impact standards (processing of cash entitlements on market claims and management of fractions), which is scheduled to take place within six months after migration of the German market to T2S. After the German market complies with the above standards, the impact, both qualitative as well as quantitative, resulting for the German non-compliance with the standards on cum flag and generation of market claims after settlement of the underlying transaction, is expected to be low. CBF and the German NUG have committed to monitor closely the affected

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	volumes of settlement instructions resulting from non-compliance with the above two standards and report the statistical results to the ECB team as soon as data are available.

T2S Board decision on the non-compliance of the German market	
T2S Board decision in April 2015	Given the information provided by the German market, including its implementation plan, the T2S Board took note that there will be a high impact of the German market non-compliance to the rest of the T2S Community for a maximum period of six months after CBF's migration to T2S. This impact is expected to be low thereafter; Based on that, the T2S Board decided to • *raise awareness of the impact analysis results to the German market;* • *monitor (via the ECB team) very closely the implementation of the compliance plan of the German market;* • *ask the German NUG to provide as soon as possible to the ECB Team the relevant statistics on the settlement volumes which still will be affected by the non-compliance after the six months period*

3. France

3.1 T2S Corporate Actions Standards

3.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The French market (EoC FR) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the non-compliance of the French market with the underlying EU market standards (for elective CAs, ii) the decision of the French market to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior to the end of day on Record Day (RD) and for compensations by multiple outturns and iii) a decision of the French market to comply with the buyer protection standards at a later stage.

The gap has the following consequences:

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear France;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear France. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear France;
- The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants.

When transactions do not result in settlement on the books of Euroclear France, the respective Investor CSDs can decide what type of service to provide to their participants for management of corporate actions on flow or alternatively to leave it to them to manage these on a bilateral and manual basis with their counterparties. However, if two Investor CSDs are involved, there is the risk that they offer different services for managing elective events with FR ISINs to their participants and thus, no automated management of CAs on flow would be possible.

As a consequence participants in investor CSDs, linked to Euroclear France, are not able to process some types of market claims, transformations and buyer protection instructions fully according to the T2S CA standards. The affected actors have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the French market.

Assessment of size/severity of impact: MEDIUM

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear France and the other CSDs in T2S.

Assessment of expected frequency: LOW

The plan of the French market is to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e. the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear France.

Assessment of risk of non-achieving full compliance: HIGH

Overall impact assessment of non-compliance: MEDIUM

3.1.2 Detailed analysis of non-compliance of French market with T2S CA Standards

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.
Non-compliance	The FR market is not compliant with the T2S CA standards in the following: - Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear France; - In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear France. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	transformations in the case of multiple outturns are not processed by Euroclear France; -The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants[17].
Consequences of non-compliance on T2S Community	The non-compliance of the French market after its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of Euroclear France***	**Both FR and non-FR ISINs** Participants in Euroclear France do not get all the service on corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and transformations. The French market also decided to comply only as of Q1 2018 with the buyer protection standards, when compliance with all standards is expected to be achieved. Thus, foreign direct participants in Euroclear France will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear France and participant in another CSD***	**Both FR and non-FR ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear France is involved, Investor CSDs in T2S will not be able to manage some market claims and transformations because Euroclear France as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis. Furthermore, lack of information of key dates will make management of buyer protection more complex and risky.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear France***	**a) Settlement between participants of one Investor CSD** **FR ISINs** In the case of internal CSD settlement in FR ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[18] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[19]

[17] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

[18] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[19] There are several possibilities for Investor CSDs:

i) one option would be to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	Non-FR ISINs No securities movements will happen in Euroclear France. Thus for such non-FR ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear France** **FR ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[19]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-FR ISINs** No securities movements will happen in Euroclear France. Thus for such non-FR ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear France** **FR and non-FR ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear France (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6).
Plan for compliance	The French market reached compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99% of transformations) in July 2017. Thereafter, it plans to achieve full compliance with most of the T2S CA standards in Q1 2018 (including buyer protection standards and non-generation of transformations in reorganisations with options). However, there is no plan of the French market to comply with non-generation of market claims and transformations in the case of management of fractions on stock distributions and multiple outturns for the case when the reference price is available prior to end of day on

ii) another option would be to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	Record Day (RD)
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>Participants of Euroclear France:</u>** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage in some scenarios the non-generation of market claims and transformations by Euroclear. Alternatively they can rely on Euroclear France to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. In addition, they have to manage buyer protection on a bilateral basis but not according to the T2S CA Standards. **<u>Participants in CSD(s) in T2S, which settle both FR (via CSD links) and non-FR ISINs:</u>** Such participants in other CSDs have to manage two different processes: 1) For transactions involving FR ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP for elective events (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims, transformations and BP for elective events with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-FR ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Euroclear France:</u>** 1) CSDs in T2S, which can settle FR ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-FR ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear France is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claims and the transformed instructions, will not be generated by Euroclear France in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear, including foreign direct participants, which have to manage some market claims and transformations on a bilateral and manual basis with their counterparties. Similarly, buyer protection is more difficult to manage. The effect is worse in the case of cross-CSD transactions, in which at least one counterparty to the transaction is a participant in Euroclear France, as in this case in addition to the non-compliance above, also market claims in some scenarios are not generated by Euroclear on cross-CSD settlements. When transactions in FR ISINs do not result in settlement on the books of Euroclear France, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with FR ISINs to their participants and thus no automated management of CAs on flow is possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the French market with the T2S CA standards. While no statistics exists, in terms of the affected volumes, the impact of the non-compliance on market claims and transformations is estimated to be low due to the limited number of the business cases when these will not be generated by Euroclear France.

T2S Board decision on the non-compliance of the French market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the French market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it agreed on the following measures with regards to the non-compliance of the French market: • raise awareness of the impact analysis results to the French market; • monitor (via the ECB team) the implementation plan of the French market.

3.2 Restrictions on Omnibus Accounts

3.2.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

Due to regulatory requirements in the French market, bearer securities have to be recorded separately from fully registered securities (i.e. *Valeurs Essentiellement Nominatives, VEN*). This implies that Euroclear France participants, including Investor CSDs, are requested to hold fully registered (VEN) and bearer securities in dedicated sub-accounts (i.e. *Nature de Compte*) at Euroclear France depending on the legal form of the security (i.e. bearer or fully registered) [20]. Thus the French market does not comply with the compliance criterion that Investor CSDs and other intermediaries should not be required to implement mandatory account segregation

