

ECB Operations Managers Group
29 September 2021 14:00 – 17:30 CET Via WEBEX

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) introduced a newcomer to the Group and presented the agenda of the meeting, which was then approved by the participants.

2. ICMA activities in the field of Fintech and regulation

Gabriel Callsen (International Capital Market Association - ICMA) gave a general overview of ICMA activities in the field of FinTech and regulation, emphasising that FinTech and market electronification (i.e. the use of technology across the securities lifecycle) are cross-cutting priorities for ICMA and its members.

As key drivers of electronification in cross-border capital markets ICMA identifies: efficiency and Straight-Through-Processing (reflected by emerging technology solutions in primary markets, ~~for~~ electronic trading, FinTech solutions for repo operations), liquidity sourcing (through platforms and information networks, emerging Request for Quote – RfQ platforms), regulatory compliance (MiFID II / MiFIR record keeping and reporting, SFTR reporting) and data management (e.g. for predictive analytics, MiFID II / MiFIR transparency data, transaction cost analysis, reconciliation). Gabriel presented ICMA's Common Domain Model (CDM) for repo and bonds which is a standardised, machine-readable, and machine-executable blueprint for financial products trading and lifecycle management based on initial developments from ISDA for derivatives. ICMA envisages that the use of CDM would increase interoperability, automation, innovation, and cross-industry collaboration, leading to cost savings and new revenue opportunities.

Another ICMA/European Repo and Collateral Council (ERCC) initiative was launched in 2020 to promote settlement efficiency, particularly considering the upcoming implementation of the CSDR Settlement Discipline Regime (SDR). The initiative scrutinised several relevant post-trade tools and focuses on shaping of instructions, auto-partialling and auto-borrowing to help reduce settlement fails and increase settlement efficiency.

Gabriel also gave an overview of ICMA's various technology directories (such as primary markets technology directory, electronic trading platform directory, repo trading technology directory and operations FinTech directory) and shared insights into tokenisation and Distributed Ledger Technology (DLT) in bond markets. The use of DLT varies and depends on a range of factors (e.g. wholesale vs. retail considerations, type of instruments, issuance method, current market practice, expected benefits, legal and regulatory requirements, level of maturity of capital market). ICMA sees a trend towards centralisation and interconnectivity between various stakeholders in the bond issuance chain. Key challenges include the lack of unified terminology, cash on ledger solutions enabling Delivery versus Payment, market fragmentation, as well as regulatory, legal and other operational considerations.

3. CSDR

Francis Lepori (Credit Agricole) presented the scope and challenges of the Central Securities Depositories regulation (CSDR) impacting all market participants trading in the European Union. After recalling the aim of this regulation and the implementation timeline, he focused on the settlement discipline regime which will enter into force in February 2022 with a primary objective to prevent settlement fails. In this context, five building blocks were presented: (i) allocation and confirmation (prompt communication of the allocation of securities for the transaction), (ii) matching of settlement instructions (new rules and revised matching criteria, accepted tolerance levels, real time matching and bilateral cancellation facility), (iii) monitoring of settlement fails (regular reporting on settlement fails), (iv) addressing settlement fails (cash penalties), and (v) mandatory buy-ins (the timing and details of which may still be under discussion).

In addition, Francis depicted the lifecycle of a failing transaction with CSDR, encompassing four phases: normal lifecycle, extension period, buy-in period, and cash compensation. He concluded his presentation by outlining the challenges and expected benefits of this regulation.

Subsequently, members were asked in a tour de table to report on their progress and on challenges they are facing, particularly on the (mandatory) buy-in.

Most of the members reported that they are intensively working within different teams in their organisation on implementing the regulation. Main challenges reported relate to technical, legal, and operational issues, requiring involvement of a wide range of internal and external stakeholders and high configuration and testing effort (particularly encompassing the buy-in process involving multiple consecutive parties). The participants shared concerns about the tight deadlines and uncertainty of the final implementation date and the scope of the SDR. Most place effort on improving internal processes with the aim to minimise the risk of settlement fails.

4. Obstacles preventing greater automation and efficiency in the confirmations and payments area

Steve Forrest (UBS) presented and analysed constraints and challenges to the automation and efficiency in the confirmations and payments area, focusing on the FX market.

Looking at trade confirmations, Steve sees the following obstacles and challenges in daily operations: (i) delays in confirmation dispatch and matching, (ii) delays in fund allocations for new counterparties, (iii) non-adherence to SWIFT standards, (iv) manual matching and (v) bespoke counterparty requests requiring manual intervention.

Constraints identified for payments include: (i) netting, instead of using payment versus payment mechanisms, (ii) missing or multiple SSIs per currency, (iii) delays in onboarding process, (iv) handling of payment splits, (v) bespoke counterparty requests, (vi) manual interventions often required for linked, delivery versus payment settlements, and (viii) additional reviews owing to high value payment filters.

In view of the above, organisations should aim for improving processes and setting targets for their STP rates per products and customers. Particular focus should be given to the identification of those counterparties with which timely confirmation matching appears problematic, analysis of the root problems and implementation of

monitoring measures. To achieve a better level of performance it has also proven to be effective involving front office and sales departments when working with clients to help them overcome issues that might be causing delays on their side. Additionally, bespoke requests which can hold back automation should be considered and evaluated carefully before becoming part of business as usual (BAU).

5. Update on the review of the European Master Agreement

Otto Heinz and Volker Enseleit (ECB) gave a status report regarding the efforts - led by the European Banking Federation - to renew the European Master Agreement. The 2020 version of the agreement was briefly introduced, explaining what was updated by the working group. ECB OMG members were also given an update on the status of legal opinion updates, as it is expected that in all the most relevant European jurisdictions new legal opinions on the EMA are issued by the end of 2021.

6. Outcome of survey on Work Programme 2022

Following a presentation of the ECB OMG survey on the ECB OMG Work Programme for 2022, the members confirmed the proposed topics and volunteered for presentations in the coming year. Members are invited to volunteer for further presentations potentially involving experts from their organisation. The work programme will be finalised in the December meeting.

7. AOB

Topics of the next meeting were presented.