Your Gateway to Securities Standards !

SMPG Update

EMEA region

Paola Deantoni – SMPG EMEA Director

Armin Borries – SMPG EMEA Director

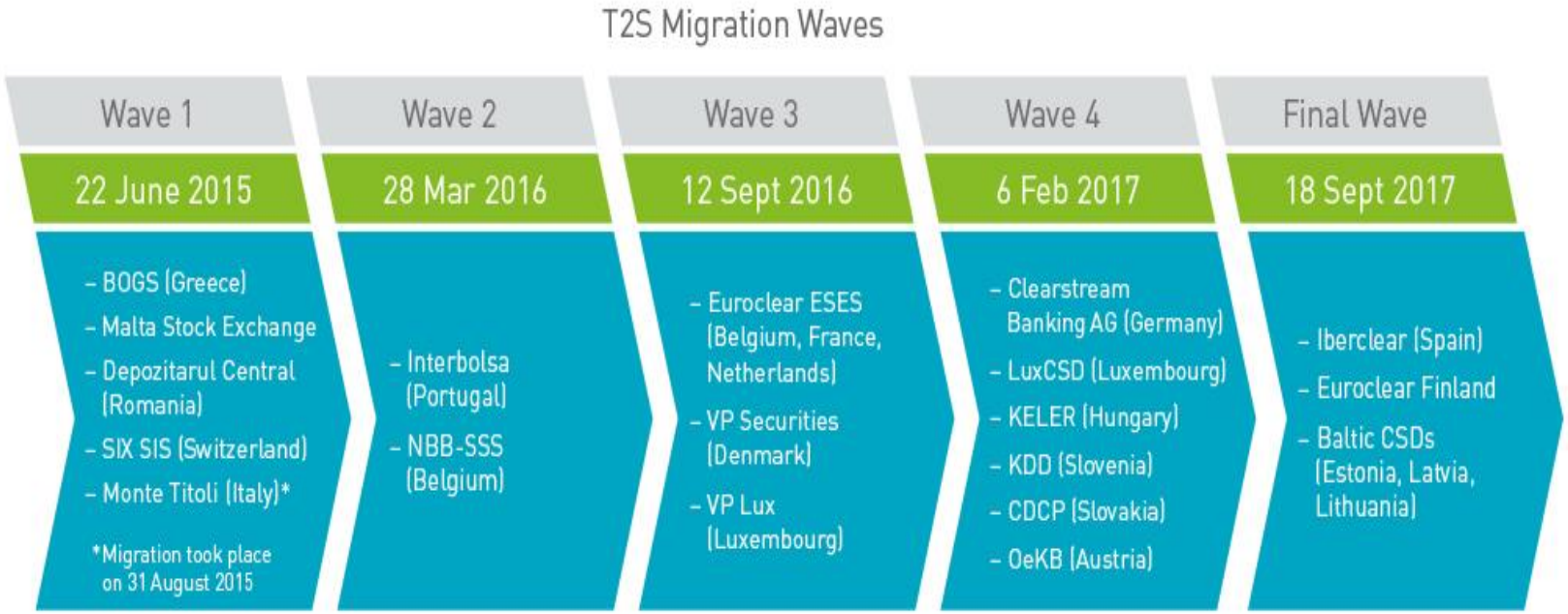
Dublin - 26 April 2016

Agenda

- T2S update – Wave 4
- EPTF – European Post Trade Forum
- Regulatory updates
- EPTF Barriers – Overview

T2S update

Overview of timeline and composition of the waves:



T2S transition timeline

T2S W1

- BOGS (Greece)
- SIX SIS (Switzerland)
- Malta Stock Exchange (Malta)
- Depozitarul Central (Romania)

JUN 2015

T2S W2

- NBB-SSS (Belgium)
- Interbolsa (Portugal)

MAR 2016

T2S W4

- OeKB (Austria)
- CBF (Germany)
- LuxCSD (Luxembourg)
- Keler (Hungary)
- CDCP (Slovakia)
- KDD (Slovenia

FEB 17

AUG 2015

- Monte Titoli (Italy)

T2S W1B

SEP 2016

- Euroclear ESES CSDs (BE, FR, NL)
- VP Securities (Denmark)
- VPLux (lux.)

