



EUROPEAN CENTRAL BANK

EUROSYSTEM

A harmonisation approach to debt issuance

Lessons learnt from
Eurosystem harmonisation
frameworks






2nd Debt Issuance Market Contact Group meeting
3 November 2020

Introduction

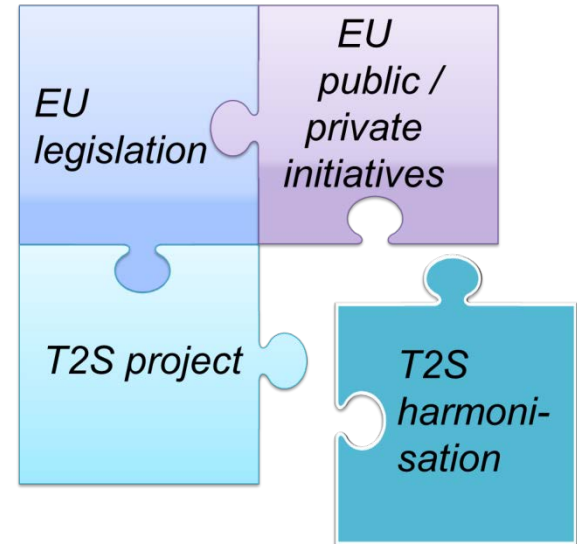
- Feedback from the ECB's public consultation in 2019 showed a very broad support among respondents for harmonisation in debt issuance procedures
- DIMCG ToR: “...*The DIMCG shall also explore how any potential harmonisation activities could be supported by private or public infrastructure initiatives in the area of debt issuance and initial distribution services...*”
- In the first DIMCG meeting a broad agreement was apparent on basing work in Pillar 2 (harmonisation) on the findings in Pillar 1 with also some areas already identified as potential candidates for harmonisation (e.g. settlement cycle, investor identification)
- The purpose of this presentation is to elaborate further on the discussion in the first DIMCG meeting with a focus on the lessons learnt in Eurosystem harmonisation work

Eurosystem experience with harmonisation

- Already before the introduction of the euro and ever since the Eurosystem has faced the challenge of harmonising and standardising legacy procedures to achieve common frameworks in the fields of monetary policy implementation, foreign reserves, payment systems, banknotes, etc.
- Beyond the core central banking operations and developing our own services we also acted as catalyst for market-led harmonisation:
 - Retail payments  **Single Euro Payments Area - SEPA**
 - Securities settlement and related post-trade procedures  **T2S harmonisation agenda**
 - Collateral management  **Single Collateral Management Rulebook for Europe - SCoRE**
- In all these workstreams the vision (shared between the market and the Eurosystem) has been a single rulebook at pan-European level

The T2S harmonisation agenda

- Shortly after the launch of the T2S project the stakeholders realised that in order to fully reap the benefits of the single platform there is a need for harmonisation in ancillary / related processes
- the agenda builds on the mandatory rules of T2S as a platform...
- ...and complements it with standards that are not contractual obligations but an expectation by the community (AMI-SeCo) towards its individual members
- consists of 24 harmonisation activities in 17 of which standards have been agreed
- built on appropriate and clear governance arrangements: definition, endorsement, publication, monitoring, presenting compliance, assessing impact of non-compliance



The T2S harmonisation agenda – where it started from

T2S harmonisation report – 2013:

