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XMAP Status Update

Ami-Seco Meeting
Frankfurt, 20 March 2018

Table of content

- 1 Catalogue of restriction rules
- 2 Clarification on non-T2S issued securities

Next AMI Seco: Update on T2S optional matching fields

Table of content

- 1 Catalogue of restriction rules
- 2 Clarification on non-T2S issued securities

Outcome: Questionnaire on the usage of the Catalogue

- Limited number of responses
- Nearly 60% of the CSDs do not use the Catalogue or its usage is very limited. The “CSD’s Reference Data Extension” document is used instead by the Investor CSDs and when needed, questions are clarified directly with the Issuer CSD.
- Not many User Banks responded and from the respondents approximately 35% do not use the Catalogue or its usage is very limited. User Banks mainly rely on the documentation provided by their direct services providers, e.g. agent banks, or CSDs.

➡ In view of the outcome and the need to efficiently allocate and prioritise scarce resources, it is proposed to discontinue the Catalogue

Key points – Closure Report (1/2)

Origin of the Catalogue:

- **The triggering event:** CR 390 – System configuration for rule-based models (restriction types, message subscription and conditional securities delivery)

- **Description of CR 390:**

“The system configuration for the T2S rule-based models will be:

- 1. System configuration for restriction types*

...

iii. Market-specific attributes (MSA) to be used in restriction types/rules: max 10 (up to 5 per rule)

...”

Uncertainty whether restriction rules / MSAs at issuer CSD level would need to be “replicated” at investor CSD level

- **CSG resolution on 22/23 May 2013:**

“The CSG resolves to implement CR 390 for the go-live of T2S under the following conditions:

... CSDs are committed to publish their rules on an on-going basis with a first release targeted for September 2013. XMAP will periodically review these rules...”

Key points – Closure Report (2/2)

Current Status:

- The usage of MSAs has been consistently below the T2S configuration limits.
- Hardly any evidence of replication of restriction rules / MSAs.
- Restriction rules / MSAs show a “bottom-up approach” on the extent to which pending harmonisation issues (as shown in the Harmonisation progress reports / EPTF report) or specific asset types require a specific configuration by CSDs in T2S.
- An overview of the restriction rules implemented in T2S is also provided in the “CSDs’ Reference Data Extension”.

Conclusion:

- After the end of the T2S migration period, the concerns which motivated the XMAP mandate to perform an independent impact assessment of the CSD’s restriction rules have not materialized.
- The cost of keeping the restriction rule catalogue updated exceeds the benefits.

Table of content

1 Catalogue of restriction rules

2 Clarification on non-T2S issued securities

Background

Outcome to the AMI-SeCo in December 2017: clarify the scope of T2S functionalities for settlement of **ANY non-T2S issued securities**, i.e. securities issued outside T2S, including Eurobonds



- ✓ Inform AMI-SeCo members of the T2S functionalities and available to T2S Actors for the settlement of non-T2S issued securities
- ✓ Provide a practical example of Eurobonds, highlighting considerations which are important outside settlement on T2S securities accounts
- ✗ Cover the legal and operational framework that is required outside T2S, which may vary on a case by case basis
- ✗ Favour one business model against the other: considerations of T2S CSDs based on commercial, operational or regulatory considerations

Useful definitions (T2S glossary)

- **Issuer CSD:** A CSD in which securities are issued (or immobilised). The issuer CSD opens accounts allowing investors (in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities.
- **Investor CSD:** A CSD that holds a security for which it is not the/an Issuer CSD. It holds these securities either directly or indirectly via one or more intermediaries at the/an Issuer CSD.
- **External CSD:** A CSD not participating directly in T2S but accessible in T2S via an investor CSD. The term T2S out-CSD is also used.
- **Technical issuer CSD:** A CSD with which the security holdings of the participants of an investor CSD are deposited.

