

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

Response by ICMA's ERCC Operations Group

I. Broad areas not covered by the Giovannini or EPTF reports

Q1: Do you perceive any broad areas of **barriers to post-trade integration not covered by the Giovannini or EPTF reports**? If yes, please describe them, also giving as many details as possible. In case you would complement the Giovannini and EPTF analysis on one or more of barriers identified by them please feel free to do so here as well.

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)?

Introduction:

- *ICMA has been very supportive of efforts to strengthen financial market integration in Europe more generally, and in the post-trade space more specifically where important barriers continue to exist. Over the years, we have actively contributed to a number of relevant initiatives to identify and resolve remaining barriers to further integration. In particular, ICMA and the ERCC were represented in the initial Giovannini groups as well as the more recent follow-up work of the European Post-Trade Forum (EPTF) and actively contributed to the respective discussions and reports.*
- *We welcome the renewed focus on remaining post-trade barriers by the ECB. We have noted the important [speech](#) by ECB President Lagarde in November 2023 focused on the Capital Markets Union agenda more generally and calling for a change of approach, and we also highly commend the present stock-taking exercise of remaining post-trade barriers which is clearly very timely, given that seven years have passed since the final EPTF report. There is also an important opportunity to feed into the work programme of the new European Commission which will take office in 2024.*
- *Since the last comprehensive assessment undertaken by the EPTF, some important progress has been made, especially from a market infrastructure and market practice perspective. In particular, we would highlight:*
 - **Regulatory developments:** *A number of important regulatory initiatives have been concluded since the publication of the EPTF report. In particular, we have seen the go-live of settlement discipline measures under CSDR, including cash penalties for fails which went live in February 2022, as well as the broader discussions on the CSDR Refit which led to a change of approach in relation to MBIs which have been reframed as a measure of last resort which can only be introduced once a series of strict conditions is met. This step has been very much welcomed by ICMA and the industry more widely, given that MBIs would have been an extremely disruptive measure and counterproductive from a market integration perspective. We have furthermore seen the go-live of SFTR reporting in 2020. The resulting increase in transparency is certainly welcome, although we note that these benefits are still limited by the lack of public data elements as well as relatively low levels*

of data quality, mainly due to the excessive complexity of SFTR reporting requirements. The main benefit of SFTR in terms of market integration is probably the inevitable focus it has put on operational inconsistencies and the resulting drive for a wider harmonisation through best practice, including detailed SFTR Recommendations for Repos developed by ICMA's ERCC.

- **Collateral management harmonisation:** We note the important work driven by the ECB and the various AMI-SeCo stakeholders in the area of collateral management which have led to the SCoRE which is clearly a major achievement contributing to a more harmonised and consistent post-trade space in Europe, specifically related to collateral management and triparty repo.
- **Technology:** Important initiatives are also under way in the technology space which are expected to be important drivers of integration in the longer term. Important post-trade tools and solutions have been developed and used more widely driving automation and consistency. This includes certain settlement optimisation tools which help to improve settlement efficiency across the board, ranging from pre-settlement processes (SSIs, matching, allocations etc) to services more directly linked to settlement, particularly auto-partialling and partial release. In addition, cross-industry initiatives have been undertaken to drive consistency and standardisation in data models and structured data, paving the way for new technologies. One initiative to mention in this context is the work on a Common Domain Model undertaken by ICMA jointly with ISDA and ISLA, which seeks to establish a consistent digital representation for derivatives, securities financing transactions as well as fixed income instruments more broadly and helps to link operational market practice into standardised formats.
- **Market structure:** Finally, it is also important to consider broader market structure changes and trends which impact the post-trade space and have implications from the perspective of post-trade integration and harmonisation. In particular, from a repo perspective there has been a significant upward trend in trading (and settlement volumes more broadly)¹, which has been driven partly by the increasing importance of the buy-side community. This has exposed some of the frictions in the system as it has led to a more de-centralised market with less reliance on dealer intermediation and an increasing role for intermediaries in the post-trade space, including custodians and other service providers, as well as an increased focus on automation more generally.
- Looking more specifically at the **EPTF barriers**, despite the developments mentioned above, progress has been limited. We are not aware of any additional barriers emerging. However, we note that most of the issues listed in the EPTF report are still highly relevant today. There are still significant frictions in terms of cross-border clearing and settlement in Europe. Furthermore, with the growth of buy-side activity and involvement, some of these frictions have been magnified, which has led, among other things, to a focus on bilateral netting and buy side/client access to post-trade infrastructures.
- Given the **increased focus on settlement efficiency** over the past years in the context of the ongoing CSDR discussions these frictions have become even more visible today. From an industry perspective it is also important to note that remaining barriers and the resulting frictions in terms of post-trade efficiency today result in

