

OUTCOME OF THE MEETING OF THE ADVISORY GROUP ON MARKET INFRASTRUCTURES FOR SECURITIES AND COLLATERAL (AMI-SECo)

16 June 2023, 9:30 – 16:00 CEST

In-person meeting, Frankfurt am Main, ECB Main Building

0. Introductory remarks and approval of the agenda

1. EU public authorities' initiatives on post-trade harmonisation

- a) The European Commission and ESMA were invited to provide an update on the EU initiatives relevant for the harmonisation agenda.
- b) The ECB gave an update on developments in relevant Eurosystem activities.

Outcome:

The European Commission representative reported that significant progress has been made on the Commission's Capital Markets Union Action Plan. Since the adoption of the 2020 CMU Action Plan, the Commission has already delivered or has been progressing on most of the 16 actions. Member States and the European Parliament are now negotiating seven legislative proposals, including the European Single Access Point, the European Long-term Investment Fund Regulation and the Alternative Investment Funds Managers Directive. In December 2022 the Commission proposed a Listing Act to improve access to public markets for companies including changes to the Prospectus Regulation, the Market Abuse Regulation, MiFID / MiFIR and the Listing Directive. On withholding tax procedures, the Commission is expected to publish its proposal for a Directive by end-June 2023, covering, inter alia a digitalised standard Certificate of Residence, common refund and relief-at-source frameworks and associated harmonised reporting regime for intermediaries. The proposal will require unanimity in Council negotiations. On the review of the CSD Regulation (CSDR) progress has been made in the trilogue process. With regards to the settlement discipline requirements, it was highlighted that the requirement for mandatory buy-ins is likely to remain part of the framework as both the European Parliament and the Council maintained the provision in their negotiation positions for the trilogue. However, the triggering conditions for the buy-in are one of the elements discussed by the co-legislators. Regarding the implementation of the Shareholders Rights Directive 2 (SRD2), work is underway on whether it is feasible to harmonise the definition of shareholder across Member States. Finally, regarding the review of the Settlement Finality and Financial Collateral Directives a report is expected to be published in the near term.

The ESMA representative reported that since the last AMI-SeCo meeting ESMA has published a report on the peer review on supervision of CSDs providing cross-border services. A key focus for ESMA in the post-trade domain is settlement efficiency and it is currently analysing the root causes of settlement fails together with the national competent authorities (NCAs), based on information provided by CSDs and market participants. Given that this concerns the entire settlement chain, CSDs are encouraged to liaise with their participants to conduct a more in-depth analysis of the root causes of settlement fails and to share that information with the NCAs and ESMA. ESMA is planning to organise a workshop on settlement efficiency in September 2023 and aims to publish a report on CSD settlement efficiency in 2024, which will also cover the impact of cash penalties and a comparison with internalised settlement at custodians' level. In response to the question as to whether ESMA may publish a reference price list for CSDR cash penalties, the ESMA representative clarified that this was not envisaged, given the high costs, legal and operational complexities; moreover, CSDs have already put in place solutions to source the reference data for the application of cash penalties. On a potential T+1 standard settlement cycle for securities transactions in the EU, ESMA expects to receive the mandate from the legislators in the context of the CSDR review to analyse this topic in detail and may issue a call for evidence to gather input from market stakeholders. Regarding the implementation of the Shareholder Rights Directive 2 (SRD2) provisions on proxy advisors and the investment chain, ESMA launched a call for evidence in the second half of 2022 the outcome of which will be used in a joint ESMA – EBA report which is expected to be finalised and published soon. ESMA is also closely monitoring the application of the EU's DLT Pilot Regime Regulation. So far two official applications for using the regime have been submitted, and several others are in the pipeline. ESMA has issued and will continue to issue guidance on the DLT Pilot and will also provide opinions on the applications. A dedicated ESMA working group has been set up to look at the experiences across the EU and to support supervisory convergence on the DLT Pilot implementation. In relation to the Markets in Crypto-Assets Regulation (MiCA), which has been recently published in the Official Journal, ESMA is launching a consultation process to support its work on the relevant Level 2 measures, including the sequential publication of three consultation packages: one in July, one in October and a third one next year. A key question is the clarity whether an asset falls under MiCA or under the MiFID regime.