DIAGRAM 8 - RELAYED LINK BETWEEN INVESTOR CSD AND ISSUER CSD



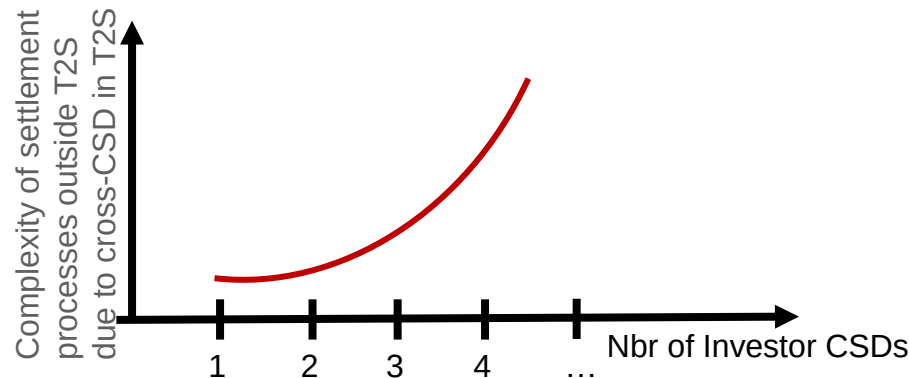
Findings

Commercial strategies

Business model

Contractual & technical arrangements outside T2S

Each CSD in T2S can act as direct or indirect Investor CSD of an External CSD (CSD outside T2S)

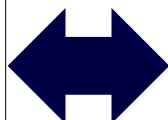


Individual decisions of CSDs have collective implications on the level of complexity of the settlement/realignment process at the external Issuer CSD for other CSDs in T2S

T2S functionalities

Cross-CSD settlement

- Settlement on all or none basis on T2S accounts = **full settlement chain**
- **Automated realignment** generated on relevant **mirror / omnibus accounts** according to static data configuration (Security / CSD account link)



External-CSD settlement

- Settlement on all or none basis on T2S accounts = **part of the settlement chain**
- **Partly automated realignment** requires the set-up of an **inter-CSD account** (when External CSD is defined as Issuer CSD)

Inter-CSD account (UDFS): Securities account the investor CSD opens in its book for itself reflecting the differences in positions between an omnibus account at the External CSD and its corresponding mirror account in T2S

External Issuer CSD settlement scenarios

Intra-Investor CSD settlement or 1 CSD acts as Investor CSD
(Technical Issuer CSD for other CSDs in T2S)

Settlement fully internalised in T2S = no settlement at External CSD to complete the settlement of transaction between T2S participants

Settlement between T2S and External CSD participant

Requires settlement on both platforms to complete the settlement of transaction between participants

Settlement between participants of $\neq$ T2S CSDs acting as Investor CSDs (Technical Issuer CSDs for other CSDs in T2S)

No settlement at External CSD to complete the settlement of transaction between participants **BUT** what about the realignment of omnibus positions at the Issuer CSD?

Next
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External Issuer CSD settlement scenarios