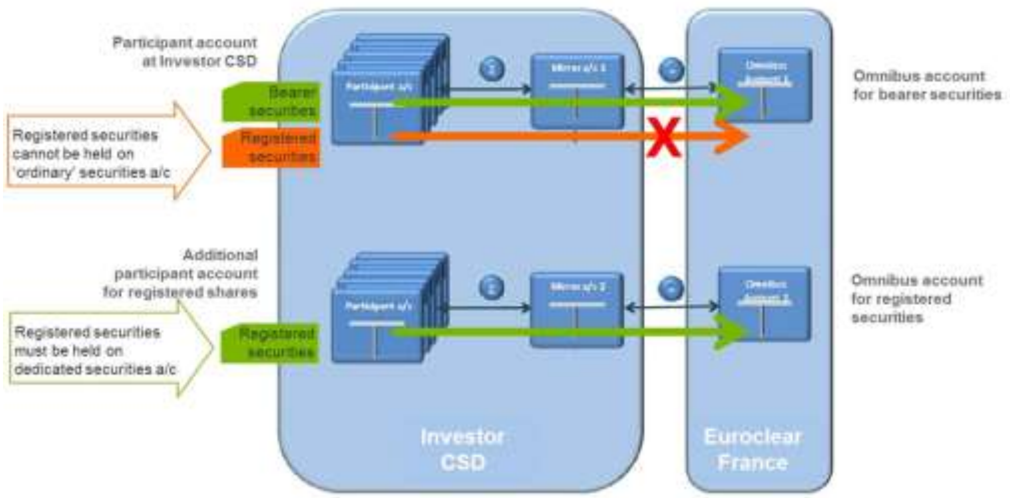
[20] The two forms of the security are represented by a single ISIN.

throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.[21]

The segregation of assets in different accounts permits Euroclear France to detect if the relevant registration process has been initiated in regards to settlement in the dedicated account for fully registered securities. Additionally, Euroclear France has put in place market-specific validations in T2S to ensure that settlement instructions on dedicated accounts are instructed in accordance to the legal form of the security; e.g. only instructions on fully registered securities are instructed on the dedicated account for registered securities. The requirement also applies on Investor CSDs accounts. Thus, Investor CSDs are enforced to open two dedicated omnibus accounts at Euroclear France for the servicing of fully registered or bearer securities. While the regulatory requirement in France does not impose per se any segregation requirement in the books of Investor CSDs, in practice in T2S this translates into an obligation for Investor CSDs and their participants to replicate the account segregation model down the holding chain. In order to provide cross-border settlement services on French fully registered securities:

- Investor CSDs are enforced to open two dedicated mirror accounts[22] in their books mapped to the two dedicated omnibus accounts at Euroclear France.
- Participants of the Investor CSD are enforced to open two dedicated participant accounts depending on the bearer or fully registered legal form of the holdings.

The required cross-border account segregation model is depicted on the diagram below:



[21] For more information, please see Sixth T2S Harmonisation Report, ch. 3.14: http://www.ecb.europa.eu/paym/t2s/progress/pdf/ag/sixth_t2s_harmonisation_progress_report.pdf

[22] According to the T2S design, the relationship between Omnibus accounts and Mirror Accounts in T2S is always 1:1. This is to enable T2S triggering realignment movements in the relevant accounts when building realignment settlement chains in cross-border settlement scenarios.

Source: T2S Cross-border Market Practices sub-group (XMAP) analysis on Euroclear France restriction rules

Assessment of size/severity of impact: HIGH

The segregation requirements in the French market according to the legal form of the security (i.e. bearer or registered) present a number of inefficiencies for Investor CSDs and their participants.

These inefficiencies include several functional and operational challenges that may hamper the T2S key objective of facilitating efficient and harmonised cross-border settlement in Europe; e.g.:

- IT developments/functional changes to the legacy platforms of the actors involved in the holding chain (e.g. Investor CSDs, custodians) might be required (refer to the detailed analysis below for more information);
- Definition of non-standard operational processes is required in order to handle cross-border settlement of French securities with the implied higher operational costs (refer to the detailed analysis below for more information);
- Restriction rules by Euroclear France might need to be replicated by the Investor CSDs.

As a result of the above the severity of the impact for the T2S community is considered as high.

Assessment of expected frequency: LOW

In terms of volumes, as of June 2016 there were 1.427 fully registered securities (i.e. *VEN*) [23] issued by Euroclear France corresponding to the following asset classes: 254 shares, 3 FCT,47 bonds, 1115 UCITS and 8 warrants.

The monthly average volume of settled instructions on fully registered securities (i.e. *VEN*) is 76.000 instructions. Out of the 76.000 average monthly instructions, only 42 instructions per month are cross-border (i.e. circa 0,06% of the total volume). The average annual number of cross-border instructions is thus estimated to be around 500.

According to the non-compliance impact assessment methodology, the expected frequency based on current observed volumes is low as less than 1.000 instructions are affected annually. However, it is important to note that:

(i) Current affected cross-border volumes could change significantly once all T2S markets have completed their migration to T2S

[23] Analysis based on statistics provided by Euroclear France in bilateral discussions with the ECB team.

(ii) Independently of the observed low instruction volume, Investor CSDs and their participants may have to implement all the necessary setups imposed by the segregation requirement in order to stick to their respective service level agreements with their clients. Current estimations carried out in the frame of the present impact analysis show that this will be the case for around 500 participants of Investor CSDs of Euroclear France. This will require the opening of more than 500 additional dedicated accounts in the books of Investor CSDs in Euroclear France for the servicing of French registered securities.

As a result of the above the frequency/volume impact on the T2S community is considered as low.

Assessment of risk of non-achieving full compliance: HIGH

As of September 2016 post-migration of Euroclear France to T2S, there is not yet a defined implementation plan by the French market to achieve full compliance with the standard. A number of major legal and technical challenges would need to be overcome in order to achieve full compliance (e.g. legislative change in France and/or using separate ISINs for bearer and registered forms of a security as done by other markets). Consequently, no solution is expected in the short term, especially considering the legal nature of the restriction.

As a result, the risk of non-achieving full compliance is considered as high.

Overall impact assessment of non-compliance: MEDIUM

Although the severity and the risk of non-achieving full compliance are assessed as high, based on the current low cross-border volumes involved, the overall impact of this non-compliance on the T2S Community is assessed as medium. However, this assessment could change provided that the cross-CSD volumes on non-exempt securities accounts increase significantly in the future.

3.2.2 Detailed analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
T2S standard on Restrictions on Omnibus Accounts.	To make full interoperability, cross-CSD settlement and market access possible in T2S, issuer CSDs in T2S must provide appropriate services on omnibus accounts to foreign participants, as required by participants (e.g. withholding tax and proxy voting). These omnibus accounts should also include, as an option, holdings of domicile and non-domicile investors. To comply with this standard a market has to ensure that i) appropriate services are offered by the Issuer CSD on Omnibus accounts (e.g. withholding tax and proxy voting) and ii) Investor CSDs and other intermediaries are not required to implement mandatory account