The ECB gave an update on the setting up of its market contact group on New Technologies for Wholesale settlements (NTW-CG) and gave a high-level overview of the potential approaches to using DLT for central bank money settlement as well as the objectives of the Eurosystem in launching exploratory work in this area. The NTW-CG will have no formal steering or advisory responsibilities vis-à-vis the Eurosystem exploratory work on new technologies for wholesale central bank money settlement but will serve as a forum for the Eurosystem to receive relevant information and feedback from market stakeholders.

2. Update on the ECMS project

The ECB gave an update on the developments regarding the ECMS project.

Outcome:

The ECMS project is currently in its user and migration testing phase, in line with the plan towards the go-live date of 8 April 2024. The phase 1 of the Eurosystem Acceptance Tests (including the Central Bank testing) has been completed and thereafter the user testing stage with the first group of users, the Central Banks has started. The Market Infrastructure Board approved the July 2023 start of the Community Testing (CTP2a). A staggered approach is applied in terms of the ECMS actors' involvement and the functional scope. The functionalities available for full community testing will be communicated to all stakeholders via the ECMS Testing Conditions publication published on a bi-weekly basis. The results of the 9th readiness monitoring cycle showed improvement of the overall confidence level on readiness among stakeholders compared to previous cycles mainly due to the ECMS replanning. A public ECMS Focus session was held on 12 June 2023.

3. Update on progress on the AMI-SeCo governance review – setting up of SEG / CMG

The ECB gave an update on the progress on the review of the AMI-SeCo, in particular on the setting up of the SEG and CMG.

Outcome:

The review of the AMI-SeCo governance continues with the renewal of two of the AMI-SeCo's substructures, the Securities Group (SEG) replacing the Harmonisation Steering Group and the Collateral Management Group (CMG) replacing the Collateral Management Harmonisation Task Force. The SEG composition, including the co-chairs of the SEG were endorsed by the AMI-SeCo via written procedure. Based on the comments received in the written procedure, the Secretariat will follow up by seeking further nominations from issuers and the CEE region. A proposal on the CMG composition will reach the AMI-SeCo soon. This has been taking more time to improve the balance of members relative to the initial nominations. The remaining steps in the AMI-SeCo governance review are the replacement of the 'NUG mandate' document with a set of recommendations to National Stakeholder Groups, renewing the ASTRA folder structure for AMI-SeCo and its substructures and a potential review of the AMI-SeCo pages on the ECB website.

4. Work by AMI-SeCo substructures on post-trade harmonisation

4.1 Collateral Management Harmonisation / SCoRE (CMH-TF / CMG update)

The AMI-SeCo endorsed the monitoring report on the progress by markets with compliance with the SCoRE standards (SCoREBOARD H1 2023), for publication.

In addition, the AMI-SeCo discussed the proposed update of the SCoRE standards for corporate actions and the update of the SCoRE Frequently Asked Questions (FAQ), which provide further clarifications to facilitate implementation. The updates were reviewed by the Collateral Management Harmonisation Task Force (CMH-TF) Asset servicing Experts Group (ASEG) and National Stakeholder Groups (NSGs).

Outcome:

Overall, there was a wide participation in the H1 2023 SCoRE monitoring exercise by CSDs and TPAs, while the participation rate and information provided by custodians and issuers still leaves room for improvement. The overall compliance rates with SCoRE Standards (H1 2023) showed 14% for triparty collateral management, 41% for corporate actions and 49% for billing processes. It was noted that while the ECMS will rely on compliance with the SCoRE Standards, the current compliance gaps do not raise material concerns with regards to the ECMS-readiness of the relevant markets. New delays have been reported from Cyprus and Greece which require closer attention. The AMI-SeCo will be informed on the further collection of information and assessment of the gaps. In terms of further strengthening the SCoRE monitoring in certain non-T2S AMI-SeCo markets, the Secretariat is planning to take further measures to ensure a sufficient level of market engagement.

