

21 December 2021

Description of AMI-SeCo core T2S settlement and wider post-trade harmonisation activities¹

Core T2S settlement harmonisation activities

Core T2S settlement harmonisation activities are needed to ensure efficient and safe cross-CSD settlement in T2S. The HSG and the ECB team should view these activities as a top priority for resolution for all T2S markets and monitor the implementation closely before new market's migration to T2S.

T2S messages

The following four sections cover all the activities aimed at harmonising the use of settlement messages across T2S markets. This includes, in addition to the use of a common list of messages and matching fields, the AMI-SeCo agreements regarding the use of T2S messages for non-settlement information (relating specifically to registration and tax procedures).

Activity no. 1

T2S ISO 20022 messages

Activity description

The objective of this activity is to monitor the development and implementation of the T2S ISO 20022 messages.

T2S ISO messages are part of the technical specifications/requirements for T2S actors' interaction with T2S services. T2S actors that do not comply with T2S ISO messages will not be able to connect to and communicate with the T2S technical platform in application-to-application (A2A) mode (including during testing).

T2S markets must achieve compliance before migration to T2S if they wish to connect with T2S in A2A mode.

T2S STANDARD

T2S actors will communicate with the T2S technical platform using a set of ISO 20022 compliant messages (130 messages in total), customised to the specific needs of T2S.²

¹ This document was formerly presented as an annex to the AMI-SeCo's harmonisation progress reports. As the high-level description of the activities do not change on a frequent basis, the AMI-SeCo decided to present this annex as a standalone document on the ECB website and refer to it in its annual harmonisation progress reports.

² The full catalogue may be viewed in Section 3 of the [T2S User Detailed Functional Specifications](#) (UDFS) as published on the ECB/T2S webpages.

Activity no. 2

T2S matching fields

Activity description

The objective of this activity is to ensure that all T2S markets use the T2S matching fields³ in a standardised way for settlement in T2S. Non-compliance with this standard could negatively affect matching rates in T2S, thus leading to inefficiencies and possible cost increases for other CSDs in the T2S Community.

In addition, the existence of a single and exhaustive list of matching fields allows T2S actors (e.g. investor CSDs and intermediaries) to access all T2S markets without any need to manage divergent and mandatory specificities in the settlement transaction flow. This ensures a level playing field and does not depend on the location of matching services within the T2S markets.

T2S markets must achieve compliance before their migration to T2S.

T2S STANDARD

T2S actors are required to use as matching fields only the ones described in the relevant T2S system specification documents.⁴

The single list of T2S matching fields is applicable to all matching activities (CSD matching services taking place both in and outside T2S) that lead to settlement in T2S (settlement in T2S securities and/or cash accounts).

This standard does not exclude CSDs and their participants from using additional information/fields in their settlement instructions where applicable. The information may be required by CSDs providing certain ancillary services to their participants (e.g. repo and collateral services).⁵ In any case, any such market practice in respect of additional information fields should be compliant with all relevant T2S harmonisation standards.

Activity no. 3

Interaction with T2S (registration procedures)

Activity description

The objective of this activity is to establish a T2S standard covering the exchange of registration-related information in T2S.

The aim of adopting a homogeneous practice across all T2S markets is to ensure that registration procedures neither interrupt straight-through processing nor hamper smooth cross-CSD settlement in T2S. Including registration information in T2S settlement instructions could reduce settlement efficiency in T2S by causing T2S instructing actors to put instructions on hold.⁶ Non-compliance would

³ See T2S UDFS (Section 1.6.1.2.3).

⁴ See T2S UDFS (Section 1.6.1.2).

⁵ For example, a T2S best market practice for populating the optional matching field "Client of the CSD participant" was approved by the T2S AG (the AMI-SeCo's predecessor) in February 2016. T2S markets are encouraged to adopt this practice, with the aim of improving cross-border matching efficiency in T2S via a standardised use of optional matching fields.

⁶ This matter was thoroughly analysed by the Task Force on Adaptation to Cross-CSD settlement in T2S (TFAX), an AMI-SeCo substructure, in its final report (November 2012). Registration and settlement are closely related processes, and it is crucial to adapt these processes in order to achieve alignment of settlement and registration data. In practice, it is important to ensure that the register is only updated after settlement has been confirmed. The [TFAX report](#) is available on the T2S website.

impose back-office costs on instructing counterparties and would discourage cross-CSD activity in T2S.

The target date for T2S markets to fully comply with this standard is their migration date to T2S.

