EUROPEAN CENTRAL BANK

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Impact analysis report

Non-compliance with T2S harmonisation standards

Contents

1. Introduction

The T2S Board,[1] based on the input received from the T2S Advisory Group (AG), published on 10 December 2013 its View on the T2S harmonisation standards compliance framework (the T2S Board View).[2]

In the same publication, the T2S Board invites the AG/AMI SeCo[3] to analyse, on a case-by-case basis, the impact of a particular T2S market's non-compliance with the T2S harmonisation standards on the T2S community as a whole. The AG should provide an advice to the T2S Board on the course of action to be taken.

The impact analysis is carried out whenever the respective T2S National User Group (NUG) notifies the AG that it is unlikely for the respective T2S market to comply fully with one or several T2S harmonisation standards by the migration date of the relevant CSD to T2S.

The T2S Board view also includes a number of potential measures that the AG could consider when proposing to the MIB a course of action to be taken:

1. Ex ante measures
    - raise awareness of the impact analysis results to the non-compliant market;
    - escalate bilaterally with the relevant actors in the non-compliant market;
    - escalate the matter to the Governing Council of the ECB.
2. Ex-post measures:
    - postponing the deadline for compliance of the T2S market in question, if there is satisfactory evidence that the T2S harmonisation standard(s) will be met;
    - (the AG) to consider measures of limiting the asymmetry of non-compliance with the complying T2S markets;
    - consider the postponement of the migration date of the relevant CSD, provided that non-compliance makes migration impossible from a technical and legal perspective.

[1] Market Infrastructures Board since Q1 2016.

[2] http://www.ecb.europa.eu/paym/t2s/pdf/View_of_the_T2S_Board_on_the_T2S_harmonisation_standards_compliance_framework.pdf?ccdface5ac02badcfedbf05b6e44e7a1

[3] The T2S AG role as per the T2S Framework Agreement, is now covered under the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) mandate.

As of 31 January 2017 nine markets (France, Belgium, Netherlands, Hungary, Germany, Slovakia, Austria, Denmark and Luxembourg) have been assessed by the AG as not fully-compliant with certain T2S harmonisation standards following their migration to T2S.

Section 2 summarises the impact of the non-compliance cases on the rest of the T2S markets, including the AG proposals to the MIB.

Annex 1 provides the methodology for assessment of the non-compliant markets.

Annex 2 provides further details and background information regarding the non-compliance of individual markets.

2. Summary of results

This impact analysis (version 5.0) covers the following non-compliant cases:

- **Austria, Germany, France, Belgium, Netherlands, Hungary, Denmark and Luxembourg** for the T2S corporate actions (CA) standards;
- **Slovakia and Hungary** for the T2S standard on matching fields;
- **Belgium and France** for the T2S standard regarding the restrictions on omnibus accounts.

2.1 Austria

Table 1: Austrian market impact (Migration wave 4: 6 February 2017)

AT non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Austrian market does not comply fully with the T2S CA standards. The non-compliance covers four market claims standards:

- standards 6 and 7: to mitigate the risk of tax fraud, the Austrian market is not considering the "opt-out", "ex" and "cum" flags when generating market claims in T2S;
- standards 19 and 23 – the Austrian CSD does not provide to its participants a "user friendly facility" in order for them to control the interdependence of the settlement of the market claim with the settlement of the underlying transaction.[4]

During its meeting on 30 November 2016, the AG assessed the non-compliance with the above standards as having a 'medium' severity impact (qualitative) on the rest of the T2S Community. This is based on the assessment that in some scenarios the non-compliance would result in the need for Austrian CSD participants, as well as participants in CSDs having a link with the Austrian CSD, to manually and bilaterally generate market claims. In other scenarios, the same counterparties may need to reverse the wrongly generated market claims

[4] Instead, OeKB provides its participants with an optional facility allowing them to indicate that all market claims, generated by the CSD on certain securities accounts, should be with 'on hold' status. This mechanism is against T2S CA standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community.

by the Austrian CSD. In addition, the same actors may need to wait for the settlement of market claims generated by the Austrian CSD with “on hold” status on securities accounts on which the optional facility to control settlement of market claims has been activated by the Austrian CSD participants. Similarly, there is an impact on investor CSDs, whose market claim instructions cannot match in T2S with those generated by the Austrian CSD in the scenarios when the latter does not generate market claims in accordance with the T2S CA Standards.

According to the volumes estimation provided by the Austrian CSD, only a few settlement instructions are expected to be affected per year. The reasons for this are that i) the Austrian banks agreed not to actively use the cum/ex and opt/out flags; thus few cases are expected where these flags will be used in the settlement instructions and ii) the harmonisation of the sequence of key dates used for corporate actions processing within T+2 will result in much lower volumes of market claims. As this estimation is well below 1,000 settlement instructions per year, the AG assessed it as having a low quantitative impact on the rest of the T2S community (see Annex 1 on the AG agreed methodology). However, the affected volumes may increase when all markets migrate to T2S, depending on the number or relevant CSD link arrangements.

Finally, since the Austrian market is not considering any plan for achieving full compliance, there is a high risk for not implementing a compliance resolution in the foreseeable future.

On 13 December 2016, the MIB:

• agreed on a medium overall impact on the rest of the T2S Community;

• requested from the Austrian market to closely monitor the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) following its migration to T2S;

• agreed to escalate bilaterally with the relevant actors in the Austrian market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

2.2 Germany

Table 2: German market Impact (Migration wave 4: 6 February 2017)

DE non-compliance: T2S corporate actions standards	
Overall impact	**HIGH**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*HIGH*

The German market does not comply fully with the T2S CA standards.

Although the German market achieved a major milestone on 1 January 2017, by introducing the “record date”, the following compliance gaps are still present:

1. Market claims standards no. 9, 10, 11, 14, 15 and transformation standard no. 11: The plan is that compliance will be achieved within six months of CBF's migration to T2S, i.e. by August 2017. These standards refer to management of cash entitlements related to market claims and management of securities fractions.

2. For the remaining implementation gaps (market claims standards no. 7, 19 and 23[5]), the German market has not announced a full compliance date yet. Gaps refer to the "CUM" indicator in the T2S messages and the generation of market claims only after the underlying transaction has settled. Implementation is either dependant on the consent of German public authorities and agreement in the German Market Practice Committee.

According to volumes provided by the German NUG and CBF the affected settlement instructions are estimated between 1,000 and 10,000 T2S settlement instructions per year. According to the AG agreed methodology this is assessed as a medium quantitative impact to the rest of the T2S community. However, the six-month delay in complying with some important CA standards will result, for this period, in a high impact on the rest of the T2S community.

The AG took note that, according to the German market estimations, it is reasonable to expect that six months after CBF migration to T2S, the affected volumes are expected to drop drastically due to the compliance with the above standards. CBF and the German NUG have committed to monitor closely the affected volumes and provide statistics to the ECB team as soon as data are available.

Based on the information provided in the German implementation plan, the AG has concluded that, although the German market's initial non-compliance will have a high impact overall, it can be reasonably expected that the impact, both qualitative as well as quantitative, will become low within six months after the migration to T2S.

In April 2015, the T2S Board agreed that given the information provided by the German market, there will be a high impact of the German market non-compliance to the rest of the T2S Community for a maximum period of six months following CBF's migration to T2S. This impact is expected to be low thereafter. Based on that, the T2S Board decided to:

• raise awareness of the impact analysis results to the German market;

• monitor (via the ECB team) very closely the implementation of the compliance plan of the German market;

[5] In this version of the impact analysis report it is recognised that the German market will be non-compliant also with market claim standard 23; however, this does not represent a worsening of the compliance status of the German market but a better description of the already analysed non-compliance.

• ask the German NUG to provide as soon as possible to the ECB Team the relevant statistics on the settlement volumes which still will be affected by the non-compliance after the six months period.

In addition, on 13 December 2016, the MIB decided to escalate bilaterally with the relevant actors in the German market the lack of a plan to eventually fully comply with all T2S CA standards.

2.3 France

2.3.1 T2S Corporate Actions standards

Table 3: FR market impact – T2S CA standards (migration wave 3: 12 September 2016)

FR non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

The French market (EoC FR) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the non-compliance of the French market with the underlying EU market standards[6] for elective CAs, ii) the identified defects on market claim processing following the migration of the French market to T2S and iii) a decision of the French market to comply with buyer protection standards at a later stage.

The gap has the following consequences:

- Market claims related to cross-border transactions and fractions on securities entitlements are not generated by Euroclear France;
- Pending instructions, that need to be transformed, are only cancelled and the required transformed instructions are not generated by Euroclear France;
- The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants[7].

As a consequence participants in investor CSDs, linked to Euroclear France, are not able to process market claims, transformations and buyer protection instructions according to the T2S

[6] Corporate Actions Joint Working Group (CAJWG) standards

[7] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

CA standards. The AG has assessed that this non-compliance translates in a high impact (severity) for T2S CSDs and their participants. The affected actors have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the French market.

In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical data are available. The AG assessment is that the number is low due to the few existing CSD links between Euroclear France and other CSDs in T2S. On the other hand, the impact may increase as more CSDs move to T2S. Regarding the non-compliance on transformations, the number of matched and pending transactions which should be transformed by the three ESES markets[8] is estimated to be around five (5) per day (in aggregate around 1,250 transactions, or 2,500 settlement instructions, will not be generated per year). Furthermore, the French market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (FR and non-FR ISINs) following EoC FR migration to T2S.

The plan of the French market is to reach compliance with the T2S CA Standards having high impact on the T2S Community (i.e. generation of market claims on cross-CSD instructions and generation of the transformed instructions for more than 99.9% of transformations) in Q1 2017. Thereafter, the French market plans to achieve full compliance with all T2S CA standards in Q1 2018 (including buyer protection standards, non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

On 13 December 2016 the MIB:

• confirmed the overall medium impact of the non-compliance of the French market till March 2017. The impact is expected to be low thereafter;

• requested from the French market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

2.3.2 Restrictions on Omnibus Accounts

Table 4: French market impact – Restrictions on Omnibus Accounts (migration wave 3: 12 September 2016)

FR non-compliance: T2S standard on restrictions on omnibus accounts

[8] There are no data available per individual ESES market

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

There is a legal requirement in France to segregate holdings in dedicated accounts based on the legal form of the security (i.e. bearer or fully registered)[9]. The requirement also applies on omnibus accounts of Investor CSDs; i.e. two distinct omnibus accounts are required for the servicing of registered and bearer securities. As a result, the French market is not compliant with the T2S standard on Restrictions on Omnibus accounts" due the obligation for Investor CSDs and their participants to replicate the account segregation requirement in their books down the holding chain; i.e. requirement to open two mirror accounts, one for bearer and one for registered securities mapped to the two omnibus accounts in Euroclear France.

This mandatory replication down the holding chain presents a number of high impact functional/IT and non-standard operational challenges to the T2S community, hampering the T2S key objective of facilitating efficient harmonised cross-border settlement.

Volumetric measurements show that there are around 500 affected cross-border instructions on fully registered securities per year year. Furthermore, the opening of additional accounts for the servicing of French registered securities is, in many cases, imposed on Investor CSDs and their participants in order to comply with their respective client service level agreements (e.g. settlement services should be made available on all French securities independently of the legal form of the security). According to estimates, around 500 participants in Investor CSDs, which hold French securities, may be affected. This translates into the need for these Investor CSDs to open 500 additional securities accounts for their clients in T2S. However, even though the current cross-border instruction volume is considered low, it could increase once all T2S markets have completed their migration to T2S.

The risk of non-achieving full compliance is high as there is not yet a defined implementation plan by the French market to achieve full compliance with the standard. No solution is expected in the short term (e.g. using separate ISINs for bearer and registered forms of a security as done by other markets), provided the legal nature of the requirement.

The above factors make the overall impact on the T2S community resulting from the French market's non-compliance to be considered as medium. However, this assessment could change provided that the cross-CSD volumes of registered securities increase significantly in the future.

[9] The two forms of the security are represented by a single ISIN.

On 13 December 2016, the MIB:

• agreed on an overall medium impact on the T2S Community;

• requested from the French market to closely monitor the actual and affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team);

• agreed to escalate bilaterally with the relevant actors in the French market regarding the lack of a plan to eventually fully comply with the T2S standard on restrictions on omnibus accounts.

2.4 Belgium

2.4.1 Euroclear Belgium

2.4.1.1 T2S Corporate Actions standards

Table 5: BE market impact (migration wave 3: 12 September 2016)

BE non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

The Belgian market (Euroclear Belgium) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the Euroclear Belgium' non-compliance with the underlying EU market standards[10] for elective CAs, ii) identified defects on market claim processing after the migration of Euroclear Belgium to T2S and iii) the decision of the Belgian market to comply with buyer protection standards at a later stage.

The gap has the following consequences:

- Market claims related on cross-border transactions and fractions on securities entitlements are not generated by Euroclear Belgium;
- Pending instructions, that need to be transformed are only cancelled and the transformed instructions are not generated by Euroclear Belgium;
- The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants[11].

[10] Corporate Actions Joint Working Group (CAJWG) standards

[11] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

As a consequence, participants in investor CSDs linked to Euroclear Belgium, are not able to process market claims, transformations and buyer protection instructions according to the T2S CA standards. The AG has assessed that this non-compliance as of high impact (severity) for the T2S community. Affected T2S CSDs and ther users have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Belgian market.

In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical data are available. The AG assessment is that this number is low due to the few existing CSD links between Euroclear Belgium and other CSDs in T2S. On the other hand, the impact may increase as more CSDs move to T2S.

Regarding the non-compliance on transformations, the number of matched and pending transactions which should be transformed by the three ESES markets[12] is estimated to be around five (5) per day (in aggregate around 1,250 transactions, or 2,500 settlement instructions, will not be generated per year).

Furthermore, the Belgian market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (BE and non-BE ISINs).

The plan of the Belgian market is to reach compliance with the most critical T2S CA standards (i.e. generation of market claims on cross-CSD instructions and generation of the transformed instructions for more than 99.9% of transformations) in Q1 2017. Thereafter, the Belgian market plans to achieve full compliance with all T2S CA standards in Q1 2018 (including buyer protection (BP) standards, where legislative modification is required; non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

On 13 December 2016, the MIB:

• confirmed the overall medium impact of the non-compliance of the Belgian (EoC) market till March 2017. The impact is expected to be low thereafter;

• requested from the Belgian market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

[12] There are no data available per individual ESES market

2.4.2 NBB-SSS

2.5.2.1 Restrictions on Omnibus Accounts

Table 6: Belgian market (NBB-SSS) impact (migration wave 2: 28 March 2016)

BE (NBBSSS) non-compliance: T2S standard on restrictions on omnibus accounts	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

There is a legal requirement in Belgium (applicable to NBB-SSS) to segregate holdings in dedicated accounts based on the underlying investor's withholding tax status (i.e. tax non-exempt or tax exempt accounts). The requirement also applies on omnibus accounts of Investor CSDs; i.e. two omnibus accounts are required for the servicing of Belgian tax exempt and non-exempt investors. As a consequence, the AG has assessed the Belgian market (NBB-SSS) as not compliant with the T2S harmonisation standard regarding the restrictions on omnibus accounts.

In the context of cross-border settlement in T2S, the Investor CSDs need to replicate the NBB-SSS restriction rules. This is to ensure that non-exempt investors are not instructing on exempt accounts. This may present a number of significant IT/functional and non-standard operational challenges to the T2S community, hampering the T2S key objective of facilitating efficient harmonised cross-border settlement.

The risk of non-achieving full compliance is high due to the lack of a detailed implementation plan by the Belgian market. No solution is expected in the short term, given the legal requirement.