AMI-SeCo members did not indicate material issues in the update of the SCoRE Corporate Actions Rulebook, which contains only smaller and editorial updates.. Some of the members expressed concerns on whether all stakeholders could validate the changes also at technical expert level with a view to the transition from the CMH Task force to the Collateral Management Group. It was recalled that the Asset-Servicing Expert Group of the CMH Task Force (ASEG) was involved in the proposed changes. The AMI-SeCo agreed that the Corporate Events Group should, in view of its future responsibilities, be involved as well in the fatal flaw review of the changes proposed to the SCoRE CA Rulebook in this transition period. After the fatal flaw review, the updated Rulebook will be submitted to the AMI-SeCo for a final written procedure.

4.2 Corporate Events Harmonisation (CEG reporting)

The CEG co-chair gave an update on the work by the CEG since the December 2022 AMI-SeCo meeting.

Outcome:

The CEG continued its discussion on the open items in the CEG issues log (questions related to the standards maintained and / or monitored by the CEG). The conclusions of the CEG analysis on various items included in the CEG Issues Log will be incorporated into a CEG FAQ document which will be submitted to AMI SeCo for approval later this year.

The CEG also provided a detailed assessment of the compliance by the markets migrating to T2S in 2023 with the T2S Corporate Action Standards and the Market Standards for Corporate Actions Processing. The outcome of the CEG's analysis has been incorporated into the report by the SEG (see item below).

One AMI-SeCo member expressed the view that the current industry association work on revising and finalising the Market Standards on General Meeting was experiencing difficulties. One of the CEG co-chairs stressed the importance of this work, both because of the intrinsic importance of these standards, and because it is expected that once they are finalised, the AMI-SeCo CEG will take over responsibility for the standards.

4.3 Securities Harmonisation (HSG / SEG update)

The ECB presented topics relevant for the AMI-SeCo in relation to the outcome of the last HSG meeting (joint meeting with SEG participants).

Outcome:

The AMI-SeCo discussed and approved the report on the compliance by the markets migrating to T2S in 2023 with the T2S harmonisation standards and agreed to share the report with the MIB for their information.

The AMI-SeCo also took note of the following topics that the SEG is focusing on over the near term in line with the SEG mandate and the relevant external developments.

First, in line with earlier discussions in the AMI-SeCo, the SEG is preparing a survey on remaining barriers to market integration in post-trade markets in Europe with the aim to collect concrete evidence relevant to such barriers in several domains: legal / administrative barriers, technical / market practice barriers and barriers related to suboptimal level of awareness among stakeholders of existing market access alternatives in the current ecosystem. The survey would be run among AMI-SeCo members and National Stakeholder Groups. Finalisation of the survey questions and design is envisaged by September 2023 with reporting on the survey outcome in the December 2023 AMI-SeCo meeting.

Second, the SEG is planning to launch an ad-hoc Task Force on the topic of optimisation of T2S message customisation to analyse and present a concrete proposal to the SEG / AMI-SeCo on the potential scope of an unfreezing of T2S settlement message elements. This work will be conducted also with a view to the planned ISO unfreeze for TARGET Services.

5. ISO 20022 adoption

The ECB gave an update about the planned change to the ISO 20022 message unfreeze strategy required due to the new ECMS go-live date.

The AMI-SeCo discussed the developments regarding the discussions on the adoption of ISO 20022 for corporate actions and the co-existence between ISO 15022 and ISO 20022.