T2S STANDARD

Registration details should not be exchanged via T2S messages.

Activity no. 4 Interaction with T2S (tax info requirements)

Activity description

The objective of this activity is to establish a T2S standard for the management of transaction-related tax information across borders, in order to avoid inefficiencies generated by heterogeneous local tax requirements (transaction-related tax rules and tax information flow). It is noted that T2S messages do not have fields specifically devoted to exchanging tax-related information. There is no commitment by the T2S community or T2S governance to preserve any fields for such purpose. Hence, should T2S markets use certain existing fields in T2S messages to transmit tax-related information on a voluntary basis and in line with this standard as described below, in case such fields become subject of harmonised usage rules in the future not related to tax information, those T2S markets will have to adapt and change their practices.

Non-compliance with this standard would impose back-office costs on instructing counterparties and might discourage cross-CSD activity in T2S.

The target date for T2S markets to fully comply with this standard is their migration date to T2S.

T2S STANDARD

Following a bilateral or a multilateral agreement, T2S actors may choose on a voluntary basis to include tax-related information in a T2S message; (in such a case, the content and/or format of such information may be subject to specific national legal requirements). T2S actors should not impose any mandatory obligation on their participants or on their counterparties to include tax-related information in T2S messages for settlement in T2S.

Note: Tax-related information includes, but is not limited to, the tax status of the transaction, tax status or tax ID of the end investor, tax exemption identification number, alien registration number, passport number, corporate identification number, driving license number, foreign investment identity number, BIC, proprietary ID and name and address of the investor. ISO messages provide fields that can be used to pass information about a particular transaction tax type (withholding tax, payment levy tax, local tax, stock exchange tax, transfer tax, value-added tax, consumption tax), as well as the amount, debit/credit indicator, currency and other details.

Activity no. 5

T2S schedule for the settlement day and calendar

Activity description

The use of a single schedule for the T2S settlement day and a single calendar for each currency is established by the T2S User Requirements Document (URD) and is one of the first and key harmonisation agreements in the context of T2S.⁷ The AMI-SeCo (former AG) has agreed, since the first stages of the T2S project, that full compliance of T2S markets with the T2S schedule and calendar is a prerequisite for achieving an efficient cross-CSD environment in T2S.

This activity has two main aims. First, its implementation should provide assurances over the removal of Giovannini barrier 7 on operating hours, settlement deadlines and opening days⁸ in T2S markets. Second, CSDs and their clients should be able to define, within the single T2S schedule, their preferred operational model, according to their business needs and service level agreements.

The AMI-SeCo noted that proposals for the implementation of technical standards by the CSDR, published by the European Securities and Markets Authority (ESMA) on 28 September 2015, include the legal requirement that linked CSDs (in an interoperable link arrangement) “shall agree on equivalent standards concerning reconciliation, opening hours for the processing of the settlement and of the corporate actions and cut-off times”.⁹

The target date for each T2S market to achieve full compliance with the T2S standard is its migration date to T2S.

T2S STANDARD

T2S markets should be fully compliant with the T2S schedule for the settlement day and calendar, available on the T2S website.

In order to ensure consistency when monitoring implementation across T2S markets, it should be clarified that the status of “full compliance” with the T2S schedule and calendar is achieved if the following conditions are met by the T2S market/CSD in question.

The T2S market/CSD operational model should ensure that:

1. the CSDs’ securities accounts in T2S are available for bookings (credits, debits, realignment, etc.) until the FOP cut-off and the NCBs’ dedicated cash accounts in T2S are available for bookings until the last cash sweep of the relevant currency;
 2. settlement efficiency in T2S is not affected – for example, the T2S market/CSD will participate in the start-of-day processes and in the timely processing of corporate actions in a systematic manner;
 3. all other T2S daytime (operating hours) and cut-off times are respected (delivery-versus-payment (DvP) cut-off, etc.);
 4. CSDs provide directly connected parties (DCPs) with authorisation for connecting to T2S (where required and subject to the relevant T2S technical requirements).
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⁷ The URD is available in the key documents section of the T2S website.

⁸ For further information, see [second_giovannini_report](#)

⁹ See 3.12 [Article CSD Links](#) (Article 48).

If CSD legacy systems shut down during T2S operating hours, CSD participants (investor CSDs, DCPs and indirectly connected parties (ICPs)) may not receive the same level of service. In particular, the timing in respect of sending settlement instructions to and receiving reports from T2S-relevant settlement processes will depend on the CSD participants' model for connectivity with T2S (DCP, user to application, etc.). This relates to business models and service level agreements between CSDs and their participants. The policy should not affect the compliance status of a T2S market, provided the above four conditions are met.

