

OUTCOME
**8th MEETING OF THE ADVISORY GROUP ON MARKET
INFRASTRUCTURES FOR SECURITIES AND COLLATERAL (AMI-SeCo)**

4 December, 16.30 – 17.30 and 5 December 2019, 09.00 – 15.00

European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main

0. Introductory remarks and approval of the agenda

Outcome

The Chair welcomed the participants and informed them of recent changes in ECB representation with Ulrich Bindseil appointed as Director General for Market Infrastructures and Payments (DG-MIP) and the new chair of the AMI-Pay and the AMI-SeCo, Dimitri Pattyn appointed as Deputy Director General in DG-MIP and Holger Neuhaus appointed as Head of the Market Innovation and Integration Division.

The members agreed on the agenda.

The ECB provided an update on the European Distribution of Debt Instruments (EDDI) market consultation highlighting that altogether 70 responses have arrived. The responses show mixed views among stakeholders on the issues raised in the consultation paper, overall neither showing full agreement with, nor refuting the key assumptions of the consultation document. There was a very broad consensus among respondents that further harmonisation would be beneficial in securities issuance in particular in pre-trade procedures and in relation to the link between pre-trade and post-trade environments. The Eurosystem is expected to communicate in Q1-Q2 2020 its takeaways from the consultation.

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

Outcome:

The European Commission (EC) representative provided an update on the following main issues:

High-Level Forum on the Capital Markets Union (CMU HLF) – The CMU HLF was launched in November 2019. The group is currently scoping its work. Three subgroups have been set up, one of which will look at the capital market architecture (including also post-trade issues) with a focus on areas where further action is needed and on longer-term trends affecting capital markets.

Central Securities Depositories Regulation (CSDR): all level 2 measures have been adopted and published.

- On the settlement discipline requirements the entry into force of the regulatory technical standards (RTS) may be delayed. ESMA is developing guidelines on settlement fails reporting that are to be published in Q1 2020 and has developed the related draft ISO20022 message schema which have been made publicly available.
- The Commission is reflecting regarding a phased approach on the review of the CSDR, which might in its first phase focus on those issues for which all level 2 measures are already implemented and for which sufficient data is available. Other aspects might be undergoing a review in a later stage. The review will follow a public consultation. The topics that may be in focus are CSD authorisation, cross-border access to CSDs, CSD banking services (central bank money vs commercial bank money settlement).

Secured Financing Transactions Regulation (SFTR): all level 2 measures were adopted in March with entry into force on 11 April 2019. The SFTR reporting obligation will become applicable one year later (as from 11 April 2020) in a staggered approach.

Withholding tax (WHT): a fourth meeting of Member States tax experts was held in November 2019 discussing the progress by Member States on implementing the WHT Code of Conduct. The ECB presented the harmonisation work by the AMI-SeCo in this meeting.

- EC work on fintech and technological innovation: work is underway in different fora with differing focus on regulatory aspects, cryptoassets, stablecoins and cybersecurity. The relevant fora coordinated by DG FISMA are ROFIEG, EU Fintech Laboratory and EFIF, while the EU Blockchain observatory and INATBA are coordinated by DG Connect.

2. Status update on the ECMS project

Document:–

Presentation: ECMS status update

Outcome

The ECB provided a status update on the Eurosystem Collateral Management System (ECMS) project. The project is well on track with the User-defined Functional Specifications (UDFS) under consultation with the relevant Eurosystem committees and expected to be approved by the Market Infrastructure Board in December 2019.

Furthermore, in order to further support ECMS-related communication with external actors a document will be published by end-2019 providing a high-level overview of the features of the ECMS.

The focus of the work now is on the operational framework, readiness framework and testing and migration. The ECMS readiness framework is a distinct and separate from the monitoring framework of the collateral management harmonization standards by the AMI-SeCo. The readiness framework aims at assessing the ability of relevant actors to interact with the ECMS at the go-live date.

The AMI-SeCo took note of the update.

3. AMI-SeCo post-trade harmonisation work

3.1. Collateral Management Harmonisation

Document:

CMH TF update

Outcome

Progress of CMH-TF work

The Chair of the Collateral Management Harmonisation Task Force (CMH-TF) presented the progress made by the CMH-TF since the last AMI-SeCo meeting and provided an overview of the on-going work. The draft plans by tri-party agents and CSDs for adapting to the CMH corporate action standards, the tri-party collateral management standards and the billing standards are currently being reviewed by the National Stakeholder Groups (NSGs). The final plans are expected to be submitted to the ECB secretariat by 15 December 2019. They will be published on the ECB website in January 2020.