Outcome:

The ECB informed AMI-SeCo about the planned change to the ISO 20022 message unfreeze strategy required due to the new ECMS go-live date. With this revision, the ISO 20022 message unfreeze is to take place in June 2025, i.e. one year later than initially planned. The move into yearly maintenance

releases is still to take place in November 2025. In order to address the larger scope of change in June 2025, the testing period for this release is to be extended to up to six months. The ECB highlighted that exceptions to the strategy will continue to be feasible if considered necessary for TARGET Services (e.g. exception granted to ECMS for securities event messages).

The AMI-SeCo discussed the ECB's proposal for a coordinated strategy of ISO 20022 adoption in AMI-SeCo markets in the fields of corporate events, tri-party collateral management and billing. ISO 20022 has several benefits compared to the older ISO 15022 standard for messaging such as the more structured set of data elements, common data elements, easier expandability and consistency with other developments (TARGET Services, regulatory developments, EU Issuance Service). Reference was made also to the recent proposal by ECSDA to limit the co-existence period and aim for a full migration to ISO 20022 for corporate events-related messages between CSDs and their participants by 2030 (5 years after the Wave 2 deadline of SCoRE). Even though the longer-term vision is appreciated by AMI-SeCo members, further work is necessary on a general end-date / end of maintenance for ISO 15002 before the AMI-SeCo can conclude on a fully-fledged strategy. Some AMI-SeCo members referred to the outcome of the recent ISSA/ ECSDA survey on ISO 20022 for securities transactions messages, highlighting the more limited uptake in global usage of ISO 20022 the further away market participants are from the market infrastructure level and the current low adoption of ISO 20022 in the bank-to-corporate layer. Further coordination is needed to align stakeholders and establish the necessary incentives. It seems reasonable to start with ISO 20022 on the first communication layer (FMI-to-bank) in the specific domains also mentioned in the ECSDA recommendations on the use of ISO 20022 (triparty collateral management and billing processes, corporate actions, market claims and general meetings). Further global outreach should be organized, seeking the involvement of SWIFT and ISSA to achieve a global coordination, in particular for the migration in the bank-to-bank and bank-to-corporate layers. There is a risk that users might use alternative data and messaging structures if the restrictions on the legacy ISO 15022 standard move forward too quickly without a cohesive / comprehensive approach and the appropriate incentives. The AMI-SeCo agreed to proceed with a written procedure and a call dedicated to outlining the strategy further.

It was agreed to launch a written procedure on the ECB note (which already implemented comments received from previous rounds) among AMI-SeCo members and update the note based on the feedback received. An ad-hoc AMI-SeCo call will be held on this topic in September 2023, with the Secretariat circulating the updated note at least two weeks before the call.

6. T2S

6.1 Update on T2S operations

The ECB provided an update on T2S operations.

Outcome:

Overall T2S volumes have been stable in recent months and in line with the usual seasonal patterns. Settlement efficiency has slightly improved (both in volumes and value terms) in the last three months of the observation period vis-à-vis the previous months. The use of T2S auto-collateralisation seems also stable giving a significant portion of total T2S DvP turnover. The ratio of cross-CSD settlement to intra-CSD settlement has remained also stable at relatively low values with a slight increase observed in terms of volumes. The pattern of the distribution of turnover in values and in volumes between the Night-time settlement (NTS) and Real-time settlement (RTS) phases shows that this distribution (2/3 in NTS and 1/3 in RTS in terms of volumes and the other way round for values) suggest that the original expectation that most turnover both in value and volumes term will be processed in the NTS has not materialised. This suggest that a significant portion of high-value transactions are processed in the RTS which is a phenomenon that might be worth exploring further also in the context of the settlement efficiency discussions and potentially the upcoming discussions on T+1 standard settlement cycle. More granular data could be useful to look at this. For future AMI-SeCo meetings, the ECB will explore the possibility of presenting NTS/RTS volumes with a breakdown per community.

6.2 Update on the 2022 T2S Pricing Cost Recovery Review

The ECB presented the outcome of the revisiting of the T2S cost recovery and pricing model assumptions.

