Milano, 3 aprile 2017 - Seminario Assosim-Academy LSE: “Target2 Securities: la nuova piattaforma di regolamento e i nuovi scenari per il post trading”

Report EPTF
Le barriere Giovannini sono ormai soltanto un ricordo?

Marcello Topa, EMEA Market Policy and Strategy Director, Citi
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  - Mandatory Clearing, Trade Reporting, Resolution strategies
- **T2S today and tomorrow / ECB “Vision 2020”**
  - T2S Release 2.0; New RTGS, ECMS, EIS
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Post-Trade Securities Services – Business Ecosystem

Pre-Trade and Trade
- Research Analytics and Risk Management
- Order Entry and Execution

Post-Trade
- Clearing
- Settlement
- Custody and Asset Servicing
- Financing
- Accounting Admin, Transfer Agency, Trustee Services
- Investor Services

Reporting
Focus on Safety and Soundness
Risk Dynamics

Exposure to Counterparties
Capital Clearing Collateral

Market Operations
Systems Settlement Service Providers

Impact Themes
Evolving Market Infrastructures
Costs
Risks
Operations & Technology

Securities Market Infrastructure
Trading
Stock Exchanges
MTFS, OTFs, ATF (Trading Facilities)

Clearing
Central Counterparties (CCPs)

Settlement
Central Securities Depositories (CSDs)
Trade Repositories (TRs: OTC Deriv.)

Financial Intermediaries
• Investment Banks
• Brokers/Dealers
• Asset Managers

• Intermediary Banks
• Clearing Members (ICM/GCM)
• Collateral Management

• Depository Banks
• Settlement Agents
• Registrars
• I / CSDs

BaseL III

Dodd Frank
Volcker Rule

FATCA

AIFMD / UCITS V

CSD-R / SLD

ECB T2S

EU FTT

EMIR

R&R for FMIs

MIFID II

Citi
### EU Regulation and Its Current Impact

Regulatory tone is changing: focus on “Better Regulation” and forward-looking initiatives

Some key themes impacting post-trade securities services

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<td>• Various options</td>
<td>• Giovannini Barriers (2001-2003)</td>
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<th><strong>SLL (?)</strong></th>
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<td>• Corporate governance (shareholder transparency &amp; active participation)</td>
<td>• EU Digital Single Market</td>
<td>• Legal certainty, Conflicts of law</td>
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<td>• Issuers demand for transparency</td>
<td>• RegTech vs FinTech</td>
<td>• Harmonised EU “Securities Law”</td>
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<td>• Intermediaries role</td>
<td>• Regulatory Sandboxing</td>
<td>• Securities ownership rules</td>
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<td>• Flexibility and choice</td>
<td>• Digital Identity</td>
<td>• Exercise and transfer of rights</td>
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<td>• Close-Out Netting</td>
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2. EC: CMU & EPTF
European Commission’s Capital Markets Union

European Commission published a “Green Paper” on 18/02/2015

From Commissioner Jonathan Hill’s presentation:

- “The Commission’s priority – Europe’s priority – is jobs and growth. To get Europe growing again, our challenge is to unlock investment in Europe’s companies and infrastructure. The €315bn investment package will help to kick start that process. But to strengthen investment for the long term, we need to build a true single market for capital – a Capital Markets Union for all 28 Member States.”

- “Stronger capital markets would complement banks as a source of financing, and would:
  - unlock more investment for all companies, especially SMEs, and for infrastructure projects;
  - attract more investment into the EU from the rest of the world; and
  - make the financial system more stable by opening up a wider range of funding sources.”

CMU Action Plan launched by Commissioner Hill on 30/09/2015

- “… try to make existing markets work better, to take a number of pragmatic, incremental steps to get funding to where it is needed most: to long-term investment projects, for example to infrastructure and to our SMEs”.

- While taking stock of the impact of the reform of the last several year and revising legislation where appropriate: “… now is a sensible time to take stock of the overall impact of regulation, in particular the legislation of the last five years, and look at it through the prism of jobs and growth. In other words, to carry out a reality check. To make sure that we have got the balance right between reducing risk and fostering growth.”