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
	segregation throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.
Non-compliance	The FR market is not compliant with the T2S Harmonisation standard on Restrictions on Omnibus accounts due to the regulatory requirement of segregation of bearer and fully registered securities in dedicated accounts[24]. This requirement is also applicable on omnibus accounts of Investor CSDs, which has the effect that the segregation requirement has to be propagated down the holding chain (i.e. Investor CSDs have to open two mirror accounts in their books, as well as their participants, that have to open two dedicated participant accounts). In particular, the FR market is not compliant with the second assessment compliance criterion of the standard (see above)
Consequences of non-compliance on T2S Community	The non-compliance of the French market due to the segregation requirements according to the legal form of the security (i.e. bearer or registered) imposes a number of inefficiencies for Investor CSDs and their participants. These inefficiencies include several functional and operational challenges that may hamper the T2S key objective of facilitating efficient and harmonised cross-border settlement (please refer to ***Impact of non-compliance on the different T2S actors*** section below).
How will this be solved?	At the moment, no solution has been agreed. Furthermore, no solution is expected in the short term provided the legal nature of the restriction. Other markets have addressed this by using separate ISINs for bearer and registered forms of a security.
Plan for compliance	No plan for compliance has been defined by the French market so far.
Impact of non-compliance on the different T2S actors	• **Investor CSDs of Euroclear France** servicing fully registered and bearer French securities are required to open two dedicated omnibus at Euroclear France mapped to two dedicated mirror accounts in their books. They might also need to replicate restriction rules by Euroclear France in T2S to ensure that settlement instructions on French securities are only instructed on the relevant account depending on the legal form. • **Participants of the Investor CSD (and potentially their clients in the participants' books)** are required to open two dedicated participant accounts depending on the bearer or registered legal form of the holdings. • **All actors involved in the holding chain**, may need to introduce **IT developments/functional changes** on their legacy platforms, such as: o Need of enlarging the reference data legacy systems to include information on the legal form of French securities and

[24] The two forms of such securities are represented by a single ISIN.

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
	the accounts associated to them. o Need to modify settlement legacy systems to support cross-border settlement on multiple mirror accounts for a single Issuer market[25]. o Need to introduce business validations at the legacy platforms to ensure that settlement instructions on French securities are only instructed on the relevant account. • **All actors involved in the holding chain (e.g. Investor CSDs, custodians)**, may need to define **non-standard operational processes** in order to handle cross-border settlement of French securities with the implied **higher operational costs**; e.g. some impacts include: o Increased settlement operational complexity, as market participants have to instruct on a dedicated account depending on the legal form of the security. o Need of defining an information flow outside T2S down the holding chain on the legal form of French securities (i.e. bearer or fully registered). This information is not accessible to Investor CSDs in T2S. This is to determine the relevant dedicated account to be used for settlement depending on the legal form of the security. o Higher complexity and cost of reconciliation processes due to fragmented reporting based on multiple accounts for a single investor. o Increased operational burden stemming from the setup of static data that might be non-standard (e.g. setup of French securities on CSDs/participant legacy platforms including information on the legal form). o Increased account maintenance costs for all actors involved in the holding chain. The volumetric measurements show that there are around 500 affected cross-border instructions on fully registered securities a year. According to some estimates, around 500 participants in Investor CSDs, which hold French securities, may be affected which will result in the need for these Investor CSDs to open 500 additional securities accounts for their clients in T2S. These relatively low volumes moderate the overall impact on the T2S Community. However, even though the current cross-border instruction volume in registered securities is considered low, it could increase once all T2S markets have completed their migration to T2S.
Conclusion	The French market is not compliant with the standard on Restrictions on Omnibus accounts due to the obligation for Investor CSDs and their participants of replicating the account segregation requirements in their books depending on the legal form of the securities (i.e. bearer or fully registered). This presents a number of high impact IT/functional and operational challenges to the T2S community, hampering the T2S key

[25] In the current securities settlement European landscape, most of the cross-border settlement links operate with a single mirror account per Issuer CSD.

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
	objective of facilitating efficient harmonised cross-border settlement. Even though the quantitative assessment shows that the currently affected transactions volume is low, this could change once all the T2S markets have completed their migration to T2S. The risk of non-achieving full compliance is high as there is not yet a defined implementation plan by the French market to achieve full compliance with the standard and provided the legal nature of the requirement. The above factors make the overall impact status of non-compliance to be considered as medium. Further monitoring of the cross-CSD volumes on registered securities and their impact on the other CSDs in T2S is required in order to better assess whether additional measures are needed to address the French market non-compliance.

4. Belgium

4.1 Euroclear BE

4.1.1 T2S CA standards

4.1.1.1 Overall Status

Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Belgian market (EoC) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the non-compliance of the Belgian market with the underlying EU market standards for elective CAs, ii) the decision of the Belgian market to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior end of day on Record Day (RD) and for compensations by multiple outturns and iii) a decision of the Belgian market to comply with the buyer protection standards at a later stage.

The gap has the following consequences:

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear Belgium;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Belgium. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Belgium;
- The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants.

As a consequence participants in investor CSDs, linked to Euroclear Belgium, are not able to process some types of market claims, transformations and buyer protection instructions according to the T2S CA standards. The affected actors have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Belgian market. The AMI-SeCo has assessed that this non-compliance translates in a medium impact (severity) for T2S CSDs and their participants.

Assessment of size/severity of impact: MEDIUM

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear Belgium and the other CSDs in T2S.

Assessment of expected frequency: LOW

In order to achieve full compliance with the transformations and BP standards, the Belgian market is looking to effect a change in its securities law by Q1 2018. The plan of the Belgian market is also to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e. the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear Belgium.

***Assessment of risk of non-achieving full compliance*: HIGH**

Overall impact assessment of non-compliance: MEDIUM

4.1.1.2 Detailed analysis of non-compliance of Belgian market with T2S CA Standards

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.
Non-compliance	The BE market is not compliant with the T2S CA standards in the following: - Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear Belgium; - In the case of reorganisations with options, pending instructions that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Belgium. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Belgium;

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	- The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants[26].
Consequences of non-compliance on T2S Community	The non-compliance of the Belgian market by its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of Euroclear Belgium***	**Both BE and non-BE ISINs** Participants in Euroclear Belgium do not get all the service on corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and transformations. The Belgian market also decided to comply only as of Q1 2018 with the buyer protection standards, when compliance with all other T2S CA Standards is expected to be achieved. Thus, foreign direct participants in Euroclear Belgium will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear Belgium and participant in another CSD***	**Both BE and non-BE ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear Belgium is involved, Investor CSDs in T2S will not be able to manage in a few cases market claims and transformations because Euroclear Belgium as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis. Furthermore, lack of information of key dates will make management of buyer protection more complex and risky.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear Belgium***	**a) Settlement between participants of one Investor CSD** **BE ISINs** In the case of internal CSD settlement in BE ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[27] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[28]

[26] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

[27] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[28] There are several possibilities for Investor CSDs:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	Non-BE ISINs No securities movements will happen in Euroclear Belgium. Thus for such non-BE ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear Belgium** **BE ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[28]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-BE ISINs** No securities movements will happen in Euroclear Belgium. Thus for such non-BE ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear Belgium** **BE and non-BE ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear Belgium (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6). In addition, a legislative change to allow buyer protection on rights issues is planned to be adopted by the time the system is implemented in Q1 2018.
Plan for compliance	The Belgian market reached compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99% of transformations) in July 2017. Thereafter, it plans to achieve full compliance with most of the T2S CA standards in Q1 2018 (including buyer protection standards and non-generation of transformations in reorganisations with options). However, there is no plan of the Belgian market to comply with non-generation of market claims and transformations in the case of management of fractions on stock distributions and multiple outturns for the case when the reference price is available prior to end of day on