Outcome:

The ECB's analysis updated the 2018 T2S cost recovery exercise based on the developments since 2018, in particular the actual T2S volumes since 2018, an estimated volumes growth rate of 3.7 % p.a. based on recent actual figures and a survey outcome, as well as considering the possible additional volumes brought by the markets migrating to T2S in 2023. On the cost side the Eurosystem cost-accounting and recovery methodology has been followed by keeping the cost estimates (4CB and ECB operational costs, change requests, cyber-resilience related costs, etc.) conservative. Considering the above assumptions, overall, a higher estimated volumes and accordingly (assuming no change in T2S fees) a slightly faster cost-recovery can be projected by the end of 2028 (as opposed to the projected end 2029 in the 2018 cost-recover update). It was noted that the in terms of cost assumptions, over the long term the ECB's price stability target is taken as the assumed rate of inflation. It was noted that 1 % difference in the assumed annual volumes growth rate results in roughly 6 months of change in the date of reaching final cost recovery. It was emphasized that after reaching full cost recovery T2S will still have to recover its on-going (operation, maintenance, etc.) costs. Overall, the suggestion to T2S governance will be not to change T2S fees at least until the next review which should be no later than 3 years from now.

AMI-SeCo members welcomed the analysis. Some members emphasized that the next review should start no later than in early 2025, in order to provide the opportunity to change T2S fees (if outcome of the review so suggests) starting as of January or July 2026. The ECB confirmed that this coincides with its planning for the way forward

6.3 Change and release management – A-item

The AMI-SeCo received an update on developments in T2S change and release management since the last regular AMI-SeCo meeting.

6.4 T2S governance - reporting and debriefing

Outcome:

The chair of the CSD Steering Group (CSG) and the chair of the Directly Connected Parties (DCPs) Group debriefed the AMI-SeCo on major developments with regards to their groups. The CSG chair highlighted that CSDs suggested a higher level of involvement in the governance of the ECMS project to achieve a better coordination among stakeholders.

7. Update on the implementation of the action plan addressing recommendations following the 2020 TARGET Services incidents

The ECB provided an update on the progress related to the implementation of the action plan for addressing recommendations following the 2020 TARGET Services incidents.

Outcome:

Further progress has been made by the MIB in addressing the recommendations by the internal auditors, the TARGET Services overseers and the external consultant hired in the wake of the 2020 TARGET incidents. Based on the latest status of the action plan with cut-off end of March 2023 137 actions (88% of total actions) have been completed by the MIB (102 already closed by the auditors and the lead overseers), 3 actions are on track as they have a future deadline while 15 actions have been marked as delayed, most of them are planned to be completed by Q2 2023. The action plan continues to be expected to be fully implemented by the end of 2023. With regard to crisis communication on TARGET incidents, it was highlighted that all actions have been completed including the recommendation on better preparing participants to extremes scenarios. AMI-SeCo members welcomed the more robust processes for critical communications with market participants in case of TARGET incidents. Following a question by an AMI-SeCo member on the reason the T2S Crisis Communication Group had not been activated since its establishment in 2022, it was recalled that the T2S crisis managers can decide, based on the severity of the incident, to convene the established group of key stakeholders to receive and communicate critical information on the incident with the broader market. Furthermore, it was confirmed that testing this aspect of the incident framework is part of the regular T2S testing plan to ensure that processes are not forgotten by stakeholders in light of the expected long periods without any serious TARGET incidents and that the detailed information on the activation criteria would be shared again with the AMI-SeCo members.

8. Any other business

Outcome:

The ECB presented the outcome of the survey among AMI-SeCo members on the preferred tool for AMI-SeCo teleconferences. Overall, while most respondents could support both Webex and MS Teams, the vast majority of respondents prefer to use MS Teams which is also in line with the Secretariat's preference. Based on this, AMI-SeCo teleconferences will be held with MS Teams going forward.

The next regular AMI-SeCo meeting (via teleconference) will take place on 7 and 8 December 2023.