The T2S schedule is specified in the scope-defining set of documents. The exact times in the T2S settlement day schedule could be subject to revision, in line with changes in the T2S community's business needs.

Activity no. 6

T2S corporate actions standards

Activity description

Differences in national rules relating to the processing of corporate actions have been identified by the industry as one of the most critical barriers to an integrated EU post-trade environment. As identified by the Giovannini Report (barrier 3), these differences cover a broad range of topics, with an impact beyond core settlement problems (e.g. variation in rules, information requirements and deadlines for corporate actions). These differences may require specialised local knowledge or the local storage of physical documents, thus inhibiting the centralisation of securities settlement.

The AMI-SeCo endorsed the T2S corporate actions standards in July 2009 and updated them in May 2013.¹⁰ Non-compliance with these standards by T2S markets will hamper the efficient management of corporate actions on flows, especially in the context of cross-CSD settlement. The standards are based on the high-level corporate actions market standards defined by the European Commission-sponsored CAJWG (see activity no 18). More specifically, the T2S corporate actions standards provide the details necessary for T2S markets to implement the market standards for corporate actions on flows in T2S in a harmonised manner.

T2S markets are expected to achieve full compliance with the T2S corporate actions standards before migrating to T2S. T2S markets must also be able to participate in bilateral interoperability testing, multilateral testing and community testing, in line with the T2S corporate actions standards.

T2S STANDARD

T2S markets should comply with the T2S corporate actions standards, as endorsed by the AMI-SeCo and published on the T2S website, related to corporate actions on flows (i.e. market claims, transformations and buyer protection).

In addition to the standards, the T2S Corporate Actions Sub-group (CASG) has published a detailed frequently asked questions (FAQ)¹¹ document listing the most relevant questions related to the implementation of the T2S corporate actions standards. The FAQ is a "living" document that is frequently updated as the T2S CASG addresses new questions raised by the T2S markets.

¹⁰ The full list of T2S corporate actions standards is available on the [T2S website](#).

¹¹ The latest update of the FAQ document was published in October 2017 and is available on the [T2S CASG webpage](#).

Legal harmonisation

Activities 7 to 10 cover issues of legal harmonisation across T2S markets. Together with the harmonisation activity relating to conflict of laws issues, they are expected to enhance legal certainty and strengthen the legal framework for cross-CSD operations in T2S.

The three activities relating to settlement finality seek to ensure that all participating T2S “systems” have a harmonised definition of the moment of entry of transfer orders into the system (SF I), the moment of irrevocability of transfer orders (SF II), and the moment when settlement (i.e. entries in accounts) becomes irrevocable and enforceable (SF III). This is crucial for ensuring legally sound and seamless settlement at cross-CSD level.

The other core T2S settlement legal harmonisation activity refers to the authorisation of CSDs to outsource their settlement-related IT to a public entity

The four activities presented below are clearly connected to already existing or ongoing international and EU legal harmonisation agreements/initiatives, e.g. the Settlement Finality Directive, the ESCB-CESR recommendations, the CPSS-IOSCO principles and the CSDR.

The harmonisation activity on legal certainty is clearly linked to the European Commission’s communication regarding the CMU action plan and the legislative initiative on the conflict of laws issues.

Activity no. 7 Settlement Finality I

Activity description

SF I may be defined as the moment of entry of a transfer order into the system. It contributes to identifying the moment at which a transfer order is protected against insolvency procedures. SF I is defined in and covered by:

- the Settlement Finality Directive 98/26/EC, Article 3;
- ESCB-CESR (2009) recommendations for securities settlement systems (no 1);
- CPSS-IOSCO (2012) principles for financial market infrastructures (no 1 and no 8);
- Regulation (EU) No 909/2014 (CSDR), 23 July 2014, Article 39(2) and Article 48(8).

The aim of this T2S harmonisation activity is to agree on a common T2S rule regarding the moment of entry of a transfer order into the system (SF I) and to ensure that all T2S markets comply. The Framework Agreement (Article 21(4)) and the CSDR (Article 48(8)) recognise the need for a harmonised CSD rule for the moment of entry of a transfer order into the system (for interoperable systems).