The quantitative assessment shows that the volume of activity affected is currently very limited: the number of relevant cross-CSD instructions is estimated to be less than 50 per annum and there is only one active non-exempt omnibus account of an Investor CSD opened in the books of NBB-SSS. However, this could change once all T2S markets have completed their migration to T2S.

Although the severity and the risk of non-achieving full compliance is assessed as high, based on the low volumes involved so far, the overall impact of this non-compliance on the T2S Community is assessed as medium.

On 13 December 2016, the MIB:

• agreed on an overall medium impact on the T2S Community;

• requested from the Belgian market (NBBSSS) to closely monitor the actual and affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team);

• agreed to escalate bilaterally with the relevant actors in the Belgian market regarding the lack of a plan to eventually fully comply with the T2S standard on restrictions on omnibus accounts.

2.5 Netherlands

Table 7: ESES markets impact (migration wave 3: 12 September 2016)

NL non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

The Dutch market (Euroclear Nederland) does not comply fully with the T2S CA standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are i) the Euroclear Nederland's non-compliance with the underlying EU market standards[13] for elective CAs, ii) identified defects on market claim processing after Euroclear Nederland's migration to T2S and iii) lack of procedure enabling buyer protection for centrally cleared (including exchange traded) transactions in the Dutch market.
The gap has the following consequences:

- Market claims related on cross-border transactions and fractions on securities entitlements are not generated by Euroclear Nederland;
- Pending instructions, that need to be transformed are only cancelled and the transformed instructions are not generated by the Euroclear Nederland;
- While buyer protection is available for OTC transactions in the Dutch market, it is not enabled for centrally cleared transactions.

As a consequence, participants in investor CSDs, linked to Euroclear Nederland, are not able to process market claims, transformations and buyer protection instructions according to the T2S CA standards. The AG has assessed this non-compliance as having a high impact (severity) for CSDs in T2S and their participants, which have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Dutch market.

In terms of the affected volumes, the impact cannot be estimated as no historical data are available. The AG assessment is that this number is low due to the few existing CSD links

[13] Corporate Actions Joint Working Group (CAJWG) standards

between Euroclear Nederland and other CSDs in T2S. On the other hand, the impact may increase as more CSDs move to T2S.

Regarding the non-compliance on transformations, the number of matched and pending transactions which should be transformed by the three ESES markets[14] is estimated to be around five (5) per day (in aggregate around 1,250 transactions, or 2,500 settlement instructions, will not be generated per year). Furthermore, the Dutch market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (NL and non-NL ISINs).

The plan of the Dutch market is to reach in Q1 2017 compliance with the critical T2S CA standards (i.e. generation of market claims on cross-CSD instructions and generation of the transformed instructions for more than 99.9% of transformations) as well as with all buyer protection standards when the solution for centrally cleared transactions is implemented. Thereafter, the Dutch market plans to achieve full compliance with the remaining T2S CA standards in Q1 2018 (i.e. non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

On 13 December 2016, the MIB:

• confirmed the overall medium impact of the non-compliance of the Dutch market till March 2017. The impact is expected to be low thereafter;

• requested from the Dutch market to closely monitor the actual and the affected transaction volumes and provide the relevant statistics to the MIB (via the ECB team) as of Q2 2017.

2.6 Slovakia

Table 8: Slovakian market impact (migration wave 4: 6 February 2017)

SK non-compliance: T2S standard on matching fields	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market does not comply fully with the T2S standard on matching fields. The Slovakian market will use matching fields in the legacy matching engine of the Slovakian CSD (CDCP) which are not part of the T2S list of matching fields.

[14] There are no data available per individual ESES market

These matching fields are used in domestic transactions which are not available to T2S directly connected parties (DCPs). These transactions are therefore not available for T2S cross-CSD settlement, although they are settled in securities accounts maintained on T2S.

Therefore, CDCP's participants willing to use these market specific operations, i.e. securities in co-ownership, have to do it via sending their settlement instructions in Indirectly Connected Parties (ICP) mode to the legacy system of CDCP. Following matching in CDCP, "already matched instructions" will be sent to T2S for settlement.

According to CDCP, the number of such transactions with securities held in co-ownership on an annual basis is very low - the total number of such transactions in 2014 and 2015 was 38 transactions (affecting 9 ISINs) and 20 transactions (affecting 6 ISINs) respectively. Changing this market practice on the Slovakian market will require changes in domestic legislation, which the local regulators have rejected to undertake.

Based on the above, the Slovakian market's non-compliance is assessed by the AG as having a "LOW" overall impact on the T2S Community.

On 22 February 2016, the MIB (then T2S Board) agreed on an overall low impact on the rest of the T2S Community. In addition it decided to:

- raise awareness of the impact analysis results (by means of the AG publishing the Impact Analysis Report);
- monitor (via the ECB team) the implementation plan of the Slovakian market.

In addition, on 13 December 2016, and given the lack of plan to achieve full compliance with T2S standard on matching fields, the MIB decided to escalate bilaterally with the relevant actors in the Slovakian market regarding the lack of a plan to eventually fully comply with the T2S standard on matching fields.

2.7 Hungary

2.7.1 T2S Corporate Actions standards

Table 9: Hungarian market impact (migration wave 4: 6 February 2017)

HU non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*MEDIUM*

The Hungarian market does not comply fully with the T2S CA standards. The non-compliance refers to market claims on transactions in equities, which are not detected and generated by

the Hungarian CSD (KELER). Furthermore, due to its planned U2A connectivity to T2S for a transitory period (until 3 July 2017), the Hungarian market has decided to opt-out, by default, from the generation of market claims and transformation until the introduction of the new system, which would allow A2A interaction with T2S.

Manual intervention is required by CSD participants (including Investor CSDs) to detect and generate market claims bilaterally where relevant. During the transitory period, the counterparties have to inform KELER for each transaction for which they would like CAs on flow to be generated. Similarly, in some cross-CSD transactions, this requires the Investor CSD to either i) recognise the scenarios where KELER will not generate market claims or ii) cancel in T2S the already generated market claim which will not match in T2S due to the fact that KELER does not generate the corresponding leg of the market claim instructions. Thus the qualitative impact on the T2S Community is estimated to be high.

The number of settlement instructions impacted, i.e. the expected volume of non-generated market claims, is estimated to be very low. This is due to the fact that in practice almost all market claims that would need to be generated involve cash entitlements in the domestic currency (HUF), i.e. they have to be generated outside T2S. As a result, only transactions involving securities entitlements or cash entitlements in EUR are affected. The following estimates have been provided by the Hungarian market on the affected volumes:

- For HU-ISINs the estimated number of settlement instructions impacted by market claim and transformations – for FOP and HUF DVP pending transactions on RD around 400-600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF)
- For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 so far was 0 for the most liquid foreign equities traded in Hungary.

The opt-out field will be populated by the counterparties, and not with a default opt-out indicator, as of the introduction of KELER's new system on 3 July 2017. The Hungarian market, including the relevant authorities, have a common understanding on the necessary changes required and they have a detailed and announced plan to achieve full compliance by end 2017.

On 13 December 2016, given the high severity, low volume and an implementation plan to achieve full compliance with all T2S corporate action standards by end 2017, the MIB agreed on a medium overall impact of the non-compliance of the Hungarian market on the rest of the T2S Community.

2.7.2 T2S Matching fields

Table 10: Hungarian market impact (migration wave 4: 6 February 2017)

HU non-compliance: T2S standard on matching fields	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*LOW*

The Hungarian market does not comply fully with the T2S standard on matching fields.

Non-compliance is limited to a subset of intra-CSD settlement activity, where KELER continues to follow its current matching practices in its legacy platform before sending the instructions to T2S, in an already matched status.

The non-compliance is due to the fact that KELER does not use some of the T2S matching fields (and not due to the usage of some proprietary matching fields) when matching takes place in the legacy platform.[15] The non-compliance issue is not applicable when matching takes place in T2S, i.e. DCPs' or cross-CSD instructions, since this is only possible by following the T2S matching fields. The only actors, which are affected, are the HU market participants, which have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S. This will result in low severity impact on the T2S Community.

The estimated number of impacted EUR DVP transactions is thus expectedly to be between 300 and 500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes. The Hungarian market has committed to comply with this standard for all settlements by 3 July 2017.

On 13 December 2016, given the low severity, low volume and an implementation plan to achieve full compliance with the T2S standard on matching fields by 3 July 2017, the MIB agreed on a low overall impact of the non-compliance of the Hungarian market on the rest of the T2S Community.

[15] As a consequence and for some T2S matching fields, KELER will use default values: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as "already matched". It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well

2.8 Luxembourg

Table 11: Luxembourgish (LuxCSD) market impact (Migration wave 4: 6 February 2017)

LU (LuxCSD) non-compliance: T2S corporate actions standards	
Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Luxembourgish market (LuxCSD) is not fully compliant with the T2S CA standards.

The implementation regards the compliance with market claims standards no. 19 and 23. Although, LuxCSD *detects* the market claims according to the T2S CA Standards, it *generates* and *sends* the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the T2S standards). This practice is followed for market claims on all transactions settled on the accounts in the books of LuxCSD irrespectively of the underlying ISIN. The reasoning for applying this process is that i) it guarantees today's quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.

According to the volume projection provided by the LU NUG, the affected settlement instructions will be less than 1,000 per year. This is assessed by the AG as having a low quantitative impact to the rest of the T2S community (for the methodology see Annex 1).

The LU market (LuxCSD) does not have a plan to achieve full compliance with the T2S CA Standards. However, it plans to re-assess the need and feasibility to fully comply with the T2S CA Market Claims standards 19 and 23 in the course of 2018.

2.9 Denmark

Table 12: Danish market impact (Migration wave 3: 12 September 2016)

DK non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Danish market does not comply fully with the T2S CA standards.

The implementation gap is with regards to:

a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S.

b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.

More specifically, with regards to non-compliance with MC standard 10, VP will not detect market claims on events involving DK ISINs with DKK CA payments during a transitory period (currently scheduled for October 2018). As a consequence of the above, investor CSDs connected to VP DK, have to decide on what type of CA transaction management service they wish to provide to their participants or alternatively leave it to them to manage bilaterally with their counterparties market claims in DK ISINs, which are paying CAs in DKK. This compliance gap has a high qualitative impact from a competition perspective as it will result in an un-level playing field for the foreign entities connected to VP (investor CSDs and market participants). However, the quantitative impact is expected to be limited because of the technical limitation to settle only CA securities entitlements with DK ISINs in T2S (since DKK CA cash entitlements cannot be settled anyway in T2S).

When VP acts as an investor CSD, it uses the rate specified by the respective issuer CSD as specified by the market claim standard 14. However, there is one exception to that rule for two specific ISINs of securities issued by Swedish companies, which are handled in accordance with a special agreement between VP and the Swedish tax authorities. This set-up means that for these two ISINs, VP applies the Danish tax rate and not the Swedish one as required by the standards. According to statistics provided by VP DK, there were no settlement instructions affected by this non-compliance since its migration to T2S in September 2016.

The DK market has a plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S (currently scheduled for October 2018). However, it does not have a plan to resolve the non-compliance with market claims standard 14.

Overall, the impact is assessed by the AG as being medium, but it will turn low after compliance with market claim standard 10.

3. AG proposals to MIB

Ami SeCo proposals to the MIB [to be agreed on during its meeting on 6-7 March 2017]

Luxembourg (LuxCSD)

Given the low severity, low volume and a lack of an implementation plan, *MIB is invited to*:

• agree on a low overall impact on the rest of the T2S Community;

• request from the Luxembourgish market to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);

• escalate bilaterally with the relevant actors in the Luxembourgish market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

Denmark

Given the high severity, low volume and a lack of an implementation plan, *MIB is invited to*:

• agree on a medium overall impact on the rest of the T2S Community, which will become low after the migration of DKK on T2S;

• request from the DK market to closely monitor the affected transaction volumes in T2S and provide the relevant statistics to the MIB (via the ECB team);

• escalate bilaterally with the relevant actors in the DK market regarding the lack of a plan to eventually fully comply with the T2S CA standards.

In addition the *MIB is invited to*:

- **raise awareness of the impact analysis results (i.e. impact analysis results of all markets to be published);**
- **monitor, with the help of the ECB team, the implementation plans of all markets covered in the impact analysis report. The ECB team will report on the monitoring results and any other relevant developments to the MIB during its meetings.**

Annex 1: Methodology for assessment of non-compliant markets

For the purposes of being able to compare consistently the different cases of non-compliance, the AG used three assessment categories. When reading the assessment of non-compliance below, the reader should take into account the following definitions:

Assessment Category	Definition of grades for the respective category
Severity (qualitative) is a qualitative assessment of the impact on the T2S community, i.e. the level of adaptation needed by users and investor CSDs to manage non-standard settlement in T2S.	***HIGH*** Complex adaptation required from users/investor CSDs to adapt to non-standard processing. It may involve setting up of restriction rules by Investor CSDs, onerous manual processing or require IT development to implement deviating processing for the respective market. ***MEDIUM*** Significant adaptation is required from users/investor CSDs to adapt to non-standard processing. This may require IT development to implement deviating processing for the respective market or involve regular use of manual processing. ***LOW*** Small or no IT adaptations required from users/investor CSDs to adapt to non-standard processing. Some manual processing may be required or processing in T2S could be delayed.
Expected volume/frequency (quantitative) is a quantitative assessment of the number of settlement instructions that will require non-standard processing in T2S.	On the basis of affected estimated/current volumes of the respective markets in T2S the following criteria for this category have been defined: ***HIGH*** In absolute terms, the estimate is that more than 10,000 instructions per year in T2S will be affected. ***MEDIUM*** In absolute terms, the estimate is that 1,000 – 10,000 instructions per year in T2S will be affected. ***LOW*** In absolute terms, the estimate is that less than 1,000 instructions per year in T2S will be affected. Where available relative figures (% of volume) are also provided.
Risk (of not achieving full compliance) is an assessment of whether a plan for full compliance exists and how far the implementation date of that plan is from migration/ implementation date.	***HIGH*** No commitment/concrete plan by a market to reach full compliance with a T2S standard by a certain date. ***MEDIUM*** There is a commitment/concrete plan of a market to achieve full compliance with a T2S standard but the implementation date is more than 9 months after its migration to T2S. ***LOW*** There is a commitment of a market to achieve full compliance with a T2S standard no later than 9 months after migration to T2S.

Annex 2: Detailed impact assessment of individual markets

1. AT market

1.1 T2S Corporate Action Standards

1.1.1 Status

AT non-compliance: T2S corporate actions standards	
Overall impact	**MEDIUM**
Severity (qualitative)	*MEDIUM*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The AT market does not comply fully with the T2S CA standards following its migration to T2S on 6 February 2017. In particular, the Austrian market does not comply with four T2S CA standards at the time of its migration to T2S:

a) market claims standards 6 and 7 – to mitigate the risk of tax fraud, the AT market decided not to take into account the "opt-out", "ex" and "cum" flags when generating market claims;

b) market claim standards 19 and 23 – the AT CSD does not provide a user friendly facility to control the interdependence of the settlement of the market claim and the underlying transaction as required by the standard. Instead the CSD participants are provided with an optional facility to put automatically on hold the market claims generated by the AT CSD at securities account level. However, this mechanism is against T2S CA standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community.