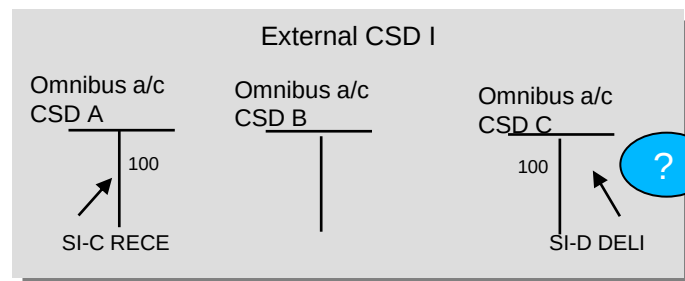
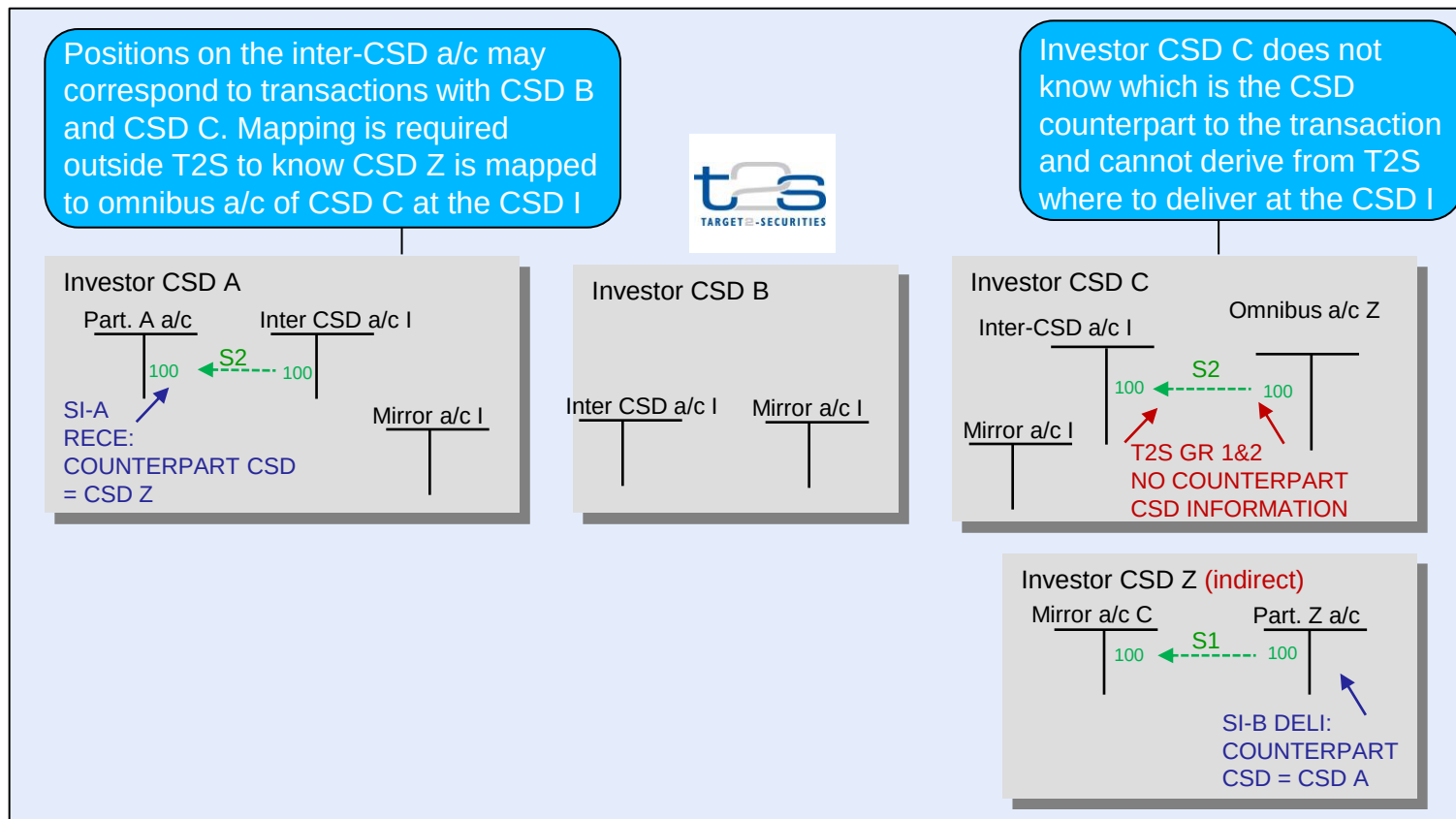
- **Option 1:** Use Conditional Securities Delivery (CoSD) functionality in T2S to ensure settlement of the transaction in T2S is conditional to fulfilment of a transaction outside T2S, in this case settlement at the Issuer CSD to realign omnibus positions
 - ➔ **Does not leverage T2S STP settlement when both participants are in T2S. Blocked securities positions cannot be used for auto-collateralisation nor submitted to partial settlement**
- **Option 2:** Set-up the appropriate technical, operational and legal framework outside T2S in order to fully decouple settlement in T2S from settlement at the External Issuer CSD

