



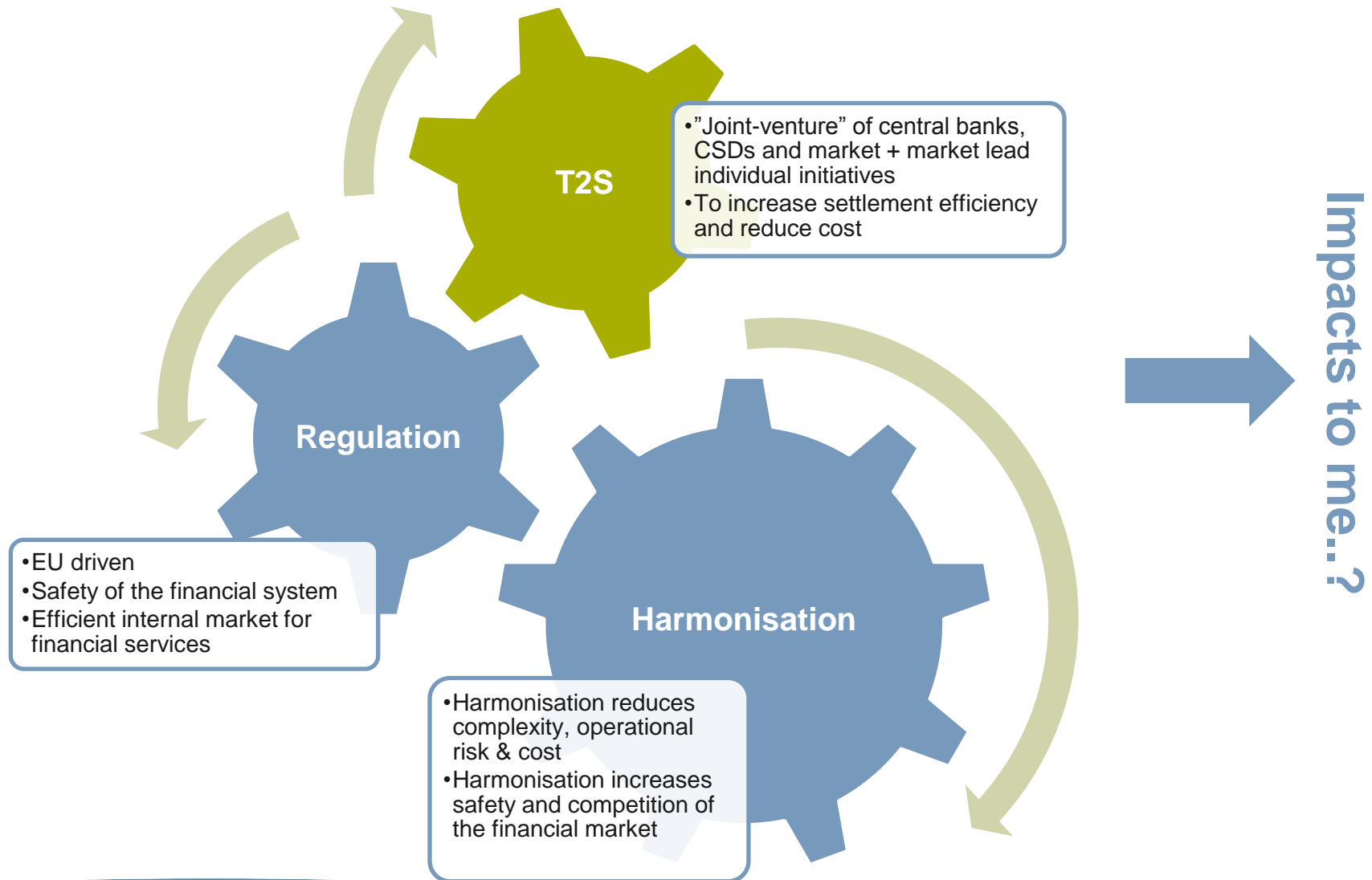
The Impact of T2S on the securities landscape

It's all about harmonisation...

