

## OUTCOME

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

7 December 2021, 14:45 – 16:30 and 8 December 2021, 9:30 – 16:30

Webex teleconference

#### 0. Introductory remarks and approval of the agenda

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

The European Commission (EC) and ESMA provided an update on the EU initiatives relevant for the harmonisation agenda. The ECB gave an update on the work and report by the Debt Issuance Market Contact Group (DIMCG)

#### **Outcome:**

Related to the Capital Market Union Action Plan, four legislative proposals, on the European Single Access Point (ESAP), Review of the European Long-Term Investment Funds (ELTIFs) Regulation, Review of the Alternative Investment Fund Managers Directive (AIFMD) and Review of the Markets in Financial Instruments Regulation (MiFIR) were published by the EC at the end of November 2021. The next steps on the Action Plan in 2022 will probably be on action points related to the listing review, open finance framework, financial literacy and corporate insolvency framework / procedures.

On the review of the CSDR: the EC published in July 2021 a report outlining 5 areas in focus of the report. The EC is currently finalising its impact assessment and working on a potential proposal. With regards to the CSDR settlement discipline regime, the co-legislators reached, within the context of the DLT Pilot Regime negotiations, political agreement on postponement of the mandatory buy-in rules while maintaining the penalty and reporting regime. To bridge potential legislative gaps between the current entry in application of 1 February 2022 and legislative finalisation of the DLT Pilot Regime and the CSDR Review, ESMA is working on a public supervisory statement to be issued around mid-December 2021 addressed to national competent authorities not to prioritise the supervision of mandatory buy-in rules as of 1 February 2022. After the publication of the DLT Pilot Regulation in the Official Journal of the EU, ESMA will submit a draft RTS to the EC on postponing the date of application of the CSDR buy-in rules. The exact timeframe for the postponement of the buy-in rules is still to be decided, however it is expected that at least 3 years may be needed to allow sufficient time for their

review. The rules related to settlement fails reporting and penalties are expected to enter into force on 1 February 2022. ESMA has published Q&As on the application of cash penalties. ESMA has also published Guidelines on settlement fails reporting and has elaborated Technical Reporting Instructions which have been shared with ECSDA together with the XML Schema (ISO20022-compliant) to be used for settlement fails reporting. In addition, ESMA is preparing an amendment to the RTS on settlement discipline in order to remove the obligation to CCPs that they collect/distribute cash penalties from/to their clearing members in a separate process than CSDs.

## **2. Update on the ECMS project**

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

### **Outcome:**

The ECMS project deliverables are being prepared and activities are progressing according to project plan in all workstreams. The Eurosystem Acceptance Testing execution (EAT Phase 1) started on 4 October 2021. The message usage guidelines and related message versions to be implemented with the ECMS go-live have been published in August 2021 on the ECB website. Following best practice and as agreed for all TARGET Services projects, a freeze period (November 2021 – November 2023) for message changes as well as for the implementation of other harmonisation requests in ECMS is implemented. Regarding the SCoRE Corporate Action standards, the ECMS system specification process will be based on the October 2021 version. Any additional updates on the SCoRE CA standards (see agenda item 3.1) especially on the marginal outstanding open items will may be relevant for ECMS, will be considered for implementation as part of the regular ECMS change and release management (CRM) process, which takes into account the impact on design and on the implementation timeline. Members were informed on the general cut-off in December 2021 / January 2022 for change request approvals for assessment for potential inclusion in go-live scope, in order to stabilise the ECMS software for User Testing.

## **3. Work by AMI-SeCo substructures on post-trade harmonisation**

### **3.1 Collateral Management Harmonisation / SCoRE (CMH-TF)**

The AMI-SeCo discussed the remaining open items in the updated SCoRE Corporate Actions (CA)Rulebook and the update on the 2021 H2 monitoring cycle.

