EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

ECB Operations Managers Group
Frankfurt am Main, Thursday 5 December 2019, 14:00 – 18:00 CET

Summary of the discussion

1. Strategic outlook from the perspective of Euroclear

Christian Goossens, Bénédicte Degraeve and Philip Slavin (Euroclear) shared insights into Euroclear's strategic plan to comply with the settlement discipline requirements as set forth in the Central Securities Depositories Regulation and the relevant technical standards. The settlement discipline rules are expected to enter into force in November 2020, and foresee measures to prevent, address and monitor fails. In this context, Euroclear is developing a cash penalty engine which will apply to failed transactions. Trading entities should reflect on a reconciliation process to match the penalties (which will be netted) communicated to them with their own calculations. Euroclear is also committed to ensuring a smooth operational implementation of mandatory buy-ins. In particular, Euroclear aims at i. collecting buy-in data to meet its own compliance, ii. harmonising interactions amongst the participants to the buy-in, iii. engaging in a dialogue based on data analytics and settlement patterns with market participants as to reduce the occurrence of buy-in processes. Euroclear's intercompany workflow management Taskize is expected to facilitate communication exchanges across parties for failed transactions, in a pre-defined fashion while safeguarding the confidentiality of the information. It will offer the possibility to inform several parties in the case of failed chains, without revealing confidential information to those who do not have a need to know.

Members highlighted the cost behind the required operational infrastructure for mandatory buy-ins, involving the implementation of complex processes. This leads them to be particularly attentive to their settlement efficiency ratio and underlying analytics. At a trading level, behaviours are expected to change amidst a low-margin environment, in particular for the buy-side and market making activities. From an operations viewpoint, Members raised uncertainties with regard to the communication process, the handling of pass-ons and partial settlement.

2. Back-Office system management

Cathal Feeney (Allied Irish Bank) and Ian Downes (BBVA) gave a presentation on the back-office system transformation journey at their respective institutions. Allied Irish Banks aimed at the rationalization and modernisation of their back-office systems, while BBVA wished to harmonise the front-to-risk infrastructure across its global network. The transformation journey was taken as opportunity to adapt to a new market context, and to integrate digital and automated approaches.

Benefits yielded enhanced client interactions, improved operational risk, and more efficient operations through faster cycles and a simplified system architecture. The new systems enabled the generalisation of real-time payment messages, higher STP rate, and an overall reduced manual intervention. It was mentioned that the transformation journey is still on-going, aiming at real-time liquidity management

As lessons learnt, it was seen as essential to estrange from the legacy systems to think the system anew. This mindset allows new functionalities and customisation to be explored, paving the way to further efficiency and innovation. Vendor independent consultants were seen beneficial in this process. In addition, members underlined the importance of having a workforce strategy, with knowledgeable in-house staff in processes and systems. KPIs on lines of code developed were seen as helpful to limit customisation. Finally, the design phase was seen as an important leverage to deliver the best outcome.

Most members shared using Calypso as their main back-office system. Some are moving towards in-house solutions and customisations, offering greater flexibility at lower costs. While members thrive to innovate a complex IT landscape, they still see STP as dependant on the product type and jurisdiction. Manual processing may be required to remain within the intended credit limits in accordance with applicable regulations.

3. Main elements and purpose of the ISDA Benchmarks Supplement and related protocol

Mario Bona (Intesa Sanpaolo) described the main elements of the ISDA Benchmarks Supplement, which combined to certain ISDA definitional booklets, makes it possible to incorporate in derivatives documentation: a) certain fallback arrangements applying if a benchmark ceases to be provided or its administrator is not authorized/approved/included in an official register and b) acknowledgements of the consequences following a change to a benchmark. The structure and workings of the related ISDA 2019 Benchmark Supplement Protocol were also briefly presented. It was also highlighted that ISDA is currently developing fallbacks to specific rates (IBORS) by amending the 2006 ISDA Definitions in an effort to make available further integrated solutions to the compliance requirements of the EU Benchmark Regulation.

Carlos Salazar (Banco Santander) reviewed the implications of the operational change to recalibrated EONIA with a publication on T+1 on 2 October 2019. From the perspective of his institution, the system execution and process changes was the most affected stream. It led to several adjustment processes, especially transactions' valuations, accounting and collateral management for the calculations of accrued or collateral interests, and reporting, such as MMSR. System and process changes will remain prioritised until the discontinuation of EONIA by 31 December 2021. Other important actions will cover communication and legal aspects relating to contract repapering and the renegotiation of legacy contracts.

Despite experiencing a shortened settlement time window, no major disruptions in the back-office activity occurred on 2 October 2019. Members confirmed that the implementation of €STR and the underlying process adjustments were still on-going. The next anticipated step is the discounting switch at CCP level in June 2020, which will accelerate the implementation. Members will be required to reflect indexed trades in the system, and proceed to robust internal revaluations. Members foresee major fluctuations in the ALM books, attributed to changes in valuations, compensations and interests in collateral. Finally, the last stage of the implementation will consist on agreeing on a bilateral basis on a counterparty switch.

4. Update on the European Master Agreement

Otto Heinz (ECB, Chair of the European Financial Market Lawyers Group) updated the Group on the on-going reform of the European Master Agreement (EMA). The project is led by the European Banking Federation, and supported by a group of commercial banks and central banks using the EMA. Brexit, and the legal issues surrounding the fact that English law seizes to be an EU member state law provides a window of opportunity for the increased acceptance of the EMA. The reform of the EMA is progressing along the following lines: 1. There has been a comprehensive update of the agreement to reflect regulatory and market developments. 2. Legal opinions are being updated in several key jurisdictions and it is also ensured that regular updates will take place in the future, financing is committed by the commercial banks and central banks involved. 3. It is also envisaged to have trainings on the EMA and its active promotion. Otto has also reported that the ECB's Governing Council has recently reconfirmed its support of the EMA that includes increased use of the agreement by the ECB and National Central Banks, participation in the financing of the legal opinions and facilitating the training and promotion of the EMA. It was also reported that European Financial Market Lawyers Group has also dealt with the EMA and several member banks of this group actively support it.

Members welcomed the current revision of the EMA. Nevertheless, they stated following market practice, and using mostly ISDA agreements with respect to derivatives, with international trading counterparties and local agreements with resident counterparties. In order to facilitate the usage of the EMA in the market, members suggested having the support of national banking associations, which may provide a robust infrastructure and network, in a similar way as ISDA does.

5. AOB

As part of the OMG membership review, current members are invited to reflect on possible suitable candidates who could be interesting for the Group, to further increase the diversity across regions and institutions. New applications will be welcomed for the new period, by October 2020.