Assessment of severity of impact (qualitative): MEDIUM

Non-compliance with the above standards has 'medium' impact from severity perspective on the T2S Community. This is based on the assessment that in some scenarios the non-compliance results in the need for Austrian CSD participants, as well as participants in CSDs having a link with the Austrian CSD, to manually and bilaterally generate market claims. In other scenarios, the same counterparties may need to reverse the wrongly generated market claims by the Austrian CSD. In addition, the same actors may need to wait for the settlement of market claims generated by the Austrian CSD with "on hold" status on securities accounts on which the optional facility to control settlement of market claims has been activated by the Austrian CSD participants. Similarly, there is an impact on investor CSDs, whose market claim

instructions will not match in T2S with those generated by the Austrian CSD in the scenarios when the latter does not generate market claims in accordance with the T2S CA Standards.

Assessment of expected volume/frequency (quantitative): LOW

According to the volumes estimation provided by the Austrian CSD, only a few settlement instructions are expected to be affected per year. The reasons for this are that i) the Austrian banks agreed not to actively use the cum/ex and opt/out flags; thus few cases are expected where they will be used in the settlement instructions and ii) the harmonisation of the sequence of key dates used for corporate actions processing with the harmonised settlement cycle (T+2) results in much lower volumes of market claims. As this estimation is well below 1,000, it is assessed as having a low quantitative impact on the rest of the T2S community (see Annex 1 on the AG agreed methodology). However, this may change when all markets migrate to T2S.

Assessment of risk of non-achieving full compliance: HIGH

There is currently no plan to resolve the non-compliance of the Austrian market.

Overall impact assessment of non-compliance: MEDIUM

Based on the fact that there is no plan for achieving full compliance with these standards after migration to T2S, the medium severity of the non-compliance and the low volumes involved, the non-compliance of the Austrian market results in medium overall impact on the T2S Community.

1.1.2 Detailed impact analysis

Table 1: Detailed impact analysis of non-compliance of the Austrian market with the T2S CA Standards

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
T2S CA standard	Detection and generation of CAs on flows (market claims) upon migration to T2S in February 2017.
Compliance gaps	CSD.Austria will detect and raise market claims, but not fully in accordance with the T2S CA Standards. In particular, the Austrian NUG stated that it will not be compliant by its migration to T2S with the following four standards: a) market claims standards 6 and 7 – the AT market decided not to take into account the “opt-out”, “ex” and “cum” flags when detecting and generating market claims. The reasoning for this decision is that there is a risk that those flags could be used for tax fraud. b) market claim standards 19 and 23 – CSD.Austria will not provide a user friendly facility to control the interdependence of the settlement of the market claim and the underlying transaction as required by the standard

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
	and explained in the FAQ. Instead the CSD participants will be provided with an optional facility to put automatically on hold the market claims generated by the AT CSD at securities account level. However, this mechanism is against T2S CA standards 19 and 23 as also explained in the related Frequently Asked Questions documentation published by the T2S community. The reason for this deviation is that not all CSD participants have the means (technically and personally) to detect in time possible market claim situations for putting the underlying instructions on hold by themselves.
Consequences of non-compliance on T2S Community	The non-compliance (by its migration date to T2S) of the Austrian market has the following consequences for the various T2S stakeholders and actors: As regards non-compliance with market claims standards 6 and 7, the following main scenarios, both for AT and non-AT ISINs should be taken into account: Scenario 1: CSD.Austria generates a market claim when it should not have done so under the T2S CA Standards. Under this scenario, in the intra-CSD case, the participants of CSD.Austria have to reverse manually and on a bilateral basis the wrongly generated market claim. However, in the cross-CSD case, when one of the parties in the transaction is a participant in CSD.Austria, the generated market claim will not match in T2S as the CSD of the other party will not, in compliance with the T2S CA Standards, generate a market claim instruction. Scenario 2: CSD.Austria does not generate a market claim when it should have done so under the T2S CA Standards. In this case the parties to the transaction have to bilaterally and manually generate the necessary transfers of securities or cash, related to the market claim. Similarly, in case of cross-CSD settlements involving a participant of CSD.Austria, the CSD of the other party in the original transaction will have to either i) cancel its market claim instruction, which has been generated fully in accordance with standards, as it will never match in T2S or ii) establish a process to decide when it should not generate a market claim instruction because of the Austrian market non-compliance. As regards non-compliance with market claim standard 23, the use of the optional facility provided by CSD.Austria may result in undue delay of settlement of market claims, generated on settlements on securities accounts, on which the participants of CSD. Austria have chosen to activate it.
How will this be solved?	The Austrian market does not plan to solve this non-compliance with the four market claims standards.
Plan for compliance	There is no plan for full compliance.
Impact of non-compliance on the different T2S actors	The main negative impact will be on CSD participants (both in CSD.Austria and those of other CSDs) which will not get an automated service for managing market claims fully in accordance with the T2S CA Standards. In particular, this will materialise in the cases when CSD.Austria does not generate market claims as required by T2S CA Standards in scenarios involving the use of ex/cum and opt-out flags. In this case, the buyer and the seller will have to generate on a bilateral basis the necessary transfers

Detailed impact analysis of non-compliance of the Austrian market with T2S CA standards	
	(of securities and/or funds) associated with i) the non-generated market claim and ii) the reversal of a wrongly generated market claim. In addition, the facility being used by the Austrian market to manage the interdependence between the settlement of a market claim and the underlying transaction, may result in undue delays in settlement of market claims in certain cases when this is not intended because it works at the account level and not at the level of individual transactions. There is also impact on the other CSDs in T2S. In particular, in the case when CSD.Austria does not generate a market claim when it has to do so, the impacted CSD may have to either i) cancel its market claim instruction, which has been generated fully in accordance with standards, as it will never match in T2S or ii) establish a process to decide when it should not generate a market claim instruction because of the Austrian market non-compliance. The Austrian CSD has indicated that only a few settlement instructions should be affected for the reasons listed below: - According to the usage agreed in the Austrian NUG, Austrian banks will not actively use the flags cum/ex and opt-out. As other markets also try to minimize tax fraud risks, therefore fewer cases are expected, where cum/ex and opt-out flags will be provided in the settlement instructions; - Ex date and record date are normally set to fit with T+2 settlement cycle. This means that Market claims can only occur in case of settlement periods of less than 2 days or in case of longer settlement periods. As this estimation is well below 1,000, it is assessed as having a low quantitative impact on the rest of the T2S community. However, the affected volumes may increase when all markets migrate to T2S.
Conclusions	The main negative externalities of the Austrian market's non-compliance are on participants in CSD.Austria, as well as those of other CSDs having a link with CSD.Austria, which will not get the automated service on market claims from the CSDs in T2S fully in accordance with the T2S CA Standards and will need to manage deviations bilaterally and manually with their counterparties in scenarios, when CSD.Austria is deviating from the T2S CA Standards. This entails potentially costs and risks for their back offices. Similarly, there is an impact on CSDs in T2S, having a link to CSD.Austria, as when they generate the necessary market claim in accordance with the T2S CA standards, in some scenarios it will not be generated by CSD.Austria. This has to be managed by the compliant CSD. Overall, based on the medium qualitative impact assessment, the expectation of the low volumes affected and the lack of plan for the Austrian market to fully comply with the T2S CA Standards, the impact of the T2S Community is assessed as medium. However, the affected volumes may increase when all markets migrate to T2S.

2. DE market

2.1 T2S Corporate Actions Standards

2.1.1 Status

Overall impact	**HIGH**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*HIGH*

The German market, and as a consequence Clearstream (CBF) when acting as **issuer CSD**, will not raise market claims and transformations in full compliance with the T2S CA standards.

Non-compliance consists of:

- processing cash market claims on a net basis. In addition, CA payments regarding securities other than German Government bonds, are scheduled to take place on the TARGET2 (T2) RTGS accounts and not on the T2S dedicated cash accounts (DCAs);
- processing of securities fractions on market claims and transformations by use of interim securities;
- not recognizing “CUM” indicator in detecting market claims;
- detecting the market claims on the pending transactions but generating (sending the transfer order) only after the underlying transaction has settled;

In all of these cases, investor CSDs in CBF will have to replicate the German market non-standard custody process in their systems.

In its role as **investor CSD**, CBF will generate CAs on flows broadly in accordance with the T2S CA standards, with the exception of the management of securities fractions and the detection/generation of market claims.

Assessment of severity of impact (qualitative): HIGH

The severity impact is very significant for investor CSDs in CBF and their participants, which have to support non-standard and possibly manual processing for managing market claims and transformations on transactions on DE ISINs. There is only a minor impact from a technical perspective on CBF and other CSDs participants for processing CAs on non-DE ISINs.

However, from a competition perspective this set-up results in a non-level playing field for non-German T2S Actors, as the lack of harmonisation on the processing of CAs on flow for those DE-ISINs creates a access barriers. On the other hand German market participants can freely access all other ISINs in T2S (assuming that other T2S markets are more compliant). The high severity of non-compliance is underlined by the decision of a wave 1 Investor-CSD to set-up a

restriction rule in T2S for settlements in DE ISINs. This restriction rule is necessary for the respective Investor CSD, as it will have to replicate the German market non-standard custody process in its own system and procedures. Other Investor CSDs may have to act accordingly.

The AG welcomed the introduction of a Record Date in the German market custody framework prior to Clearstream's migration to T2S. However, the delay of compliance with some of the standards (processing of cash entitlements on market claims and management of fractions) expected within six months after migration, would result in a high impact on the rest of the T2S community. Otherwise, the qualitative impact resulting from the non-compliance with the remaining standards (on cum flag and generation of market claims after settlement of the underlying transaction), is expected to be low.

Assessment of expected volume/frequency (quantitative): MEDIUM

German market settlement volume, based on Blue Book figures for 2013, is estimated to be around 61 million transactions[16] per year. This is by far the highest volume of all T2S markets, potentially resulting in large volumes of non-standardised transaction management.

Even with the introduction of the Record Date in Germany (leading to a CBF estimated reduction by 50-70% of market claims on cash distributions), the affected number of CA non-compliant settlement instructions is estimated by CBF to be between 1,000 and 10,000 per year, i.e. still relatively high for DE ISINs and relatively low for non-DE ISINs. As per the T2S AG methodology, this translates into a medium volumetric impact assessment, for the 6 months period after migration of the German market to T2S. The AG takes note that after this period, as a result in the increased compliance the affected volumes are expected to drop dramatically.

Assessment of risk of non-achieving full compliance: HIGH

The implementation plan targets to achieve full compliance with most of the standards within 6 months after Clearstream migration to T2S in February 2017. However, it n does not provide a deadline for compliance with two T2S CA standards, with expected low volumetric impact:

a) compliance with the standard on the "CUM" indicator is currently not planned and made subject to the approval of the ministry of finance;

b) the German Market Practice Committee, based on its interpretation of irrevocable instructions (matched instructions are not considered irrevocable as they can still be bilaterally cancelled), does not see currently a reason to change the current practice of the German market for generation of market claims, namely the generation of market claims only after the underlying transaction has settled.

Overall impact assessment of non-compliance: HIGH

The AG has concluded that there is a high overall impact of the German market non-compliance due to the high impact standards (processing of cash entitlements on market claims and management of fractions), for which compliance is expected at the latest 6 months after migration to T2S. Otherwise, the overall impact resulting for the German market remaining non-compliance (with the standards on cum flag and generation of market claims after settlement of the underlying transaction) is expected to be low.

2.1.2 Detailed impact analysis

Table 2: Detailed impact analysis of non-compliance of the German market with the T2S CA Standards

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
T2S CA standard	Detect and generation of CAs on flows (i.e. market claims and transformations) upon migration to T2S in February 2017.
Compliance gaps	The German NUG stated that it will not be compliant following its migration to T2S with seven standards with regards to market claims and one standard with regards to transformations. Therefore, CBF will detect and raise market claims and transformations, but not fully in accordance with the T2S CA Standards. *Cash entitlements* Importantly, based on a decision of the German market, most CA payments will be done in the TARGET2 (T2) RTGS accounts and not in the T2S Dedicated Cash Accounts (DCAs). In particular, payments on all market claims on securities for which CBF acts as Issuer CSD (except for German government securities) will be done on T2 RTGS accounts with a possibility for their clients to have a subsequent standing liquidity transfer option from the T2 RTGS account to DCAs in T2S. With regards to CAs on government securities, payments will be made on the T2S DCAs. However, payments on all instruments will be made on a net basis (taking into account all incoming and outgoing payments related to CAs processing); therefore, payments on market claims will not be on a transaction per transaction basis. Only in the case, where CBF is acting as Investor CSD, market claims will be generated directly on DCAs in T2S for cross-CSD but not for intra-CBF transactions. *Market claims generation* In the case of securities distributions, market claims will be detected on pending transactions (as required by the T2S CA Standards) but will be generated in T2S, i.e. send T2S instructions, only after the underlying transaction has settled. The same processing will be followed also for market claims on cash distributions except in the case of pending instructions from CCPs, on which market claims will be generated when

[16] Typically in T2S, one transaction equals two settlement instructions (i.e. transfer orders).

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	detected, in line with the T2S CA Standards. The decision of the German market for this type of processing of market claims, both for DE and non-DE ISINs, is based on local tax authorities' regulations. *CUM indicator* In addition, the German Market Practice Committee, also based on national tax requirements, decided not to use the "CUM" indicator for identification of market claims on transactions with DE ISINs. This will result in differences in the scenarios for identification and generation of market claims compared with the scenarios required by the T2S CA Standards[17]. In short, market claims will not be detected when, according to the CASG, should be detected. *Fractions* The German market has decided to maintain its current market practice for managing fractions by using interim securities both in case of market claims and transformations (for both DE and non-DE ISINs). This is not in line with the respective T2S CA standards which prescribe the round down approach for securities and compensating remaining fractions with cash for each transformation separately. In some cases of cross-CSD settlement between a participant of Clearstream and a participant of another CSD in T2S this will result in non-matching of the market claims or transformations instructions generated by CBF and the CSDs of the other participant in the transaction.
Consequences of non-compliance on T2S Community	The non-compliance of the German market has the following consequences for the various T2S stakeholders and actors:
Scenario 1: *Settlement between CBF participants*	**DE ISINs** For domestic transactions in DE ISINs, CBF, and the German market, plans to maintain some of their current market practices with regards to managing market claims and transformations, which will not be raised in full according with the T2S CA Standards (see above under non-compliance). However, a number of changes have been introduced already with the migration to T2S, resulting in a significant increase in the compliance status (e.g. introduction of Record Date, taking into account "OPT-OUT" flag both in case of managing market claims and transformations, meeting almost all T2S CA transformations standards, etc.) **Non-DE ISINs** CBF and the German market is mostly compliant with the T2S CA standards when processing non-DE ISINs transactions between its participants, provided of course that the respective issuer CSD market is fully compliant with the T2S CA standards. The German market processing diverges from the standards with respect to: management of market claims on cash distributions and transformations in cash which will be posted on the T2 accounts of its participants, generation of market claims on pending transactions only

[17] Please refer to annex 1 of the Frequently Asked Questions for the complete list of scenarios for detection of market claims: https://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/20170127_t2s_ca_standards_faq_january_2017.pdf?785e813f27f3aa18eb2f85f4e2defc21