SF I is currently defined in the rules of all designated securities settlement systems and the payments systems of the national central banks (as is required by the Settlement Finality Directive). At domestic level, all T2S markets are compliant with SF I (in accordance with the Settlement Finality Directive).

In order to minimise legal risks in cross-CSD transactions, as well as to create a level playing field, a single definition of the moment of entry of a transfer order into the system must be agreed upon and implemented by all T2S markets/CSDs. A harmonised rule will protect against spillover effects arising from the insolvency of a participant in another CSD (linked CSD in T2S).

T2S STANDARD

CSDs to define SF I in their systems as the moment of validation of a transfer order.

The CSDs using the T2S platform have agreed on a harmonised moment of entry of securities transfer orders into their respective systems: this corresponds to the moment of validation of the

transfer order. This validation can take place either on the T2S platform or on the CSD legacy systems (for those CSDs offering domestic matching services). The standard implements the resolution passed by the T2S CSD Steering Group (CSG) in December 2013.

The Eurosystem national central banks define SF I in their systems (i.e. TARGET 2) as currently prescribed in the TARGET2 Guidelines (i.e. SF I = SF II = SF III). The CSDs and the central banks in T2S have signed a collective agreement which introduces a single SF I rule for all systems (both CSD systems and central bank systems). This requires all systems to define SF I, in their rules, as the moment of validation of a transfer order.

Furthermore, the T2S Community has on its radar the insolvency rules that deal with the treatment of instructions after a CSD participant's default, or after declaration of SF I. At EU level, ESMA adopted the guidelines on participant default rules and procedures in June 2017.¹² These guidelines set out, inter alia, the procedure for acknowledging a participant's default, and determine the actions a CSD may take in the event of such a default. The actions include changes to normal settlement practices, such as blocking the entry of additional settlement instructions by the defaulting participant, suspending the participant's non-final settlement instructions from settlement, or restricting certain functionalities that can be applied to the settlement instructions of that participant (e.g. setting an end date for the recycling of a settlement instruction).

Activity no. 8 Settlement Finality II

Activity description

Settlement Finality II (SF II) is defined as the irrevocability of a transfer order (and not of the transfer of the securities itself) according to the rules of a system designated under the Settlement Finality Directive. SF II is defined in and covered by:

- Settlement Finality Directive 98/26/EC, Article 5(1 and 2);
- ESCB-CESR (2009) recommendations for securities settlement systems (no 1 and 8);
- CPSS-IOSCO (2012) principles for financial market infrastructures (no 1 and 8);
- Regulation (EU) No 909/2014 (CSDR), 23 July 2014, Article 7(3), Article 39(2) and Article 48(8).

The aim of this activity is to adopt a harmonised rule for the moment of irrevocability of transfer orders, in order to eliminate the risk of transfer order revocation in a T2S cross-border environment.

The target date for T2S markets to comply with the agreed rule is their migration to T2S.

T2S STANDARD

No unilateral cancellation is possible after matching status is achieved in T2S.

The irrevocability of transfer orders in T2S is protected by the rule prohibiting the unilateral cancellation of instructions after matched status has been achieved in T2S (see the T2S URD¹³).

CSDs should comply with the rule covering the irrevocability of transfer orders as laid down in the T2S URD (i.e. no unilateral cancellation in T2S) by default, since there is no T2S functionality for unilateral cancellation after matched status has been achieved in T2S. However, it is necessary to monitor to ensure that the CSDs' regulatory environments, including their rules and procedures, have been updated accordingly.

¹² [ESMA Guidelines on "CSD participants default rules and procedures"](#).

¹³ Available at: [T2S URD](#)

This also complies with Article 21(4) of the T2S Framework Agreement, according to which contracting CSDs must make all arrangements necessary to adopt a harmonised definition of the irrevocability of transfer orders.

Activity no. 9

Settlement Finality III

Activity description

SF III is defined as the irrevocability of transfers (bookings in CSD accounts) according to the rules of a system designated under the Settlement Finality Directive. Although no rule for SF III is set out in the Settlement Finality Directive, it is defined in and covered by:

- ESCB-CESR (2009) recommendations for securities settlement systems (no 1 and 8);
- CPSS-IOSCO (2012) principles for financial market infrastructures (no 1 and 8);
- Regulation (EU) No 909/2014 (CSDR), 23 July 2014, Article 39(3) and Article 48(8).

This activity aims at ensuring that all T2S markets comply with the common rule on the unconditionality and irrevocability of account entries (debits and credits) in T2S.