| T2S Markets | Priority 1 | | | | | | | | Priority 2 | |
|----------------|--------------------------------|---|--|--|---------------------------------------|---|--|---|--|---------------------------------|
| | 1 T2S messages ISO 20022 | 2 T2S messages Matching fields | 6 Schedule for settlement day | 7 T2S corporate actions standards | 9 T2S Settlement Finality II | 10 T2S Settlement Finality III | 15 Availability of omnibus accounts | 16 Restrictions on omnibus accounts | 20 Corporate actions market standards (CAJWG) ³³ | 26 Securities amount data |
| AT | G | G | G | R | B | B | B | B | G | B |
| BE - Euroclear | G | G | G | G | B | G | B | B | G | B |
| BE – NBB-SSS | G | G | Y | Y | G | G | B | B | R - No info | B |
| CH | G | G | G | Y | Y | G | B | B | Y | B |
| DE | G | R | Y | R | G | G | B | B | G | B |
| DK | G | R | Y | R | B | Y | B | B | G | B |
| EE | G | G | G | R | B | G | B | B | Y | B |
| ES | G | G | G | Y | B | B | B | B | G | B |
| FI | G | R | Y | R | B | B | B | Y | Y | Y |
| FR | G | G | G | G | B | G | B | B | Y | B |
| GR – BOGS | G | G | Y | Y | B | G | B | B | R - No info | B |
| HU | G | G | Y | R | Y | Y | B | B | R - No info | B |
| IT | G | Y | G | G | B | G | B | B | G | B |
| LT | G | G | G | R | Y | Y | B | B | R - No info | B |
| LU – LUX CSD | G | R | G | Y | G | G | B | B | R - No info | B |
| LU – VP LUX | G | R | Y | Y | B | Y | B | B | R - No info | B |
| MT | Y | Y | Y | R | Y | G | B | B | R - No info | B |
| NL | G | G | G | G | B | G | B | B | G | B |
| PT | G | G | G | G | G | G | B | Y | G | G |
| RO | G | G | R | Y | B | G | B | B | R | B |
| SI | G | G | G | Y | G | G | B | B | R | B |
| SK | G | G | G | R | Y | Y | B | Y | R - No info | Y |

The T2S harmonisation agenda – where we are now

T2S harmonisation report – 2019:

| T2S markets | Core T2S settlement harmonisation | | | | | | | | | | | | | | | | Harmonisation of post-trade environment of securities settlement | |
|--------------|-----------------------------------|--------------------------|--|---|--------------------------------------|-----------------------|--------------------------------|---------------------------------|----------------------------------|--|------------------------|--|--|---------------------------------|---------------------------|-----------------------------------|--|--|
| | 1 T2S messages ISO 20022 | 2 T2S matching fields | 3 Interaction with T2S (registration) | 4 Interaction with T2S (tax procedure) | 5 Schedule for the settlement day | 6 T2S CA standards | 7 T2S settlement finality I | 8 T2S settlement finality II | 9 T2S settlement finality III | 10 Outsourcing IT (settlement) services | 12 Settlement cycle | 13 Availability of omnibus accounts | 14 Restrictions on omnibus accounts | 15 Securities account number | 16 Cash account number | 18 CA market standards (CAJWG) | 23 Securities amount data | |
| AT | B | B | B | B | B | R-? | B | B | B | B | B | B | B | B | B | G | B | |
| BE Euroclear | B | B | B | B | B | R-? | B | B | B | B | B | B | B | B | B | G | B | |
| BE – NBB-SSS | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | |
| CH | B | B | B | B | B | R-? | B | B | B | B | B | B | B | B | N/A | G | B | |
| DE | B | B | B | B | B | R-? | B | B | B | B | B | B | B | B | B | G | B | |
| DK | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| EE | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| ES | B | R-? | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| FR - EF | B | B | B | B | B | R-2021 | B | B | B | B | B | B | R-? | B | B | G | R | |
| FR - ID2S | B | B | B | N/A | B | R-? | B | B | B | B | B | R-2020 | R-2020 | B | B | R - no info | B | |
| GR – BOGS | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | |
| HU | N/A | R - 2021 | B | B | R-? | R - 2022 | B | B | B | B | B | B | B | B | N/A | R | B | |
| IT | B | B | B | R-? | B | R-? | B | B | B | B | B | B | B | B | B | G | B | |
| LT | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| LU – LUX CSD | B | B | B | B | B | R | B | B | B | B | B | B | B | B | B | G | B | |
| LV | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| MT | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | R - no info | B | |
| NL | B | B | B | B | B | R-2021 | B | B | B | B | B | B | B | B | B | G | B | |
| PT | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| RO | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | G | B | |
| SI | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | |
| SK (CDCP) | B | B | B | B | B | B | B | B | B | B | B | B | B | B | B | R | B | |
| SK (NCDP) | B | R-2020 | B | B | B | R-2020 | B | B | B | B | B | B | B | B | B | R - no info | B | |

Single Collateral Management Rulebook for Europe

- In December 2017 the AMI-SeCo identified 10 areas where further harmonisation is needed to facilitate efficient collateral management in Europe
- Harmonisation in this area benefits the market in general but it is also indispensable for the Eurosystem's ECMS project
- The AMI-SeCo already defined 17 standards on tri-party collateral management, 15 on corporate actions and 4 on billing
- Implementation deadlines in two waves (W1 by Nov 2023, W2 by Nov 2025)
- Adaptation plans received from most stakeholders, compliance progress monitoring started, updated twice a year