Communication from the EC: ‘Capital Markets Union - Accelerating Reform’ on 14/09/2016

- “The Commission will accelerate its work to remove barriers in the post-trading environment.”

- “The success of CMU can only be ensured if Member States are determined to work to dismantle the unjustified national barriers to the free movement of capital”.

For Post-Trading Sec Services, important opportunity to focus on “facilitating cross-border investing”:

- Legal certainty and market infrastructure for cross-border investing
- Removing national barriers to cross-border investment
- Promoting financial stability and supervisory convergence
- Facilitating international investment
European Commission’s Capital Markets Union

**CMU = 33 actions in 6 areas:**

- Innovation, start-ups & SMEs
- Public markets
- Infrastructure projects & sustainability
- Bank lending
- Investment
- Integration & stability

**Removing barriers to x-border capital**

<table>
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<tr>
<th>Topic</th>
<th>Action</th>
<th>Next step:</th>
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<tr>
<td>Cross-border tax barriers</td>
<td>Streamline withholding tax refund procedures</td>
<td>• Pursue discussions with Member States</td>
</tr>
<tr>
<td>Business restructuring &amp; insolvency</td>
<td>Increase clarity &amp; predictability to avoid abuse &amp; enhance x-border investor certainty</td>
<td>• Consultation March 2016</td>
</tr>
<tr>
<td>Post-trade landscape</td>
<td>Review upon legislative &amp; market infrastructure developments</td>
<td>• European Post-trade Forum</td>
</tr>
<tr>
<td>Securities ownership &amp; debt assignment</td>
<td>Clarify securities ownership in cross-border situations; third party effects</td>
<td>• Conflict-of-laws rules, no substantive rules • Prepare study • Action by 2017</td>
</tr>
</tbody>
</table>

Source: EC
Key Issues for European Post-trade Forum

Alignment between mandate and expectations

- “… [in order] to support more efficient and resilient post-trading systems and collateral markets, the Commission will undertake a broader review on progress in removing Giovannini barriers to cross-border clearing and settlement, following the implementation of recent legislation and market infrastructure developments”.

- As broadly agreed by private and public entities alike, “efficient and resilient post-trade infrastructures are key elements of well-functioning capital markets and important for facilitating x-border investment in the EU”.

- As clearly mandated in the CMU action plan, the EPTF work should focus on the review of the known, as well as the potentially upcoming, barriers to cross-border clearing and settlement, including collateral management markets/services (within the context of recent regulatory, market and technological developments in EU and potentially globally).

- Securities ownership rules
  – insolvency legislation, corporate governance legislation, securities legislation

- Cross-border flow of collateral
  – reducing fragmentation, enhancing fluidity
  – eligibility rules, re-hypothecation rules, triparty services efficiency, etc.

- Company law and corporate governance
  – investor rights
  – shareholders transparency & registration

- Insolvency laws
  – facilitating more predictable and orderly outcomes for corporate restructurings
  – stay; valuation; restructuring plans; operational procedures and Settlement Finality Directive

- Taxation
  – withholding tax relief harmonisation, tax collection & payment procedures
Key Issues for European Post-trade Forum

Continuation of public and private sector initiatives in progress

**Target2-Securities**: The most important project for the post-trade industry over last 10 years:
- Large investment costs, significant drain on resources,
- Growth driver for increased cross-border flows (good for Capital Markets Union)
- Significant achievements already visible (e.g. liquidity & collateral management)
- Further harmonisation expectations for the near future - “catalyst effect”
- Asset services / Corporate actions streamlining (in progress)

**Private Sector Initiatives**:
- T+2 implementation
- Standardisation and harmonisation of COAC processing
- Portfolio Transfers
- Harmonisation of ETF processing
- ISSA Financial Crime Compliance Principles