¹ Reflected for example in [ICMA's European Repo Market Survey](#).

*significantly higher costs. These include CSDR cash penalties, compounded by much higher interest rate levels today which further increase the costs of post-trade inefficiencies and resulting fails. While these developments have led to notable improvements in terms of settlement efficiency levels, it is also clear that the broader barriers to post-trade integration and the complex infrastructure setup in Europe still put a natural limit to further improving settlement efficiency. This is particularly noteworthy in the context of the ongoing discussions about a potential shortening of the settlement cycle in Europe to T+1. In our view, progress in the area of post-trade integration and a resulting reduction in complexity and fragmentation are important **pre-requisites for a potential move to T+1** and should take absolute precedence over any discussion on T+1.*

- *In this context, we would also like to reiterate the importance of the five barriers that had been listed in the so-called EPTF “watchlist”. These continue to be highly relevant and deserve renewed attention along with the focus on the actual barriers.*

II. Legal, tax and other administrative barriers / barriers stemming from national laws or public policies

Q2: Do you perceive / have you encountered **provisions in national laws, regulatory practices or other administrative barriers that prevent non-domestic post-trade service providers** to provide fully-fledged services on a level playing field in an EU Member State? Are you aware of such barriers in your own jurisdiction? Please provide detailed and concrete evidence.

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)?

AMI-SeCo examples:

- Different regulatory treatment of the domestic CSD or domestic post-trade service providers vis-à-vis other EU CSDs or foreign service providers (incl. tax-related regulation, related to access to primary issuance system by sovereign issuers)
- The domestic CSD is explicitly mentioned in national regulation as the entity that is exclusively authorised to perform certain post-trade functions / services that are crucial to securities that are governed by the national law
- Different regulatory treatment of foreign CSDs based on their business strategies (e.g. different treatment of the ‘ICSDs’ under national tax or securities laws)
- Post-trade consequences of national regulatory incentives for domestic issuers to issue in the domestic CSD rather than other EU CSDs
- National requirements to use a specific national platform(s) handling tax matters or other regulatory compliance matters
- Practice of sovereign debt issuers (DMOs or Treasuries) to require Primary Dealers to use the domestic CSD for the settlement of public debt issuance

ICMA comments:

- *ICMA agrees that all the examples provided above are relevant and require attention. In our view it is noteworthy that there has been relatively limited progress on the barriers that require action from the public sector, particularly policy makers. A renewed focus on*

these issues would be timely and necessary given that many of the barriers that have been identified, most recently in the EPTF report, remain significant blockers for further integration.