SCRE
SINGLE COLLATERAL MANAGEMENT RULEBOOK
FOR EUROPE

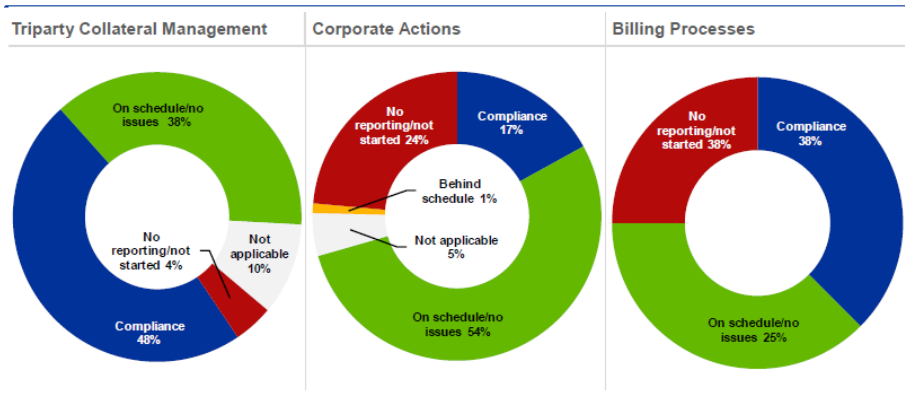


*29 markets, 38 CSDs, 16 CCPs,
8 TPAs, 24 NCBs, 200+ custodians*

Single Collateral Management Rulebook for Europe



Overview of compliance per activity



Overview of progress per activity

| | On schedule | Behind schedule | Issues |
|--|--|---|--|
| <p>Triparty Collateral Management</p> | 5 TPAs <ul style="list-style-type: none"> BE – BNY Mellon DE – Clearstream Frankfurt FR – BNP Paribas LU – Clearstream Luxembourg LU – JP Morgan | N/A | 5 TPAs <ul style="list-style-type: none"> BE – Euroclear Bank (S1, S8) CH – SIX SIS (S1, S8) FR – Euroclear France (S1, S8) |
| <p>Corporate Actions</p> | 34 CSOs <ul style="list-style-type: none"> AT – OeKB BE – Euroclear BE BG – BNB-SBS BO – COAD CY – CSE DE – Clearstream DK – VP EE – NASDAQ ES – Iberclear FR – Euroclear FR FR – IDIS GR – AthexCSD GR – BOGS IT – Monte Titoli LT – NASDAQ LU – Clearstream LU – LuxCSD LV – NASDAQ MT – MSE NL – Euroclear NL PT – Interbolsa SI – KDD SK – CCOCP SK – NCDOCP | 2 CSOs <ul style="list-style-type: none"> BE – NBB-SBS (1F to 1H) HU – Keler (1B) | 12 CSOs <ul style="list-style-type: none"> CH – SIX (S13, S15) CZ – CSD Prague (N/R) CZ – SKD (N/R) BE-Euroclear Bank (S15) FI – Euroclear FI (Dates TBC) HR – SKDD (Dates TBC) PL – KDPW (N/R) PL – SKARBNET4 (N/R) RO – Central (N/R) RO – NBR SBS (N/R) SE – Euroclear SE (N/R) UK – Euroclear UK (N/R) |
| <p>Billing Processes</p> | 7 TPAs <ul style="list-style-type: none"> BE – BNY Mellon BE – Euroclear Bank DE – Clearstream FR – BNP Paribas FR – Euroclear France LU – Clearstream LU – JP Morgan | N/A | 1 TPA <ul style="list-style-type: none"> CH – SIX SIS (1F to 1H – N/R) |
| | 52% of Custodians | N/A | N/A |
| | 25 CSOs <ul style="list-style-type: none"> AT – OeKB CSD BE – Euroclear Bank BE – NBB-SBS BO – BNB-SBS BO – COAD CY – CSE DE – Clearstream DK – VP EE – NASDAQ ES – Iberclear FR – IDIS GR – AthexCSD GR – BOGS HU – KELER IT – Monte Titoli LT – NASDAQ LU – Clearstream LU – LuxCSD LV – NASDAQ MT – MSE PT – Interbolsa SI – KDD SK – CCOCP SK – NCDOCP | N/A | 18 CSOs <ul style="list-style-type: none"> BE – Euroclear BE (S4) CH – SIX SIS (S1 – Dates) CZ – CSD Prague (N/R) CZ – SKD (N/R) FR – Euroclear FR (S4) FI – Euroclear FI (Dates) NL – Euroclear NL (S4) PL – KDPW (N/R) PL – SKARBNET (N/R) RO – Dep. Cert (N/R) RO – NBR-SBS (N/R) SE – Euroclear SE (N/R) UK – Euroclear UK (N/R) HR – SKDD (Dates TBC) |
| | 8 TPAs <ul style="list-style-type: none"> BE – BNY Mellon BE – Euroclear Bank DE – Clearstream FR – BNP Paribas LU – Clearstream LU – JP Morgan | N/A | 2 TPAs <ul style="list-style-type: none"> CH – SIX SIS (S1) FR – Euroclear France (S4) |
| | 52% of Custodians | N/A | N/A |