Next
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Example: Cross-CSD settlement of Eurobonds

- **Model where 2 direct Investor CSDs settle cross-CSD**
 - Inter-CSD account holds positions related to one CSD
 - Realignment process with single counterparty at the Issuer CSD
- **Model where > 2 direct Investor CSDs settle cross-CSD**
 - Comingling of assets: Inter-CSD account holds positions related to several CSDs. Need for additional position-keeping processes
 - Complexity for the realignment process increases due to the need to realign positions to multiple counterparties (mapping outside T2S)
- **Mixed model where 2+ direct Investor CSDs and indirect Investor CSDs settle cross-CSD**
 - Comingling of assets: Inter-CSD account holds positions related to several CSDs. Need for additional position-keeping processes
 - Complexity for the realignment process even higher requiring communication flow outside T2S (direct Investor CSD does not receive details of each transaction in case it is initiated by an Investor CSD participant)

Illustration of complexity with mixed model of direct/indirect Investor CSDs



How can this complexity be handled?

The complexity related to the position tracking, realignment /settlement of securities positions at the External CSD can be handled in two ways:

- By putting in place more complex processes outside T2S;
- Alternatively, enhancements within T2S to facilitate these processes are also possible if deemed justified by T2S CSDs, removing dependencies between CSDs in the choice of an Investor model.

Thank you for your attention

www.harmonisation.t2s.eu

@T2SECB 

Background: Questionnaire on the usage of the Catalogue

- As agreed during the AMI-SeCo held on 7 December 2017, a questionnaire on the Catalogue of CSDs' Restriction Rules was launched with the aim at measuring the effective usage within CSDs/user banks members.
- The following institutions provided an answer:

CSDs	User Banks	CCPs	Central Banks	Observers
Clearstream	BBVA	BME Clearing	Banque de France	EFAMA
Euroclear Belgium	BNY Mellon	LCH	CB of Ireland	
Euroclear France	CECA			
Euroclear Nederland	Citi			
Iberclear	Intesa Sanpaolo			
KDD	State Street			
LuxCSD				
Monte Titoli				
NBB-SSS				
OeKB CSD				
VP Lux				
VP Securities				

Outcome (1/3): Questionnaire on the usage of the Catalogue

CSDs	Not used	Usage is very limited	For generic information	In the context of implementing links / direct access to CSDs	Harmonisation
Clearstream	X				
Euroclear Belgium		X			
Euroclear France		X			
Euroclear Nederland		X			
Iberclear			X		
KDD	X				
LuxCSD	X				
Monte Titoli				X	
NBB-SSS					X
OeKB CSD	X				
VP Lux			X		
VP Securities			X		

Outcome (2/3): Questionnaire on the usage of the Catalogue

User Banks	Not used	Usage is very limited	For generic information	In the context of implementing links / direct access to CSDs	Harmonisation
BBVA		X			
BNY Mellon				X	X
CECA			X		
Citi			X		
Intesa Sanpaolo				X	
State Street	X				