Full compliance by all T2S markets with the common SF III rule is of the utmost importance, since any non-compliance would undermine the legal certainty of bookings in T2S accounts. It would also represent a breach of the obligations stipulated in the T2S Framework Agreement.

This is also in line with Article 21(4) of the T2S Framework Agreement, according to which contracting CSDs must make all arrangements necessary to recognise account entries as irrevocable.

The target date for T2S markets to comply with the agreed rule is their migration to T2S.

T2S STANDARD

According to Article 21(4) of the T2S Framework Agreement, in order to facilitate legally sound, seamless cross-border DvP settlement, the regulatory/legal environments of the CSDs participating in T2S must recognise account entries in T2S as unconditional, irrevocable and enforceable.

This is particularly relevant in cases where accounts representing legal ownership rights are maintained by the CSD in its local legacy IT system, i.e. outside T2S. In these cases – and independently of the holding model followed by each market – the harmonisation of settlement finality rules would ensure that bookings in accounts maintained in T2S are irrevocable, unconditional and enforceable.

Activity no. 10

IT outsourcing (settlement services)

Activity description

The outsourcing of settlement services to T2S requires the approval of the relevant regulator, subject to applicable national laws and regulations. In the past, the AMI-SeCo identified some national legislation/regulations in the EU which could be interpreted as either prohibiting or hampering the outsourcing of settlement services.

Activity no. 11

Settlement discipline regime

Activity description

At present, settlement fails¹⁴ are not subject to deterrent penalties in all EU markets and settlement discipline measures, when in place, differ widely between markets.

A harmonised settlement discipline regime is needed in T2S to avoid the risk of creating multiple, inconsistent or incompatible regimes that would cause operational complexity, in particular for cross-CSD settlement. It is also required at EU level to ensure a level playing field and to avoid the risk of “regulatory arbitrage”, i.e. the shift of volumes to markets with lighter regimes and sanctions. Weak or non-harmonised settlement discipline regimes could also lead to a high number of failed transactions and might, therefore, have an impact on financial stability.

In principle, the target date by which all T2S markets should have converged towards harmonised rules is their migration to T2S (depending on their migration wave). However, current regulatory developments in the EU (such as the CSDR level 2 legislation), combined with the complexity of implementation, mean that in practice a harmonised settlement discipline regime will only be achievable for T2S markets after their migration to T2S.

Activity no. 12

Settlement cycles

Activity description

In EU markets, the settlement cycle timeline for transferable securities executed on trading venues and settled in a securities settlement system used to range from T+3 to T+2. The existence of differing settlement cycles would have had no impact on the core settlement process in T2S since T2S is neutral in this respect – it can accommodate different settlement cycles.

However, the establishment of a single settlement cycle in the EU (by the implementation of the CSDR) was deemed crucial for T2S participants’ technical infrastructures in terms of rationalising back office activities and managing cross-border corporate actions. The former non-harmonised practices rendered the management of cross-border corporate actions quite inefficient and costly, given that the deadlines for instructing in respect of relevant messages laid down in the EU corporate actions market standards are based on the notion of the settlement cycle timeline.

CSD account structures

This topic covers the need for CSDs to offer account structures that make it possible to meet the T2S objective of efficient cross-CSD settlement.

From a T2S perspective, two harmonisation standards have been identified as essential for ensuring safe and efficient use of links in T2S. Both relate to omnibus accounts.

¹⁴ According to the CSDR, Article 2(15), “settlement fail” means the non-occurrence of settlement, or partial settlement of a securities transaction on the intended settlement date, due to a lack of securities or cash, and regardless of the underlying cause.

Activity no. 13

Availability of omnibus accounts

Activity description

This activity aims to ensure that issuer CSDs offer omnibus accounts to their foreign participants (investor CSDs and intermediaries), thereby supporting the concept of CSD interoperability and cross-border settlement inside (or even outside) T2S.

Any unavailability of omnibus accounts for foreign CSD participants would jeopardise CSD interoperability and cross-CSD settlement and would, in practice, hinder market access for investor CSDs and foreign intermediaries. This would be against the T2S eligibility criteria for CSDs.¹⁵

T2S STANDARD

Issuer CSDs in T2S must offer omnibus accounts to their foreign participants (investor CSDs and intermediaries) to ensure interoperability and efficient cross-CSD settlement.

Activity no. 14

Restrictions on omnibus accounts

Activity description

The objective of this activity is to ensure that issuer CSDs, in addition to offering foreign participants the possibility to open omnibus accounts (see previous section), also offer these participants, as required, appropriate services with these accounts (e.g. those related to withholding tax or proxy voting).