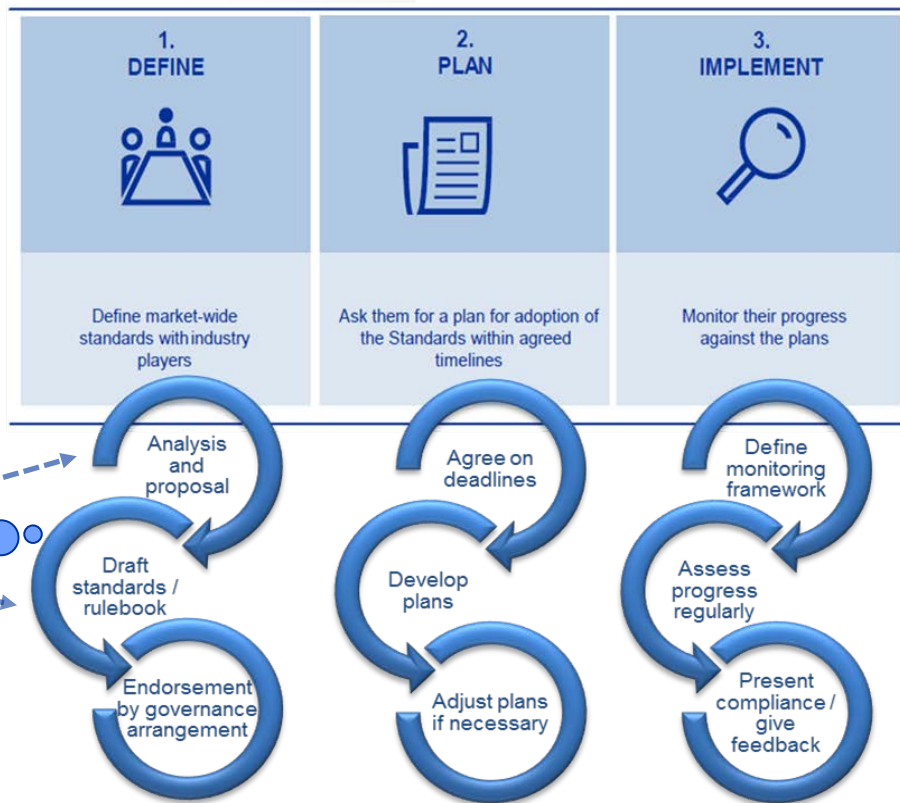
Common principles used in past harmonisation work

- Key objective / vision of the work has been a single set of rules (rulebook) at pan-European level – agnostic to geographical location but covering all business needs (e.g. different products, where relevant)
- Work built on pre-existing market standards and rulebooks at European level to the extent possible
- Increasing efficiency, digitalisation by promoting STP and relying on messaging based on the latest international standards (such as ISO20022)
- Promoting interoperability in a system- and platform-agnostic way
- Robust to technological innovation to the extent possible
- Draft standards are subject to endorsement by the whole community via the appropriate governance arrangements

