

AMI-SeCo survey on remaining barriers to securities post-trade integration in Europe

Scope and outline

Update to the AMI-SeCo

1. Background and purpose

T2S, the entering into force of the CSDR and other relevant EU legislation and the endorsement of relevant market standards¹ have paved the ground for European financial markets to dismantle barriers to integration in securities post-trade services. Today, the majority of the original barriers identified in the Giovannini reports can be considered either fully or partly removed.

Nevertheless, qualitative information reaching the ECB in recent bilateral discussions with market stakeholders suggest that that barriers to full financial market integration continue to exist in several post-trade domains impeding efficient cross-border settlement and asset servicing and even market access by foreign service providers (CSDs, custodians, agents, etc.).

Therefore, it is suggested that a market survey is executed within the AMI-SeCo potentially also involving National Stakeholder Groups (NSGs) on identifying remaining barriers to integration and market access and mapping them. Such survey should take into account the well-known compliance gaps with existing harmonisation standards but go beyond and should aim at exposing also practical, technical and administrative barriers (e.g. national law provisions or specific national market practices preventing level playing field access by foreign actors) and should reveal information at detailed level (ideally with concrete evidence and examples).

The aim of this survey is to – at least – expose and categorise remaining barriers. Based on the results of the survey, it could be analysed how to possibly address these barriers.

2. Modalities and focus areas of the survey

The survey would focus on potential areas of remaining barriers not yet explored in detail or on the radar screen of the AMI-SeCo. Hence, the survey would not focus on well-known and systematically monitored areas, such as lack of full compliance with corporate event standards or T2S harmonisation standards in general. The survey could also complement the well-known / documented broader reports on barrier areas (Giovannini reports, EPTF report) by collecting concrete issues at detailed level rather than respondents

¹ In particular the T2S harmonisation standards, the SCoRE standards, the CAJWG corporate action standards as well as other related market standards (e.g. market standards on shareholder identification)

simply identifying problematic areas at a high level. The survey should cover all major post-trade areas: settlement, asset servicing and collateral management.

The survey would build on open / qualitative questions and answers in the following areas to enable respondents to provide details of the issues / barriers perceived and their root causes. While several areas of potential barriers are given as examples below, the survey questions will not refer to these issues concretely to avoid any leading questions and – as a result – a biased outcome. The more concrete evidence the survey uncovers the more useful its outcome could be in future AMI-SeCo discussions and as potential further evidence for policy measures. The outcome may also contribute to a broader discussion on the underlying causes for factors limiting settlement efficiency in Europe.

2.1 Legal and administrative barriers / barriers stemming from national laws or public policies

Based on anecdotal information available to the ECB, there is a significant number of EU jurisdictions where nearly 10 years after the entry into force of the CSDR and several years after the European Commission initiative to create a Capital Markets Union, domestic CSD(s) or post-trade service providers are treated differently in national law / regulation or public policies compared to CSDs / post-trade service providers that want to offer services in these countries but are established in other EU Member States.²

These can include (as examples):

- Different regulatory treatment of the domestic CSD or domestic post-trade service providers vis-à-vis other EU CSDs or foreign service providers (incl. tax-related regulation, related to access to primary issuance system by sovereign issuers).
- Different regulatory treatment of foreign CSDs based on their business strategies (e.g. treatment of the 'iCSDs' under national law).
- Potential national regulatory incentives for domestic issuers to issue in the domestic CSD rather than other EU CSDs.
- National requirements to use a specific national platform(s) handling tax matters or other regulatory compliance matters.
- Decision by the sovereign debt issuer (DMOs or Treasuries) to only allow the domestic CSD to offer settlement services for public debt issuance (e.g. by not allowing Primary Dealers to settle using securities accounts held in non-domestic CSDs).

2.2 Market access barriers stemming from differing market practices and technical arrangements

Barriers to market access and integration in the post-trade domain also stem from market practices and technical factors that are not related to legal / regulatory restrictions or public policies when it comes to cross-CSD or cross-border settlement and asset servicing.

Such areas include (examples):

- Technical limitations / potential functional improvements in T2S for cross-CSD settlement (e.g. the way CSD links are set up and used in T2S and vis-à-vis non-T2S CSDs).

² E.g. already the fact that the domestic CSD is mentioned by its name in national law / regulation can serve as a red flag in terms of equal regulatory treatment.

- Charging for cross-CSD settlement / realignment within T2S (some CSDs charge for realignment transactions within T2S while others do not).
- Lack of clarity of market practices / guidelines for cross-CSD settlement and asset servicing (e.g. use of outdated or non-aligned 'Place of Settlement' field in relevant messages).
- Remaining issues in cross-CSD settlement between T2S and non-T2S ecosystems (the ease of moving assets between T2S and non-T2S CSDs, in particular the ICSDs / Eurobond markets has been the subject of past discussions. If there are any remaining issues these should be captured by this survey).
- Access by CCPs to settlement services / CCP-restrictions on settlement locations.

2.3 Barriers related to limited awareness among stakeholders of market access options provided by T2S and by the progress in market integration / harmonisation

CSDs and directly connected parties are well aware of the opportunities and benefits that T2S and in general a more integrated post-trade landscape provide, yet it appears that the level of awareness regarding these benefits is much lower beyond this narrow circle of stakeholders. More concrete examples of stakeholders where awareness could be raised include the buy-side institutions, brokers, trading platforms, issuers or the trading units / treasury departments of major banks. Such low level of awareness materialises inter alia in (examples):

- Limited use of CSD links and cross-CSD settlement
- Limited use of T2S auto-collateralisation and T2S settlement optimisation features
- Outdated references to settlement arrangements and use of legacy conventions in issuance programme documents (e.g. use of national settlement calendars)

2.4 Other barriers

There may be other barriers to market access / full integration in the post-trade domain that do not fall in any of the categories above and they might be exposed by the survey.

3. Next steps

After the June 2023 AMI-SeCo discussion and potential further guidance from the AMI-SeCo, the SEG will prepare the survey form (background text and questions) and submit it to the AMI-SeCo for endorsement via written procedure. The survey could be launched thereafter among AMI-SeCo members and NSGs. The objective would be to report the outcome to the AMI-SeCo in its December 2023 meeting.