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	Record Day (RD).
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **Participants of Euroclear Belgium:** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage in some scenarios the non-generation of market claims and replacement instructions by Euroclear. Alternatively they can rely on Euroclear Belgium to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. In addition, they have to manage buyer protection on a bilateral basis but not according to the T2S CA Standards. **Participants in CSD(s) in T2S, which settle both BE (via CSD links) and non-BE ISINs:** Such participants in other CSDs have to manage two different processes: 1) For transactions involving BE ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP for elective events (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims, transformations and BP for elective events with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-BE ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards on elective events will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **CSDs in T2S with direct or relayed CSD link to Euroclear Belgium:** 1) CSDs in T2S, which can settle BE ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-BE ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear Belgium is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claim and the transformed instructions will not be generated by Euroclear Belgium in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear, including foreign direct participants, which have to manage in some scenarios market claims and transformations on a bilateral and manual basis with their counterparties. Similarly, buyer protection is more difficult to manage. When transactions in BE ISINs do not result in settlement on the books of Euroclear Belgium, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with BE ISINs to their participants and thus no automated management of CAs on flow is

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the Belgium market with the T2S CA standards. While no statistics exists, in terms of the affected volumes, the impact of the non-compliance on market claims and transformations is estimated to be low due to the limited number of the business cases when these will not be generated by Euroclear Belgium.

T2S Board decision on the non-compliance of the Belgian market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the Belgian market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it had agreed on the following measures with regards to the non-compliance of the Belgian market: • raise awareness of the impact analysis results to the Belgian market; • monitor (via the ECB team) the implementation plan of the Belgian market.

5. Netherlands

5.1 T2S CA Standards

5.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Dutch market (Euroclear Nederland) does not comply fully with the T2S CA standards on market claims, transformations. The reasons behind this implementation gap are i) the non-compliance of the Dutch market with the underlying EU market standards[29] for elective CAs, ii) the decision of Euroclear to delay full compliance with the market claims and transformations standards related to managing fractions in the case when the reference price is available prior end of day on Record Day (RD) and for compensations by multiple outturns.
The gap has the following consequences:

- Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear France;
- In the case of reorganisations with options, pending instructions, that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Netherland. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Netherland.

As a consequence participants in investor CSDs, linked to Euroclear France, are not able to process some types of market claims and transformations fully according to the T2S CA standards. The AMI-SeCo has assessed that this non-compliance translates in a medium impact (severity) for T2S CSDs and their participants. The affected actors have to support non-standard and manual processing for managing some market claims and transformations instructions generated in the Dutch market.

Assessment of size/severity of impact: MEDIUM

In terms of the affected volumes, no impact of the non-compliance with market claims/transformations standards 11 on securities fractions is expected till the functionality is developed by Euroclear as no such event has occurred in 2017 or is expected to occur by the

[29] Corporate Actions Joint Working Group (CAJWG) standards

time this is resolved. Regarding the non-compliance on transformations and buyer protection standards, the exact number of affected instructions cannot be calculated but the estimate is that it is extremely low after July 2017 as it will affect only mandatory with options, which account for less than 1% of all transformations events. Furthermore, the cross-CSD volumes are estimated to be low due to the few existing CSD links between Euroclear Netherland and the other CSDs in T2S.

Assessment of expected frequency: LOW

The plan of the Dutch market is to achieve full compliance with almost all T2S CA standards in Q1 2018. The exception are market claims standards 10 and 11 and transformations standards 9 and 11, i.e. the processing of market claims and transformations on fractions on securities entitlements in the case when the reference price is available prior to the end of day on RD and market claims and transformations on multiple outturns, which are not yet scheduled to be resolved by Euroclear Netherland.

Assessment of risk of non-achieving full compliance: HIGH

Overall impact assessment of non-compliance: MEDIUM

5.1.2 Detailed analysis of non-compliance of Dutch market with T2S CA Standards

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.
Non-compliance	The NL market is not compliant with the T2S CA standards in the following: - Market claims related to fractions on securities entitlements in the case when the reference price is available prior to end of day on Record Day (RD) and on multiple outturns are not generated by Euroclear Netherland; - In the case of reorganisations with options, pending instructions that need to be transformed are only cancelled and the required transformed instructions are not generated by Euroclear Belgium. In addition, transformations related to fractions on securities entitlements in the case when the reference price is available prior to end of day on RD and transformations in the case of multiple outturns are not processed by Euroclear Netherland;
Consequences of non-compliance on T2S Community	The non-compliance of the Dutch market by its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of***	**Both NL and non-NL ISINs** Participants in Euroclear Nederland do not get all the service on

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
Euroclear Nederland	corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and transformations. Thus, foreign direct participants in Euroclear Nederland will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear Nederland and participant in another CSD***	**Both NL and non-NL ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear Nederland is involved, Investor CSDs in T2S will not be able to manage market claims and transformations because Euroclear Nederland as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear Nederland***	**a) Settlement between participants of one Investor CSD** **NL ISINs** In the case of internal CSD settlement in NL ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[30] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[31] **Non-NL ISINs** No securities movements will happen in Euroclear Nederland. Thus for such non-NL ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear Nederland** **NL ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the

[30] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[31] There are several possibilities for Investor CSDs:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
	corporate action according to one of several options available[31]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-NL ISINs** No securities movements will happen in Euroclear Nederland. Thus for such non-NL ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear Nederland** **NL and non-NL ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear Nederland (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6).
Plan for compliance	The Dutch market reached compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99% of transformations) as well as with all buyer protection standards in July 2017. Thereafter, it plans to achieve full compliance with most of the remaining T2S CA standards in Q1 2018 (including non-generation of transformations in reorganisations with options). However, there is no plan of the Dutch market to comply with non-generation of market claims and transformations in the case of management of fractions on stock distributions and multiple outturns for the case when the reference price is available prior to end of day on Record Day (RD).
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>Participants of Euroclear Nederland:</u>** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage the non-generation of market claims in some scenarios and the non-generation of replacement instructions by Euroclear. Alternatively they can rely on Euroclear Nederland to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. **<u>Participants in CSD(s) in T2S, which settle both NL (via CSD links) and non-NL ISINs:</u>** Such participants in other CSDs have to manage two different

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
	processes: 1) For transactions involving NL ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP on centrally cleared transactions (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims and transformations with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-NL ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards on elective events will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Euroclear Nederland:</u>** 1) CSDs in T2S, which can settle NL ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-NL ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear Nederland is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claims and the transformed instructions will not be generated by Euroclear Nederland in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear Nederland, including foreign direct participants, which have to manage some market claims and transformations on a bilateral and manual basis with their counterparties. When transactions in NL ISINs do not result in settlement on the books of Euroclear Nederland, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with NL ISINs to their participants and thus no automated management of CAs on flow is possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the Dutch market with the T2S CA standards. While no statistics exists, in terms of the affected volumes, the impact of the non-compliance on market claims and transformations is estimated to be low due to the limited number of the business cases when these will not be generated by Euroclear Netherland.