Outcome (3/3): Questionnaire on the usage of the Catalogue

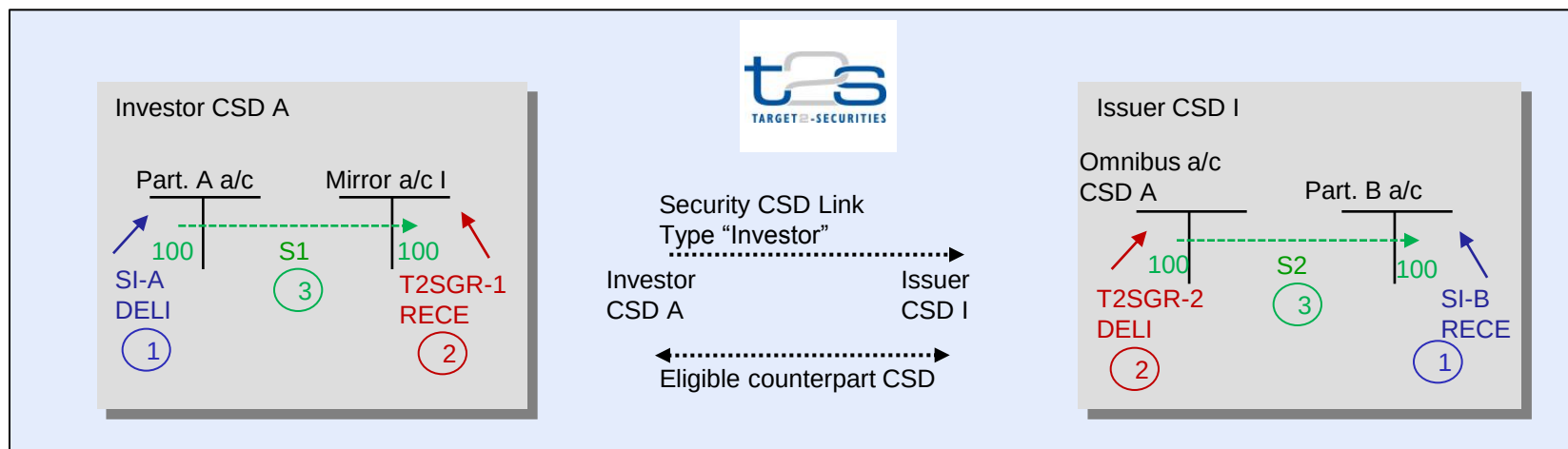
CCPs	Not used	Usage is very limited	For generic information	In the context of implementing links / direct access to CSDs	Harmonisation
BME Clearing				X	
LCH		X			

Central Banks	Not used	Usage is very limited	For generic information	In the context of implementing links / direct access to CSDs	Harmonisation
Banque de France	X				
CB of Ireland			X		

Observers	Not used	Usage is very limited	For generic information	In the context of implementing links / direct access to CSDs	Harmonisation
EFAMA		X			