**Regulatory Landscape**
- Collateral and Liquidity Management issues (EMIR, T2S, Basel 2/3)
- Reporting Issues (CASS, EMIR, SFTR, CSDR)
- Depositary liability issues (AIFMD, UCITS)
- Settlement Discipline Regime implementation (CSDR)
- Physical segregation of client assets (AIFMD/UCITS) and lack of consistency (CSDR, CASS, etc.)
- Issuer-Investor Relations, shareholding and participation rights (SHRD); institutional vs retail services
- Conflicts of Law / Legal Certainty / Securities Law / Insolvency Law
- Lack of common definition of custody and safekeeping
- Systemic Risks in FMI / concentration issues
- Amount of legislations, limited timeframes and repapering challenges
- Impact on PT of current financial market conditions, market volatility, etc. (e.g. increased clearing risks; political risks)
- Tax processing issues (WHT, FTT)
Key Issues for European Post-trade Forum

**The EPTF is not working in a vacuum**

- Additional **Commission-led work** in related areas:
  - Legal certainty and securities ownership rules
  - Regulatory convergence (“Better Regulation”)
  - Insolvency legislation
  - Fiscal compliance
  - Legislation reviews (e.g. EMIR review, CSDR level 2)

- **Private sector initiatives** in business areas, such as:
  - SMPG/NMPG market standards and practices
  - Market Standards for Corporate Actions Processing
  - Enhancements to triparty collateral services
  - Interoperability of FMIs (e.g. TVs, CCPs, CSDs)

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**Harmonisation in Asset Services**

- CAJWG and JWGGM market standards, adoption in progress; T2S CASG gap analysis (“priority 1” activity)
- New harmonised operational features introduced with T2S (CAOF), significant innovations for various markets
- Ad-hoc service offerings are emerging from various providers

**Insolvency, Legal Certainty**

- CMU Action Plan: “to propose a legislative initiative on business insolvency, including early restructuring and second chance”
- Informal stakeholders group (1° meeting on 7 April 2016), discussing policy options on aspects of substantive laws

**Withholding Tax Procedures**

- Inefficiencies for heterogeneous local tax requirements
- Transaction-related tax information across borders
- CMU Action Plan: “to encourage Member States to adopt systems of relief-at-source from withholding taxes and to establish quick and standardised refund procedures”
### European Post-Trade Forum

#### EPTF Membership (established in March 2016)

<table>
<thead>
<tr>
<th>Associations, interest groups or other organisations</th>
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<tbody>
<tr>
<td>1 AFME – Association for Financial Markets in Europe</td>
<td>Mr Werner Frey</td>
</tr>
<tr>
<td>2 AGC – Association of Global Custodians</td>
<td>Mr Stephen Lomas</td>
</tr>
<tr>
<td>3 DTCC’s Derivatives Repository Ltd</td>
<td>Mr Andrew Douglas</td>
</tr>
<tr>
<td>4 EACH – European Association of CCP Clearing House</td>
<td>Mr Rafael Plata</td>
</tr>
<tr>
<td>5 EBF – European Banking Federation</td>
<td>Mr Marcello Topa</td>
</tr>
<tr>
<td>6 ECSDA – European Central Securities Depositories Association</td>
<td>Ms Soraya Belghazi</td>
</tr>
<tr>
<td>7 EFAMA – European Fund and Asset Management Association</td>
<td>Mr Rudolf Siebel</td>
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<td>8 EuropeanIssuers</td>
<td>Mr Markus Kaum</td>
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<td>9 FESE – Federation of European Securities Exchanges</td>
<td>Mr Rainer Riess</td>
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<tr>
<td>10 ICMA – International Capital Market Association</td>
<td>Mr Godfried De Vidts</td>
</tr>
<tr>
<td>11 ISDA – International Swaps and Derivatives Association</td>
<td>Mr George Handjinicolaou</td>
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<tr>
<td>12 ISLA – International Securities Lending Association</td>
<td>Mr Andrew Dyson</td>
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#### Individuals appointed to represent a common interest

| 13 Mr Joël Mérère, representing interests of the T2S community |

#### Independent experts

| 14 Mr Paul Bodart |
| 15 Mr Klaus Löber |
| 16 Mr Dermot Turing |

#### Observers

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<td>* ESCB – European System of Central Banks</td>
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Commission and expert group initiatives:

