

ECB Operations Managers Group
8 December 2021 14:00 – 17:30 CET Via WEBEX

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed two newcomers, who introduced themselves to the Group and the participants approved the agenda of the meeting.

2. CLS update

Keith Tippell (CLS) presented an overview of CLS activities in the context of current FX market developments. First, Keith focused on CLS's role in the FX market, emphasising the importance of global oversight and mutual ownership for strengthening the FX ecosystem's resilience and efficiency. He outlined major FX market developments, ongoing regulatory actions on settlement risk and solutions proposed in this context by CLS. Referring to renewed efforts to further reduce settlement risk in the FX market, Keith highlighted two current policy recommendations: *FSB Roadmap (Building Block 9)* which encourages increased adoption of payment-versus-payment (PvP) by either enhancing existing and/or designing new PvP arrangements, and the *FX Global Code*, which was updated in June 2021, mandating further reduction of FX settlement risk through PvP solutions and automated settlement netting systems or, if not available, by proper measurement, monitoring and control (Principle 35 and 50 of the FX Global Code). In this context, Keith gave some details on the CLS industry pilot aimed at developing an alternative PvP solution for currencies that are currently not eligible for CLS Settlement¹. Main features of this solution include among others direct participation, alignment of settlement windows to the periods when markets are most liquid, potential support for same-day funding of trades and a wider range of accepted currencies. CLS assumes that participants in the CLS alternative PvP solution could benefit from (i) capital and liquidity efficiencies, (ii) business growth opportunities, and (iii) operational and IT efficiencies.

3. Follow-up on CLS and cross-border settlements

Leigh Meyer (Citi) complemented the CLS presentation with further reflections on settlement risks. He highlighted the sources of future growth in cross-border payments resulting from traditional segments, and in particular from wide spreading digital services including eCommerce and non-banking financial institutions. Risks associated with this growth, including operational, settlement, principal and replacement cost risks may differ, depending on chosen risk management measures: the use of central clearing, CLS settlement, PvP and delivery versus payment (DvP) solutions or bilateral netting and gross settlement. Leigh concluded that none

¹ Subject to all necessary approvals.

of these solutions alone can fully remove all these risks. For example, central clearing, CLS settlement and PVP/DvP solutions can remove principal risk but retain some operational risks; bilateral netting reduces the principal risk but entails significant operational risks and finally gross settlement while reducing operational risk results in principal risk. Therefore, market participants should make a careful choice, in collaboration with the clients, of one of the available solutions as well as further standardisation and reduction of exceptions and manual processes.

4. FX Global Code update

Roswitha Hutter (ECB) gave an update on the recent amendment of the FX Global Code and the renewal of the linked Statements of Commitment.

5. Follow up on T2/T2S incidents and T2/T2S consolidation

Irene Katsalirou (ECB) shared some insights on the ECB response to the TARGET Services incidents that occurred in 2020. Irene gave an overview of the individual incidents and reported on the external audit review which identified 40 individual findings, and recommendations to address organisational, control and governance issues. In July 2021 the Eurosystem accepted the conclusions of the report and committed to address its recommendations. As a result, together with the involvement of all relevant stakeholders, a comprehensive action plan should be endorsed by the end of 2021 with most measures being implemented in 2022.

Serge Mbenza (ECB) provided a status update on the T2/T2S consolidation (CLSD) project, which aims at consolidating and optimising the provision of the TARGET2 and T2S services while facilitating the supply of liquidity to existing and future Eurosystem payment and settlement services e.g. T2S, TIPS, RTGS. The CLSD project is expected among others to improve efficiency, optimise liquidity management, and enhance real time gross settlement service, while reducing costs. Serge presented the timeline of the different project workstreams including product, community, operational, and legal readiness. He underlined that the project scope is currently frozen and that new change requests are being prioritised in view of their possible implementation after the project go-live planned for November 2022. He highlighted the start of User Testing since the 1st December 2021 and invited Eurosystem participants to actively take part in this exercise. He also updated on the progress on the community readiness workstream to ensure that Central Banks and their respective communities are ready on time and, on the ongoing work on the operational and legal sides. The information guide for TARGET participants is expected to be finalised by May 2022 and the future TARGET Services Guideline by February 2022. Relevant information can be found on the ECB website.

6. Consolidation of the Spanish banking system

Pablo Quiralte (Cecabank) gave a detailed overview of the consolidation of the Spanish banking system in the context of similar changes occurring since 2009 across the European Union (EU). Pablo demonstrated that until 2020 the numbers of bank branches and employees significantly dropped in Spain, comparing with other EU countries. The consolidation process notably affected the Spanish savings banks, leading to a number of positive developments, such as significant reduction of non-performing loan ratio, improving at the same time profitability and solvency, as well as enhanced HR and business models and streamlined internal governance and ownership structures.

7. Upcoming regulatory challenges

Damien Debbaut (KBC) presented a comprehensive update on the European Market Infrastructure Regulation (EMIR) encompassing trade reporting under EMIR Refit, Reporting Technical Standards (RTS) on Initial Margin Model Validation (IMMV), equivalence for UK based CCPs, the Packaged Retail and Insurance-based Investment Products (PRIIPS) and Benchmark Regulation.

As concerns EMIR Refit, Damien noted that, based on initial assessments, the reporting obligation and the complexity of reporting under EMIR Refit are increasing, mainly owing to differing reporting templates and schemas, introduction of a Universal Product Identifier (UPI), reporting of lifecycle events with action and event type, 50% more fields to be reported and 3 times more fields to be reconciled. He indicated that the long-term extension of the equivalence decision for UK CCPs was still uncertain, despite a recent European Commission announcement on further extension that should be decided in early 2022. Finally, Damien outlined challenges related to the implementation of changes required by PRIIPS, which result from a fluctuating timeframe and lack of clear regulatory guidance.

8. AOB

The finalised Work Programme for 2022 was presented and the participants shared key achievements and activities undertaken in 2021 in their organisations.