Background on T2S functionalities

Cross-CSD settlement scenario in T2S



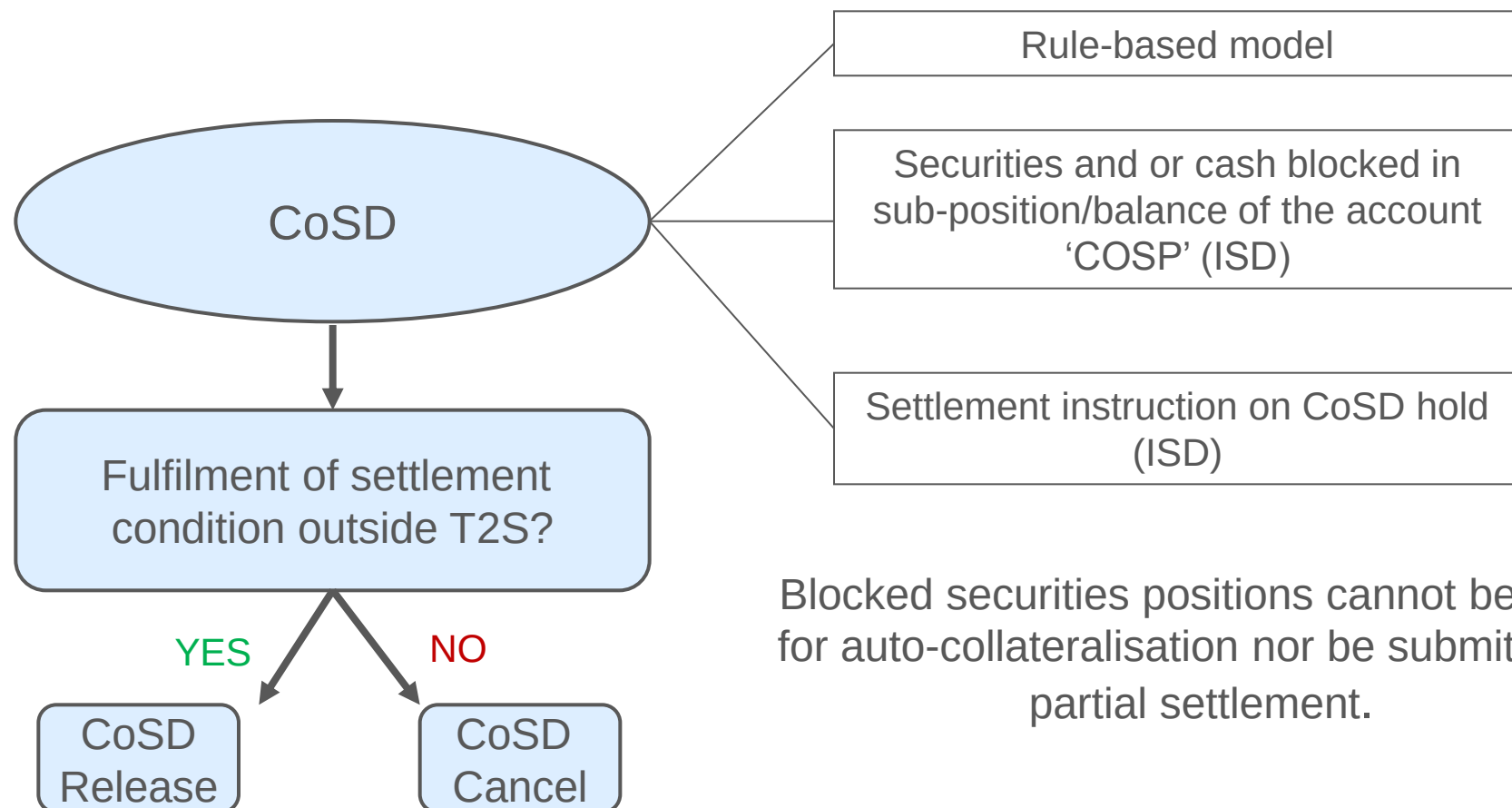
Step 1: Business instructions are sent by CSD participants A/B or their respective CSD: SI-A & SI-B

Step 2: Upon matching of business instructions, T2S derives the realignment chain and generates Realignment Instructions according to the Security/Account CSD Links configured in the T2S static data: T2SGR-1, T2SGR-2. Both CSDs have defined each other as eligible counterparts.

Step 3: Upon settlement of business and realignment instructions on an all or none basis, following securities movements are booked: Debit participant A & credit mirror a/c I (S1), debit omnibus a/c CSD A & credit participant B a/c (S2). Settlement of the transaction is complete including realignment of securities accounts positions at the Investor and Issuer CSD.