Any unavailability of such services is usually replaced by mandatory account segregation rules in the issuer CSDs. These rules must be propagated by investor CSDs and other intermediaries throughout the holding chain, including in the CSD link arrangements.

The failure to provide appropriate services with omnibus accounts would represent an obstacle to CSD interoperability and cross-CSD settlement inside (or even outside) T2S, as well as to market access for foreign intermediaries.

This activity focuses on restrictions that issuer market practices, as well as fiscal and regulatory obligations, place on the services offered by the issuer CSD. The activity does not cover restrictions imposed in respect of account structure that are placed on end investors and their intermediaries by the regulatory authorities of the investor's country.

T2S markets must comply with this harmonisation standard by the time they migrate to T2S.

T2S STANDARD

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.

¹⁵ For more information, see the [CSD eligibility criteria](#) in T2S.

Activity no. 15

Securities account numbers

Activity description

The objective of this activity is for T2S CSDs to designate a harmonised number to securities accounts in T2S. The idea is to incorporate logic into the account numbers to facilitate the identification of account holders and providers and use a harmonised identification of securities accounts that are managed in T2S.

To this purpose, all ICPs and DCPs shall have the option to refer to the number of their T2S securities account using the harmonised T2S numbering format described in this standard in all A2A messages received from or sent to T2S CSDs containing a securities safekeeping account field. This includes also non-settlement related messages (e.g. corporate actions notification, billing, etc.).

Compliance with the agreed standard must be achieved by all T2S markets in time for their migration to T2S (depending on their respective migration wave). CSDs should, nonetheless, be able to participate in T2S testing using the agreed numbering standard. This standard will only apply to T2S CSDs, and not to non-T2S (I)CSDs accessing T2S via other CSDs.

T2S STANDARD

In securities account numbering, CSDs must use a four-digit BIC to identify parties of CSDs, plus maximum 31 digits of free text.

Activity no. 16

Cash account numbers

Activity description

The objective of this activity is for T2S cash account providers to assign a harmonised number to the dedicated cash accounts in T2S. The purpose is to build logic into dedicated cash account numbering to facilitate the identification of account holders and providers.

Compliance with the agreed standard must be achieved by all T2S markets in time for migration to T2S. T2S markets should, nonetheless, be able to participate in bilateral interoperability testing, multilateral testing and community testing using the agreed standard.

T2S STANDARD

The dedicated cash account numbering standard includes 34 characters (one to designate the cash account, two for the country, three for the currency code, 11 for the BIC and 17 characters of free text for the account holder).

*Example: CFREURBANKFRPPXXXMAIN-DCA-ACCOUNT CDEEURBANKDEFF123DCA
CLIENT ALPHA*

Harmonisation of the post-trade environment of securities settlement

This group of harmonisation activities are not considered essential to ensuring safe and efficient cross-CSD settlement in T2S, although they are key for the enhancement of the competitive environment and the efficiency of T2S. The T2S Community could continue to pursue these activities after the markets' migration to T2S.

Activity no. 17

Location of securities accounts / conflict of laws

Activity description

The issue of the location of accounts/conflict of laws relates to the law applicable to the transfer of securities and to CSD securities accounts.

Clarity with regard to the law applicable to securities accounts is particularly important for T2S because these accounts remain legally attributed to the CSD, regardless of the physical location of the IT infrastructure.

Conflict of laws may also be relevant to freedom of issuance – another post-trade harmonisation issue. As suggested in the CSDR, issuers should have the right to issue their securities in non-domiciled CSDs. This right may lead to an increase in the instances of conflicts of laws, occurring when non-domiciled issuers decide to issue their securities in the issuer CSD.

Activity no. 18

Corporate actions market standards

Activity description

The market standards for corporate actions processing were drawn up by the Corporate Actions Joint Working Group (CAJWG), an industry working group under the aegis of the European Commission's CESAME2 group. They were endorsed by the relevant industry bodies in 2009, and a revised version of the standards was issued in 2012.

These market standards provide the basis for the T2S corporate actions standards (see Section 3.6). The status of markets' compliance with the CAJWG standards is monitored by the CAJWG and the E-MIG.

T2S STANDARD

T2S markets should comply with the market corporate actions standards as defined by the Corporate Actions Joint Working Group (CAJWG).