Work is continuing in the CMH-TF on the remaining collateral harmonisation activities. The Task Force has created four expert groups (on bilateral collateral management, on tri-party collateral management, on asset servicing and on tax procedures).

Furthermore, the TF is analysing the upcoming changes in the key EU directives relevant for the fund management industry (UCITS / AIFMD) related to tri-party collateral management services.

The AMI-SeCo took note of the update by the CMH-TF.

Wave 2 of ISO20022 adoption for collateral management activities

- AMI-SeCo members endorsed that the Wave 2 implementation deadline for ISO 20022 messaging would be November 2025: AMI-SeCo Standards for Corporate Actions and Billing Processes on ISO 20022 messaging would become applicable for actors in Wave 2 as of November 2025, i.e. at the latest by then account servicers should offer / support ISO20022 messaging (to clients that have the capability to use the ISO20022 protocol).
- AMI-SeCo members supported that the AMI-SeCo chair (on behalf of the AMI- SeCo) would send a recommendation letter to SWIFT with regards to the end of the co-existence of ISO15022 and ISO20022 messaging standards which should be November 2028, explaining the importance of a consistent approach to deliver on the commitment of the global community to transition to a single global standard. AMI-SeCo members took the view that discontinuing

one-to-one equivalency would be an important driver to motivate organisations to move from one (legacy) standard to another richer standard and thus it could be recommended to SWIFT that the MT standard should no longer be maintained as from November 2025. The recommendation letter would reflect that the coexistence period should be as short as possible, with a view to limiting industry costs, risks and complexity (stemming from supporting two messaging standards in parallel) and avoiding fragmentation in Europe. The AMI-SeCo therefore proposes that the coexistence period should be three years resulting in the date for the end of co-existence being November 2028. Both NSGs and AMI-SeCo members would be consulted on the draft recommendation letter. The aim would be that the AMI-SeCo submits the recommendation letter to SWIFT in January 2020.

- The endorsement of the Wave 2 timeline assumes that this timeline and the related clear communication towards SWIFT will lead to decisions by SWIFT that are consistent with the timelines above as endorsed by the AMI-SeCo. The AMI-SeCo will monitor related progress.

Follow-up: The AMI-SeCo Secretariat will prepare a draft letter to SWIFT and share it with NSGs and AMI-SeCo members for their comments in a written procedure.

3.2. Compliance assessment of T2S harmonisation standards/2019 Harmonisation Progress Report

Document:

Draft 2019 Harmonisation Progress Report and annexes

Outcome

The HSG secretary presented the outcome of the 2019 compliance assessment exercise and the draft 2019 Harmonisation Progress Report. Overall, the level of compliance with T2S harmonisation standards has further improved in 2019. T2S markets have reached a compliance level of 90 %. Nevertheless, the speed of progress has significantly decreased in recent years, as some of the remaining non-compliance cases seem to be difficult to resolve. The most difficult area continues to be the T2S corporate action standards where nearly half of T2S markets have not secured full compliance with all standards yet. However, it was also highlighted that in a number of cases related to T2S corporate actions the affected T2S markets are very close to secure full compliance and in most cases the shortfall is small.

The 2019 Harmonisation Progress Report will also present the AMI-SeCo's collateral management harmonisation activities, including the already endorsed standards on corporate actions for debt securities, tri-party collateral management (including the establishment of a Single Triparty Model for Europe) and billing procedures and processes. The annexes of the report might still be updated with further information awaited from some NSGs, but these updates are expected to be minor and will not affect the key conclusions and messages of the report. It was agreed to more transparently highlight in the report that the level of compliance with the corporate action market (CAJWG)

standards is based on the E-MIG's assessment. The target date for publication of the 2019 Harmonisation Progress Report is January 2020.

The AMI-SeCo approved the draft report and its annexes and agreed to publish them in January 2020.

Follow-up: the AMI-SeCo secretariat will update the text of the report and its annexes and proceed to publish the report in January 2020. Annex 3 of the report (Impact analysis of non-compliance cases) will be submitted to the December 2019 meeting of the Eurosystem's Market Infrastructure Board.