Background on T2S functionalities

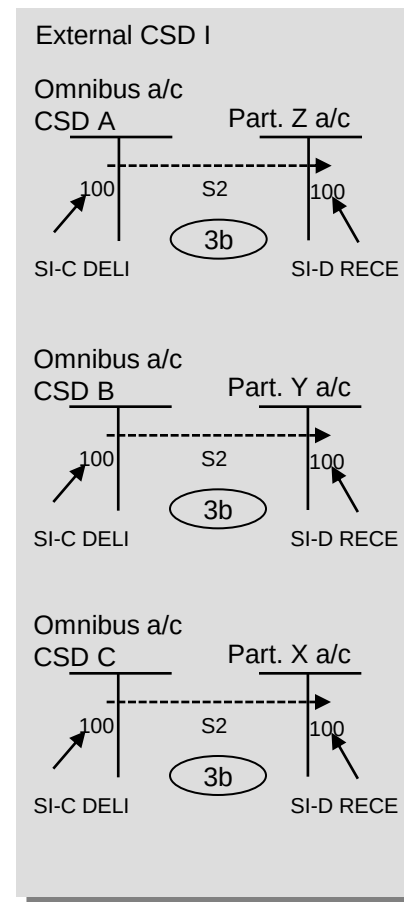
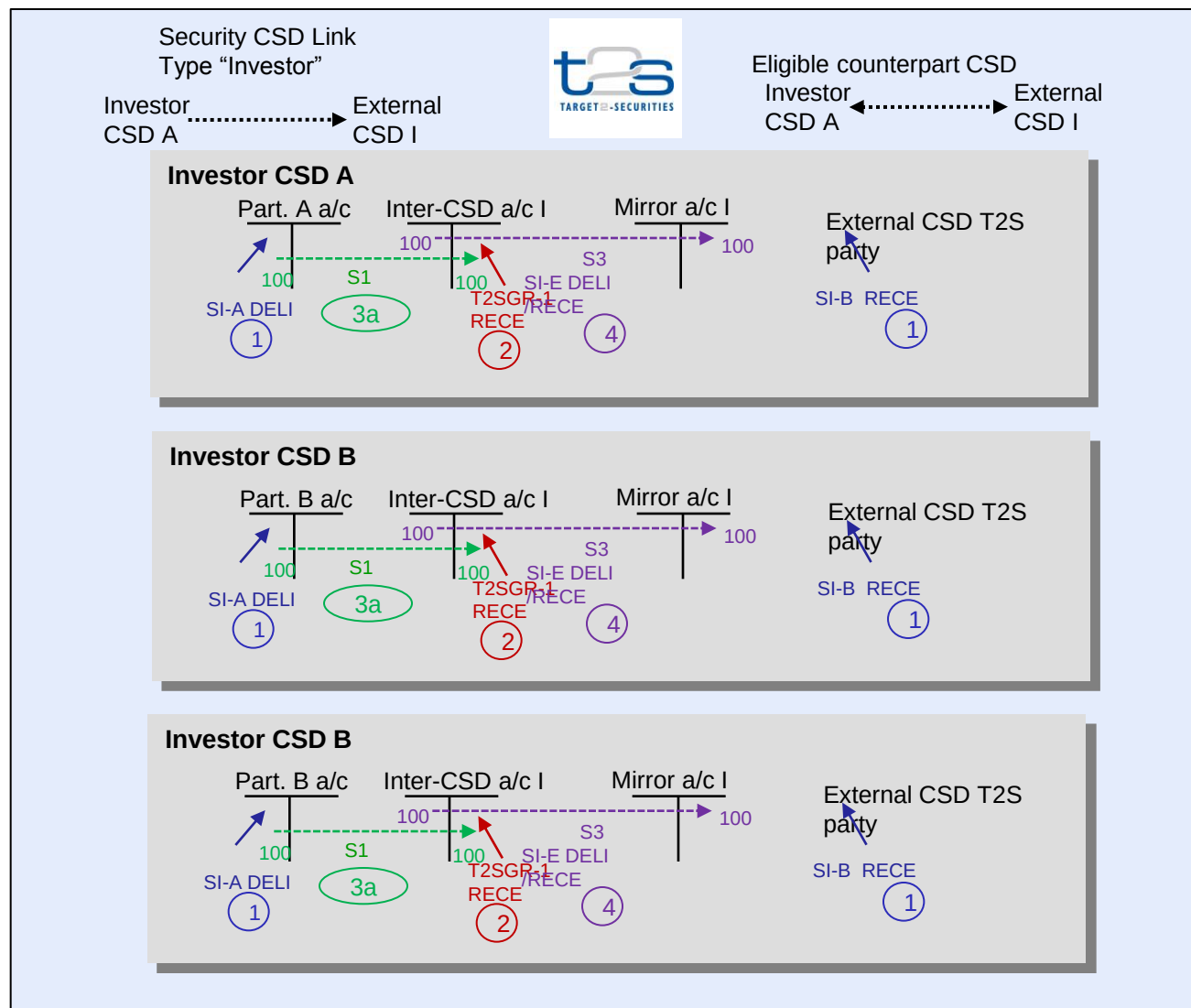
CoSD allows to coordinate the settlement of a transaction based on the fulfilment of a settlement condition outside T2S