SMPG -meeting Helsinki 20 April 2016

Making it possible

The Impact of T2S on the securities landscape



General European trends in post-trade

Market focus

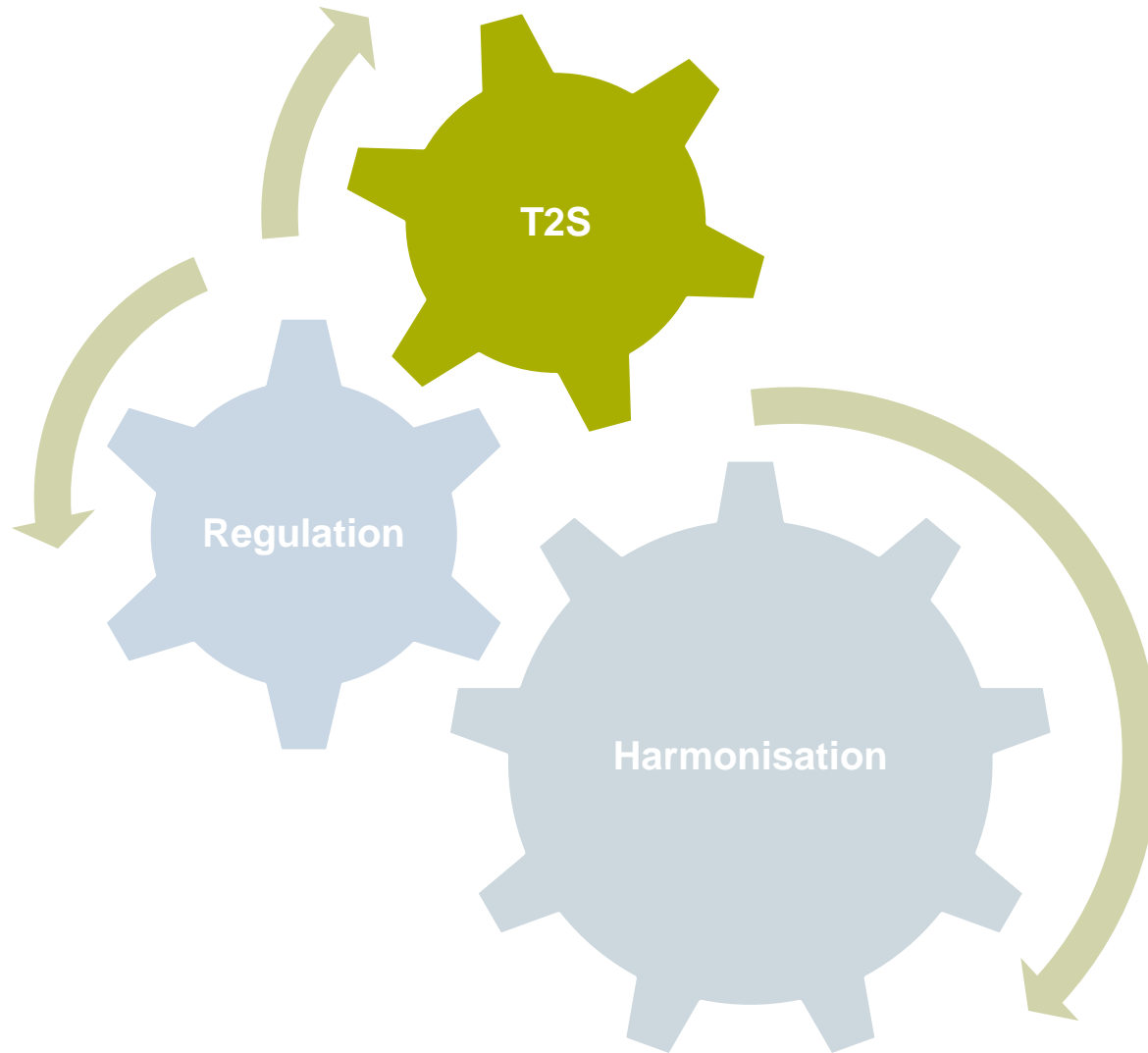
- Share of post-trade cost in total front-to-end -cost has increased
- Due to change in trading patterns average trade size is drastically smaller and number of transactions higher
- Competition in trading and clearing has reduced costs more compared to cost of settlement, safekeeping and asset servicing (Oxera studies)
- T2S is a “game changer” and shaping the market

Political focus

- Implementing internal markets for financial markets in EU started from trading, followed with clearing and funds. Now it is time to continue with post-trading
- Code of conducts and industry standards replaced by EU regulations and technical standards to large extent. Review of existing regulation.
- Aftermath of financial crisis revealed weaknesses in risk handling and investor protection. Brings new instruments in the scope of post-trade services and increases client focus.

Technological development

- T2S catalyst for harmonisation
- Migrating to T2S takes majority of investments and resources for post-trade development, not all possibilities utilised
- New technologies (digitalisation, blockchain, robotics etc.) – Looking for new possibilities, but in short term only limited usage due to existing structures..?