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations.
Scenario 2: ***Settlement between a participant in CBF and one in another CSD***	**DE ISINs** For cross-CSD transactions in DE ISINs between one of its participants and a participant in another CSD, CBF and the German market, maintain the previous market specific practices with regards to managing market claims and transformations [as in scenario 1]. In case of market claims on cash distributions and transformations in cash, the T2 cash account of the respective Investor CSD in CBF will be credited. **Non-DE ISINs** CBF plans to be almost fully compliant with the T2S CA standards when processing CA related settlement in its capacity as Investor CSD. The only exceptions are generation of market claims on pending transactions only after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations by use of interim securities. Therefore, limited impact from a technical perspective on other CSD participants, since the German market practices does not affect the issuer CSD market practice (assuming it is a T2S compliant one). However this means that there may be non-level playing field issues: harmonised T2S CA practices are available to the German investors (investing in foreign ISINs) but not available to foreign investors (investing in DE ISINs).
Scenario 3: ***Settlement between two participants of Investor CSDs (other than CBF)***	**DE ISINs** **a) Settlement between participants of one Investor CSD** In case of intra-CSD settlement on DE ISINs, the Investor CSD may decide what kind of service it will provide to its participants for generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[18] that when the issuer CSD market is not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards. In this case Investor CSDs have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be differences between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[19] **b) Cross-CSD Settlement in T2S not involving movements on securities accounts at Clearstream**

[18] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[19] There are several possibilities for Investor CSDs in case of Issuer CSD non-compliance:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the investor CSD may decide not to offer any CA on flow services for ISINs issued in markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed bilaterally by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	In this case two different Investor CSDs are involved in managing the CA on flow, without securities accounts at CBF being affected. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[19]. This could result in a situation where the two different Investor CSDs may have a different default option on how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S (i.e. settlement instructions will not match in T2S). **c) Cross-CSD settlement in T2S involving movements on securities accounts at Clearstream** For cross-CSD transactions in DE ISINs between participants of different Investor CSDs, involving movements on securities accounts in CBF, the respective Investor CSDs have to replicate the processing of the corporate action as processed by CBF, i.e. not in accordance with the T2S CA Standards. **Non-DE ISINs** **Relevant for sub-scenarios a) and b) above:** There is no impact of the non-standard processing of CAs for transactions in non-DE ISINs when securities accounts at CBF are not involved. **Relevant for sub-scenario c) above:** CBF plans to be almost fully compliant with the T2S CA standards when processing CA related settlement in its capacity as Investor CSD. The only exceptions are generation of market claims on pending transactions only after the underlying transaction has settled and management of fractions of securities resulting from market claims and transformations by use of interim securities. Therefore, little impact from a technical perspective on other CSD clients, since the German market practices will not affect the issuer CSD market practice (assuming it is a T2S compliant one). However this means that there may be non-level playing field issues: harmonised T2S CA practices are available to the German investors (investing in foreign ISINs) but not available to foreign investors (investing in DE ISINs).
How will this be solved?	The following legislative/regulatory/market practice changes are required from the DE market: - The “record date” was already introduced on 1 January 2017. This has reduced substantially the number of market claims that need to be generated in the German market. - Tax procedure/law should be changed in way to enable processing of market claims in accordance with T2S CA Standards or alternative procedures, compliant with T2S CA standards should be implemented; - German market practice with payment of cash entitlements related to CAs will be changed to use the same payment mechanism as the one used for payments related to settlement instructions, i.e. on T2S DCAs instead on T2 accounts and on a transaction-per-transaction basis and not on a net basis; - Current market practice to manage fractions, resulting from market claims and transformations, will be changed in accordance with the requirements of the T2S CA Standards.
Plan for	The plan targets to achieve full compliance with the high impact standards

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
compliance	(processing of cash entitlements on market claims and management of fractions) within 6 months after Clearstream's migration to T2S. However, the implementation plan does not provide a deadline for compliance with two T2S CA standards: a) compliance with the standard on the "CUM" indicator is currently not planned and made subject to the approval of the Ministry of Finance. It should be mentioned that other markets are facing problems with their authorities on this standard as well (due to on-going investigations of abuse of tax reclamation procedures) but this has not been taken into consideration by the CAJWG and the CASG so far. Frequency and severity of impact of this remaining non-compliance is however considered negligible. b) the German Market Practice Committee, based on its interpretation of irrevocable instructions (matched instructions are not considered irrevocable as they can still be bilaterally cancelled), does not see currently a reason to change the current practice of the German market for generation of market claims, namely the generation of market claims only after the underlying transaction has settled.
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>CBF participants, only settling on DE ISINs:</u>** There will be no effect for them as the current German market specific processing of market claims and transformations on DE ISINs, while being brought more in line with the T2S corporate actions standards, will be largely preserved. **<u>CBF participants, settling both DE and non-DE ISINs:</u>** These participants have to manage two different processes: 1) For transactions in DE-ISINs the current German market specific processing will be applied 2) For transactions in non-DE ISINs they have to manage a different process, which is more in line with the T2S CA standards (assuming that the issuance market is a compliant one). **<u>Investor CSD participants, which settle both DE (via CSD links) and non-DE ISINs:</u>** These participants in transactions with DE ISINs have to manage two different processes: 1) If the underlying transaction involves movements on securities accounts in Clearstream (see Scenarios 2 and 3c above), then they would continue to rely on the current non-standard processing of market claims and transformations by Clearstream, as facilitated by their CSDs. 2) If the underlying transaction does not involve movements on securities accounts in Clearstream (see Scenario 3a above), then they have to rely on the service provided by their CSD or will have to manage market claims bilaterally with their counterparties if no such service is provided. In case of cross-CSD settlement (see Scenario 3b above) there is the additional uncertainty what service they would get (if any) as the processing of the CSDs of the two counterparties could be different. In addition, for non-DE ISINs they have to manage a different process,

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	which is almost but not fully in line with the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Clearstream:</u>** CSD in T2S, which can settle DE ISINs have to manage two different processes: 1) If the underlying transaction involves movements on securities accounts in Clearstream (see Scenarios 2 and 3c above), then it would need to follow the non-standard processing of market claims and transformations of Clearstream 2) If the underlying transaction does not involve movements on securities accounts in Clearstream (see Scenarios 3a and 3b above), then it will have to decide what service it will provide to its participants in this case (if any) for processing of CA on flows. For settlements in non-DE ISINs, there is almost no impact on CSDs participants / other CSDs in T2S as there will be a highly harmonised processing of CAs on flow in accordance with the T2S CA standards supported by processing of Clearstream.
<u>Conclusions</u>	The negative externalities of non-compliance are considerable on CBF participants (other than those settling only DE ISINs) and other CSDs in T2S as they will not be offered processing of CAs on flows for DE ISINs in accordance with the T2S CA Standards. This entails potentially costs and risks for their back offices as they have to manage different processes depending on the scenarios (for DE ISINs either replication of non-standard processing at CBF via their CSDs or managing bilaterally the market claims with its counterparty when CBF securities accounts are not affected). In addition, investor CSDs have to replicate the German market specific processing of transaction management in DE ISINs in certain cross-CSD scenarios. In other settlement scenarios (when securities accounts at Clearstream are not affected) they will not generate market claims in T2S. Thus they have to manage different scenarios and different processing in each scenario. Overall, the above analysis shows that there will be very significant impact of the non-compliance of the German market with the T2S CA market claims standards both on investor CSDs as well as their participants when settling DE ISINs. When CBF is acting as Investor CSD there is little impact on its own as well as on other CSDs' participants, since these transactions will be managed almost fully in accordance with the T2S CA Standards. The only exceptions would be delays in generation of market claims on pending transactions and different practice of management of securities fractions, which may result in non-matching of the two legs of market claims or transformations in cross-CSD settlements in certain cases. From competition and level-playing field perspective this set-up (non-harmonised transaction management for DE ISINs versus almost fully harmonised one for non-DE ISINs) results in an undue advantage for the German market, which would benefit from harmonisation of processing CAs in other T2S markets whilst maintaining an entry barrier for the other Investor CSDs (and their participants) to its domestic market. Based on the German implementation plan, the AG has concluded that there is a high overall impact of the German market non-compliance until it complies with the high impact standards (processing of cash entitlements

Detailed impact analysis of non-compliance of German market with T2S CA Standards	
	on market claims and management of fractions), which is scheduled to take place within six months after migration of the German market to T2S. After the German market complies with the above standards, the impact, both qualitative as well as quantitative, resulting for the German non-compliance with the standards on cum flag and generation of market claims after settlement of the underlying transaction, is expected to be low. CBF and the German NUG have committed to monitor closely the affected volumes of settlement instructions resulting from non-compliance with the above two standards and report the statistical results to the ECB team as soon as data are available.

T2S Board decision on the non-compliance of the German market	
T2S Board decision in April 2015	Given the information provided by the German market, including its implementation plan, the T2S Board took note that there will be a high impact of the German market non-compliance to the rest of the T2S Community for a maximum period of six months after CBF's migration to T2S. This impact is expected to be low thereafter; Based on that, the T2S Board decided to • *raise awareness of the impact analysis results to the German market;* • *monitor (via the ECB team) very closely the implementation of the compliance plan of the German market;* • *ask the German NUG to provide as soon as possible to the ECB Team the relevant statistics on the settlement volumes which still will be affected by the non-compliance after the six months period*

Monitoring of German market non-compliance	
ECB team monitoring results (status: January 2017)	A Record Date was successfully introduced in the German market on 1 January 2017 prior to Clearstream's migration to T2S. However, the delay of compliance with some of the standards (processing of cash entitlements on market claims and management of fractions) expected within the six months after migration, results in a high impact on the rest of the T2S community.

3. FR market

3.1 T2S Corporate Actions Standards

3.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

Following its migration to T2S (12 September 2016), the French market (EoC FR) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are the Euroclear France' non-compliance with the underlying EU market standards[20] for elective CAs, the identified defects on market claim processing after migration to T2S and a decision of the French market to comply with buyer protection standards at a later stage.

The gap will have the following consequences:

- Market claims related on cross-border transactions and fractions on securities entitlements are not generated by Euroclear France;
- Pending instructions, that need to be transformed are only cancelled and the transformed instructions are not generated by Euroclear France;
- The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants[21].

When transactions do not result in settlement on the books of Euroclear France, the respective Investor CSDs can decide what type of service to provide to their participants for management of corporate actions on flow or alternatively to leave it to them to manage these on a bilateral and manual basis with their counterparties. However, if two Investor CSDs are involved, there is the risk that they offer different services for managing elective events with FR ISINs to their participants and thus, no automated management of CAs on flow would be possible.

Assessment of size/severity of impact: HIGH

As a consequence participants of investor CSDs of Euroclear France are not able to process market claims, transformations and buyer protection instructions according to the T2S CA

[20] Corporate Actions Joint Working Group (CAJWG) standards

[21] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

standards. The AG has assessed that this non-compliance translates in a high impact (severity) for CSDs in T2S and their participants, which have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the French market.

Assessment of expected frequency: MEDIUM

In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear France with CSDs in T2S. However, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around 5 per day (i.e. in aggregate around 1,250 transactions, or 2,500 instructions, will not be generated by the three ESES markets per year[22]). Furthermore, the French market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no representative statistics yet on the number of affected settlement instructions (FR and non-FR ISINs) following EoC FR migration to T2S.

Assessment of risk of non-achieving full compliance: MEDIUM

The plan of the French market is to achieve compliance with the T2S CA Standards implying a high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) in Q1 2017. Thereafter, it plans to achieve full compliance with all T2S CA standards by Q1 2018 (including buyer protection standards, non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

Overall impact assessment of non-compliance: MEDIUM

3.1.2 Detailed analysis

Table 3. Detailed impact analysis of non-compliance of French market with T2S CA Standards

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.

[22] There are no data available per individual ESES markets

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
Non-compliance	The FR market is not compliant with the T2S CA standards in the following: - Market claims: Market claims related to cross-border transactions and those on fractions on securities entitlements are not generated by Euroclear France; - Pending instructions, that need to be transformed, are only cancelled and the replacement instructions are not generated by Euroclear France; - The key dates necessary for managing buyer protection are not always provided by Euroclear France to its participants[23].
Consequences of non-compliance on T2S Community	The non-compliance of the French market after its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of Euroclear France***	**Both FR and non-FR ISINs** Participants in Euroclear France do not get all the service on corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and all transformations. The French market also decided to comply only as of Q1 2018 with the buyer protection standards, when compliance with all standards is expected to be achieved. Thus, foreign direct participants in Euroclear France will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear France and participant in another CSD***	**Both FR and non-FR ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear France is involved, Investor CSDs in T2S will not be able to manage market claims and transformations because Euroclear France as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis. Furthermore, lack of information of key dates will make management of buyer protection more complex and risky.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear France***	**a) Settlement between participants of one Investor CSD** **FR ISINs** In the case of internal CSD settlement in FR ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[24] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be

[23] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

[24] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[25] **Non-FR ISINs** No securities movements will happen in Euroclear France. Thus for such non-FR ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear France** **FR ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[25]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-FR ISINs** No securities movements will happen in Euroclear France. Thus for such non-FR ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear France** **FR and non-FR ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear France (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6).
Plan for compliance	The plan of the French market is to reach compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) in Q1

[25] There are several possibilities for Investor CSDs:

i) one option would be to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) another option would be to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	2017. Thereafter, it plans to achieve full compliance with all T2S CA standards in Q1 2018 (including buyer protection standards, non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>Participants of Euroclear France:</u>** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage the non-generation of market claims in some scenarios and the non-generation of replacement instructions by Euroclear. Alternatively they can rely on Euroclear France to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. In addition, they have to manage buyer protection on a bilateral basis but not according to the T2S CA Standards. **<u>Participants in CSD(s) in T2S, which settle both FR (via CSD links) and non-FR ISINs:</u>** Such participants in other CSDs have to manage two different processes: 1) For transactions involving FR ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP for elective events (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims, transformations and BP for elective events with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-FR ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Euroclear France:</u>** 1) CSDs in T2S, which can settle FR ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-FR ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear France is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claims and the transformed instructions, will not be generated by Euroclear France in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear, including foreign direct participants, which have to manage some market claims and all transformations on a bilateral and manual basis with their counterparties. Similarly, buyer protection is more difficult to manage. The effect is worse in the case of cross-CSD transactions, in which at least one counterparty to the transaction is a participant in Euroclear France, as in this case in addition to the non-compliance above, also market claims are not

Detailed impact analysis of non-compliance of French market with T2S CA Standards	
	generated by Euroclear on cross-CSD settlements. When transactions in FR ISINs do not result in settlement on the books of Euroclear France, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with FR ISINs to their participants and thus no automated management of CAs on flow is possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the French market with the T2S CA standards. In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear France with CSDs in T2S; however, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around five (5) per day (i.e. in aggregate around 1,250 transactions, or 2,500 instructions, will not be generated by the three ESES markets per year).[26] Furthermore, the French market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (FR and non-FR ISINs) following EoC FR migration to T2S.

T2S Board decision on the non-compliance of the French market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the French market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it agreed on the following measures with regards to the non-compliance of the French market: • raise awareness of the impact analysis results to the French market; • monitor (via the ECB team) the implementation plan of the French market.

Monitoring of French market non-compliance	
ECB team monitoring results (status: October 2016)	The French market communicated that, in addition to not complying with the transformations and buyer protection standards, it has identified defects which makes it non-compliant also with some market claims standards, and in particular non-generation of market claims in cross-CSD settlements, as of its migration in September 2016.