Lessons learnt / takeaways from Eurosystem experience

- Harmonisation requires **a lot** of efforts and resources from all stakeholders
- It is worth doing only if strong ‘political’ commitment exists by all key players to trade short term efforts and costs for long-term gains
- Market-led harmonisation is most successful if there is a vehicle (*an infrastructure project, new business requirements by a central actor, regulation / threat of regulation, etc.*) which provides incentives for all stakeholders (including national authorities) to engage
- Harmonisation has to be based on very detailed and common understanding of today’s processes and the issues identified with them and should not be done for its own sake
- Successful harmonisation work requires a clear and pre-agreed conceptual framework/methodology on how the scope, modalities, deadlines and other key parameters are determined and requires also compliance monitoring / feedback

Process followed in Eurosystem harmonisation activities

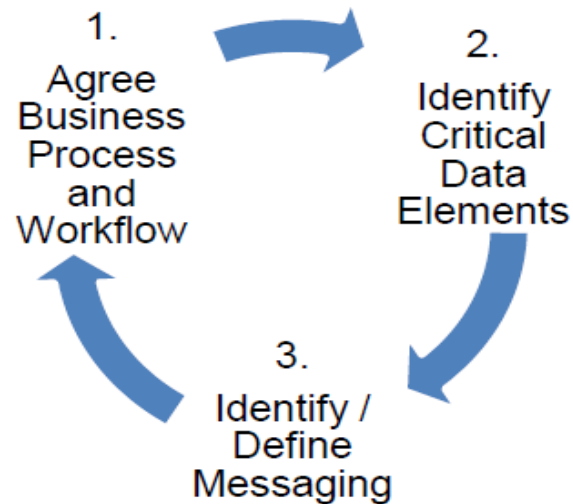


Definition work: articulation of harmonisation needs / proposals

- The scope of harmonisation needs to be clearly defined based on the agreed model processes / workflows:
- A harmonisation need / proposal needs to be formulated on what exactly needs to be harmonised / what harmonisation implies in all relevant sub-processes: the statement answers the why / what / how question on harmonisation at a granular level
- The affected stakeholders / parties that need to implement the harmonised workflow / process also need to be clearly identified
- Reference needs to be made any already existing standards, market practice on which the harmonised process can build on

Definition work: separation of business workflows from data elements / messaging

1. Define and agree the harmonised business process and workflow (including the parties affected / participating in the process);
2. For each business process (where relevant) identify the critical data elements necessary for the functioning of this process;
3. Identify / define standard messages (where relevant) to exchange data between stakeholders of the process.



Summary / recap – key messages

- Eurosystem has valuable experience in harmonisation activities at European level
- The lessons learnt can serve as inspiration to DIMCG discussions in Pillar 2
- Each harmonisation area is different – no mechanical one-to-one application of other Eurosystem frameworks
- Harmonisation requires a lot of effort and hence strong commitment from all stakeholders, appropriate governance arrangements and a clear conceptual framework
- Pillar 2 work needs to be built on the analysis of process workflows and issues in Pillar 1

Mapping existing EU / global market standards relevant for debt issuance

- **ICMA Primary Markets Handbook:**
 - Content: Focus on pre-issuance, limited coverage of post-trade. Detailed set of principles on behaviour of stakeholders (mainly managers and issuer) systematically structured along the issuance process, contains also model agreement between managers / dealers
 - Scope: syndicated international bonds (exl. high-yield, equity linked, USD)
 - Form: recommendation to all stakeholders, ICMA members expected to comply
- **AFME Primary Dealers Handbook:**
 - Content: Focus on pre-issuance, limited coverage of post-trade. Detailed overview of national practices across EU countries on primary and secondary sovereign markets
 - Scope: EU sovereign debt instruments (both domestic and international)
 - Form: documents existing practices, no recommendations
- **ESDM (EFC substructure) hub:**
 - Content: Focus on pre—issuance / PD systems, and national procedures with wealth of information on national market conventions and requirements. Some model agreements / clauses defined at EU level (euro area collective action clause)
 - Scope: EU sovereign debt instruments
 - Form: documents existing practices, no recommendations (except model agreements, CAC)
- **ISMAG Operational Market Practice Book:**
 - Content: Focus on post-trade, new issue information flow (issuance documentation), corporate action notification / processing, income processing
 - Scope: Eurobonds
 - Form: standards, rules for voluntary adherence by issuers, those who legally commit to adhere receive respective label

Any missing market standard relevant for the DIMCG?