24 Harmonisation activities in T2S

T2S harmonisation activities – priority 1

- T2S ISO 20022 messages
- T2S matching fields
- Interaction with T2S (registration procedures)
- Interaction with T2S (tax info requirements)
- T2S schedule for the settlement day and calendar
- T2S corporate actions standards
- Settlement Finality I
- Settlement Finality II
- Settlement Finality III
- IT outsourcing (settlement services)
- Settlement discipline regime
- Settlement cycles
- Availability of omnibus accounts
- Restrictions on omnibus accounts
- Securities account numbers
- Cash account numbers

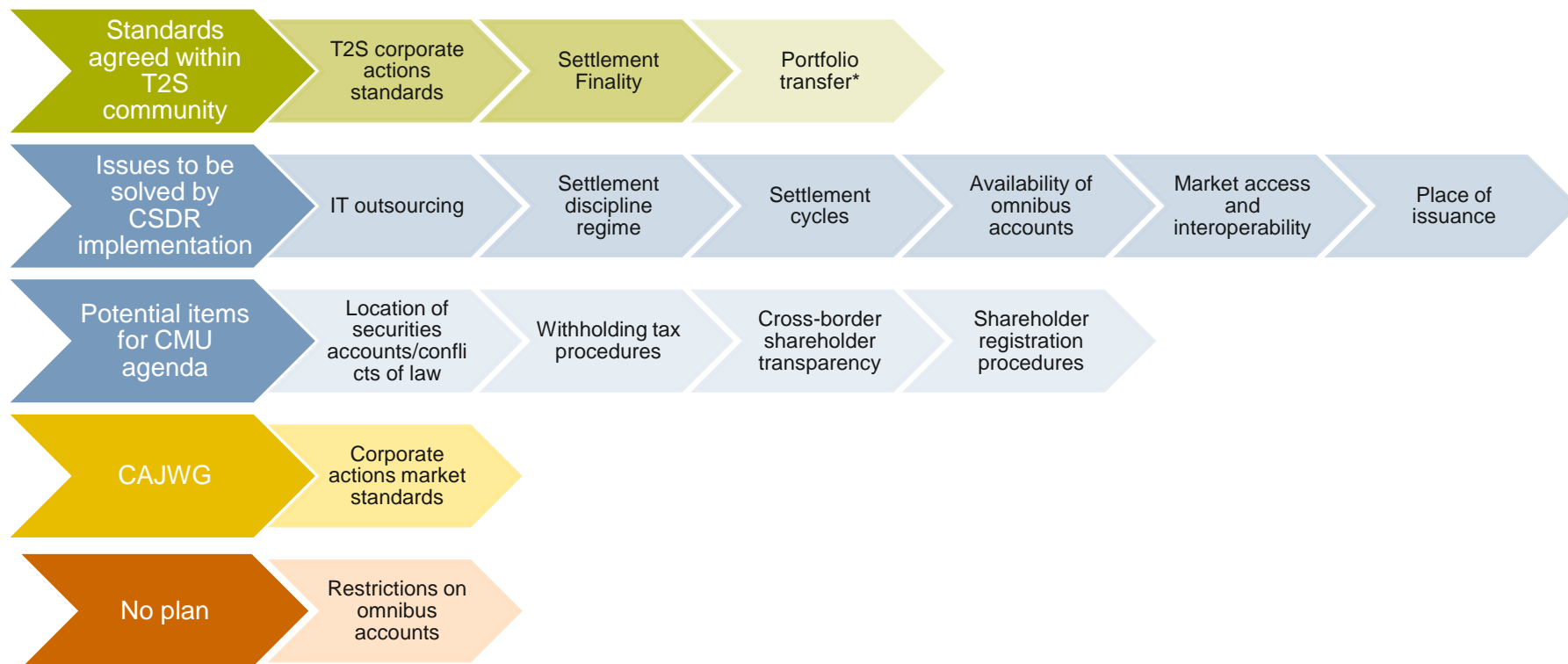
T2S harmonisation activities – priority 2

- Location of securities accounts/conflict of law
- Corporate actions market standards
- Place of issuance
- Withholding tax procedures
- Cross-border shareholder transparency and registration procedures
- Market access and interoperability
- Securities amount data
- Portfolio transfer