### **Outcome:**

The AMI-SeCo discussed the items that remained open in the October 2021 update to the SCoRE CA standards:

### **SCoRE CA Standard 7: Securities amount data**

The AMI-SeCo endorsed the proposed formulation of the standard together with all clarifications as outlined in the submitted version of the SCoRE CA Rulebook. Debt instruments with nominal value should be denominated in FAMT (face amount). Other instruments with no nominal value should be denominated in UNITS (this includes debt instruments with no nominal value, equities and investment funds). For structured products and warrants a grandfathering can be applied. Regarding other non-compliant assets an analysis will be done in the context of the SCoRE compliance monitoring for the CMH-TF to understand the degree of potential non-compliance. The ECMS is designed in line with the SCoRE and the long standing T2S harmonisation standards on denomination, i.e. ECMS will not handle debt instruments securities amount expressed in UNITS. It was noted that the relevant Eurosystem bodies are regularly reviewing the eligibility of assets as collateral as well as assessing the compliance monitoring and the assessed market impact.

### **SCoRE CA Standard 8: Payment time**

It was highlighted that the proposed 15:30 (issuer CSD time) as cut-off time for non-euro payments may be tight for USD-denominated assets issued in Europe as the payment leg has to be processed during the standard USD business day. The AMI-SeCo agreed to endorse the standard by changing the cut-off to 16:30 (issuer CSD time) which is in line with standard payment agent agreements and with the practice followed by the vast majority of transactions affecting assets issued in Europe. Further clarifications from the presentation will also be included in the Rulebook. It was noted that this requirement and the compliance with the standard does not affect the ECMS, as such non-euro payments will be managed by NCBs outside of the ECMS, also for Eurosystem eligible collateral which will otherwise will be mobilised via ECMS and T2S.

### **SCoRE CA Standard 10: Elective events**

The AMI-SeCo members agreed with the general direction of the proposal (i.e. all intermediaries must ensure that the elected security position is subject to soft blocking if the election was made). However, further refinements may be necessary to the text based on additional discussions in the CMH-TF Asset Servicing Expert Group. Based on such further discussions, the refinements are to be concluded in December 2021. The Secretariat will submit a final proposal on the standard to the AMI-SeCo via written procedure. The final standard will be assessed in the context of the ECMS CRM process within the ECMS governance

### **SCoRE CA Standard 12 Messaging for meeting fees**

The AMI-SeCo endorsed the wording update of the relevant standard and took note that the respective message usage rules should be agreed upon by the SMPG which sets such rules at global level. In order to accelerate the SMPG discussion the AMI-SeCo will contact the SMPG asking for this to be treated with a high priority. AMI-SeCo members who are represented in the SMPG are also encouraged to highlight this in upcoming SMPG meetings. The ECMS CRM process will take into account the current SCoRE rulebook specification. Any future clarification to come from SMPG will be assessed in the context of the ECMS CRM process for potential implementation within the ECMS governance.

### **Additional explanations on Tax-related corporate action events (Tax CAEV)**

The AMI-SeCo agreed on additional guidance provided in the SCoRE CA Rulebook on the usage of tax-related CA events (TREC and WTRC). In addition, a verification exercise will be executed by the CMH-TF on the market-specific legal requirements relevant to message flows concerned.

#### **Timeline for non-debt instruments:**

Based on the input from ECSDA, the AMI-SeCo agreed to set the ultimate deadline for application of SCoRE CA Standards 2 and 3 to events deemed relevant to non-debt instruments to November 2025. CSDs can aim at an earlier date of application in case they prefer.

#### **Timeline for full migration to ISO20022 messaging for corporate actions (SCoRE CA standard 15)**

The AMI-SeCo agreed that this requires further discussions with all stakeholders in light of the feedback received from SWIFT during 2021 on the general industry adoption of ISO20022. It is foreseen to be taken up by the AMI-SeCo in H1 2022.

Finally, the ECB gave an update on the **on-going 2021 H2 SCoRE compliance monitoring cycle**. The ECB is aware that the technical difficulties with the online survey tool and the implementation of the October 2021 updates to the SCoRE CA Rulebook caused significant challenges at NSGs. The ECB is analysing the situation and the lessons learnt and will address these issues going forward. The results of the 2021 H2 monitoring exercise will be reported to the AMI-SeCo in early 2022.