[26] There are no data available per individual ESES markets

3.2 Restrictions on Omnibus Accounts

3.2.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

Due to regulatory requirements in the French market, bearer securities have to be recorded separately from fully registered securities (i.e. *Valeurs Essentiellement Nominatives, VEN*). This implies that Euroclear France participants, including Investor CSDs, are requested to hold fully registered (VEN) and bearer securities in dedicated sub-accounts (i.e. *Nature de Compte*) at Euroclear France depending on the legal form of the security (i.e. bearer or fully registered) [27]. Thus the French market does not comply with the compliance criterion that Investor CSDs and other intermediaries should not be required to implement mandatory account segregation throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.[28]

The segregation of assets in different accounts permits Euroclear France to detect if the relevant registration process has been initiated in regards to settlement in the dedicated account for fully registered securities. Additionally, Euroclear France has put in place market-specific validations in T2S to ensure that settlement instructions on dedicated accounts are instructed in accordance to the legal form of the security; e.g. only instructions on fully registered securities are instructed on the dedicated account for registered securities. The requirement also applies on Investor CSDs accounts. Thus, Investor CSDs are enforced to open two dedicated omnibus accounts at Euroclear France for the servicing of fully registered or bearer securities. While the regulatory requirement in France does not impose per se any segregation requirement in the books of Investor CSDs, in practice in T2S this translates into an obligation for Investor CSDs and their participants to replicate the account segregation model down the holding chain. In order to provide cross-border settlement services on French fully registered securities:

- Investor CSDs are enforced to open two dedicated mirror accounts[29] in their books mapped to the two dedicated omnibus accounts at Euroclear France.

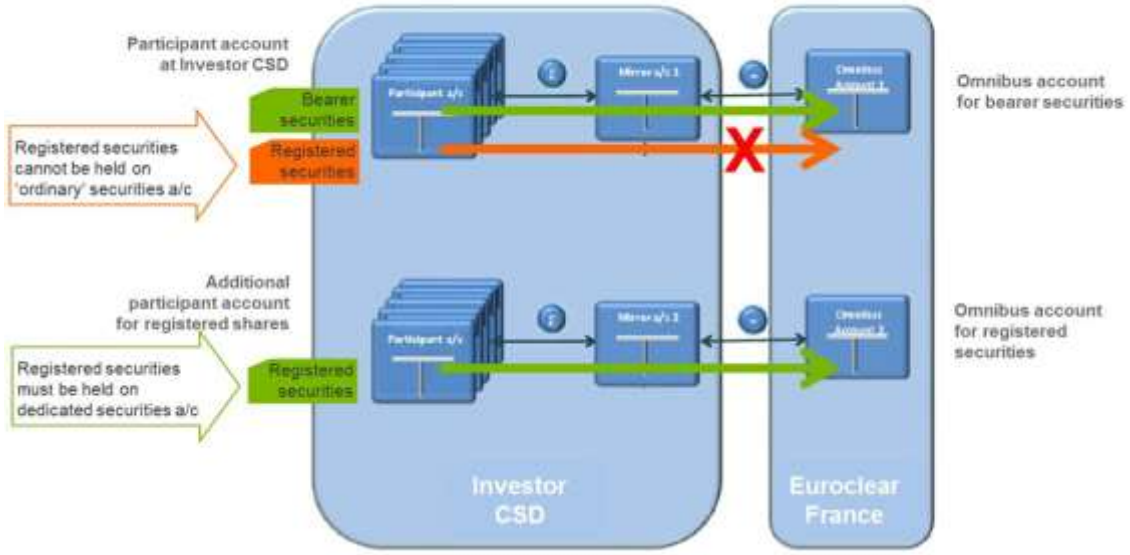
[27] The two forms of the security are represented by a single ISIN.

[28] For more information, please see Sixth T2S Harmonisation Report, ch. 3.14: http://www.ecb.europa.eu/paym/t2s/progress/pdf/ag/sixth_t2s_harmonisation_progress_report.pdf

[29] According to the T2S design, the relationship between Omnibus accounts and Mirror Accounts in T2S is always 1:1. This is to enable T2S triggering realignment movements in the relevant accounts when building realignment settlement chains in cross-border settlement scenarios.

- Participants of the Investor CSD are enforced to open two dedicated participant accounts depending on the bearer or fully registered legal form of the holdings.

The required cross-border account segregation model is depicted on the diagram below:



Source: T2S Cross-border Market Practices sub-group (XMAP) analysis on Euroclear France restriction rules

Assessment of size/severity of impact: HIGH

The segregation requirements in the French market according to the legal form of the security (i.e. bearer or registered) present a number of inefficiencies for Investor CSDs and their participants.

These inefficiencies include several functional and operational challenges that may hamper the T2S key objective of facilitating efficient and harmonised cross-border settlement in Europe; e.g.:

- IT developments/functional changes to the legacy platforms of the actors involved in the holding chain (e.g. Investor CSDs, custodians) might be required (refer to the detailed analysis below for more information);
- Definition of non-standard operational processes is required in order to handle cross-border settlement of French securities with the implied higher operational costs (refer to the detailed analysis below for more information);
- Restriction rules by Euroclear France might need to be replicated by the Investor CSDs.

As a result of the above the severity of the impact for the T2S community is considered as high.

Assessment of expected frequency: LOW

In terms of volumes, as of June 2016 there were 1.427 fully registered securities (i.e. *VEN*) [30] issued by Euroclear France corresponding to the following asset classes: 254 shares, 3 FCT,47 bonds, 1115 UCITS and 8 warrants.

The monthly average volume of settled instructions on fully registered securities (i.e. *VEN*) is 76.000 instructions. Out of the 76.000 average monthly instructions, only 42 instructions per month are cross-border (i.e. circa 0,06% of the total volume). The average annual number of cross-border instructions is thus estimated to be around 500.

According to the non-compliance impact assessment methodology, the expected frequency based on current observed volumes is low as less than 1.000 instructions are affected annually. However, it is important to note that:

(i) Current affected cross-border volumes could change significantly once all T2S markets have completed their migration to T2S

(ii) Independently of the observed low instruction volume, Investor CSDs and their participants may have to implement all the necessary setups imposed by the segregation requirement in order to stick to their respective service level agreements with their clients. Current estimations carried out in the frame of the present impact analysis show that this will be the case for around 500 participants of Investor CSDs of Euroclear France. This will require the opening of more than 500 additional dedicated accounts in the books of Investor CSDs in Euroclear France for the servicing of French registered securities.

As a result of the above the frequency/volume impact on the T2S community is considered as low.

Assessment of risk of non-achieving full compliance: HIGH

As of September 2016 post-migration of Euroclear France to T2S, there is not yet a defined implementation plan by the French market to achieve full compliance with the standard. A number of major legal and technical challenges would need to be overcome in order to achieve full compliance (e.g. legislative change in France and/or using separate ISINs for bearer and registered forms of a security as done by other markets). Consequently, no solution is expected in the short term, especially considering the legal nature of the restriction.

As a result, the risk of non-achieving full compliance is considered as high.

Overall impact assessment of non-compliance: MEDIUM

[30] Analysis based on statistics provided by Euroclear France in bilateral discussions with the ECB team.

Although the severity and the risk of non-achieving full compliance are assessed as high, based on the current low cross-border volumes involved, the overall impact of this non-compliance on the T2S Community is assessed as medium. However, this assessment could change provided that the cross-CSD volumes on non-exempt securities accounts increase significantly in the future.

3.2.2 Detailed analysis

Table 4. Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
T2S standard on Restrictions on Omnibus Accounts.	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. To comply with this standard a market has to ensure that i) appropriate services are offered by the Issuer CSD on Omnibus accounts (e.g. withholding tax and proxy voting) and ii) Investor CSDs and other intermediaries are not required to implement mandatory account segregation throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.
Non-compliance	The FR market is not compliant with the T2S Harmonisation standard on Restrictions on Omnibus accounts due to the regulatory requirement of segregation of bearer and fully registered securities in dedicated accounts[31]. This requirement is also applicable on omnibus accounts of Investor CSDs, which has the effect that the segregation requirement has to be propagated down the holding chain (i.e. Investor CSDs have to open two mirror accounts in their books, as well as their participants, that have to open two dedicated participant accounts). In particular, the FR market is not compliant with the second assessment compliance criterion of the standard (see above)
Consequences of non-compliance on T2S Community	The non-compliance of the French market due to the segregation requirements according to the legal form of the security (i.e. bearer or registered) imposes a number of inefficiencies for Investor CSDs and their participants. These inefficiencies include several functional and operational challenges that may hamper the T2S key objective of facilitating efficient and harmonised cross-border settlement (please refer to ***Impact of non-compliance on the different T2S actors*** section below).

[31] The two forms of such securities are represented by a single ISIN.

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
How will this be solved?	At the moment, no solution has been agreed. Furthermore, no solution is expected in the short term provided the legal nature of the restriction. Other markets have addressed this by using separate ISINs for bearer and registered forms of a security.
Plan for compliance	No plan for compliance has been defined by the French market so far.
Impact of non-compliance on the different T2S actors	• **Investor CSDs of Euroclear France** servicing fully registered and bearer French securities are required to open two dedicated omnibus at Euroclear France mapped to two dedicated mirror accounts in their books. They might also need to replicate restriction rules by Euroclear France in T2S to ensure that settlement instructions on French securities are only instructed on the relevant account depending on the legal form. • **Participants of the Investor CSD (and potentially their clients in the participants' books)** are required to open two dedicated participant accounts depending on the bearer or registered legal form of the holdings. • **All actors involved in the holding chain**, may need to introduce **IT developments/functional changes** on their legacy platforms, such as: o Need of enlarging the reference data legacy systems to include information on the legal form of French securities and the accounts associated to them. o Need to modify settlement legacy systems to support cross-border settlement on multiple mirror accounts for a single Issuer market[32]. o Need to introduce business validations at the legacy platforms to ensure that settlement instructions on French securities are only instructed on the relevant account. • **All actors involved in the holding chain (e.g. Investor CSDs, custodians)**, may need to define **non-standard operational processes** in order to handle cross-border settlement of French securities with the implied **higher operational costs**; e.g. some impacts include: o Increased settlement operational complexity, as market participants have to instruct on a dedicated account depending on the legal form of the security. o Need of defining an information flow outside T2S down the holding chain on the legal form of French securities (i.e. bearer or fully registered). This information is not accessible to Investor CSDs in T2S. This is to determine the relevant dedicated account to be used for settlement depending on the legal form of the security. o Higher complexity and cost of reconciliation processes due

[32] In the current securities settlement European landscape, most of the cross-border settlement links operate with a single mirror account per Issuer CSD.

Detailed impact analysis of non-compliance of French market with T2S Harmonisation Standard on Restrictions on Omnibus accounts	
	to fragmented reporting based on multiple accounts for a single investor. ○ Increased operational burden stemming from the setup of static data that might be non-standard (e.g. setup of French securities on CSDs/participant legacy platforms including information on the legal form). ○ Increased account maintenance costs for all actors involved in the holding chain. The volumetric measurements show that there are around 500 affected cross-border instructions on fully registered securities a year. According to some estimates, around 500 participants in Investor CSDs, which hold French securities, may be affected which will result in the need for these Investor CSDs to open 500 additional securities accounts for their clients in T2S. These relatively low volumes moderate the overall impact on the T2S Community. However, even though the current cross-border instruction volume in registered securities is considered low, it could increase once all T2S markets have completed their migration to T2S.
Conclusion	The French market is not compliant with the standard on Restrictions on Omnibus accounts due to the obligation for Investor CSDs and their participants of replicating the account segregation requirements in their books depending on the legal form of the securities (i.e. bearer or fully registered). This presents a number of high impact IT/functional and operational challenges to the T2S community, hampering the T2S key objective of facilitating efficient harmonised cross-border settlement. Even though the quantitative assessment shows that the currently affected transactions volume is low, this could change once all the T2S markets have completed their migration to T2S. The risk of non-achieving full compliance is high as there is not yet a defined implementation plan by the French market to achieve full compliance with the standard and provided the legal nature of the requirement. The above factors make the overall impact status of non-compliance to be considered as medium. Further monitoring of the cross-CSD volumes on registered securities and their impact on the other CSDs in T2S is required in order to better assess whether additional measures are needed to address the French market non-compliance.

4. BE market

4.1 Euroclear BE

4.1.1 T2S CA standards

4.1.1.1 Overall Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*

Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

Following its migration to T2S (12 September 2016), the Belgian market (EoC BE) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are the Euroclear Belgium's non-compliance with the underlying EU market standards[33] for elective CAs, identified defects on market claim processing after Euroclear Belgium's migration to T2S and a decision of the Belgian market to comply with buyer protection standards at a later stage.

The gap will have the following consequences:

- Market claims related on cross-border transactions and fractions on securities entitlements are not generated by Euroclear Belgium;
- Pending instructions, that need to be transformed are only cancelled and the transformed instructions are not generated by Euroclear Belgium;
- The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants[34].

When transactions do not result in settlement on the books of Euroclear Belgium, the respective Investor CSDs can decide what type of service to provide to their participants for management of corporate actions on flow or alternatively to leave it to them to manage these on a bilateral and manual basis with their counterparties. However, there is a risk that if two Investor CSDs are involved that they offer a different service for managing elective events with BE ISINs to their participants and thus no automated management of CAs on flow is possible also in this case.

Assessment of size/severity of impact: HIGH

As a consequence participants in investor CSDs, linked to Euroclear Belgium, are not able to process market claims, transformations and buyer protection instructions according to the T2S CA standards. The AG has assessed that this non-compliance translates in a high impact (severity) for CSDs in T2S and their participants, which have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Belgian market.

Assessment of expected frequency: MEDIUM

[33] Corporate Actions Joint Working Group (CAJWG) standards

[34] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear Belgium with CSDs already in T2S; however, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around 5 per day (i.e. in aggregate 1,250 transactions, or 2,500 instructions will not be generated by the three ESES markets per year).[35] Furthermore, the Belgian market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (BE and non-BE ISINs).

***Assessment of risk of non-achieving full compliance*: MEDIUM**

The plan of the Belgian market is to reach compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) in Q1 2017. Thereafter, it plans to achieve full compliance with all T2S CA standards in Q1 2018 (including buyer protection standards, where legislative modification to allow the BP on rights is planned to be adopted; non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

Overall impact assessment of non-compliance: MEDIUM

4.1.1.2 Detailed analysis

Table 5: Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.
Non-compliance	The BE market is not compliant with the T2S CA standards in the following: - Market claims: Market claims related to cross-border transactions and those on fractions on securities entitlements are not generated by Euroclear Belgium; - Pending instructions, that need to be transformed, are only cancelled

[35] There are no data available per individual ESES markets

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	and the replacement instructions are not generated; - The key dates necessary for managing buyer protection are not always provided by Euroclear Belgium to its participants[36].
Consequences of non-compliance on T2S Community	The non-compliance of the Belgian market by its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of Euroclear Belgium***	**Both BE and non-BE ISINs** Participants in Euroclear Belgium do not get all the service on corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and all transformations. The Belgian market also decided to comply only as of Q1 2018 with the buyer protection standards, when compliance with all other T2S CA Standards is expected to be achieved. Thus, foreign direct participants in Euroclear Belgium will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear Belgium and participant in another CSD***	**Both BE and non-BE ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear Belgium is involved, Investor CSDs in T2S will not be able to manage market claims and transformations because Euroclear Belgium as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis. Furthermore, lack of information of key dates will make management of buyer protection more complex and risky.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear Belgium***	**a) Settlement between participants of one Investor CSD** **BE ISINs** In the case of internal CSD settlement in BE ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[37] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[38]

[36] ESES has the technical capability to announce buyer protection key dates, which is only used by NL market for OTC transactions since January 2016

[37] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[38] There are several possibilities for Investor CSDs:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	Non-BE ISINs No securities movements will happen in Euroclear Belgium. Thus for such non-BE ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear Belgium** **BE ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[38]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-BE ISINs** No securities movements will happen in Euroclear Belgium. Thus for such non-BE ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear Belgium** **BE and non-BE ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear Belgium (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6). In addition, a legislative change to allow buyer protection on rights issues is planned to be adopted by the time the system is implemented in Q1 2018.
Plan for compliance	The plan of the Belgian market is to reach compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) in Q1 2017. Thereafter, it plans to achieve full compliance with all T2S CA standards in Q1 2018 (including buyer protection standards, non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>Participants of Euroclear Belgium:</u>** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage the non-generation of market claims in some scenarios and the non-generation of replacement instructions by Euroclear. Alternatively they can rely on Euroclear Belgium to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. In addition, they have to manage buyer protection on a bilateral basis but not according to the T2S CA Standards. **<u>Participants in CSD(s) in T2S, which settle both BE (via CSD links) and non-BE ISINs:</u>** Such participants in other CSDs have to manage two different processes: 1) For transactions involving BE ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP for elective events (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims, transformations and BP for elective events with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-BE ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards on elective events will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Euroclear Belgium:</u>** 1) CSDs in T2S, which can settle BE ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-BE ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear Belgium is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claim and the transformed instructions will not be generated by Euroclear Belgium in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear, including foreign direct participants, which have to manage some market claims and all transformations on a bilateral and manual basis with their counterparties. Similarly, buyer protection is more difficult to manage. The effect is worse in the case of cross-CSD transactions, in which at least one counterparty to the transaction is a participant in Euroclear Belgium, as in this case in addition to the non-compliance above, also market claims are not generated by Euroclear on cross-CSD settlements. When transactions in BE ISINs do not result in settlement on the books of Euroclear Belgium, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor

Detailed impact analysis of non-compliance of Belgian market with T2S CA Standards	
	CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with BE ISINs to their participants and thus no automated management of CAs on flow is possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the Belgium market with the T2S CA standards. In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear Belgium with CSDs already in T2S; however, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around 5 per day (i.e. in aggregate 1,250 transactions, or 2,500 instructions will not be generated by the three ESES markets per year).[39] Furthermore, the Belgian market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (BE and non-BE ISINs).

