

ECB Operations Managers Group

Tuesday, 20 June 2023

14:00 - 17:30 CET

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed the members and announced the changes to the group's membership. The participants approved the agenda of the meeting.

2. Building the settlement system of the future

Michele Hillery, Valentino Wotton and Michalis Sotiropoulos (Depository Trust and Clearing Corporation (DTCC)) outlined main features and the status of the preparation for the transition to the T+1 settlement cycle in the U.S. Michele explained the rationale for shortening of the standard settlement cycle for securities transactions from two business days after trade date (T+2) to one business day (T+1) and main changes to the existing DTCC processes. Valentino described the role of the central matching service providers (CMSPs) in facilitating STP as well as testing timeline and modalities. To ensure a smooth and resilient transition to the shortened cycle, DTCC representatives underlined the importance that market participants further improve in the settlement instructions management and eliminate manual processes through automation.

3. T+1 settlement cycle – ECB OMG Survey

Janusz Ryzner (ECB) summarised the results of the ECB OMG survey on the T+1 settlement cycle. In the survey, the OMG members acknowledged the advantages of a T+1 settlement cycle in terms of reduced exposure against credit, market and liquidity risk. However, they see some challenges for such a transition in the EU, in particular owing to the fragmentation of market infrastructures and market practices. They also fear that the shortened settlement cycle may lead to higher settlement fails, which could be seen as adverse impact on the settlement efficiency.

4. Carbon footprint for blockchain based products

David Durouchoux (SG FORGE) presented some insights on the SG FORGE progress in tokenized assets from issuance to settlement and their analysis of the carbon footprint for blockchain-based capital market products. David noted that the maturing DLT regulatory environment and the increasing number of DLT based issuances accelerated experimentation and support towards digital sustainable finance projects, with a focus on green and sustainability-linked formats. Work concentrates on the creation of the methodology for the calculation of the carbon footprint for the full life cycle of DLT based securities. He stressed the importance of joined initiatives to foster standardisation, and sees encouraging demand from issuers for DLT based approaches.

5. Concrete usage of RPA in operational activities

Kris De Nul (KBC Bank) shared KBC experiences with Robotic Process Automation (RPA) in operational activities. Kris explained that KBC reviewed its RPA policy, established a new governance centralising RPA development, and created a uniform RPA lifecycle framework and a dedicated central RPA infrastructure to avoid fragmentation and have a common knowledge base. An important feature is to ensure business continuity capabilities to replace RPA in case of unavailability. KBC used RPAs especially in the area of compliance, customer management (e.g. for transaction monitoring and AML checks), Securities Services, Insurance and commercial banking. KBC sees a trend to gradually replace robots by more sustainable solutions, redesign existing RPAs to improve their performance and the development of new technologies that co-exist with RPA solutions.

6. Eurosystem Collateral Management System – an update

Joao Tiago Mira Duarte Amaro (ECB) provided an update on the Eurosystem Collateral Management System (ECMS) and recalled the main features of ECMS and its revised implementation timeline. Currently, National Central Banks are performing functional testing along with CSDs and the next testing phase, marking the start of functional testing for banks starts on 10 July.

7. Tour de table questions

Participants shared experiences on the issues outlined in the meeting's presentations, emphasising the following:

1) T+1 Settlement cycle:

- The compressed settlement cycle in the US will impact FX swap markets and reduce the time available for potential corrections, leading potentially to higher numbers of linked settlements fails.
- Supporting clients demand globally will become more complicated, requiring closer monitoring and more interactions with the customers.

2) Carbon footprint for blockchain based products:

- Implementation of DLT to support financial processes remains experimental and limited in impact, among others due to improved resilience and smooth running of existing processes. However, once the tokenisation of assets may have in the medium-term a significant impact on market infrastructures and participants and drastically change existing business models.
- The progress in the development of DLT based solutions could be accelerated by international banking industry collaboration, further adjusted regulations and the implementation of standards.

3) Concrete usage of RPA in operational activities:

- Implementation of RPA solutions should be preceded by a detailed process review, to ensure that they do not preserve inefficient processes, and to carefully assess the fix via RPA versus developments of core systems.
- A coordinated RPA governance and implementation helps to ensure synergies in development and maintenance, business continuity and process optimisation. A regular review of RPA solutions is important to address maintenance/update and complexity.
- It is important to ensure that back office staff still know the underlying processes to be able to trouble shoot.

4) Cyber security:

- Following a short update on the increased number of cyber security threats aimed at financial infrastructure, the participants underlined the importance of due diligence, internal staff awareness and active monitoring and exchange of information throughout the financial industry.

8. AOB

Next physical/hybrid meeting in Frankfurt on 28 September 2023.

Guest speaker: Christian Winkler (ESMA) and giving an update on operations related regulatory initiatives in 2023.