## **3.2 Report by the Corporate Events Group (CEG)**

The CEG co-chairs presented the report by the CEG on the 2021 compliance assessment exercise covering the *Market Standards for Corporate Actions Processing*, the *T2S Corporate Actions Standards* and the *Market Standards for Shareholder Identification*.

### **Outcome:**

As of 2021, based on a previous agreement by the AMI-SeCo and the relevant industry associations, the CEG also included the Shareholder Identification (SI) market standards into its annual monitoring exercise. Thus, this year's exercise covered the Market Standards for Corporate Actions Processing, the T2S Corporate Actions Standards and the Market Standards for Shareholder Identification. There was a high level of participation in the 2021 monitoring exercise with 30 European markets providing self-assessment reports. The results reflect the assessment by the CEG and show relatively few advances in CA compliance over the past twelve months. However, many markets have developed a concrete action plan to achieve full compliance. The reporting shows that the SCoRE Standards are acting as a catalyst for further implementation of existing CA standards, with at least ten markets reporting plans to either significantly increase compliance or achieve full compliance with existing standards by November 2023. Regarding compliance with the relatively new SI market standards a key issue is that the definition of shareholder is not consistent across markets. The SI process is considered

to be working satisfactorily at a domestic level in many markets but the situation is very different at cross-border level.

The CEG is working on a document defining its working procedures and is also looking at further refinements to be made to the monitoring methodology based on the lessons learnt in the 2020 and 2021 cycles.

The AMI-SeCo approved the publication of the second Corporate Events Compliance Report.

### **3.3 12<sup>th</sup> T2S harmonisation Progress Report**

The AMI-SeCo discussed the 2021 T2S harmonisation progress report (HPR) with a view to publish the report in January 2022.

#### **Outcome:**

Only relatively few improvements were observed in 2021 in the level of compliance with the T2S harmonisation standards. Two T2S markets have achieved full compliance with the T2S Corporate Action Standards, one T2S market with the Market Standards for Corporate Actions Processing, one T2S market with the T2S matching fields standard and one T2S market with the T2S standard on tax information. Two CSDs both with outstanding non-compliance cases ceased operation and left T2S in the review period. This led to a slight increase in the overall compliance ratio from 89 % to 92 % in 2021. The most difficult area remains corporate actions.

The AMI-SeCo endorsed the draft 12<sup>th</sup> HPR in principle subject to further updates to be received from some NSGs regarding the details on the impact of their non-compliance cases. The updated report and the annexes will be shared with the AMI-SeCo members for a final written procedure before publication.

### **3.4 Further HSG proposals and updates**

#### **3.4.1 HSG proposal on clarifications regarding T2S Standard 15 – T2S account numbers**

The HSG presented a proposal for an updated explanatory text of T2S standard 15 – T2S account numbers.

#### **Outcome:**

The explanatory text of T2S standard 15 needs to be updated due to the diverging past interpretations across T2S markets. A minority of markets relied on a narrower interpretation of this standard by retaining the use of legacy account numbering for securities accounts for messages not related to core settlement activities (e.g. corporate actions). Based on previous discussions in the AMI-SeCo and subsequently with the affected NSGs the HSG propose to formulate a minimum requirement so that in markets where not exclusively T2S account numbering is used to identify securities accounts managed in T2S at least an option should be given to ICP and DCPs to be able to use the T2S account numbers

according to the standard in application-to-application messages. It was highlighted that implementing such an option might be challenging in the case of ICPs which connect to T2S indirectly via CSD systems. The AMI-SeCo agreed to endorse the proposed change to the explanatory text of T2S standard 15 and mandated the HSG to monitor the adaptation by the affected NSGs by actively engaging with them on potential implementation challenges.

### **3.4.2 HSG proposal on changing T2S Standard 4 – tax info**

After detailed discussions within the HSG and also a consultation with T2S governance the HSG proposed to amend T2S Standard 4 tax info in order to allow tax information to be exchanged in T2S messages in cases where both parties agree to such exchange.