- 1st Giovannini Report (2001)
- Monitoring Group of the Code of Conduct (MOG)
- Commission Communication and other documents
- FISCO group
- Tax Barriers Business Advisory Group (TBAG)
- CESAME group (2004-2008)
- Legal Certainty Group (2005-2008)
- CESAME 2 group (2008-2010)
- Expert Group on Market Infrastructures (EGMI) (2010-2011)

Legislative developments:

- EMIR (2012)
- CSDR (2014)
- MiFID II/R (2014)
- SFTR (2015)

Giovannini Reports: 15 Barriers for 15 years

1. National differences in information technology and interfaces
2. National clearing and settlement restriction that require the use of multiple systems
3. Different national rules relating to corporate actions, beneficial ownership and custody
4. Absence of intra-day settlement finality
5. Practical impediments to remote access to national clearing and settlement systems
6. National differences in settlement periods
7. National differences in operating hours/settlement deadlines
8. National differences in securities issuance practice
9. National restrictions on the location of securities
10. National restrictions on the activity of primary dealers and market makers
11. Domestic withholding tax regulations serving to disadvantage foreign intermediaries
12. Transaction taxes collected through a functionality integrated into a local settlement system
13. The absence of an EU-wide framework for the treatment of interests in securities
14. National differences in the legal treatment of bilateral netting for financial transactions
15. Uneven application of national conflict of law rules
15 years of EU efforts in post-trade

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The aim of the EPTF is “to undertake a broader review on progress in removing Giovannini barriers to cross-border clearing and settlement” and “to support more efficient and resilient post-trading systems and collateral markets”.

- **13 “EPTF Barriers”:**
  - **3 Operational Barriers**
    - Corporate Actions, Information Messaging Standards, ETF Issues
  - **4 Structural Barriers**
    - Asset Segregation, Registration, Post-Trade Reporting, Unresolved ISIN issues
  - **4 Legal Barriers**
    - Risk Protection, Investor Protection, Settlement Finality, Conflicts of Law Issues
  - **2 Tax Barriers**
    - Withholding Tax Procedures, Transactional Tax Procedures

- **Barriers on Watchlist:**
  - Primary Dealers Activities, DvP in Foreign Currencies, Intraday Provision of Credit, Collateral Mobility

Link to the EC EPTF website (agendas and meeting reports in the second tab, “Additional Information”):
http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=3394
European Post-Trade Forum

Where do we go from here?

- The **final EPTF Report** is expected to be published in **April 2017**:
  - Provide **actionable recommendations** for future initiatives by the European Commission, by other EU public authorities, as well as by the private sector, in order to facilitate cross-border investments and contribute to more integrated EU capital markets
  - Identify areas where **most significant benefits** could be reasonably achieved with a relatively manageable effort over the next 18-24 months, with recommendations on prioritisation
  - Recommend actions that have been carefully calibrated as a **realistic and pragmatic tradeoff** between urgency and complexity

- A **public consultation** on the EPTF Report is expected by the European Commission in **Q2 2017**.
  - Opportunity for additional contributions from other industry actors, not members of EPTF
  - Specific questions by the Commission about EPTF members’ recommendations
  - Possibly wider scope than EPTF Report, in view of the CMU initiative

- The EPTF Report and the results from the public consultation will be included in the Commission’s comprehensive **Action Plan for the CMU**, which is due **by end of 2017**.
3. What To Expect?
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  • Digital Identity  
  • ECB Vision 2020 | |
Future Trends for the Post-Trade Services

What should we expect? How can EPTF contribute?

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Some key themes to watch:

- Costs and Investments
- Liquidity and Collateral Management
- Legislative Change Process
- FinTech Business Disruption
Future Trends for the Post-Trade Services

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Key ingredients for success:

- Cooperation
- Engagement
- Future-proofing
Thank You!
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