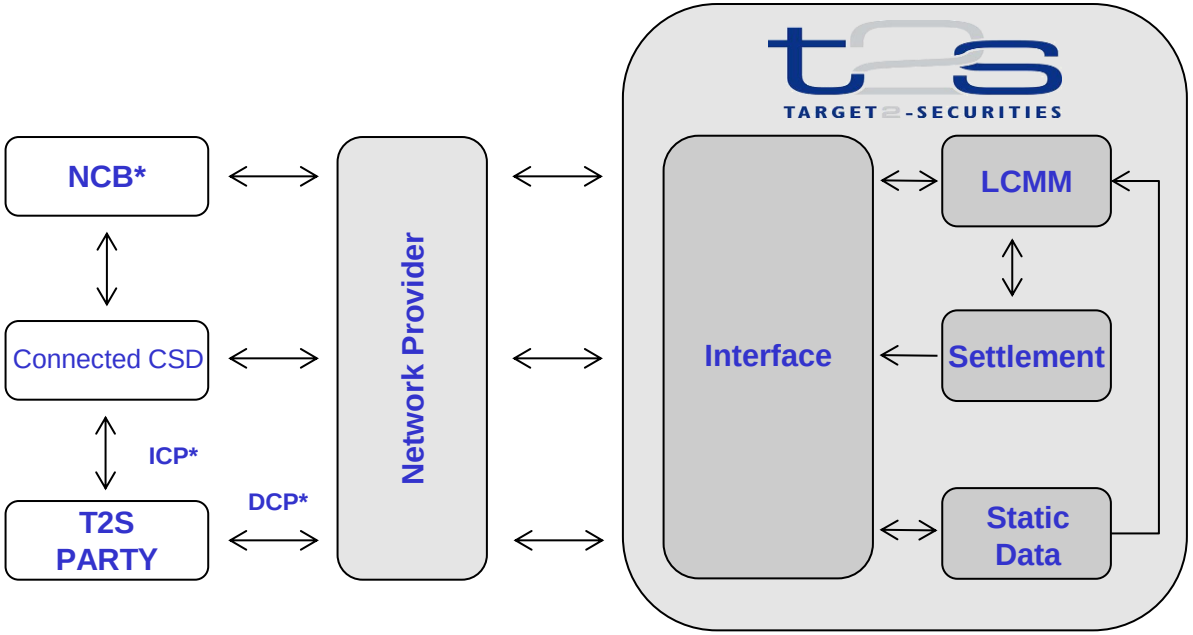
T2S W3

SEP 2017

- Iberclear (Spain)
- EVK (Estonia)
- LCD (Latvia)
- LCVPD (Lithuania)
- Euroclear Finland (**postponed**)

T2S WC

T2S 4 major components



LCMM

- LCMM validates the instruction against the static data and the single set of harmonised validation rules, as defined by T2S
- After successful validation and subsequent matching, T2S routes the settlement instruction to the Settlement Domain

Settlement

- Checking of securities positions
- Updating positions of securities accounts
- Posting of cash accounts/update cash balance
- T2S applies to sequencing and optimisation rules in order to maximise settlement
- Settlement Domain sends settlement messages to the LCMM

Interface

- The Interface Domain manages the flow of all inbound and outbound information (data flows)
- Outbound messages are based on ISO 20022 Standard
- Transfer protocol: XML

Static Data

- Manages all static data necessary for processing settlement in T2S, i.e. update (NCB or CSD need to instruct updates)

*NCB=National Central Bank – ICP=Indirectly Connected Participant - DCP=Directly Connected Participant

T2S Business Calendar

For € settlement T2S calendar is the same as the calendar of TARGET2.