#### **Outcome:**

According to the HSG proposal T2S Standard 4 would be changed so that it would not prohibit the exchange of tax-related information in T2S messages in the cases where both parties to the transaction explicitly agree to this on a voluntary basis. It was noted that such a business need emerged in the past in the context of portfolio transfers and the Italian national market practice for such portfolio transfers currently uses a certain free text field intended for Name and Address information of the Party 4 of the Receiving Party to transmit certain tax-related data elements. According to the T2S Operations Managers Group and the T2S Change Review Group such use of this data field does not have an operational impact on T2S. It was emphasized that changing Standard 4 will not imply any guidance on which message fields or how parties could or should exchange tax-related information in case they want to do so. The changing of the standard will also not guarantee that the fields used for this purpose will not be reused for other purposes in the future for a harmonised T2S market practice. Furthermore, it was underscored that such a change should not be regarded as a support for non-harmonised market practices for portfolio transfers across T2S markets and that the T2S community should continue to discuss and work towards harmonised procedures and rules in this domain.

The AMI-SeCo approved the change of the standard with the addition that the explanatory text of the standard will record that no data fields will be reserved in T2S messages by this change for tax-related information and in case a harmonised usage rule emerges for data fields used by T2S actors in practice than those T2S actors will have to adapt and find another solution to transmit tax-related information.

### **3.4.3 Barriers to digitalisation in post-trade – updated report and cover letter to EC**

The HSG updated the report on the barriers to digitalisation in post-trade with additional insights on barriers in the cross-border context. The ECB proposed to share the updated report together with a cover letter with the EC.

#### **Outcome:**

The report has been updated with additional insights from the dedicated survey with cross-border service providers (ICSDs, global custodians, etc.) that are active in many European markets. The feedback received from the respondents broadly confirm the earlier feedback received from the National Stakeholder Groups. In all four areas of focus significant barriers still exist and are stemming from the reliance on paper documents with wet ink signatures and the requirements for physical interaction with other stakeholders. National digitalisation attempts exist and are welcome, but these are not coordinated and may lead to additional issues and fragmentation. The lessons learnt from the measures introduced during the COVID-19 lockdowns should be used in considering making at least some of those measures permanent.

The AMI-SeCo approved the final report and agreed to share it with the European Commission as early as possible. The cover letter is open for comments by members until 16 December.

### **3.5 Broader use of T2S ISO20022 messages / principles of message customisation**

The current T2S rules limit to some extent the reusability of T2S message schemas outside T2S, i.e. between T2S actors and their customers and further down the custody chain. The AMI-SeCo discussed whether the issue warranted further work in the harmonisation domain.

#### **Outcome:**

T2S Directly Connected Actors (CSDs, DCPs) may need fields which are part of the ISO base securities settlement messages, but are not included in the T2S-customised message specifications (schema) due to not being used by T2S. As a result, the T2S-customised messages cannot be re-used by these actors outside T2S as is. The AMI-SeCo considered two options:

- 1) Leaving it up to each T2S directly connected actor to define their own schema / usage rules within their own community (customers / partners)
- 2) Potentially agree on a common approach / schema across the AMI-SeCo community so users have one guideline / one set of standards to follow.

The possible scope of such harmonisation could include the ISO20022 securities settlement (sese) and the securities management (semt) messages. It was highlighted that in case a harmonised approach and schemas are agreed an implementation cannot be earlier than 2024 due to the TARGET Services message freeze period. It was also agreed that any harmonisation work on such common schema within the T2S community should be done in close cooperation with and involvement of the Securities Market Practice Group (SMPG) which is the global forum for aligning market practices on securities-related messaging.

The AMI-SeCo unanimously favoured investigating and targeting option 2 (common, harmonised approach) and mandated the HSG to analyse the topic further and – if possible and supported – identify harmonisation proposals.

#### **4. Review of the functioning and governance of the AMI-SeCo**

The ECB presented the key considerations and timeline for the review of the AMI-SeCo governance, including a reflection on the AMI-SeCo's functioning since its establishment.

##### **Outcome:**

The AMI-SeCo was set up in 2017 by merging the T2S Advisory Group and the COGESI (Eurosysteem contact group on securities infrastructures). The Secretariat considers that (almost) 5 years of existence may provide enough experience to reflect on the AMI-SeCo's functioning and governance.