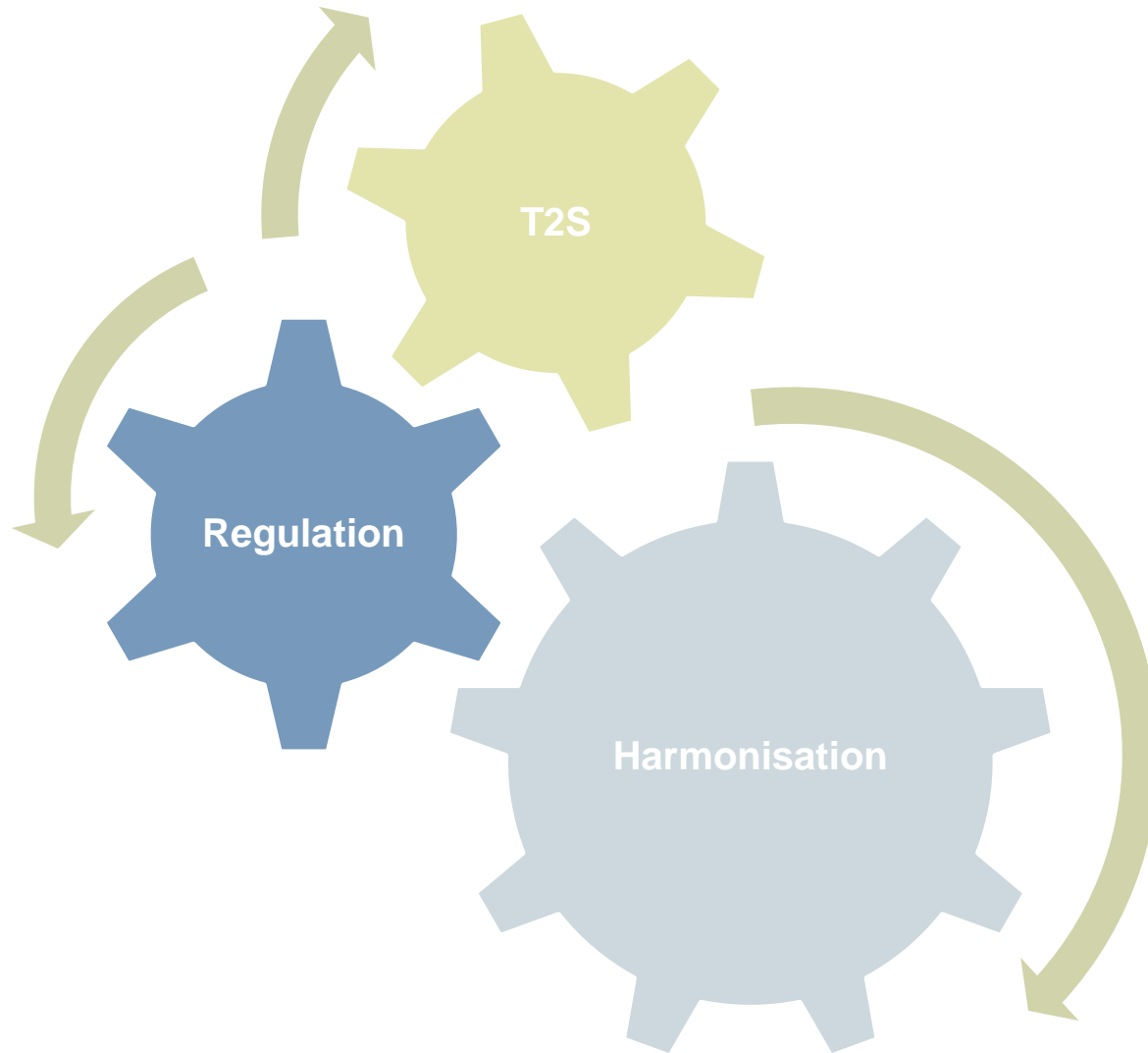
T2S Harmonisation agenda

- Harmonisation Steering Group, T2S Board and AG monitor the progress of the harmonisation activities
- Annual monitoring
- National User Groups (NUGs) have main responsibility to agree on local implementation plans
- Common standards are already defined for 17 out of a total of 24 T2S harmonisation activities
- For most prioritised standards, no major obstacles to achieve full compliance on time
- The main area where full compliance requires corrective action from some T2S markets is related to the T2S corporate actions standards
- CSDR giving support to remove some of the remaining regulatory obstacles and further support expected from Commission's CMU action plan (EPTF)

Open T2S harmonisation items



* Working group still working on proposal for standard



CSD Regulation

Why..?

- CSDs recognised as systemically important institutions for the financial markets. Aims to remove legal barriers for competition, increase safety and necessary harmonisation for T2S.