From a T2S perspective, the target date for compliance by T2S markets is migration to T2S since this is related to compliance with the T2S corporate actions market standards. T2S markets should, nonetheless, be able to participate in bilateral interoperability testing, multilateral testing and community testing, in compliance with the corporate actions market standards.

Activity no. 19

Place of issuance

Activity description

This activity relates to the restrictions that are in place in national laws or market rules in EU countries with regard to the place of issuance of securities. These restrictions represent a barrier for issuers when they need to choose infrastructures and service providers.

This impediment to freedom when choosing an issuer CSD does not directly affect T2S and entails no operational/legal risks for the migration to or operation of the single platform. Nevertheless, it has an impact on competition for issuer CSD services in the respective markets.¹⁶ It also constitutes a barrier to cross-border securities investment and the creation of a single capital market in the EU.

Activity no. 20

Withholding tax procedures

Activity description

Giovannini barrier 11 relates to the domestic nature of withholding tax regulations in the EU and the resulting disadvantages for non-domestic intermediaries. It is usually the case that relief at source can only be granted with the help of an entity that has tax withholding responsibilities. In many cases national tax rules reserve tax withholding responsibilities for local intermediaries, and thus “force” foreign intermediaries to use local fiscal agents. More generally, each country has its own national procedures for dealing with tax relief and these are often complex to manage for foreign investors, especially for investors in securities from multiple countries.

The barrier has a number of consequences, including the following:

- the impact of tax relief procedures on an investment decision and its return can be significant, so investors may be incentivised to invest locally to avoid dealing with complex and costly tax relief and reclaim procedures;
- remote access to issuer CSDs by foreign intermediaries may be discouraged, since foreign intermediaries are at a disadvantage vis-à-vis local intermediaries;
- the location of the issuer CSD could potentially be restricted to local CSDs.

This situation represents a burden for the industry and investors (both inside and outside T2S markets). It penalises cross-border investment, disrupts post-trade processes, increases the cost of cross-border trading and is, ultimately, fundamentally incompatible with a single European securities market.

Following the report by the Clearing and Settlement Fiscal Compliance expert group (FISCO), in October 2009 the European Commission published a Recommendation on withholding tax relief procedures,¹⁷ outlining how EU Member States could make it easier for investors resident in one Member State to claim entitlements to relief from withholding tax on securities income (mainly dividends and interest) received from another Member State (relief at source). The European Commission’s Recommendation also encourages Member States to apply quick and standardised refund procedures where, for practical reasons, they have not been able to provide relief at source, and suggests measures to protect Member States’ tax revenues against errors or fraud. A European Commission services study¹⁸ shows that costs related to the current reclaim procedures are currently estimated at €1.21 billion per year, while the amount of foregone tax relief is estimated at €6.03 billion

¹⁶ This issue was raised by the Task Force on smooth cross-CSD settlement, the predecessor of the TFAX and the XMAP, in its final report to the AG (the AMI-SeCo’s predecessor) in June 2011, specifically in the section concerning access and interoperability issues. The task force’s report is available on the [T2S website](#).

¹⁷ See the [COM \(2009\) 7924 final – Recommendation on withholding tax relief procedures](#).

¹⁸ See the study on “The Economic Impact of the Commission Recommendation on [Withholding Tax Relief Procedures](#) and the FISCO Proposals”

per year, and the opportunity costs arising from delayed claims and payment of tax refunds are estimated at €1.16 billion per year. In January 2016 the total cost of withholding tax refund processes was estimated at a total of €8.4 billion per year.

With regard to tax relief on booked positions, no substantial risks to T2S operations have been identified in the absence of a resolution on this topic, although this does raise cross-border access issues. There is also an interconnection between this activity and activity 6 (on corporate actions), as national withholding tax rules may affect the calculation of market claims. The AMI-SeCo is therefore of the opinion that further delays in progress on this topic could have an impact on settlement efficiency and cross-border access issues in the affected markets.

Activity no. 21

Cross-border shareholder transparency and registration procedures

Activity description

This activity covers the two connected areas of cross-border shareholder transparency and the registration procedures¹⁹ linked to the issuer CSD's operating and regulatory frameworks.

With regard to shareholder transparency for registered securities, in most EU countries there are effective models used to identify domestic shareholders. However, there is no harmonised European model that enables issuers to identify their owners in a cross-border environment. Issuers have, therefore, pointed out that owing to increased cross-border activity in T2S, shareholder transparency issues might emerge across borders. A key concern is how to retrieve specific shareholder information via the omnibus account in CSD link arrangements. The AMI-SeCo has agreed that the resolution of this issue is important, although this should not affect the current scope of T2S services. This activity is therefore considered to be part of the harmonisation the post-trade environment of securities settlement. One resolution that could be considered in future releases of T2S could, potentially, include a centralised solution via the T2S platform.