- *More specifically, we would highlight the fact that the market infrastructure in Europe remains to a large degree fragmented. And this is still often due to national specific rules and constraints which stand in the way of further integration and necessary consolidation in the post-trade space. While primarily a question of facilitating market integration and efficiency, removing obstacles to further integration and consolidation is ultimately also an opportunity to strengthen the resiliency of market infrastructures, facilitate interoperability and ultimately provide choice in terms of contingency planning for market participants in case of disruptions and market stress.*
- *Besides differences in national law and rules, blockers to further integration and consolidation are also often rooted in differences of interpretation and understanding of those rules. It would be important to identify clearly issues that are due to actual legal differences from those that are simply due to differences in interpretation, considering that the latter aspects could be addressed directly by market participants, and a forum such as AMI-SeCo would be well placed to do so.*
- *The EPTF barrier around primary dealers and relevant rules or incentives for PDs to use the local market infrastructure (EPTF "watchlist" barrier 1) is exemplary for these issues. Feedback from members indicates that this particular issue remains relevant in several countries and continues to be a barrier on the path to further market integration and desirable consolidation in the post-trade space. As a first step to addressing this issue, ICMA would recommend a comprehensive review of all the relevant rules and incentives that are in place for PDs across Member States in order to identify any problematic frameworks and ultimately resolve them.*

III. Technical and functional barriers to cross-CSD or cross-border settlement and asset servicing

Q3: Do you perceive / have you encountered remaining **technical barriers to cross-CSD or cross-border settlement** of securities within the EU or between the EU and other jurisdictions? Please provide detailed and concrete evidence.

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)?

AMI-SeCo examples:

- Technical limitations / potential functional improvements in T2S for cross-CSD settlement (e.g. the way CSD links are set up and used in T2S and vis-à-vis non-T2S CSDs and not aligned Cross-CSD already matched processing)
- Charging for cross-CSD settlement / realignment within T2S (some CSDs charge for realignment transactions within T2S while others do not)
- Lack of clarity of market practices / guidelines for cross-CSD settlement and asset servicing related to messaging (e.g. different existing interpretations or limited awareness on the global market practice on using the 'Place of Settlement' or 'Place of Safekeeping' fields in relevant messages, different market practices in identifying parties further down the custody chain)

- Remaining issues in cross-CSD settlement between (i) T2S CSDs ii) T2S CSDs and non-T2S CSDs, in particular when moving securities out of T2S or into T2S (differences in market cut-offs, difficulties in local market / global inventory alignments)
- Challenges in non-domestic access by CCPs to settlement services / CCP-restrictions on settlement locations
- Differences in CCP timings and processing

ICMA comments:

- *ICMA agrees with the issues listed in the survey in relation to cross-CSD settlement which are all relevant and require attention. The level of cross-CSD settlement even within T2S continues to be very low and to some degree this reflects a lack of integration and harmonisation in the post-trade space, but also reflects different operating systems and setups. We would welcome further focus and discussion within T2S involving CSDs and their participants to identify remaining issues and inconsistencies.*
- *More significant frictions continue to exist when it comes to external or cross-border settlement (ie with at least one CSD outside of T2S). A key issue in this context is cost, given that settlement generally requires pre-funding/cash provisioning which can be expensive for firms, particularly as netting opportunities cannot be utilised.*
- *Members also highlighted issues specifically related to settlement through the ICSD Bridge, notably related to sequencing challenges and other limitations, which mean that Bridge settlement continues to be sub-optimal relative to local (I)CSD settlement, although good progress has been made over the years by the ICSDs. Remaining issues that could be looked at further in this context include remaining timing differences in terms of cut-offs (NTS and RTS) but also in relation to the use of auto-partial functionality for Bridge settlement.*
- *While increasing interoperability between CSDs and ensuring smooth cross-CSD settlement is important, it is also important to recognise that the share of cross-CSD settlement is not a unique measure for the level of market integration and not a proxy for cross-border trading and investment, as alternative routes and setups, eg through intermediaries/custodians, providing a consistent environment above the CSD layer.*
- *We would also encourage further focus on differences in cut-off times as they are applicable to different types market participants. While differences in CSD cut-offs have been explored and reduced it is also important to keep in mind the role of intermediaries and custodians which each impose their own timelines. Given the complexity of the overall environment and the growing role of the buy-side noted above (which often do not have direct FMI access and rely more heavily on intermediaries), these differences continue to cause friction and require further attention.*
- *As noted above, members also highlighted some remaining inconsistencies with CCPs in terms of timing and processing which should be further explored.*
- *In terms of other technical/functional barriers, we would also highlight inconsistencies in relation to auto-partialling, both in terms of auto-partialling functionality (which is still not available on all cross-CSD links), as well as the availability of partial release functionality which is a key enabler for auto-partialling. As mentioned above, ICMA has been working actively with members to identify key drivers of settlement efficiency. Auto-partialling is clearly one key tool to optimize settlement efficiency that is not yet used as comprehensively as needed.*