T2S Board decision on the non-compliance of the Belgian market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the Belgian market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it had agreed on the following measures with regards to the non-compliance of the Belgian market: • raise awareness of the impact analysis results to the Belgian market; • monitor (via the ECB team) the implementation plan of the Belgian market.

Monitoring of Belgian market non-compliance	
ECB team monitoring results (status: October 2016)	The Belgian market (EoC BE) communicated that, in addition to not complying with the transformations and buyer protection standards, it has identified defects which makes it non-compliant also with some market claims standards, and in particular non-generation of market claims in cross-CSD settlements, as of its migration in September 2016.

[39] There are no data available per individual ESES markets

4.2 NBB-SSS

4.2.1 Restrictions on omnibus accounts

4.2.1.1 Status

Overall impact	MEDIUM
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The compliance status of the Belgian market with the T2S Harmonisation standard on Restrictions on Omnibus accounts is red. This is based on the fact that Investor CSDs (as well as other intermediaries) are required to implement mandatory account segregation throughout the holding chain due to the specific national legislation requiring to segregate holdings in dedicated accounts based on the underlying Belgian investor's withholding tax status (i.e. non-exempt or exempt accounts) Thus the Belgian market does not comply with the compliance criterion that Investor CSDs and other intermediaries should not be required to implement mandatory account segregation throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.[40]

Assessment of size/severity of impact: HIGH

The account segregation requirements in the Belgian market present a number of inefficiencies for Investor CSDs and their participants. These inefficiencies include several functional and non-standard operational challenges for T2S actors (e.g. Investor CSDs, intermediaries) which maintain accounts in NBB-SSS. In order for these actors to manage and execute cross-border transactions in T2S, they need to:

- Introduce IT developments/functional changes to their legacy platforms (See analysis in section 5.2.1.2 for more details);
- define and develop non-standard operational processes in order to handle cross-border settlement (See analysis in section 5.2.1.2 for more details);
- Replicate the restriction rules by NBB-SSS (in the Investor CSDs operations).

As a result of the above the severity of the impact for the T2S community is considered as high.

Assessment of expected frequency: LOW

[40] For more information, please see Sixth T2S Harmonisation Report, ch. 3.14: http://www.ecb.europa.eu/paym/t2s/progress/pdf/ag/sixth_t2s_harmonisation_progress_report.pdf

According to the information provided by NBB-SSS, the total number of cross-border instructions on non-exempt omnibus accounts is currently minimal (i.e. less than 50 instructions a year). There is only one active non-exempt investor CSD omnibus account in the books of NBB-SSS. Nevertheless, it is important to note that the currently affected cross-border volumes could change once all T2S markets have completed their migration to T2S.

As a result of the above the frequency/volume impact on the T2S community is considered as low.

Assessment of risk of non-achieving full compliance: HIGH

As of September 2016, there is still lack of a defined implementation plan by the Belgian market to achieve full compliance with the standard. A number of legal challenges, including possibly legislative ones, would need to be overcome in order to do so. Consequently, no solution is expected in the short term, especially considering the legal nature of the restriction. *As a result, the risk of non-achieving full compliance is considered as high.*

Overall impact assessment of non-compliance: MEDIUM

Although the severity and the risk of non-achieving full compliance are assessed as high, based on the current low cross-border volumes involved, the overall impact of this non-compliance on the T2S Community is assessed as medium. However, this assessment could change provided that the cross-CSD volumes on registered securities increase significantly in the future.

4.2.1.2 Detailed analysis

Table 6. Detailed impact analysis of non-compliance of Belgian market (NBBSSS) with T2S Harmonisation Standard on Restrictions on Omnibus accounts

NBB-SSS and Restrictions on Omnibus accounts	
T2S Standard Restrictions on Omnibus Accounts.	*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.* To comply with this standard a market has to ensure that i) appropriate services are offered by the Issuer CSD on Omnibus accounts (e.g. withholding tax and proxy voting) and ii) Investor CSDs and other intermediaries are not required to implement mandatory account segregation throughout the holding chain due to specific national legislation or market practice in the issuer CSD's market.
Non-compliance	The BE market (NBB-SSS) is not compliant with the T2S Harmonisation standard on Restrictions on Omnibus accounts due to the Belgian regulatory requirement for segregation of CSD accounts based on the withholding tax status of the investor. This requirement is also applicable

NBB-SSS and Restrictions on Omnibus accounts	
	on omnibus accounts maintained by the Investor CSDs in NBB-SSS. This results in the need for the segregation requirement to be replicated down the holding chain (i.e. Investor CSDs have to open two mirror accounts in their books) for the servicing of non-exempt Belgian investors by Investor CSDs. In particular, the BE market is not compliant with the second assessment compliance criterion of the standard (see above)
Consequences of non-compliance on T2S Community	The non-compliance of the Belgian market due to the segregation requirements according to the tax status of the account (i.e. tax exempt or non-exempt account holder) present a number of inefficiencies for Investor CSDs and their participants. These inefficiencies include several functional and operational challenges that may hamper the T2S key objective of facilitating efficient and harmonised cross-border settlement
How will this be solved?	According to the NBB-SSS analysis, any solution requires legislative change as it is related to the current taxation practice of managing withholding taxes on accrued interest on a pro rata temporis basis on securities holdings in non-exempt accounts.
Plan for compliance	At the moment, there is no corrective action planned by the Belgian market.
Impact of non-compliance on the different T2S actors	• **Investor CSDs connected to NBB-SSS** with non-exempt Belgian clients (participants) are forced to open two dedicated omnibus accounts at NBB-SSS. These account need to be mapped to two dedicated mirror accounts in their own books. They also need to replicate NBB-SSS's restriction rules in T2S in order to ensure that settlement instructions of non-exempt investors are only instructed on non-exempt accounts. • **Participants of the Investor CSD (and potentially their clients in the participants' books)** are forced to open two dedicated participant accounts in the Investor CSD depending on the withholding tax status of their clients. • **All actors involved in the holding chain**, may need to introduce IT developments/functional changes on their legacy platforms, e.g.: o Need to modify settlement legacy systems to support cross-border settlement on multiple mirror accounts for a single Issuer market[41]. o Need to introduce business validations at the legacy platforms to ensure that settlement instructions by non-exempt investors are only instructed on the relevant account. • **All actors involved in the holding chain (e.g. Investor CSDs, custodians)**, may need to define non-standard operational processes in order to handle cross-border settlement for Belgian non-exempt Investor CSDs' participants with the implied higher operational costs. For example: o Increased operational burden stemming from the setup of static data that might be non-standard (e.g. Setup of multiple

[41] In the current securities settlement European landscape, most of the cross-border settlement links operate with a single mirror account per Issuer CSD.

NBB-SSS and Restrictions on Omnibus accounts	
	accounts with their respective accounts links, setup of accounts on CSDs/participant legacy platforms including information on the withholding tax status of Belgian participants). o Increased account maintenance costs. It should be noted that currently this impact is limited: the number of relevant cross-CSD instructions is estimated to be less than 50 per annum and so far there is only one active non-exempt omnibus account of an Investor CSD opened in the books of NBB-SSS. Nevertheless, it is important to note that the affected cross-border volumes could change once all T2S markets have completed their migration to T2S.
Conclusion	Based on the above analysis, the AG is assessing the overall impact of the Belgian (NBB-SSS) non-compliance with the T2S harmonisation standard on omnibus account as medium. However, this assessment could change if the cross-CSD volumes on non-exempt securities accounts increase significantly in the future.

5. NL market

5.1 T2S CA Standards

5.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*MEDIUM*
Risk of not achieving full compliance	*MEDIUM*

Following its migration to T2S (12 September 2016), the Dutch market (EoC NL) does not comply fully with the T2S CA Standards on market claims, transformations and buyer protection. The reasons behind this implementation gap are the Euroclear Nederland's non-compliance with the underlying EU market standards[42] for elective CAs, identified defects on market claim processing after Euroclear Nederland's migration to T2S and lack of procedure enabling buyer protection for centrally cleared (including exchange traded) transactions.
The gap will have the following consequences:

- Market claims related on cross-border transactions and fractions on securities entitlements are not generated by Euroclear Nederland;
- Pending instructions, that need to be transformed are only cancelled and the transformed instructions are not generated by Euroclear Nederland;
- While buyer protection is available for OTC transactions in the Dutch market, it is not enabled for centrally cleared transactions.

As a consequence participants in investor CSDs, linked to Euroclear Nederland, are not able to process market claims, transformations and buyer protection instructions according to the T2S CA standards. The AG has assessed that this non-compliance translates in a high impact (severity) for CSDs in T2S and their participants, which have to support non-standard and manual processing for managing market claims, transformations and buyer protection instructions generated in the Dutch market.

Assessment of size/severity of impact: HIGH

As a consequence participants in investor CSDs, linked to Euroclear Nederland, are not able to process market claims, transformations and buyer protection instructions according to the T2S CA standards. The AG has assessed that this non-compliance translates in a high impact (severity) for CSDs in T2S and their participants, which have to support non-standard and

[42] Corporate Actions Joint Working Group (CAJWG) standards

manual processing for managing market claims, transformations and buyer protection instructions generated in the Dutch market.

Assessment of expected frequency: MEDIUM

In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear Nederland with CSDs already in T2S; however, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around 5 per day (i.e. in aggregate 1,250 transactions, or 2,500 instructions, will not be generated by the three ESES markets per year).[43] Furthermore, the Dutch market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (NL and non-NL ISINs).

Assessment of risk of non-achieving full compliance: MEDIUM

The plan of the Dutch market is to reach already in Q1 2017 compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) as well as with all buyer protection standards when the solution for centrally cleared transactions is implemented. Thereafter, it plans to achieve full compliance with all T2S CA standards in Q1 2018 (i.e. non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

Overall impact assessment of non-compliance: MEDIUM

5.1.2 Detailed analysis

Table 7: Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
T2S CA standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the Instruction Owner CSD (IOC) on all relevant instructions of its participants in T2S from its migration to T2S in September 2016 in accordance with the requirements of T2S CA Standards.
Non-compliance	The NL market is not compliant with the T2S CA standards in the following: - Market claims: Market claims related to cross-border transactions and those on fractions on securities entitlements are not generated

[43] There are no data available per individual ESES markets

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
	by Euroclear Nederland; - Instructions, that need to be transformed, are only cancelled and the replacement instructions are not generated; - While buyer protection is available for OTC transactions in the Dutch market, it is not enabled for centrally cleared transactions.
Consequences of non-compliance on T2S Community	The non-compliance of the Dutch market by its migration to T2S has the following consequences:
Scenario 1: ***Settlement between participants of Euroclear Nederland***	**Both NL and non-NL ISINs** Participants in Euroclear Nederland do not get all the service on corporate actions on flows and have to generate on a bilateral and manual basis the necessary transfers related to a few cases of market claims and all transformations. The Dutch market is also non-compliant with the buyer protection standards for centrally cleared transactions. Thus, foreign direct participants in Euroclear Nederland will have to manage a different process for settlements in Euroclear compared with the rest of the T2S markets.
Scenario 2: ***Settlement between participant in Euroclear Nederland and participant in another CSD***	**Both NL and non-NL ISINs** In addition to the effect of non-compliance above, for settlements when a participant of Euroclear Nederland is involved, Investor CSDs in T2S will not be able to manage market claims and transformations because Euroclear Nederland as the Issuer CSD will not be generating those in T2S. Therefore, participants of other CSDs in T2S have to manage the necessary securities/cash transfers on a bilateral and manual basis.
Scenario 3: ***Settlement between two participants in CSDs in T2S other than Euroclear Nederland***	**a) Settlement between participants of one Investor CSD** **NL ISINs** In the case of internal CSD settlement in NL ISINs on its books, the Investor CSD may decide what kind of service it will provide to its participants in the case of generation of CAs on flows. In this respect, the T2S CASG has provided a clarification[44] that for markets not compliant with the European market standards (CASWG) there is no requirement for CSDs in T2S for compliance with the T2S CA standards as they have to follow the processing of the Issuer CSD even if it is not compliant with the T2S CA standards. Otherwise there would be difference between the sum of proceeds received by the Investor CSD from the Issuer CSD and the sum of proceeds distributed to the Investor CSD participants, which will result in multiple issues.[45]

[44] Please refer to the summary of the CASG 30th meeting here: http://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg31/CASG_30th_summary_2013-10-21.pdf??6e112b38636c151308d496e4cc5443f7

[45] There are several possibilities for Investor CSDs:

i) to offer the same processing as the one at the Issuer CSD for the respective ISIN or to offer the same service as the default one for the local market which may in some cases differ from the one prescribed by the T2S CA standards.

ii) to generate market claims in accordance with the T2S CA Standards, in particular when processing the corporate action does not result in adverse effects for the Investor CSD.

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
	Non-NL ISINs No securities movements will happen in Euroclear Nederland. Thus for such non-NL ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **b) Cross-CSD settlement in T2S not involving movements on securities accounts at Euroclear Nederland** **NL ISINs** In this case two different Investor CSDs are involved in managing the CA on flow. Each of the Investor CSDs may decide to manage the corporate action according to one of several options available[45]. Therefore, it could be that the two different Investor CSDs involved may have a different default option how to proceed in these cases and there is a risk that the CA on flow cannot be managed by CSDs in T2S. **Non-NL ISINs** No securities movements will happen in Euroclear Nederland. Thus for such non-NL ISINs corporate actions on flow will be processed according to the T2S CA Standards if the Issuer CSD is following the standards. **c) Cross-CSD settlement in T2S involving movements on securities accounts at Euroclear Nederland** **NL and non-NL ISINs** For cross-CSD transactions between participants of different Investor CSDs involving movements on securities accounts in Euroclear Nederland (because of realignments), the respective Investor CSDs have to replicate the processing of the corporate action by Euroclear, which will not be raised fully in accordance with the T2S CA Standards.
How will this be solved?	This will be solved with the full implementation of T2S CA Standards, including necessary technical adaptations of Euroclear systems to fully implement the CAJWG standards (Custody Service Evolution stream 6). Compliance with all buyer protection standards will be achieved when the solution for centrally cleared transactions is implemented.
Plan for compliance	The plan of the Dutch market is to reach compliance with T2S CA Standards having high impact on the T2S Community (generation of market claims on cross-CSD instructions and generation of the replacement transactions for more than 99.9% of transformations) as well as with all buyer protection standards in Q1 2017. Thereafter, it plans to achieve full compliance with all T2S CA standards in Q1 2018 (non-generation of market claims in case of fractions on stock distributions and non-generation of transformations in certain events).

iii) the CSD may decide not to offer any CA on flow services for ISINs from markets non-compliant with the T2S CA Standards. In this case, the respective corporate action has to be managed by the parties to the transaction or their custodians/account operators at the Investor CSDs.