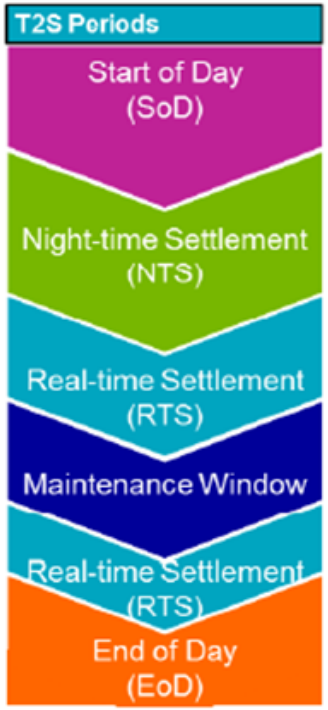
For non- € currencies, T2S calendar works according to the calendar of the relevant central bank.

Consequently T2S Operator maintains a T2S operating day calendar by currency for all T2S settlement currencies.

- T2S will be closed (for both DvP and FoP settlement) on Saturdays, Sundays, 25th and 26th of December and 1st of January.

- For other days where EUR is closed (e.g. 1st of May and Easter period), T2S will allow FoP processing only (on 1st May and Easter period, T2S will be available but with limited support services).

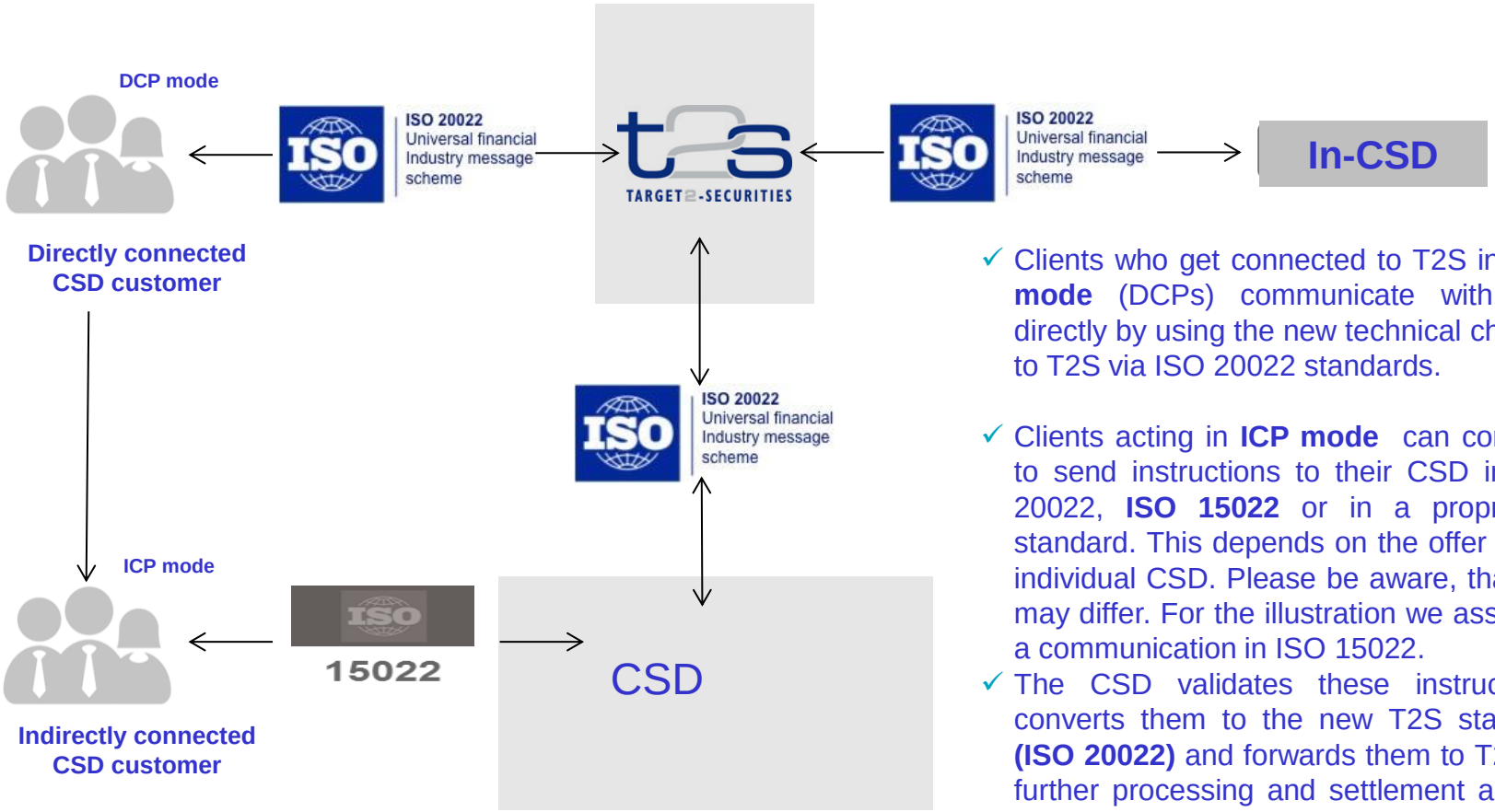
Settlement Day Schedule



Timing	Specifics
18:45 – 20:00	Technical T2S period: Change of settlement day Prepare night-time settlement (NTS)
20:00 – 03:00	First T2S settlement period: NTS is composed of two cycles • First cycle consisting of five sequences • Last cycle consisting of four sequences
This T2S period is dropped if NTS is not completed by 03:00	Second T2S settlement period: Real-time processing of instructions
03:00 – 05:00	No settlement or instruction management activity: Instructions can be submitted but will be queued until the next T2S period starts
05:00 – 18:00	Third T2S settlement period: Real-time processing of instructions
18:00 – 18:45	Technical T2S period: Follow-up processes like for example, unmatched instructions pending for more than 20 days are cancelled

Partial settlement takes place in Sequences X at 10:00 CET, 12:00 CET, 14:00 CET and 15:45 only

Indirectly vs Directly Connected Participant



- ✓ Clients who get connected to T2S in **DCP mode** (DCPs) communicate with T2S directly by using the new technical channel to T2S via ISO 20022 standards.
- ✓ Clients acting in **ICP mode** can continue to send instructions to their CSD in ISO 20022, **ISO 15022** or in a proprietary standard. This depends on the offer of the individual CSD. Please be aware, that this may differ. For the illustration we assumed a communication in ISO 15022.
- ✓ The CSD validates these instructions, converts them to the new T2S standard **(ISO 20022)** and forwards them to T2S for further processing and settlement as well Vice versa for receiving information.