IV. Market practices and market behaviour

Q4: Do you perceive / have you encountered **barriers or inefficiencies related to market practices or behaviour of market participants** that impede efficient cross-border post-trade services? Please provide detailed and concrete evidence.

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)?

AMI-SeCo examples:

- Limited use of CSD links and cross-CSD settlement
- Lack of adaptation to T2S functionalities or in general to the possibility of cross-border settlement by post-trade service providers for cross-CSD settlement and asset servicing (e.g. use non-domestic 'Place of Settlement' field in relevant messages, partial settlement options)
- Limited use of T2S auto-collateralisation and T2S settlement optimisation features
- Outdated references to settlement arrangements and use of legacy conventions in issuance programme documents (e.g. use of national settlement calendars)
- High proportion of day-time settlement volumes (compared to night-time settlement)
- Differences in pre-settlement practices affecting settlement efficiency (shaping, allowing partial settlement, auto-partialling)

ICMA comments:

- *ICMA would again support all the friction points mentioned in the survey.*
- *Market standards and industry best practice are key areas of focus for ICMA. We note that important progress has been in this area over the past years, notably with the adoption and implementation of SCoRE. ICMA's own best practices also continued to evolve, both in relation to repo (ICMA' Guide to Best Practice in the European Repo Market) and secondary bond markets (ICMA's Secondary Market Rules and Recommendations).*
- *In this context, a key focus for ICMA over the past years has been on settlement efficiency. This work has gained significant momentum with the discussions on CSDR settlement discipline measures and the subsequent introduction of the related measures, particularly cash penalties, with the notable exception of mandatory buy-ins which has been a major relief for the industry.*
- *At ICMA level we have been working closely with member to better understand the status quo in terms of settlement efficiency in Europe and to identify bottlenecks and possible best practice solutions. This led to the ERCC White Paper Optimising Settlement Efficiency in 2022 as well as the subsequent development and adoption of detailed best practices related to the use of (i) shaping, (ii) auto-partialling, (iii) auto-borrowing, as well as additions to other areas of best practice, including bilateral netting/pair offs which is an area that continues to be discussed. The related recommendations are applicable to both repo and cash bond transactions and have been incorporated into the respective best practice frameworks.*
- *Since the adoption of the recommendations, we have been focused on monitoring progress. While we agree that there is more to be done in order to ensure consistent application of these tools, we also note that some important progress has been made already.*
- *In particular, the automatic shaping of settlement instructions as per the best practice (50 million nominal) would be an important complement to auto-partialling and a meaningful*

addition to the settlement efficiency “toolbox”. The ECB could potentially play a leading role in the implementation of such a rule/framework, as the Fed is doing in the US for instance. We would welcome a discussion at AMI-SeCo level about the potential introduction of automatic/mandatory shaping in order to build a market consensus.

- The sequencing of settlement is another area that ICMA has focused on as part of the settlement efficiency discussion and we agree that it would be desirable to increase the share of night-time batch settlement, which would be beneficial both from an intraday liquidity as well as a settlement efficiency perspective. Similarly, improving the efficiency of the real-time settlement process during the day and related processes should also continue to be an area of focus.