Key proposals

- EU-passport to remove legal barriers for competition
- Common framework for CSDs, including harmonised rules for governance, access, interoperability
- Harmonised definitions of core services and ancillary services allowed
- Internalised settlement - mandatory reporting to authorities similar to CSD-settlement
- Settlement discipline: Harmonised requirements to monitor and limit settlement fails and harmonised penalty regime.
- Harmonisation to T+2 settlement

Timetable and current status

- In force since 17 September 2014. As a regulation, no need to transpose to local legislation, but most likely local regulations will be adjusted to prevent contradictory wordings.
- ESMA to prepare regulatory technical standards (RTS, sc. level II regulation) on various issues. RTS have been provided to the Commission for approval and expected to come into force mid-2016 and CSDs to implement them by mid-2018.

CSD Regulation and T2S

- Common aim with T2S: CSDR aims to remove legal barriers from competition in CSD -services, while T2S aims to remove operational barriers
- CSDR tackles many legal issues that are necessary for the efficient functioning to T2S, especially in cross-boarder settlement context
 - Outsourcing of core activities to T2S
 - General legal framework for governance, access criteria and interoperability key elements for level playing field
 - Harmonised settlement discipline regime
 - Harmonised settlement cycle (T+2) across the markets
 - Availability of omnibus accounts
 - Agreement was not reached on the restrictions on the use of omnibus accounts
- CSDR impacting changes to T2S
 - Discussion ongoing how the requirements in CSDR RTS could be implemented in T2S instead of individual CSDs, especially RTS on settlement discipline



Capital Markets Union

Why..?

- The Commission's umbrella for number of different initiatives for the improvement of single market for capital for the next 5 years or so.
- Aim's for growth and jobs, to attract more investments in EU, especially for small and medium size enterprises and to increase stability of the financial system.

Possible topics on post-trade

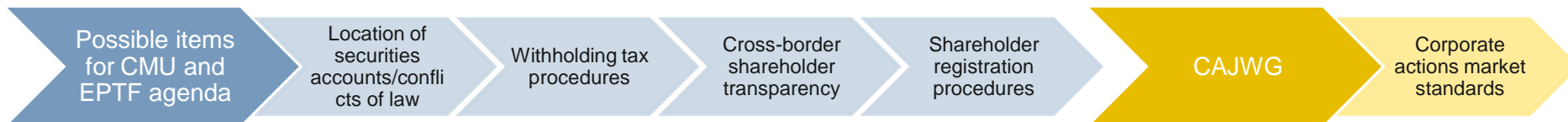
- Establishment of European Post-Trade Forum (EPTF)
- Securisation
- Review of prospectus directive
- Securities Law Legislation
- "Quick fixes" to existing regulation (EMIR, MiFID etc.)
- Resolution and recovery for non-banks (CCP and CSDs)
- Harmonisation of tax at source processing and tax reporting

Timetable and current status

- Discussion paper ("Green Paper") February 2015.
- High level "Action Plan on Building a Capital Markets Union" (CMU) September 2015
- European Post-Trade Forum established March 2016
- Specific regulatory and other initiatives under the umbrella published in drops

Capital Markets Union and T2S

- T2S and post-trade have important role in CMU agenda, EPTF in key role
- Number of open regulatory issues relevant to T2S expected to become part of the CMU-agenda
 - Harmonisation of legal framework for safekeeping and disposing securities ("who owns what")
 - Harmonisation of account structures
 - Use of securities as collateral, especially cross-boarder and re-use/re-hypothecation of collateral
 - Withholding tax procedures
 - Insolvency related issues
- European Post Trade Forum (EPTF)
 - Reviews on progress in removing Giovannini barriers taking a broader view in the review, i.e.. identifying also possible new barriers in light recent development, upcoming trends and new technology.
 - Work should be finalised by early 2017 and provide a report to the Commission
 - Three sub-groups established
 1. Global post-trade landscape and upcoming trends
 2. Market practices, emerging technologies and market projects
 3. Legislation
 - Even tough EPTF focus should not be specifically on T2S, it is likely that many of the remaining T2S harmonisation items will be brought up in the report



Conclusions

T2S by far the largest infrastructure development in European post-trade landscape

Migrating to T2S takes majority of investments and resources of intermediaries and CSDs for post-trade development

Low risk taking in T2S strategies – wait 'n' see applies for most

Making T2S work effectively requires massive amount of harmonisation within and around the scope of T2S

T2S shapes the regulatory agenda and T2S needs regulatory backing



A photograph of a sailboat's deck and mast, viewed from the perspective of someone on board. The mast is on the left, and the deck is made of wooden planks. The sea is dark blue with whitecaps, and the sky is light blue with some clouds. The sun is visible in the upper left, creating a bright glow.

Nordea - Driving the future Nordic infrastructure

Thank you!

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