European Post Trading Forum

- The objective of EPTF in the context of Capital market Union project is to support the work of the Commission to review the developments in post trading including collateral management services to promote more efficient and resilient market infrastructure in EU.

- The report covers major unresolved issue in the context of the CMU that originate from Giovannini barriers not jet dismantled and new barriers.

Process Legislation on EU level

International Bodies (e.g. FSB, CPMI/IOSCO, BIS) consult on global guidelines before legislative process starts

...

European Union legislation process	Internal consultation process within EU Commission	Market/ Public consultation	EU Parliament consultation / Council consultation	Trilogue	Adoption	Implementation
Review of the Markets in Financial Instruments Directive (MiFID II /MiFIR)					▲	
European Market Infrastructure Regulation (EMIR)						▲
CCP Recovery and Resolution (CCP RR)	▲					
Central Securities Depository Regulation (CSD-R)					▲	
Financial Transaction Tax (FTT) EU model			▲			
Capital Requirements Directive (CRD IV)						▲
Capital Market Union		▲				

...

Implementation of EU Law on Member State Level

European regulatory initiative

- **EMIR:** The Regulation (EU No 648/2012) establishes:
  - Mandatory clearing through CCPs of standardised OTC derivatives and reporting to Trade Repositories, TR, of all derivatives;
  - A unified European regulatory framework for CCPs and TRs,including organisational, conduct of business and prudential requirements;
  - Rules for protection of clients in the event of failure of a CCP participant.

- **CSDR**: The Regulation (EU No 909/2014) aims at
  - Increasing the safety of settlement, in particular for cross-border transactions, by introducing a settlement discipline regime;
  - Increasing the efficiency of settlements by introducing a true internal market for the operations of CSDs;
  - Increasing the safety of CSDs by applying high prudential requirements.