Potential focus areas of the review could include the broadening the set of stakeholders, higher clarity on geographical scope Consistency of substructure-level and plenary-level discussions, the structure of substructures. The Secretariat will launch a survey among members and observers to collect their views / feedback on these and potentially other areas. An ad-hoc discussion on the potential elements of the review is foreseen in March / April 2022 after which the ECB decision making bodies may also be consulted.

#### **5. T2S**

##### **5.1. Update on T2S operations**

The ECB provided an update on T2S operations

##### **Outcome:**

The volume and value of transactions processed in T2S as well as the overall settlement efficiency remained relatively stable over the last 12 months. A negative correlation has been observed between the value of transactions processed and the level of settlement efficiency. Around two-thirds of the value of DvP transactions is processed in real-time settlement while one-third during the night-time settlement. The ratio is reversed when it comes to transaction volumes. The bulk of auto-collateralisation in value takes place during the real-time settlement phase and there is a positive correlation between the overall transaction values and the value of auto-collateralisation transactions.

With regard to the 'dry run' of the T2S penalty mechanism, the ECB and the T2S operator are working on the resolution of the identified issues. The T2S operator has already fixed the earlier issues concerning penalties reporting and further fixes to address the performance issues of the penalty mechanism process are expected to be deployed in the coming days and weeks. The ECB confirmed that it attaches a very high priority to resolve these issues.



## **5.2. Update by the ERCC on their findings regarding settlement efficiency of repo / collateral transaction**

The ERCC gave an update on the work the industry has achieved further to ICMA collaborative efforts on settlement efficiency since the publication of the task force work earlier this year.

### **Outcome:**

In early 2021, in light of the upcoming implementation of CSDR settlement discipline, the ERCC launched an initiative to look at a number of relevant post-trade tools that are available to help the industry reduce number and impact of settlement fails. The ERCC engaged with the CSG and participated in the relevant CSG workshops and received data from the T2S operator.

The primary focus of the work is on (i) shaping, (ii) partial settlement, and (iii) auto-borrowing which were identified as the potential long-term solutions to settlement fails on the asset classes in scope. The initiative builds on prior ERCC work on intraday liquidity and is considered highly relevant also due to the imminent entry into force of the CSDR settlement discipline regime on settlement fail penalties. The ERCC is also collaborating closely with other relevant trade associations on the topic, including AFME, ISLA and the relevant buy-side associations. The ERCC will soon publish a white paper on its findings and the associated recommendations which will also include a set of principles supported by ERCC members on settlement activities. Specifically, the ERCC want to collaborate directly with the Eurosystem and T2S governance on the operational performance measurements and publication to track the effectiveness of these developments at market level.

AMI-SeCo members welcomed the work carried out by the ERCC and agreed that the analysis and the direction of the recommendations put forward are highly relevant also due to the entry into force of the CSDR settlement discipline rules. The AMI-SeCo invited the ERCC to keep the AMI-SeCo and the T2S community up-to-date on the related follow-up and developments.

## **5.3. T2S governance reporting**

### **5.3.1. Market Infrastructure Board (MIB)**

#### **Outcome:**

The ECB gave an update on on-going onboardings to and interest of markets joining T2S. The Finnish market, Euroclear Bank and likely also the Croatian market are expected to join T2S in 2023. The Bulgarian market may also join in the context of the planned euro adoption at a later point in time. Finally, it was highlighted that the Swedish central bank and market participants are analysing whether to join T2S and possibly also other TARGET services in the future. It was highlighted that with new

markets joining T2S there should be even more emphasis on harmonisation to ensure that such expansion of T2S coverage reinforces harmonisation and further market integration in Europe.

### **5.3.2. CSD Steering Group (CSG)**

The CSG Chairman reported on the outcome of recent CSG meetings.

### **5.3.3. Directly Connected Parties (DCPs) Group**

The DCPG Chair updated AMI-SeCo on the latest DCPG meeting outcome.

## **A-item – Change and release management**

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

## **6. Any other business**