ECB Operations Managers Group

Frankfurt am Main, Tuesday 4 December 2018, 14:00 – 18:00 CET

Summary of the discussion

1. Supply utilities and technological innovation

A. Harvey (GFMA) and D. Ostojitsch (AFME) presented the findings of two papers recently published by AFME on the industry utilities ('Industry utilities: a perspective for capital markets') and technological developments ('Technology and innovation in Europe's capital markets').

While the term 'utilities' is not a new concept, AFME defines it in its latest publication as a range of services offering at least one of the following features: a standardised approach, the creation of a network, the benefit of economies of scale. Based on this definition, specific opportunities have been highlighted for the financial industry, such as KYC, reference data and regulatory reporting. Members shared split views on the topic. For instance, KYC differs very much across jurisdictions, thereby hindering the adoption of a global standard and making the implementation of standardised approaches complex. Cost reduction being a major driver within banking institutions, Members insisted on the need to have a strong business case for them to contribute and adopt utilities. Nevertheless, the regulatory environment is considered having a catalyst role in promoting new standards. AFME stressed the importance of collaboration among banks, policymakers, regulators, other authorities and third-parties, which may ultimately support the development of utilities.

AFME completed its presentation with an update on emerging technologies and innovation in Europe's capital markets. They explained that data and analytics, cloud computing, artificial intelligence and distributed ledger technologies are considered as important enablers for future innovation. Members reiterated the importance to have regulators actively involved also in the development of technologies.

2. Preparing for Brexit

A Harvey (GFMA) presented an overview of the topics that the GFXDs Operations Committee had been focusing on in 2018 as well as the draft agenda for 2019. In 2019, the GFXD Operations Committee will focus on the FX novations process, discuss opportunities to promote automated versus manual confirmation processes as well as the key reasons behind exceptions within the FX payment life-cycle. Finally the Committee will continue to engage on new technologies which may impact the FX wholesale market, such as Central Bank Digital Currencies.

Members held a brief discussion on the potential considerations which may be required in preparation for Brexit, facilitated by the GFXD and complemented with some views shared by L. Meyer (Citi) taking the perspectives of his institution and Northern Ireland

Overall, Members reported to be preparing for a no-deal scenario (or so-called 'hard Brexit'), amidst prevailing uncertainties. While they highlighted the benefits of understanding the trade novation proves and wider transactional 'map of other processes which may be impacted, Members are currently seeking to ensure access to UK-based CCPs. In view of the importance of derivatives positions cleared in the UK, they would welcome the recognition of UK-based CCPs by ESMA. Nonetheless, they reported lacking of clarity as to the regulatory agenda that will apply after the UK leaves the EU, which may have major legal and risk-related impacts. Besides, Members are looking into alternative arrangements for clearing as they are facing technical issues accessing EU27 clearing houses which are not expected to be resolved in the short to medium term. Against this background, one possible strategy mentioned was to shift businesses to US-based clearing houses using brokers to close their positions with UK CCPs and re-open them with US based ones, until they have more clarity.

3. The use of EMIR data for supervisory policy purposes

M. de Giovanni (SSM) gave a presentation on the usage from a supervisory policy perspective of the reported EMIR data and illustrated his presentation with a concrete example. As the EMIR reporting obligation has given to EU competent authorities the access to granular data, various analyses may contribute today to the monitoring of market structure, the risks at a micro and macro level, and the development of relevant policy tools. M. de Giovanni explained the process of deduplication of EMIR data collected from trade repositories via the use of algorithms to ensure a certain level of reconciliation and quality. Data quality is key in order to have the most accurate analyses available for policy makers, and in that respect there is still room for improvement. While a significant number of trades are still unpaired, better reporting may be achieved via the generalisation of the LEI and the UTI. It was further explained that the analysis presented are based on rules such as those described in Article 11 of EMIR that foresees the exemption from clearing obligation to intragroup operations, as well as from risk mitigation techniques such as the use of collateral. Based on EMIR data collected from 2016-2017 and a set of assumptions M. de Giovanni derived back-to-back transactions estimates to project cross-border transactions between the UK and the EU27 after Q1 2019.

4. Operational regulatory dialogue

U. Milkau (DZ Bank), F. Lepori (Crédit Agricole CIB), and M. Meijers (ABN Amro) respectively introduced the General Data Protection Regulation (GDPR), the Central Securities Depositories Regulation (CSDR) the Securities Financing Transactions Regulation (SFTR), and their possible implications for the back office space.

U. Milkau elaborated on ‘grey areas’ brought in by the GDPR in connection with technological developments. For instance, the right to obtain human intervention, and the ‘right to be forgotten’ as in the GDPR may not be consistent with the concepts of Robotic Process Automation (RPA) or blockchain. Also, the GDPR lays down the right to obtain an explanation of the decision reached on any automated processing producing legal effect on a data subject (e.g. automatic refusal of an online credit application). To that extent, there is a major confusion in the public space on the capacity to explain the initial statistical classifications applied by artificial intelligence and algorithms.

F. Lepori gave an introduction to the CSDR considered as the step beyond T2S. While wider requirements from the CSD and client perspectives have led to a better monitoring of credit lines with CSDs and ensuring these are sufficiently collateralised on a daily basis, F. Lepori insisted on the main controversial requirements introduced by the settlement discipline regime, expected to be in force in 2020. In order to increase settlement efficiency and limit the penalties processes, different tools are being used, such as RPA for real-time status of trades. In addition, new processes and practices are currently being defined in the market for confirmations and mandatory buy-ins.

Another regulation expected to induce major challenges is the SFTR. While Level 2 is only expected to be adopted in Q1 2019 for an application early 2020, M. Meijers shared areas of concern the industry is currently facing. While the number of fields for transactions reporting are twice as much as in MIFID II, the SFTR widens the scope of reporting by introducing collateral, for which a large part of the information is currently not available to the borrower. Additionally, the SFTR introduces the concept of collateral re-use, adding a challenge in the sourcing of the required data. More generally, there is a need to update IT applications that are no longer compatible with the expected reporting. The regulation is expected to significantly affect portfolio management as well as middle and back office activities.