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
Impact of non-compliance on the different T2S actors	The following effects have been identified for the different actors in T2S: **<u>Participants of Euroclear Nederland:</u>** They will have to generate the necessary transfers on a manual and bilateral basis in order to manage the non-generation of market claims in some scenarios and the non-generation of replacement instructions by Euroclear. Alternatively they can rely on Euroclear Nederland to provide users with workaround solutions and/or additional support minimizing the consequences of non-compliance. In addition, they have to manage buyer protection for centrally cleared transactions on a bilateral basis **<u>Participants in CSD(s) in T2S, which settle both NL (via CSD links) and non-NL ISINs:</u>** Such participants in other CSDs have to manage two different processes: 1) For transactions involving NL ISINs they will rely on the service they will get from their CSD (if any) for processing of market claims, transformations and BP on centrally cleared transactions (Scenarios 3a and 3b above). However, in case of cross-CSD settlements differences of the CA management service provided by the two CSDs of the counterparties may result in the need to bilaterally manage market claims, transformations and BP on centrally cleared transactions with their counterparty, which will be the case also in Scenario 2 above. 2) For transactions involving non-NL ISINs with participants of other CSDs in T2S, automatic generation of market claims and transformations according to the T2S CA Standards on elective events will work in cross-CSD transactions (Scenario 3a and 3b above) if the respective Issuer CSD for that ISIN is following the T2S CA Standards. **<u>CSDs in T2S with direct or relayed CSD link to Euroclear Nederland:</u>** 1) CSDs in T2S, which can settle NL ISINs, will not generate market claims and transformations (both in Scenario 2 and Scenario 3c above) as the Issuer CSD is not following the T2S CA Standards. 2) CSDs in T2S, which settle non-NL ISINs, will generate market claims and transformations in accordance with the T2S CA Standards. However, such market claims and transformations, when a participant of Euroclear Nederland is part of the cross-CSD transaction in Scenario 2 above, will not match as the market claims and the transformed instructions will not be generated by Euroclear Nederland in this scenario.
Conclusion	In summary, the negative effects are concentrated mainly on participants of Euroclear Nederland, including foreign direct participants, which have to manage some market claims and all transformations on a bilateral and manual basis with their counterparties. Similarly, buyer protection for centrally cleared transactions is more difficult to manage. The effect is worse in the case of cross-CSD transactions, in which at least one counterparty to

Detailed impact analysis of non-compliance of Dutch market with T2S CA Standards	
	the transaction is a participant in Euroclear Nederland, as in this case in addition to the non-compliance above, also market claims are not generated by Euroclear on cross-CSD settlements. When transactions in NL ISINs do not result in settlement on the books of Euroclear Nederland, the respective Investor CSDs can decide to provide additional CA management services. However, there is a risk that if two Investor CSDs are involved in a cross-CSD settlement that they offer a different service for managing corporate actions on flow with NL ISINs to their participants and thus no automated management of CAs on flow is possible in this case. Overall, the above analysis shows that there is non-negligible negative impact of the non-compliance of the Dutch market with the T2S CA standards. In terms of the affected volumes, the impact of the non-compliance on market claims with regards to cross-CSD transactions cannot be estimated as no historical figures are available. Furthermore, it is expected to be only marginal as the number is limited by the few CSD links (existing and to be established by the time of compliance with this standard - March 2017) of Euroclear Nederland with CSDs already in T2S; however, the impact will increase as more CSDs move to T2S. As for non-compliance on transformations, the number of transactions to be transformed is estimated to be around 5 per day (i.e. in aggregate 1,250 transactions, or 2,500 instructions, will not be generated by the three ESES markets per year).[46] Furthermore, the Dutch market will achieve compliance with the transformations standards for more than 99.9% of the affected volumes by March 2017. There are no statistics yet on the number of affected settlement instructions (NL and non-NL ISINs).

T2S Board decision on the non-compliance of the Dutch market	
February 2016 T2S Board decision	The MIB (then T2S Board), based on information provided by the Dutch market, agreed on an overall medium impact regarding its non-compliance on the rest of the T2S Community. In this respect, it had agreed on the following measures with regards to the non-compliance of the Dutch market: • raise awareness of the impact analysis results to the Dutch market; • monitor (via the ECB team) the implementation plan of the Dutch market.

Monitoring of Dutch market non-compliance	
ECB team monitoring	The Dutch market communicated that, in addition to not complying with the transformations and buyer protection standards, it has identified defects

[46] There are no data available per individual ESES markets

results (status: October 2016)	which makes it non-compliant also with some market claims standards, and in particular non-generation of market claims in cross-CSD settlements, as of its migration in September 2016.

6. SK market

6.1 T2S Matching Fields

6.1.1 Status

Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Slovakian market does not comply with the T2S matching fields standards after its migration to T2S.

The non-compliance is due to the long standing market practice in which securities can exist in co-ownership resulting out of inheritance. Because of that the Slovakian market uses two matching fields in the legacy matching engine of the Slovakian CSD (CDCP) in addition to the matching fields described in the T2S UDFS. These matching fields are “securities transaction type code” and “identification of securities co-ownership”. In the situation when a security in co-ownership is subject to a transaction, both parties have to provide the information in their settlement instructions. If this is not the case, cross-matching may happen and the buyer would receive securities in co-ownership without knowing it or being willing to do so. This could lead to disputes with serious legal consequences.

Assessment of severity of impact (qualitative): LOW

The matching on the two other fields required for processing instructions in securities held in co-ownership in the Slovakian market is not supported by T2S. DCPs and investor CSDs cannot instruct T2S for transactions in securities that are held in co-ownership using direct connectivity but have to do it in ICP mode. Thus they need to be participants of CDCP and maintain separate process for sending settlement instructions in securities that are held in co-ownership. DCPs and investor CSDs, which are not participants of the Slovakian CSD, will not be able to send instructions involving securities held in co-ownership. However, the impact can be considered low for DCPs and Investor CSDs, which decide not to engage in cross-border business with securities held in co-ownership in the Slovakian CSD.

Assessment of expected volume/frequency (quantitative): LOW

According to CDCP the total number of transactions in 2014 and 2015 that involved securities in co-ownership was 38 and 20 respectively. For the year 2014 and 2015 these transactions represented 9 and 6 ISINs respectively.

Assessment of risk of non-achieving full compliance: HIGH

Changing the market practice will require changes in domestic legislation. Local regulators have rejected any initiative to change the market practice.

Overall impact assessment of non-compliance: LOW

6.1.2 Detailed analysis

Table 8. Detailed impact analysis of non-compliance of the Slovakian market with T2S Standards on matching fields

T2S matching fields	T2S actors are required to use as matching fields only the ones described in the T2S system specifications, available on the T2S website
Non-compliance	The Slovakian market is using in its legacy matching engine, matching fields that are not part of the list of matching fields as prescribed in the UDFS. These matching fields are "securities transaction type code" and "identification of Securities Co-ownership". *(In the Slovakian market co-ownership of securities is recognised by law. Securities in co-ownership are identified by their ISIN as well as a co-ownership identifier. In the situation when a security held in co-ownership is subject to a transaction, both parties have to provide the information in a dedicated field in the settlement instructions, sent to the Slovakian CSD, so that buyer and seller are both aware that the security being traded is subject to co-ownership. If this is not the case, cross-matching may happen and the buyer would receive securities in co-ownership without knowing this or being willing to do so. This could lead to disputes with serious legal consequences.)* <u>Processing of securities in co-ownership in CDCP systems</u> Securities in co-ownership and pledged securities are always settled on CDCP internal system. Such settlement instructions have to be entered to CDCP internal system, since they are market specific operations (=service is not accessible for DCPs in T2S). Layered model approach is used. Therefore it depends on the combination of account and counterparties account, whether the instruction is settled also in T2S or not. If both accounts from CDCP internal system are mapped to 1 (=identical) account in T2S, then there is no settlement in T2S (thanks to layered model), otherwise the instruction is settled in T2S and afterwards the result is recorded/confirmed in CDCP internal system. (In case of DvP in CDCP internal system with identical securities

	account in T2S but when two DCAs are involved then we initiate in T2S only PFOD transfer – free of delivery.) It is important to note that CDCP internal system modifies the instruction before sending it to T2S for settlement: - Correct T2S accounts are used - Correct securities transaction type code expressed as ISO 20022 code is used (we replace our proprietary code for pledge securities with ISO code that is accepted in T2S) - Co-ownership identificators are omitted since T2S doesn't understand them
Consequences of non-compliance on T2S Community	For DCPs and investor CSDs these restrictions will create barriers and market access issues, as they will not be able to instruct T2S directly for providing these services in Slovakian market. ICPs in the Slovakian market will need to mandatorily input these matching fields to instruct CDCP for providing services relating to securities in co-ownership.
How will this be solved?	This will require changes to the current market practice of having securities in co-ownership. As these practices are enforced by domestic legislation, their removal will require new legislation to be adopted.
Plan for compliance	Currently there are no plans for compliance as the responsible authorities are not willing to make any changes relating to this market practice.
Impact of non-compliance on the different T2S actors	DCPs and investor CSDs cannot instruct T2S for transactions in securities that are held in co-ownership using direct connectivity but have to do it in ICP mode. Thus they need to maintain separate process for sending settlement instructions in securities that are held in co-ownership. DCPs and investor CSDs, which are not participants of the Slovakian CSD, will not be able to send instructions involving securities held in co-ownership.
Conclusions	The usage on the Slovakian market of two matching fields, on top of those described in the T2S UDFS, in settlement instructions, in which securities subject to the transaction are held in co-ownership, will force DCPs and investor CSDs, providing settlement in such securities to send their instructions in ICP mode. For DCPs and investor CSDs, which are not participants of the Slovakian CSD, the presence of these extra matching fields will create market access issues.

T2S Board decision on the non-compliance of the Slovakian market	
February 2016 T2S Board decision	On 22 February 2016, the MIB (then T2S Board) agreed on an overall low impact on the rest of the T2S Community. In addition it decided to: • raise awareness of the impact analysis results (by means of the AG publishing the Impact Analysis Report); • monitor (via the ECB team) the implementation plan of the Slovakian market.

7. HU market

7.1 T2S CA Standards

7.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*MEDIUM*

The Hungarian market does not fully comply with the T2S CA standards following its migration to T2S. The non-compliance is only on market claims on transactions in equities, which will not be detected and generated after Hungarian's market migration to T2S. Furthermore, in order to manage complexities arising from initial migration to T2S in U2A mode, the Hungarian market has agreed by default to opt-out of generation of market claims and transformations till the introduction of their new system, which would allow A2A interaction with T2S and enhance the management of CAs on flow.

Assessment of severity of impact (qualitative): HIGH

In the period until KELER's A2A system is launched, the counterparties have to inform KELER for each transaction, for which they would like CAs on flow to be generated. In addition, manual intervention will be required by CSD participants in KELER or in Investor CSDs in KELER (in limited number of scenarios) to detect and generate market claims on transactions in equities bilaterally where relevant. Similarly, in some cross-CSD transactions, this would require the Investor CSD to either i) recognise the scenarios where the Hungarian market infrastructures will not generate market claims or ii) cancel the already generated market claim which will not match due to the fact that the Hungarian market infrastructures will not generate their leg. Thus the qualitative impact on the T2S Community is estimated to be high.

Assessment of expected volume/frequency (quantitative): LOW

The number of settlement instructions impacted, i.e. the expected volume of non-generated market claims, is estimated to be very low. This is due to the fact that in practice almost all market claims that would need to be generated involve cash entitlements in the domestic currency (HUF), i.e. they have to be generated outside T2S. As a result, only transactions involving securities entitlements or cash entitlements in EUR will be affected. The following estimates have been provided by the Hungarian market on the affected volumes:

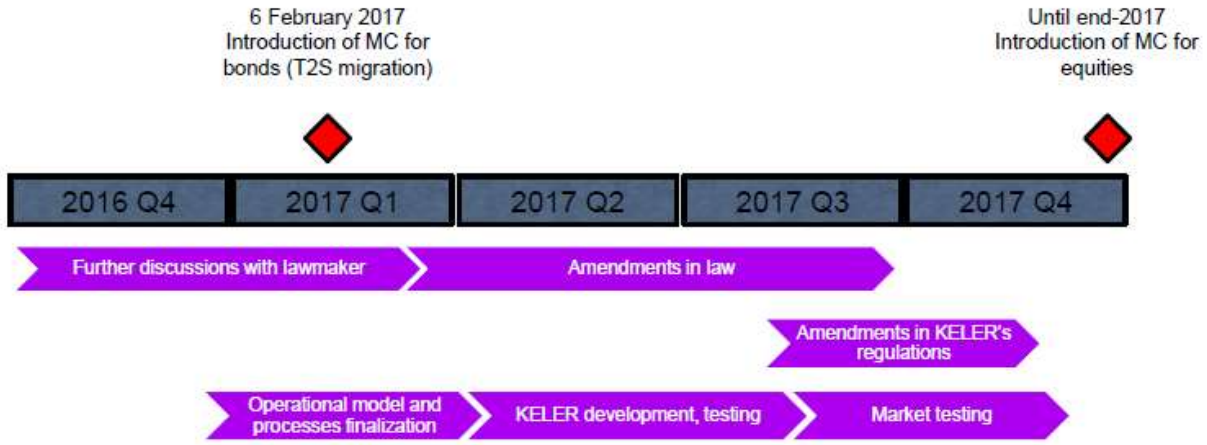
- For HU-ISINs the estimated number of settlement instructions impacted by market claim and transformations – for FOP and HUF DVP pending transactions on RD around 400-

600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF)

• For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 was 0 for the most liquid foreign equities traded in Hungary.

Assessment of risk of non-achieving full compliance: MEDIUM

The opt-out field will be populated by the counterparties, and not with a default opt-out indicator, as of the introduction of KELER's new system on 3 July 2017. The Hungarian market has a detailed plan to achieve full compliance with T2S CA standards, in particular on raising market claims on equities, by end 2017:



The non-compliance will be solved by amendments in HU legislation and KELER's regulations as well as IT developments of KELER's system. The market is clear on what needs to be changed in the legislation and authorities are cooperating.

Overall impact assessment of non-compliance: MEDIUM

7.1.2 Detailed impact analysis

In the context of the regular CASG gap analysis exercise, reviewing compliance of the HU market with the T2S CA Standards, the T2S Harmonisation team received in September 2016 confirmation from the HU NUG that it will not be fully compliant with the T2S CA Standards as of its migration to T2S.

Details of the impact analysis of non-compliance of the HU market are provided below.