One determining aspect relating to shareholder disclosure is the registration rules and procedures according to which the issuer CSD operates. Registration procedures for certain securities have long been recognised as one of the most difficult and complex areas for harmonisation in some jurisdictions. Procedures are usually based on long-standing legal and regulatory rules (e.g. regarding the owner of a registered instrument or the investor's rights over the same asset). Registration procedures, and the mechanisms used to transmit registration information, vary considerably between European countries. They are particularly complex and can, in some cases, affect both the issuance/central safekeeping services of a CSD, as well as settlement services.

The AMI-SeCo agrees that if registration procedures remain non-harmonised, this may have a negative effect on the efficiency of cross-CSD settlement in T2S. It could also affect market access, which is particularly important for investor CSDs in T2S.

Activity no. 22

Market access and interoperability

Activity description

The activity is fundamental for enhancing financial integration in the EU. It reflects the need for regulatory frameworks to allow CSDs to provide requesting parties (i.e. foreign and market participants, CSDs and other market infrastructures) with access to their services. It also reflects the need to provide a European framework of rules and procedures for granting or refusing this access.

¹⁹ The registration procedure is the procedure for updating a register (managed by a registrar) that contains information on the identity (name, address, etc.) of shareholders in a company.

The activity covers, for example, market practices or legislation that obligate or restrict the settlement of (stock exchange and/or central counterparty-cleared) transactions in a specific issuer CSD. The consequence for foreign investors, custodians and/or investor CSDs in such (issuer) markets is that access to settlement flows is restricted because of the unfair competitive advantages that are established in those issuer markets. The restriction implies that entities wishing to offer settlement services on these securities need to become participants in the issuer CSD or central counterparty.

The issue has no direct impact on T2S settlement processes, although it is important for competition and CSD access conditions in T2S-relevant markets.

Activity no. 23

Securities amount data

Activity description

This activity seeks to address the absence of a standardised practice across all T2S markets for defining securities amount data (face value/nominal amount vs. quantity/units) in the trading, clearing and settlement chain.

The non-standardisation of securities quantity data has no impact on T2S settlement as long as only one rule is used for each ISIN in T2S (either the nominal amount (FAMT) or quantity/units (UNIT)).²⁰

However, the current practice in some markets may create difficulties for foreign entities (investor CSDs and custodians) that wish to offer services for securities in those markets.

The objective of this activity is to ensure that all T2S markets are aligned with the EU's standard practice. T2S markets should, nonetheless, be able to participate in bilateral interoperability testing, multilateral testing and community testing, using the agreed shared practice.

T2S STANDARD

In line with the current standard market practice in the EU, T2S markets should define securities amount data by using nominal value for debt instruments and units for non-debt instruments (i.e. debt instruments in FAMT and equities in UNIT).

Activity no. 24

Portfolio transfer

Activity description

The relevant T2S AG (now AMI-SeCo) analysis²¹ revealed obstacles in the context of portfolio transfers²² that call for further harmonisation efforts in T2S markets. Each T2S market currently has its own requirements in terms of the information that must be provided by the delivering custodian to the receiving custodian during a portfolio transfer.

In view of increasing cross-border business and cross-border portfolio transfers, this is likely to lead to a high level of complexity in information gathering and maintenance for CSDs and CSD participants

²⁰ For each T2S settlement instruction, T2S verifies whether the type of settlement amount in the settlement instruction (face amount or number of units) matches the type of amount as defined for a given ISIN in the T2S static data. This makes it impossible for a T2S actor to instruct T2S in both nominal amount (FAMT) and units (UNIT) for the same ISIN. T2S actors should select in advance, for a given ISIN, only one of these settlement amount types.

²¹ The [TFAX report](#) is available in the relevant section of the T2S website.

²² Portfolio transfers (or book transfers) occur when a client changes custodian or bank.

involved in portfolio transfers. In the context of T2S, this could lead to the manifestation of additional complexities for the actors involved in terms of information gathering and maintenance.

The T2S Community has agreed, in line with the T2S AG (AMI-SeCo) recommendation, that the information required by the receiving custodians should be harmonised as much as possible to ensure smooth cross-CSD settlement.