T2S Board decision on the non-compliance of the Dutch market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the Dutch market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it had agreed on the following measures with regards to the non-compliance of the Dutch market: • raise awareness of the impact analysis results to the Dutch market; • monitor (via the ECB team) the implementation plan of the Dutch market.

6. Slovakia

6.1 CDCP

6.1.1 T2S Matching Fields

6.1.1.1 Status

Overall impact	LOW
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market does not comply with the T2S matching fields standards after its migration to T2S.

The non-compliance is due to the long standing market practice in which securities can exist in co-ownership resulting out of inheritance. Because of that the Slovakian market uses two matching fields in the legacy matching engine of the Slovakian CSD (CDCP) in addition to the matching fields described in the T2S UDFS. These matching fields are “securities transaction type code” and “identification of securities co-ownership”. In the situation when a security in co-ownership is subject to a transaction, both parties have to provide the information in their settlement instructions. If this is not the case, cross-matching may happen and the buyer would receive securities in co-ownership without knowing it or being willing to do so. This could lead to disputes with serious legal consequences.

Assessment of severity of impact (qualitative): LOW

The matching on the two other fields required for processing instructions in securities held in co-ownership in the Slovakian market is not supported by T2S. DCPs and investor CSDs cannot instruct T2S for transactions in securities that are held in co-ownership using direct connectivity but have to do it in ICP mode. Thus they need to be participants of CDCP and maintain separate process for sending settlement instructions in securities that are held in co-ownership. DCPs and investor CSDs, which are not participants of the Slovakian CSD, will not be able to send instructions involving securities held in co-ownership. However, the impact can be considered low for DCPs and Investor CSDs, which decide not to engage in cross-border business with securities held in co-ownership in the Slovakian CSD.

Assessment of expected volume/frequency (quantitative): LOW

The total number of such transactions in 2014 and 2015 was 38 transactions (affecting 9 ISINs) and 20 transactions (affecting 6 ISINs) respectively. Using more recent data, the total number of transactions in 2016 and 2017 that involved securities in co-ownership was 427 and 0 respectively. For the year 2016 and 2017 these transactions represented 51 and 0 ISINs respectively. All these transactions were related in 2016 to transfer of securities "without value" to government without payment. The possibility to transfer the securities without value to government was ceased on 30.6.2016 according to the law. Thus the special type of transfers of securities in co-ownership "without value" will not last further. The total number of transactions in 2016 and 2017 (till 15 September) that involved pledged securities was 19 and 18 respectively.

Assessment of risk of non-achieving full compliance: HIGH

While there is not yet a clearly communicated plan to resolve this non-compliance, the Slovakian market is working to address this issue.

Overall impact assessment of non-compliance: LOW

6.1.1.2 Detailed impact analysis of non-compliance of the Slovakian market with T2S Standard on matching fields

T2S matching fields	T2S actors are required to use as matching fields only the ones described in the T2S system specifications, available on the T2S website
Non-compliance	The Slovakian market is using in its legacy matching engine, matching fields that are not part of the list of matching fields as prescribed in the UDFS. These matching fields are “securities transaction type code” and “identification of Securities Co-ownership”. *(In the Slovakian market co-ownership of securities is recognised by law. Securities in co-ownership are identified by their ISIN as well as a co-ownership identifier. In the situation when a security held in co-ownership is subject to a transaction, both parties have to provide the information in a dedicated field in the settlement instructions, sent to the Slovakian CSD, so that buyer and seller are both aware that the security being traded is subject to co-ownership. If this is not the case, cross-matching may happen and the buyer would receive securities in co-ownership without knowing this or being willing to do so. This could lead to disputes with serious legal consequences.)* Processing of securities in co-ownership in CDCP systems Securities in co-ownership and pledged securities are always settled on CDCP internal system. Such settlement instructions have to be entered to CDCP internal system, since they are market specific operations (=service is not accessible for DCPs in T2S). Layered model approach is used. Therefore it depends on the combination of account and counterparties account, whether the instruction is settled also in T2S or not. If both accounts from CDCP internal system are mapped to 1 (=identical) account in T2S, then there is no settlement in T2S (thanks to layered model), otherwise the instruction is settled in T2S and afterwards the result is recorded/confirmed in CDCP internal system. (In case of DvP in CDCP internal system with identical securities account in T2S but when two DCAs are involved then we initiate in T2S only PFOD transfer – free of delivery.)

	It is important to note that CDCP internal system modifies the instruction before sending it to T2S for settlement: - Correct T2S accounts are used - Correct securities transaction type code expressed as ISO 20022 code is used (we replace our proprietary code for pledge securities with ISO code that is accepted in T2S) - Co-ownership identificators are omitted since T2S doesn't understand them
Consequences of non-compliance on T2S Community	For DCPs and investor CSDs these restrictions will create barriers and market access issues, as they will not be able to instruct T2S directly for providing these services in Slovakian market. ICPs in the Slovakian market will need to mandatorily input these matching fields to instruct CDCP for providing services relating to securities in co-ownership.
How will this be solved?	This will require changes to the current market practice of having securities in co-ownership. As these practices are enforced by domestic legislation, their removal will require new legislation to be adopted.
Plan for compliance	While there is not yet a clearly communicated plan to resolve this non-compliance, the Slovakian market is working to address this issue.
Impact of non-compliance on the different T2S actors	DCPs and investor CSDs cannot instruct T2S for transactions in securities that are held in co-ownership using direct connectivity but have to do it in ICP mode. Thus they need to maintain separate process for sending settlement instructions in securities that are held in co-ownership. DCPs and investor CSDs, which are not participants of the Slovakian CSD, will not be able to send instructions involving securities held in co-ownership.
<u>Conclusions</u>	The usage on the Slovakian market of two matching fields, on top of those described in the T2S UDFS, in settlement instructions, in which securities subject to the transaction are held in co-ownership, will force DCPs and investor CSDs, providing settlement in such securities to send their instructions in ICP mode. For DCPs and investor CSDs, which are not participants of the Slovakian CSD, the presence of these extra matching fields will create market access issues.

T2S Board decision on the non-compliance of the Slovakian market	
February 2016 T2S Board decision	On 22 February 2016, the MIB (then T2S Board) agreed on an overall low impact on the rest of the T2S Community. In addition it decided to: • raise awareness of the impact analysis results (by means of the AG publishing the Impact Analysis Report); • monitor (via the ECB team) the implementation plan of the Slovakian market.

6.1.2 T2S Corporate Action Standards

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

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

The Slovakian market does not comply fully with the T2S CA standards on transformations.

The reasons behind this implementation gap is the delay in full compliance with the transformations standards related to managing fractions and multiple outturns, which currently are not generated by the Slovakian CSD.

The non-compliance of the Slovakian CSD in a cross-CSD scenario may result in lack of matching of instructions related to transformations if the other CSD generates the instructions in accordance with the standards. Thus there is a medium severity in the case of non-compliance.

