

Proposal to consolidate the monitoring of European corporate action standards under a single governance

1. Introduction

In line with the agreement reached by the AMI-SeCo in June 2019, this year's compliance monitoring exercise of the AMI-SeCo's T2S Corporate Action standards (via the AMI-SeCo's Corporate Action Sub Group (CASG)) was for the first time coordinated with the implementation monitoring of the Corporate Action Joint Working Groups (CAJWG) standards (via the European Market Implementation Group (E-MIG)). The AMI-SeCo Secretariat was asked to act as central communication hub / channel for conducting both exercises. The aim of the coordinated exercise was to find out, if synergy effects may arise and if further action could be taken on the basis of the feedback from members of the groups. The AMI-SeCo had asked the HSG to report back in December 2019.

2. Assessment of the coordinated CASG-E-MIG monitoring exercise

The CASG and the E-MIG evaluated the experience jointly. Overall, industry members of the two groups perceived the coordinated process and quality of monitoring positively, but, at the same time, the exercise revealed some serious shortcomings regarding resourcing and more extensive need for secretarial support than anticipated.

2.1 Monitoring process and quality

The process for the compliance monitoring of the CASG standards and of the CAJWG standards followed the same timetable which facilitated the work at national level (with the involvement of National Stakeholder Groups and local MIGs). The monitoring results were discussed in a back-to-back meeting of the E-MIG and the CASG (with E-MIG members participating as observers in the CASG meeting and vice-versa). This resulted in improved communication of E-MIG and CASG, in particular in more efficient discussion time, as discussions on specific markets did not need to be repeated in both groups. Moreover, travel needs for members were significantly reduced and resources were saved due to the significant membership overlap of the two groups.

The quality of compliance monitoring for both sets of standards was improved, as it was possible to gain a fuller picture of the state of compliance because of more complete and more consistent responses. Nevertheless, the CASG and E-MIG agreed that further improvements could be made to align the monitoring and consistency in the reporting on corporate action standards.

2.2 Secretariat support and resources:

The apparent shortage of resources on the E-MIG side caused significant challenges and resulted in higher organisational efforts on the ECB's side than anticipated. The CASG secretariat provided by the ECB became the de facto secretariat of the E-MIG as well. Hence, the ECB, notably the CASG secretariat would not be in a position to repeat the exercise in the same manner in 2020. The ECB's secretarial support would then focus on the monitoring of the CASG standards and CMH standards, as they fall under the mandate of the AMI-SeCo. Given its secretariat functions for the CASG and the CMH-TF, the ECB would however be ready to offer to take on the secretariat function for the monitoring of all

corporate action standards (CASG, CMH-TF and CAJWG), if the monitoring of the standards would be brought under the umbrella of the AMI-SeCo.

The HSG took note of the feedback provided and considered two options at its November 2019 meeting: (a) previous status (i.e. separate processes); (b) consolidating the monitoring under a single governance.

3. HSG proposal for a consolidated monitoring of corporate action standards

With the aim to maximise synergies and best guarantee consistency in the compliance monitoring and reporting (a stated AMI-SeCo objective), the HSG felt that consolidating monitoring tasks of the CMH-TF, CASG and CAJWG standards and putting it under a single governance, notably the AMI-SeCo, with the ECB providing the necessary secretariat resources could be an appropriate way forward.

A new single market group under the AMI-SeCo could be created which would be responsible for the compliance monitoring of the corporate actions standards of the CAJWG and AMI-SeCo's CASG and Collateral Management Harmonisation Task Force (CMH-TF). This group would not take over the ownership of the CAJWG standards which would continue to be owned (i.e. maintained, interpreted) by the CAJWG.

The following sub-sections provide some initial ideas on the geographical scope, the standards to be covered, a possible efficient and effective future compliance monitoring process, a possible introduction of the concept of market sponsors, high level compliance criteria, and incentives for markets to comply with the standards. The HSG considers that further details and a draft mandate for the new group could be elaborated once the AMI-SeCo agrees to this high-level approach and it is ascertained that other relevant industry bodies support the idea.

3.1 Geographical scope

The new group could possibly cover all AMI-SeCo countries, i.e. EU and Switzerland, and also countries which have been covered by the CAJWG monitoring but are currently not covered by the AMI-SeCo (e.g. Norway) on a voluntary basis. After an agreement on the general geographical scope is reached, further details would be spelled out when the mandate of the new group is formulated. This concerns for example the questions whether the implementation of the CASG standards would also be recommended to all these markets or remain limited to T2S markets, and whether ICSDs, which are currently not subject to compliance with the CAJWG standards, could be integrated in such monitoring (also as the ICSDs are already monitored under CMH corporate actions standards).

3.2 List of standards benefitting from a consolidated monitoring

The new group could be mandated to monitor the compliance of the following:

- the CAJWG standards
- the T2S corporate action standards, and
- the CMH corporate action standards.

Depending on future discussions and feedback from the industry, it could be envisaged that also SRD2 standards could be put in the scope of a consolidated monitoring, given that some standards are similar in nature.

3.3 Compliance monitoring process

The monitoring process for the standards falling in scope could be further aligned, e.g. by integrating and streamlining the various questionnaires eliminating any remaining overlaps between the surveys. Ultimately, a single questionnaire could possibly be envisaged. On the basis of the responses, the new group would prepare and review a draft report for the consideration of the HSG and ultimately for the AMI-SeCo. Details on the modus operandi would be agreed by the group.

The new group could take the role of a central coordination function in the monitoring process at European level. While a consolidated monitoring at European level may also present an opportunity for the NSGs and MIGs to consider efficiency gains for the monitoring at local level, it remains that the local markets are free to decide on their local monitoring structure.

3.4 Market sponsors

The HSG considers the practice of the E-MIG to assign a sponsor to a national market (who originates from a different national market and reviews and proposes the compliance together with the reporting market and the Secretariat) a model which could have significant benefits in further improving the quality and consistency of the monitoring. The specific details of the roles and responsibilities of market sponsors would be further elaborated.

3.5 High level criteria to be used in the compliance assessment process

The current valuable practice to prepare an impact assessment for non-compliance cases could also be applied for the consolidated monitoring of all relevant standards. This would contribute to ensuring consistency of assessments across markets and across actors and would also assist market sponsors in their review/assessment recommendations. The details of the approach would be further worked out.

3.6 Incentives for markets to comply

The HSG considers that consolidating the compliance monitoring and integrating it into one group under the AMI-SeCo will ultimately provide additional incentives to comply with all corporate action standards in scope, compared to the current more segregated approach. The consolidated monitoring approach could also offer the opportunity to provide more encompassing assistance to reach compliance, e.g. by organising local sessions with NSGs / MIGs.¹ Furthermore, the new monitoring could also benefit from the potential future enhancements to the general AMI-SeCo framework on following up on non-compliance cases by potentially finding additional incentives for markets to comply.

Based on the above considerations, the HSG proposes to the AMI-SeCo

- a) to endorse the idea of creating a new group on corporate actions under the AMI-SeCo that consolidates the monitoring of CAJWG, CASG and CMH-TF CA standards, as outlined above;***
- b) to agree that the consolidated monitoring would be without prejudice to the ownership of the respective standards;***
- c) to liaise with the respective industry steering groups to agree on the above proposal.***

Following such an agreement, the HSG will present a concrete proposal on the set-up of the new group, including mandate and composition, to the AMI-SeCo in Q1 2020.

¹ Here the new group could also be inspired by the excellent example of the CMH-TF, whereby assistance is provided by the ECB to interested NSGs in the implementation and questions on the new Single Collateral Management Rulebook for Europe.