- **SFTR:** The Regulation (EU 2015/2365) is set to improve the transparency of certain financial transactions and help supervisors and investors better understand risks. It enhances transparency in three ways:
  - It introduces the reporting of all Securities Finance Transactions, SFTs, except those concluded with central banks, to TRs;
  - Investment funds have to disclose information on the use of SFTs and total return swaps to investors;
  - SFTR introduces minimum transparency conditions on the reuse of collateral.

Regulation CSDR

- CSDR was published in Sept. 2014 in the Official Journal of the European Union
- The official regulatory technical standards (RTS) were published in the Official Journal on 10 March 2017.
- CDS license application files are expected to be submitted to the local regulators for approval by the end of September 2017 with authorisation expected to be granted in mid-May 2018.
- We currently expect that CSDs and CSD customers will need to comply with the new CSDR requirements by mid-May 2018, followed by those relating to the settlement discipline regime during the course of 2019. CSDR includes both settlement discipline and buy-in procedures

Regulation CSDR
Fails and buy-in

- Banks or financial institutions using CSD services will be subject to cash penalties applied by the CSD for each settlement instruction that fails to settle by the intended settlement date. Penalties vary from 0.1 BP to 1 BP
- Mandatory buy-in process will be introduced for all financial instruments not delivered within a set of period (depending on the instrument and liquidity) following the intended settlement date, i.e. 4 days for liquid securities, 7 days for illiquid ones and 15 days for transactions on SME growth markets
- CCPs or trading parties will be responsible for the buy-ins by initiating a buy-in auction or appointing a buy-in agent

MiFID Review

MiFID: Market in Financial Instruments Directive

MiFIR: The regulation of above

- MiFID Review (MiFID II / MiFIR) regulates the **provision of investment services in relation to all financial instruments** including derivatives, and affects all financial market players (exchanges, alternative trading venues, investment firms and OTC market players).
- It will change the European securities markets fundamentally by promoting further **competition, increasing trade transparency, encouraging market data consolidation and regulating microstructural issues**.
- It will also **increase transparency of derivatives trading**, introduce a trading obligation and aims to increase **competition in derivatives trading and clearing**.
- The Directive and Regulation (Level 1) entered into force on 1 July 2014. The provisions must be transposed into national law by 3 July 2017, while their **application is planned for 3 January 2018**.

Highest priorities barriers to be dismantled

- **EPTF Barrier 12: Inefficient withholding tax collection procedures**
  - The dismantling of this barrier will have positive synergy effects to the EPTF Barriers [9] and [10] Registration and Asset Segregation.
- **EPTF Barriers 8, 9, 10, 11: Legal inconsistencies and uncertainties***
  - Risk protection to provide more robust and simpler collateral and close-out arrangements;
  - Investor protection to ensure investors' ownership rights in a dematerialised environment through the custody chain;
  - Conflict of laws rules to create legal certainty;
  - Amended rules of settlement finality to reduce risks for FMIs and their users.
- **EPTF Barrier 1 : Fragmented corporate actions and general meeting processes****
  - This area is in an advanced state of being harmonised and standardised through industry and Target-2 Securities ("T2S") efforts.
  - To preserve and support this industry initiative it is vital that in the context of the amended Shareholder Rights Directive the transposition into national laws by Member States avoid any fragmentation resurfacing.

* *The proposed solutions are closely linked to EPTF Barriers [2] (Corporate Actions), [9] (Registration) and [10] (Asset Segregation)*

** *The dismantling of EPTF Barrier(Investor Protection) will have a positive spill-over effect on the determination of investors' entitlements, both of a monetary and participation nature.*

Highest priorities barriers to be dismantled

- **EPTF Barrier 4: Inconsistent application of asset segregation rules for securities acconts**

  The dismantling of EPTF Barrier [L2] (Investor Protection) will positively correlate to investors' ownership rights irrespective of the account structure.

- **EPTF 5 : Lack of harmonisation in registration rules and shareholder identification processes**

  Registration regimes and shareholder transparency practices vary widely from country to country; at cross border level this translates into increased complexity and cost.

- **EPTF 6 : Complexity of Post-Trade Reporting Structure**

  The lack of harmonisation across multiple post trade reporting requirements increases the cost of reporting and the complexity of data analysis.

SMPG

Securities Market Practice Group

Your Gateway to Securities Standards !

www.smpg.info