V. Standards and data

Q5: Do you perceive / have you encountered **barriers or inefficiencies related to the availability or management of data and lack of compliance of available data exchange standards that impede efficient cross-border post-trade services? Please provide detailed and concrete evidence.**

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)? Do you think the current AMI-SeCo reports and activity in monitoring compliance with the existing market standards (CAJWG, T2S, SCoRE, SRD2) is conducive to fostering market integration? If not, what would you propose to change in these activities?

AMI-SeCo examples:

- Lack of standard data exchange models for securities issuance
- Data challenges due to lack of common reference data / golden source for client and instrument (set up / distribution) and resulting lack of straight-through processing
- Limited use of global standard identifiers (e.g. LEI, UTI) in post-trade interactions
- Absence of a common pricing source for collateral and MTM operations
- Differences in standards such as messaging / format and syntax in trade settlement messaging and corporate actions

ICMA comments:

- ICMA supports further focus and work to explore the issues listed in the survey which reflect feedback from our wider membership.
- More generally, we acknowledge the increasing importance of data and data standards across the board, including in the post-trade space where the lack of transparency and consistency is particularly visible. This has been one of the key challenges faced in the discussions/ work on settlement efficiency. Extensive work has been undertaken in this respect within the T2S governance framework (driven by the CSG) in which ICMA has played an active role. However, the analysis remains ad-hoc and more granular data points (e.g. distinguishing asset classes) are not available on a regular basis. The lack of data is clearly a barrier to identifying progress (or the absence of progress) and to identify key issues and focus areas.
- One of the key reasons for the lack of data is the absence of common definitions and inconsistent use of identifiers. In particular, there is still no consistent common definition of settlement efficiency / fails, which would be an important starting point to develop a list of key data points/measures. While there are different workstreams focused on this

question, it remains a challenge to define a measure that is (i) clear and straightforward enough to be applied consistently across all CSDs (T2S and non-T2S), and (ii) developed with a focus on market needs and practical uses (eg consider excluding transactions that are not strictly relevant from a settlement efficiency perspective (e.g. tri-party, internal transfers etc).

- We would encourage authorities to continue those discussions in the relevant forums and in close collaboration with market participants in order to agree consistent definitions and measures and work towards an improved level of transparency in relation to settlement efficiency in Europe. This should involve the regular (at least monthly) publication of consistent and relevant settlement efficiency data points, providing for a more granular asset class specific view (across all European CSDs).
- Another key issue is that currently it is generally not possible to identify transaction types at CSD level, distinguishing for instance between cash trades and SFTs. This means that it is not possible to assess settlement efficiency levels specifically for repos (or other SFTs), which would help to tackle related issues in a more targeted way. While a transaction type identifier field is already available in SWIFT messages (field 22F), the key issue is that this is currently not required or used consistently by market participants. Key problems seem to be a lack of market practice and/or awareness, but this would require further investigation and discussion. The benefits of a comprehensive usage of this identifier would extend beyond transparency, as a systematic identification of repos would allow for automatic solutions to be developed at CSD level for the processing of corporate actions and manufactured payments (auto-compensation), which remains a very manual process today.
- Similarly, tracking the trade status through the lifecycle of a transaction is difficult without common trade level identification (UTI) given inconsistent data structures for trade formats. A more consistent use of UTIs (beyond the SFT space) and the resulting opportunities should therefore be another focus area.
- Finally, we would also note more generally issues with differences in standards such as messaging / format and syntax in trade settlement messaging and corporate actions, as for instance highlighted as part of the SCORE agenda which can hopefully be picked up in the ongoing discussions/work of the CMG which has started to look at gaps in the work on collateral management harmonisation and other potential areas for harmonisation.

VI. Other barriers

Q6: Please provide **any other observations on barriers / limiting factors** that are relevant to cross-border post-trade services today. Please provide detailed and concrete evidence.

Regarding the identified barriers what concrete measures do you propose? Who could potentially address / resolve the issues / barriers? What priority level do you attach to the issue (high, medium or low)?

N/A