Table 9. Detailed impact analysis of non-compliance of the HU market with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the Hungarian

	market's migration to T2S in February 2017 in accordance with the requirements of T2S CA Standards.
Non-compliance	The non-compliance of the Hungarian market is only on market claims on transactions in equities, which will not be detected and generated after Hungarian's market migration to T2S. Furthermore, in order to manage complexities arising from initial migration to T2S in U2A mode, the Hungarian market has agreed by default to opt-out of generation of market claims and transformation till the introduction of their new system, which would allow A2A interaction with T2S and enhance the management of CAs on flow.
Consequences of non-compliance on T2S Community	Manual intervention will be required by CSD participants in the Hungarian and other markets to detect and generate market claims bilaterally where relevant for intra-CSD settlements in KELER or cross-CSD settlements, where at least one participant of KELER is involved in a transaction. Furthermore, in the relevant cross-CSD settlements, where at least one participant of KELER is involved in a transaction, this would require the Investor CSD to either i) recognise the scenarios where the Hungarian market infrastructures will not generate market claims or ii) cancel the already generated market claim which will not match due to the fact that the Hungarian market infrastructures will not generate their leg.
How will this be solved?	The non-compliance will be solved by amendments in HU legislation and KELER's regulations as well as IT developments of KELER's system.
Plan for compliance	The opt-out field will be populated by the counterparties, and not with a default opt-out indicator, as of the introduction of KELER's new system on 3 July 2017. Furthermore, the Hungarian market has a detailed plan to achieve full compliance with non-generation of market claims on equities by the end of 2017, which has the following elements: • *Further discussions with lawmaker (to be completed by 28/02/2017)* • *Amendments in law (01/03/2017-30/09/2017)* • *Amendments in KELER's regulations (15/08/2017-15/11/2017)* • *Operational model and processes finalization (01/01/2017-31/03/2017)* • *KELER development, testing (01/04/2017-15/08/2017)* • *Market testing (16/08/2017-30/11/2017)* • *Introduction of MCs for equities (to be completed by 31/12/2017)*
Impact of non-compliance on the different T2S actors	The negative externalities of non-compliance are concentrated on Hungarian market participants, as well as, in much smaller measure, CSD participants in CSDs other than KELER, which will not be offered automatic CA on flow services for transactions in equities in accordance with the T2S CA standards and instead will have to manually detect and generate market claims. However, this non-compliance will have limited impact on T2S as mostly it is related to dividend payments in HUF, which are processed outside T2S. With regards to cross-CSD settlements in equities, involving participants of KELER and those of other CSDs, both for HU and non-HU ISINs, the Investor CSDs (in KELER) involved may have to apply to manual procedures or minimal IT developments in order to manage the non-

	compliance of the HU market. The number of settlement instructions impacted, i.e. the expected volume of non-generated market claims, is estimated to be very low. This is due to the fact that in practice almost all market claims that would need to be generated involve cash entitlements in the domestic currency (HUF), i.e. they have to be generated outside T2S. As a result, only transactions involving securities entitlements or cash entitlements in EUR will be affected. The following estimates have been provided by the Hungarian market on the affected volumes: • For HU-ISINs the estimated number of settlement instructions impacted by market claim and transformations – for FOP and HUF DVP pending transactions on RD around 400-600 per year for equities (mostly dividend payment in HUF) and 100-200 per year for bonds (mostly interest payments in HUF) • For non-HU ISINs the volume of settlement instructions that would have been affected during 2016 so far was 0 for the most liquid foreign equities traded in Hungary.
Conclusions	The HU market infrastructures do not generate market claims on all settlements related to equities after the migration of KELER to T2S. Furthermore, the default will be to opt-out of market claims and transformations until KELER implements its new system. This will result in the need for manual processes or some IT developments by participants in KELER or those in other CSDs as well as Investor CSDs in KELER. Based on the above, the overall impact of HU market non-compliance on the rest of the T2S Community is assessed as medium.

7.2 T2S Matching Fields

7.2.1 Status

Overall impact	**LOW**
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*LOW*

The Hungarian market does not comply fully with the T2S standard on matching fields after its migration to T2S (6 February 2017). The non-compliance is limited to intra-CSD settlements, where KELER will continue to follow its current matching practices in its legacy platform before sending the instructions to T2S in an already matched status.

Assessment of severity of impact (qualitative): LOW

Due to the Hungarian market's set-up in T2S, in which only against payment instructions in euro will be migrated to T2S, the non-compliance is relevant only for this subset of transactions. It is also important to note that the non-compliance is not due to the usage of some market specific matching fields on the Hungarian market but due to the fact that KELER

does not yet use some of the T2S matching fields, or uses some others in a different way compared to T2S, when it does matching in its legacy platform. In particular the changes needed to fully comply with the T2S standard that KELER will introduce in its new system are the following:

- *trade date needs to become a mandatory matching field;*
- *BIC codes need to be used instead of proprietary KELER codes;*
- *opt-out and ex-cum indicators need to be introduced as additional matching fields;*
- *common trade reference needs to be introduced as an optional matching field;*
- *counterparty's account number needs to become optional and not mandatory matching field.*

As a consequence for some T2S matching fields KELER will use a default value: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as already matched. It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well. However, if one leg of the transaction is instructed directly in T2S (DCPs' or cross-CSD instructions), then matching will take place in T2S.

As a result of this the only ones that would be affected are the HU market participants, which would have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S.

Assessment of expected volume/frequency (quantitative): LOW

The number of affected transactions (all EUR DVP settlements) is expected to be 300-500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes.

Assessment of risk of non-achieving full compliance: LOW

When considering the overall impact, it should be taken into account that the Hungarian market has committed to comply with this standard for all settlements as of 3 July 2017.

Overall impact assessment of non-compliance: LOW

7.2.2 Detailed impact analysis

Details of the impact analysis of non-compliance of the HU market are provided below.

Table 10. Detailed impact analysis of non-compliance of the HU market with T2S Standard on matching fields

T2S Standard on	T2S actors are required to use as matching fields only the ones described in the relevant T2S system specification documents[47].

[47] See T2S UDFS (Section 1.6.1.2).

matching fields	
Non-compliance	The non-compliance is limited to intra-CSD settlements, where KELER will continue to follow its current matching practices in its legacy platform before sending the instructions to T2S in an already matched status.
Consequences of non-compliance on T2S Community	It is important to note that the non-compliance is not due to the usage of some market specific matching fields on the Hungarian market but due to the fact that KELER does not yet use some of the T2S matching fields, or uses some others in a different way compared to T2S, when it performs matching in its legacy platform. In particular the changes needed to fully comply with the T2S standard that KELER will introduce in its new system are the following: • *trade date needs to become a mandatory matching field;* • *BIC codes need to be used instead of proprietary KELER codes;* • *opt-out and ex-cum indicators need to be introduced as additional matching fields;* • *common trade reference needs to be introduced as an optional matching field;* • *counterparty's account number needs to become optional and not mandatory matching field.* As a consequence for some T2S matching fields KELER will use a default value: opt-out indicator (NOMC), ex-cum indicator (blank), common trade reference (blank), Client of the CSD participant (blank) when the instruction is submitted to T2S for settlement as already matched. It should be mentioned that even if the default value of the opt-out field will be NOMC, the counterparties could indicate to KELER that this field is blank as well. As a result of this the only ones that would be affected are the HU market participants, which would have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S. Thus there is minor impact on KELER's participants. However, if one leg of the transaction is instructed directly in T2S (DCPs' or cross-CSD instructions), then matching will take place in T2S. Thus there is no impact on such instructions on the T2S Community.
How will this be solved?	KELER is developing and will launch a new IT system, which will fully comply with the T2S standard on matching fields.
Plan for compliance	KELER plans to launch its new system, which will be fully compliant with the T2S standard on matching fields, on 3 July 2017.
Impact of non-compliance on the different T2S actors	The impact on the T2S Community is considered low. This is because the non-compliance will not have an impact on instructions sent by DCPs and those used in cross-CSD settlements. In effect, the impact is concentrated only on KELER's participants, which would have to support two different processes for matching when they are settling in KELER and for their cross-CSD settlements in T2S. The number of affected transactions (all EUR DVP settlements) is expected to be 300-500 (i.e. between 600 and 1,000 instructions) per year based on 2016 volumes.
<u>Conclusions</u>	Based on the above, the overall impact of HU market non-compliance on the rest of the T2S Community is assessed as low.

8. LU market

8.1 LuxCSD

8.1.1 Status

Overall impact	LOW
Severity (qualitative)	*LOW*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Luxembourgish market (LuxCSD) is not fully compliant with the T2S CA standards after its migration to T2S on 6 February 2017.

Assessment of severity of impact (qualitative): LOW

The implementation gap is on compliance with market claims standards no. 19 and 23. In particular, LuxCSD detects the market claims according to the requirements of the T2S CA Standards. However, it generates and sends the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the standards). This practice is followed for market claims on all transactions settled on the accounts in LuxCSD irrespectively of the underlying ISIN. The reasoning of the LU market for applying this process is that it: i) guarantees the current quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.

Assessment of expected volume/frequency (quantitative): LOW

According to the volume projection provided by the LU NUG, daily occurrence of market claims is not expected, i.e. the estimate is that the affected settlement instructions will be less than 1,000 settlement instructions per year. This is assessed to have a low quantitative impact to the rest of the T2S community (for the methodology see Annex 1).

Assessment of risk of non-achieving full compliance: HIGH

The LU market (LuxCSD) does not currently have a plan to achieve full compliance with the T2S CA Standards. However, it plans to re-assess the need and feasibility to fully comply with the T2S CA Market Claim standards 19 &23 in the course of 2018.

Overall impact assessment of non-compliance: LOW

8.1.2 Detailed analysis

Table 11. Detailed impact analysis of non-compliance of the Luxembourgish with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the LU market (LuxCSD) market's migration to T2S in February 2017 in accordance with the requirements of T2S CA Standards.
Non-compliance	The implementation gap is on compliance with market claims standards no. 19 and 23. In particular, LuxCSD detects the market claims according to the requirements of the T2S CA Standards. However, it generates and sends the market claims instructions for settlement to T2S only after the underlying transactions have settled (instead of immediately after detection of the market claim as required by the standards). This practice is followed for market claims on all transactions settled on the accounts in LuxCSD irrespectively of the underlying ISIN. The reasoning of LuxCSD for applying this process is that it: i) guarantees the current quality/level of service to their customers and ii) it mitigates the risk of errors or even abuse in case of non-settlement of the underlying transactions.
Consequences of non-compliance on T2S Community	The main consequence on the T2S Community is that all market claims, for which LuxCSD is the IOC, are generated only after the settlement of the underlying instructions, which results in delays of their settlement.
How will this be solved?	The LU market (LuxCSD) does not currently have a plan to achieve full compliance with the T2S CA Market Claims Standards 19 & 23.
Plan for compliance	LuxCSD plans to re-assess the need and feasibility to fully comply with the T2S CA Market Claims Standards 19 & 23 in the course of 2018.
Impact of non-compliance on the different T2S actors	The impact on the T2S Community is considered low. This is because the non-compliance only results in delays of the settlement of market claims, which impacts only the LuxCSD participants and their counterparties to affected transactions, which are participants in other CSDs.
<u>Conclusions</u>	Even if LuxCSD does not yet have a plan to achieve full compliance with the T2S CA Standards, the impact of its non-compliance results only in delays of settlement of the market claims, which are generated fully in accordance with the T2S CA Standards.

9. DK market

9.1 T2S CA Standards

9.1.1 Status

Overall impact	**MEDIUM**
Severity (qualitative)	*HIGH*
Expected volume/frequency (quantitative)	*LOW*
Risk of not achieving full compliance	*HIGH*

The Danish market does not comply fully with the T2S CA standards after its migration to T2S on 12 September 2016.

The implementation gap is with regards to:

a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S.

b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.

More specifically, with regards to non-compliance with MC standard 10, VP will not detect market claims caused by events involving DK ISINs with DKK CA payments during the interim solution of VP (applied for the time from migration wave 3 to when DKK will be made available for T2S settlement, i.e. currently scheduled for October 2018).

Assessment of severity of impact (qualitative): HIGH

As a consequence of the above, investor CSDs connected to VP DK, have to decide on what type of CA transaction management service they wish to provide to their participants or alternatively leave it to them to manage bilaterally with their counterparties market claims in DK ISINs, which are paying CAs in DKK. This compliance gap has a high qualitative impact from a competition perspective as it will result in an un-level playing field for the foreign entities connected to VP (investor CSDs and market participants). However, the quantitative impact is expected to be limited because of the technical limitation to settle only CA securities entitlements with DK ISINs in T2S (since DKK CA cash entitlements cannot be settled anyway in T2S).

As for market claims standard 14, VP uses one, and only one, rate for all market claim concerning ISINs that VP acts as Issuer CSD. Also in principle when VP acts as an investor CSD, VP operates with the rate specified by the respective issuer CSD as specified by the standard. However, there is one exception to that rule for 2 specific ISINs (Shares: Nordea and SAS, blue chips, traded and settled in DKK, CCP cleared), which are issued in Euroclear Sweden, but also technically issued in VP (VP does not have a link agreement with Euroclear

Sweden), and handled in accordance with a special agreement between VP and the Swedish tax authorities, Skatteverket. This set-up means that for these two ISINs, VP applies the Danish tax rate and not the Swedish one as required by the standards. This will result in the need of its participants to support a different process for these ISINs.

Assessment of expected volume/frequency (quantitative): LOW

According to statistics provided by VP DK, there were no settlement instructions affected by the non-compliance with the T2S CA standards described above since its migration to T2S in September 2016.

Assessment of risk of non-achieving full compliance: HIGH

The DK market has a plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S (currently scheduled for October 2018). However, it does not have a plan to resolve the non-compliance with market claims standard 14.

Overall impact assessment of non-compliance: MEDIUM

9.1.2 Detailed analysis

Table 12. Detailed impact analysis of non-compliance of the Danish market with T2S CA Standards

T2S CA Standards	Corporate Actions on flows (i.e. market claims and transformations) should be detected and raised by the market infrastructures on all relevant instructions of their participants in T2S from the DK market migration to T2S in September 2016, in accordance with the requirements of T2S CA Standards.
Non-compliance	The implementation gap is with regards to: a) market claim standard 10, where market claims are not generated for transactions in securities serviced in Danish Kroner (DKK) which are settled on T2S. b) market claim standard 14 where the correct tax rate is not applied for market claims on some securities, which are issued in other CSDs.
Consequences of non-compliance on T2S Community	VP/other CSD participants will have to generate bilaterally any market claims related to securities outturns on DK ISINs being serviced in DKK. In addition, VP/other CSD participants to support a different process for the two SE ISINs being serviced with the DK tax rate.
How will this be solved?	The DK market has a plan to achieve full compliance with market claim standard 10 as of the moment DKK is made available in T2S (currently scheduled for October 2018). However, it does not have a plan to resolve the non-compliance with market claims standard 14.

Plan for compliance	See above
Impact of non-compliance on the different T2S actors	VP/other CSD participants will have to generate bilaterally any market claims related to securities outturns on DK ISINs being serviced in DKK. This will have significant impact when occurs but in practice the impact is mitigated by the very rare occurrence of such events. In addition, VP/other CSD participants to support a different process for the two SE ISINs being serviced with the DK tax rate. This will have a low impact. Overall, it should be mentioned that from the time of migration of VP DK to T2S, there were no occurrences of the non-compliance situations described above which mitigates the impact of the non-compliance.
Conclusions	The overall impact of the DK market non-compliance is expected to be medium, impacting mainly DK market participants for DK ISINs, paying income in DKK as well as two SE ISINs, which are being processed like DK ISINs by VP DK. However, the impact is expected to become low after compliance with the T2S CA Standards for DK ISINs, which are being serviced in DKK.