Assessment of severity of impact (qualitative): MEDIUM

In terms of the affected volumes, no information has been provided by the Slovakian market. Nevertheless, the impact is considered to be low from quantitative perspective as events resulting in multiple outturns and fractions of securities are very rare.

Assessment of expected volume/frequency (quantitative): LOW

The Slovakian market plans to become fully compliant with the transformations standards by the end of March 2018.

Assessment of risk of non-achieving full compliance: MEDIUM

Overall impact assessment of non-compliance: MEDIUM

6.2 NCDCP

6.2.1 T2S Matching Fields

6.2.1.1 Status

Slovakian market (NCDCP) impact (migration wave 4: 30 October 2017)

Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market does not comply with the T2S standard on matching fields after its migration to T2S.

Matching in the legacy system of NCDCP is not compliant with the T2S standard on matching fields for intra-CSD settlements, because the transaction code is a mandatory matching field in order to prevent incorrect matching of e.g. ordinary OTC trade with securities transfer stemming from inheritance, matching of instruction with available securities with instruction with pledged securities, etc.

Assessment of severity of impact (qualitative): LOW

The matching on the transaction code field required for processing the above types of holdings in securities in the Slovakian market is not supported by T2S. DCPs and investor CSDs cannot instruct T2S for transactions in securities that are held in co-ownership using direct connectivity but have to do it in ICP mode. Thus they need to be participants of NCDCP and maintain separate process for sending settlement instructions in securities that are held in co-ownership. DCPs and investor CSDs, which are not participants of NCDCP, will not be able to send instructions involving securities held in co-ownership. However, the impact can be considered low for DCPs and Investor CSDs in T2S, which decide not to engage in cross-border business with securities held in co-ownership in NCDCP. Furthermore, what limits the negative impact is that currently NCDCP has only one link with the other Slovakian CSD – CDCP SR.

Assessment of expected volume/frequency (quantitative): LOW

There is no data for previous year of the number of these types of transactions. However, the expected number of such transactions in T2S is limited by the low overall number of transactions of NCDCP (less than 100 per annum) and the fact that the above types of transactions represent a very limited number of all types of transactions processed by NCDCP.

Assessment of risk of non-achieving full compliance: HIGH

While the Slovakian market is working to address this issue, there is no plan yet which has been elaborated in order to solve it.

Overall impact assessment of non-compliance: LOW

6.2.2 T2S Corporate Action Standards

Slovakian market (NCDCP) impact (migration wave 4: 30 October 2017)

Slovakian (NCDCP) non-compliance: T2S corporate actions standards	
Overall impact	**LOW**
Severity (qualitative)	*HIGH*

Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*LOW*

The Slovakian market (NCDCP) does not comply with the T2S CA standards on transformations and buyer protection.

The Slovakian market (NCDCP) does not comply with the T2S CA standards on transformations and buyer protection. In particular, currently NCDCP does not do transformations (by cancelling and replacing transactions) and has not implemented the buyer protection standards.

Assessment of severity of impact (qualitative): HIGH

The non-compliance of the Slovakian CSD in a cross-CSD scenario may result in lack of matching of instructions related to transformations if the other CSD generates the instructions in accordance with the standards. Similarly, standardised BP will not be possible in T2S for NCDCP participants. Thus there is a high severity in the case of non-compliance.

Assessment of expected volume/frequency (quantitative): LOW

In terms of the affected volumes, NCDCP estimates that the affected volume is very low – near zero as distributions and reorganisations with options are not common for the Slovakian market. Furthermore, what is limiting the potentially affected volume is that the overall number of transactions of NCDCP is currently quite low (less than 100 per annum).

Assessment of risk of non-achieving full compliance: LOW

The Slovakian market (NCDCP) plans to become fully compliant with the transformations standards by the end of June 2018. In addition, it plans to introduce manual buyer protection on bilateral basis between buyer and seller by the same deadline, which will be implemented with the changes in NCDCP´s Operation Rules.

Overall impact assessment of non-compliance: LOW

7. Hungary

7.1 T2S CA Standards

7.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Hungarian market does not fully comply with the T2S CA standards following its migration to T2S. The non-compliance is only on market claims on transactions in equities, which will not be detected and generated after Hungarian's market migration to T2S. Furthermore, in order to manage complexities arising from initial migration to T2S in U2A mode, the Hungarian market has agreed by default to opt-out of generation of market claims and transformations till the introduction of their new system, which would allow A2A interaction with T2S and enhance the management of CAs on flow.

Assessment of severity of impact (qualitative): HIGH

In the period until KELER's A2A system is launched, the counterparties have to inform KELER for each transaction, for which they would like CAs on flow to be generated. In addition, manual intervention will be required by CSD participants in KELER or in Investor CSDs in KELER (in limited number of scenarios) to detect and generate market claims on transactions in equities bilaterally where relevant. Similarly, in some cross-CSD transactions, this would require the Investor CSD to either i) recognise the scenarios where the Hungarian market infrastructures will not generate market claims or ii) cancel the already generated market claim which will not match due to the fact that the Hungarian market infrastructures will not generate their leg. Thus the qualitative impact on the T2S Community is estimated to be high.

Assessment of expected volume/frequency (quantitative): LOW

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 will be 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 around 400-600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF)
- For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 was 0 for the most liquid foreign equities traded in Hungary.

Assessment of risk of non-achieving full compliance: HIGH

Even if the Hungarian market had communicated a clear plan for full compliance in 2016 (see below in italics), the Hungarian market informed us that this plan is no longer valid due to the delay in implementation of their new system allowing A2A mode of communication with T2S.

No new plan has been communicated by the Hungarian market, which will is expected to complete its re-planning exercise in the course of the first half of 2018.

Overall impact assessment of non-compliance: MEDIUM

7.1.2 Detailed impact analysis of non-compliance of the HU market with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the Hungarian market's migration to T2S in February 2017 in accordance with the requirements of T2S CA Standards.
Non-compliance	The non-compliance of the Hungarian market is only on market claims on transactions in equities, which will not be detected and generated after Hungarian's market migration to T2S. Furthermore, in order to manage complexities arising from initial migration to T2S in U2A mode, the Hungarian market has agreed by default to opt-out of generation of market claims and transformation till the introduction of their new system, which would allow A2A interaction with T2S and enhance the management of CAs on flow.
Consequences of non-compliance on T2S Community	Manual intervention will be required by CSD participants in the Hungarian and other markets to detect and generate market claims bilaterally where relevant for intra-CSD settlements in KELER or cross-CSD settlements, where at least one participant of KELER is involved in a transaction. Furthermore, in the relevant cross-CSD settlements, where at least one participant of KELER is involved in a transaction, this would require the Investor CSD to either i) recognise the scenarios where the Hungarian market infrastructures will not generate market claims or ii) cancel the already generated market claim which will not match due to the fact that the Hungarian market infrastructures will not generate their leg.
How will this be solved?	The non-compliance will be solved by amendments in HU legislation and KELER's regulations as well as IT developments of KELER's system.
Plan for compliance	Even if the Hungarian market had communicated a clear plan for full compliance in 2016 (see below in italics), the Hungarian market informed us that this plan is no longer valid due to the delay in implementation of their new system allowing A2A mode of communication with T2S. No new plan has been communicated by the Hungarian market, which is expected to complete its re-planning exercise in the course of the first half of 2018.
Impact of non-compliance on the different T2S actors	The negative externalities of non-compliance are concentrated on Hungarian market participants, as well as, in much smaller measure, CSD participants in CSDs other than KELER, which will not be offered automatic CA on flow services for transactions in equities in accordance with the T2S CA standards and instead will have to manually detect and generate market claims. However, this non-compliance will have limited impact on T2S as mostly it is related to dividend payments in HUF, which are processed outside T2S. With regards to cross-CSD settlements in equities, involving participants