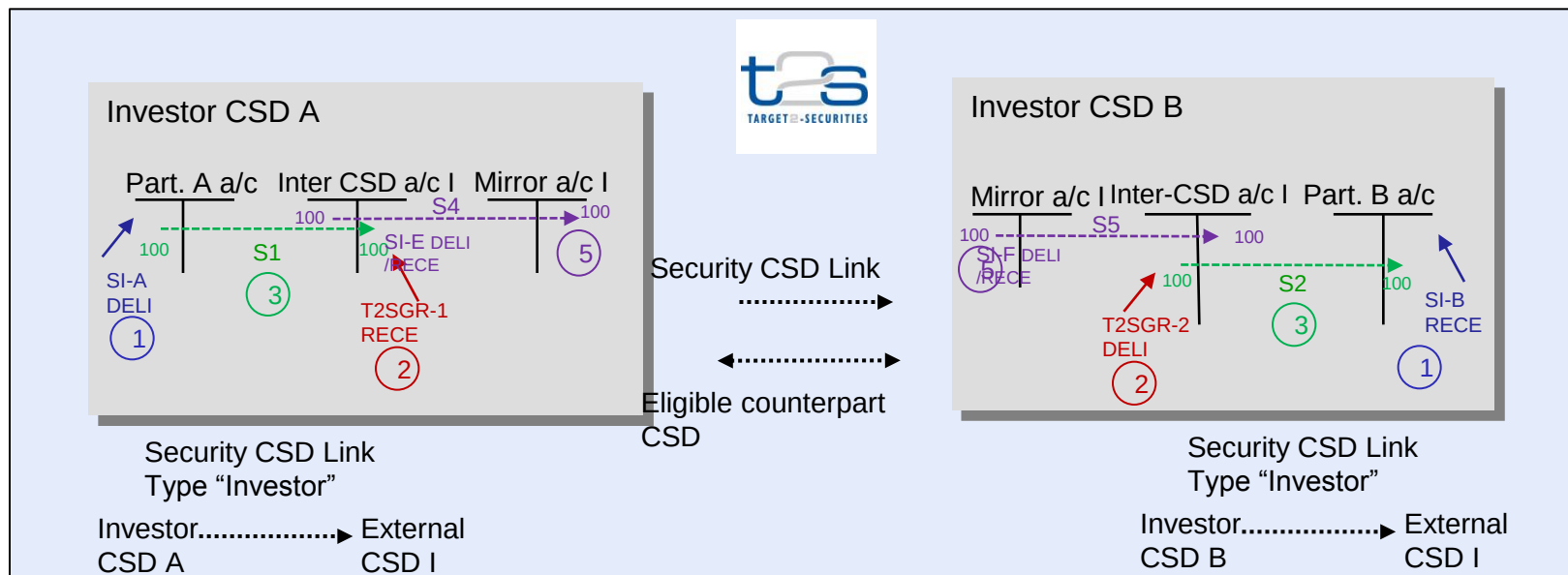
Blocked securities positions cannot be used for auto-collateralisation nor be submitted to partial settlement.

Background on T2S functionalities

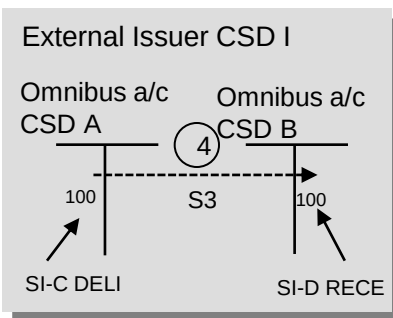
External CSD Settlement process with External (Issuer) CSD



Background on T2S functionalities



Settlement in T2S
can be achieved
without conditionality
BUT...



...considerations
regarding the book
keeping and deferred
realignment mechanism
with the External CSD
require specific framework