	of KELER and those of other CSDs, both for HU and non-HU ISINs, the Investor CSDs (in KELER) involved may have to apply to manual procedures or minimal IT developments in order to manage the non-compliance of the HU market. 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 will be 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 around 400-600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF) • For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 so far was 0 for the most liquid foreign equities traded in Hungary.
Conclusions	The HU market infrastructures do not generate market claims on all settlements related to equities after the migration of KELER to T2S. Furthermore, the default will be to opt-out of market claims and transformations until KELER implements its new system. This will result in the need for manual processes or some IT developments by participants in KELER or those in other CSDs as well as Investor CSDs in KELER. Based on the above, the overall impact of HU market non-compliance on the rest of the T2S Community is assessed as medium.

7.2 T2S Matching Fields

7.2.1 Status

Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Hungarian market does not comply fully with the T2S standard on matching fields after its migration to T2S (6 February 2017). The non-compliance is limited to intra-CSD settlements, where KELER will continue to follow its current matching practices in its legacy platform before sending the instructions to T2S in an already matched status.

Assessment of severity of impact (qualitative): LOW

Due to the Hungarian market's set-up in T2S, in which only against payment instructions in euro will be migrated to T2S, the non-compliance is relevant only for this subset of transactions. It is also important to note that the non-compliance is not due to the usage of some market specific matching fields on the Hungarian market but due to the fact that KELER does not yet use some of the T2S matching fields, or uses some others in a different way compared to T2S, when it does matching in its legacy platform. In particular the changes needed to fully comply with the T2S standard that KELER will introduce in its new system are the following:

• *trade date needs to become a mandatory matching field;*
• *BIC codes need to be used instead of proprietary KELER codes;*
• *opt-out and ex-cum indicators need to be introduced as additional matching fields;*
• *common trade reference needs to be introduced as an optional matching field;*
• *counterparty's account number needs to become optional and not mandatory matching field.*

As a consequence for some T2S matching fields KELER will use a default value: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as already matched. It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well. However, if one leg of the transaction is instructed directly in T2S (DCPs' or cross-CSD instructions), then matching will take place in T2S.

As a result of this the only ones that would be affected are the HU market participants, which would have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S.

Assessment of expected volume/frequency (quantitative): LOW

The number of affected transactions (all EUR DVP settlements) is expected to be 300-500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes.

Assessment of risk of non-achieving full compliance: HIGH

No new date for full compliance has been announced by the Hungarian market after its failure to meet the original July 2017 deadline. The Hungarian market is expected to complete its re-planning exercise in the course of the first half of 2018.

Overall impact assessment of non-compliance: LOW

7.2.2 Detailed impact analysis of non-compliance of the HU market with T2S Standard on matching fields.

T2S Standard on matching fields	T2S actors are required to use as matching fields only the ones described in the relevant T2S system specification documents[32].
Non-compliance	The non-compliance is limited to intra-CSD settlements, where KELER will continue to follow its current matching practices in its legacy platform before sending the instructions to T2S in an already matched status.
Consequences of non-compliance on T2S Community	It is important to note that the non-compliance is not due to the usage of some market specific matching fields on the Hungarian market but due to the fact that KELER does not yet use some of the T2S matching fields, or uses some others in a different way compared to T2S, when it performs matching in its legacy platform. In particular the changes needed to fully comply with the T2S standard that KELER will introduce in its new system are the following: • *trade date needs to become a mandatory matching field;* • *BIC codes need to be used instead of proprietary KELER codes;* • *opt-out and ex-cum indicators need to be introduced as additional matching fields;* • *common trade reference needs to be introduced as an optional matching field;* • *counterparty's account number needs to become optional and not mandatory matching field.* As a consequence for some T2S matching fields KELER will use a default value: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as already matched. It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well. As a result of this the only ones that would be affected are the HU market participants, which would have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S. Thus there is minor impact on KELER's participants. However, if one leg of the transaction is instructed directly in T2S (DCPs' or cross-CSD instructions), then matching will take place in T2S. Thus there is no impact on such instructions on the T2S Community.
How will this be solved?	KELER is developing and will launch a new IT system, which will fully comply with the T2S standard on matching fields.
Plan for compliance	KELER plans to launch its new system, which will be fully compliant with the T2S standard on matching fields, on 3 July 2017. However, no new date for full compliance has been announced by the Hungarian market after its failure to meet the July 2017 deadline. The Hungarian market is expected to complete its re-planning exercise in the course of the first half of 2018.
Impact of non-compliance on the different T2S	The impact on the T2S Community is considered low. This is because the non-compliance will not have an impact on instructions sent by DCPs and those used in cross-CSD settlements. In effect, the impact is concentrated only on KELER's participants, which would have to support two different processes for matching when they are settling in

[32] See T2S UDFS (Section 1.6.1.2).

actors	KELER and for their cross-CSD settlements in T2S. The number of affected transactions (all EUR DVP settlements) is expected to be 300-500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes.
<u>Conclusions</u>	Based on the above, the overall impact of HU market non-compliance on the rest of the T2S Community is assessed as low.

8. Luxembourg (LuxCSD)

8.1 T2S CA standards

Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*MEDIUM*

The Luxembourgish market (LuxCSD) is not fully compliant with the T2S CA standards after its migration to T2S on 6 February 2017.

Assessment of severity of impact (qualitative): LOW

The implementation gap is on compliance with market claims standards no. 19 and 23 and the transformations standards. In particular, LuxCSD detects the market claims according to the requirements of the T2S CA Standards. However, it generates and sends the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the standards). This practice is followed for market claims on all transactions settled on the accounts in LuxCSD irrespectively of the underlying ISIN. The reasoning of the LU market for applying this process is that it: i) guarantees the current quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.

Assessment of expected volume/frequency (quantitative): LOW

According to the volume projection provided by the LU NUG, daily occurrence of market claims is not expected, i.e. the estimate is that the affected settlement instructions will be less than 1,000 settlement instructions per year. This is assessed to have a low quantitative impact to the rest of the T2S community (for the methodology see Annex 1). This estimate was confirmed by the actual affected volumes communicated by LuxCSD for the period since its joining T2S in February 2017 till 15 September 2017, which are altogether 16 market claims.

Assessment of risk of non-achieving full compliance: MEDIUM

The LU market (LuxCSD) has elaborated a plan to achieve full compliance with the T2S CA Standards by Q1 2018. In particular, it has achieved full compliance with market claims standard 19 in November 2017 and plans to achieve full compliance with standard 23 by Q1 2018. Similarly, it has already implemented functionalities to detect transformations and cancel the underlying transactions. The plan to become compliant is composed of enhancements in Nov 2017 to cover transformations standards 2 and 3 and finally the implementation of a re-instruction process in February 2018.

Overall impact assessment of non-compliance: LOW

8.1.1 Detailed impact analysis of non-compliance of the Luxembourgish with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the LU market (LuxCSD) market's migration to T2S in February 2017 in accordance with the requirements of T2S CA Standards.
Non-compliance	The implementation gap is on compliance with market claims standards no. 19 and 23 and the transformations standards. In particular, LuxCSD detects the market claims according to the requirements of the T2S CA Standards. However, it generates and sends the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the standards). This practice is followed for market claims on all transactions settled on the accounts in LuxCSD irrespectively of the underlying ISIN. The reasoning of LuxCSD for applying this process is that it: i) guarantees the current quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.
Consequences of non-compliance on T2S Community	The main consequence on the T2S Community is that all market claims, for which LuxCSD is the IOC, are generated only after the settlement of the underlying instructions, which results in delays of their settlement.
How will this be solved?	The LU market (LuxCSD) has elaborated a plan to achieve full compliance with the T2S CA Standards by Q1 2018.
Plan for compliance	The LU market (LuxCSD) has elaborated a plan to achieve full compliance with the T2S CA Standards by Q1 2018. In particular, it has achieved full compliance with market claims standard 19 by November 2017 and plans to achieve full compliance with standard 23 by Q1 2018. Similarly, it has already implemented functionalities to detect transformations and cancel the underlying transactions. The plan to become compliant is composed of enhancements in Nov 2017 to cover transformations standards 2 and 3 and finally the implementation of a re-instruction process in February 2018.
Impact of non-compliance on the different T2S actors	The impact on the T2S Community is considered low. This is because the non-compliance only results in delays of the settlement of market claims, which impacts only the LuxCSD participants and their counterparties to affected transactions, which are participants in other CSDs.

Conclusions	The LU market (LuxCSD) has elaborated a plan to achieve full compliance with the T2S CA Standards by Q1 2018, which is well on track to being implemented.

9. Denmark

9.1 T2S CA Standards

9.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Danish market does not comply fully with the T2S CA standards after its migration to T2S on 12 September 2016.

The implementation gap is with regards to:

a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S.

b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.
More specifically, with regards to non-compliance with MC standard 10, VP will not detect market claims caused by events involving DK ISINs with DKK CA payments during the interim solution of VP (applied for the time from migration wave 3 to when DKK will be made available for T2S settlement, i.e. currently scheduled for October 2018).

Assessment of severity of impact (qualitative): HIGH

As a consequence of the above, investor CSDs connected to VP DK, have to decide on what type of CA transaction management service they wish to provide to their participants or alternatively leave it to them to manage bilaterally with their counterparties market claims in DK ISINs, which are paying CAs in DKK. This compliance gap has a high qualitative impact from a competition perspective as it will result in an un-level playing field for the foreign entities connected to VP (investor CSDs and market participants). However, the quantitative impact is expected to be limited because of the technical limitation to settle only CA securities entitlements with DK ISINs in T2S (since DKK CA cash entitlements cannot be settled anyway in T2S).

As for market claims standard 14, VP uses one, and only one, rate for all market claim concerning ISINs that VP acts as Issuer CSD. Also in principle when VP acts as an investor

CSD, VP operates with the rate specified by the respective issuer CSD as specified by the standard. However, there is one exception to that rule for 2 specific ISINs (Shares: Nordea and SAS, blue chips, traded and settled in DKK, CCP cleared), which are issued in Euroclear Sweden, but also technically issued in VP (VP does not have a link agreement with Euroclear Sweden), and handled in accordance with a special agreement between VP and the Swedish tax authorities, Skatteverket. This set-up means that for these two ISINs, VP applies the Danish tax rate and not the Swedish one as required by the standards. This will result in the need of its participants to support a different process for these ISINs.

Assessment of expected volume/frequency (quantitative): LOW

According to statistics provided by VP DK in September 2017, there were 20 market claims instructions affected by the non-compliance with the T2S market claim standard 10 and no affected transactions as a result of its non-compliance with market claims standard 14 since its migration to T2S in September 2016.

Assessment of risk of non-achieving full compliance: HIGH

The DK market has a preliminary plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S (currently scheduled for October 2018). However, it does not have a plan to resolve the non-compliance with market claims standard 14.

Overall impact assessment of non-compliance: MEDIUM

9.1.2 Detailed impact analysis of non-compliance of the Danish market with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the DK market migration to T2S in September 2016, in accordance with the requirements of T2S CA Standards.
Non-compliance	The implementation gap is with regards to: a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S. b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.
Consequences of non-compliance on T2S Community	VP/other CSD participants will have to generate bilaterally any market claims related to securities outturns on DK ISINs being serviced in DKK. In addition, VP/other CSD participants to support a different process for the two SE ISINs being serviced with the DK tax rate.

How will this be solved?	The DK market has a preliminary plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S (currently scheduled for October 2018). However, it does not have a plan to resolve the non-compliance with market claims standard 14.
Plan for compliance	See above
Impact of non-compliance on the different T2S actors	VP/other CSD participants will have to generate bilaterally any market claims related to securities outturns on DK ISINs being serviced in DKK. This will have significant impact when occurs but in practice the impact is mitigated by the very rare occurrence of such events. In addition, VP/other CSD participants to support a different process for the two SE ISINs being serviced with the DK tax rate. This will have a low impact. Overall, it should be mentioned that from the time of migration of VP DK to T2S to September 2017, there were only 20 market claims transactions, which were not processed in accordance with the T2S CA Standards.
<u>Conclusions</u>	The overall impact of the DK market non-compliance is expected to be medium, impacting mainly DK market participants for DK ISINs, paying income in DKK as well as two SE ISINs, which are being processed like DK ISINs by VP DK. However, the impact is expected to become low after compliance with the T2S CA Standards for DK ISINs, which are being serviced in DKK.

10. Spain

10.1.1 T2S Matching fields

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

ES non-compliance: T2S standard on matching fields	
Overall impact	**HIGH**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*HIGH*
Risk of not achieving full compliance	*HIGH*

The Spanish market does not comply fully with the T2S standard 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, and therefore results in a misuse of the matching field. This information is used by participants to reconcile their settlement instructions with their register and ensure that the settlement instructions of the right client are settled (reducing cross-matching and ensuring that the registry is going to be aligned after settlement).

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 impact on the T2S Community is expected to be medium.

Assessment of severity of impact (qualitative): MEDIUM

The volumes involved are expected to be high as all the intra-CSD volumes are affected.

Assessment of expected volume/frequency (quantitative): HIGH

Currently, there is no plan of the Spanish market to fully comply with the T2S Standard so the risk of not achieving full compliance is high.

Assessment of risk of non-achieving full compliance: HIGH

Overall impact assessment of non-compliance: HIGH