3.3. Lessons learned from the 2019 corporate actions compliance monitoring exercise

Document:

Presentation - lessons learned from first coordinated CA monitoring

Outcome

Based on the mandate received from the AMI-SeCo in July 2019 to exploit synergies and maximise efficiency, the AMI-SeCo's CASG and the financial industry's E-MIG coordinated their monitoring exercise on the compliance with the respective corporate action standards (i.e. T2S corporate action (CASG) standards owned by the AMI-SeCo and CAJWG standards owned by CAJWG). The Harmonisation Steering Group (HSG) assessed the lessons learned from the exercise. The ECB presented the assessment and the HSG's proposal on the way forward. Overall, at the technical level the coordinated exercise had resulted in a better quality of monitoring due to the better response rate by markets and consistency of assessments. However, the exercise had also highlighted a shortage of resources on the E-MIG side which also implied that the ECB secretariat had to also provide substantive support to the E-MIG process. The HSG hence analysed two options: a) returning to separate exercises by the CASG and the E-MIG; or b) consolidating the monitoring of CASG, CAJWG and CMH corporate action standards in a new CA monitoring group under the AMI-SeCo. The HSG unanimously agreed to propose option b) to the AMI-SeCo the implementation of which would be without prejudice to the ownership of the respective standards, and to liaise with relevant financial industry steering groups to seek their support and agreement with this proposal.

The AMI-SeCo endorsed the HSG proposal and agreed that it could be assessed in due course, if further convergence is possible.

Follow-up: the AMI-SeCo Secretariat will send a letter to the relevant financial industry bodies informing them on the AMI-SeCo's considerations and asking for their support and agreement. If a broad support by the industry is thereby confirmed, the new group would be set up in H1 2020. The AMI-SeCo will receive a detailed proposal on the mandate and composition of the group.

3.4. Update on further HSG activities

Document:

Update on HSG activities

Outcome

The HSG secretary provided an overview of the work of the HSG (not covered under other items on the agenda).

The HSG has discussed a potential review and enhancement of the existing framework related to following up on non-compliance cases with the harmonisation standards. Some HSG members feel that further incentives should be sought to promote progress on compliance. However, it was also highlighted that the AMI-SeCo has no 'hard' enforcement tools. The HSG will perform an analysis and report back to the AMI-SeCo in its next meeting.

Withholding tax (WHT) procedures: the HSG has confirmed WHT handling procedures as one of the priority areas for further harmonisation in the European post-trade landscape. It was recalled that there are currently two fora dealing with the matter: the tax procedures expert group of the CMH Task Force and the EC's work with Member States on implementing the WHT Code of Conduct. It was suggested to consider potentially updating the fact finding exercise on existing national procedures (which had been conducted by the former T2S AG). It was highlighted that, in light of the ECB's presentation of the harmonisation work by the AMI-SeCo in the EC's workshop with Member State tax authorities in November 2019, workshop participants showed openness to harmonisation initiatives in this field. AMI-SeCo members stressed the importance of overcoming inefficiencies in WHT procedures (in particular for cross-border activities) and emphasised the need for political decisions to ensure a level playing field. Therefore, the AMI-SeCo agreed to send a letter to the recently launched High-level Forum on the Capital Markets Union (CMU) highlighting the key relevance of harmonising WHT handling procedures for achieving further progress on European post-trade integration.

Partial settlement: the HSG has further discussed the issue of potential market coordination on the use of partial settlement. Recent analysis by the T2S operator revealed that overall across T2S markets there seems to be no strong correlation between market efficiency and the use of partial settlement. It was highlighted that the costs of partial settlement may outweigh its benefits in smaller markets and that markets are very diverse from this perspective. Further analysis may be warranted in this domain on the basis of data becoming available in 2020 in relation to the use of the partial release functionality enabled in T2S in November 2019.

Portfolio transfers: the HSG continues its work with the aim to publish in early 2020 an information document (handbook) on national portfolio transfers also containing high-level principles for executing cross-border portfolio transfers.

The AMI-SeCo took note of the updates by the HSG.

Follow-up: The AMI-SeCo Secretariat will draft a letter to the chair of the High-level Forum on the Capital Markets Union and the chair of its subgroup on capital market architecture on the importance of harmonisation of withholding tax procedures from the perspective of integration of the European post-trade landscape and the CMU. The draft letter will be circulated to AMI-SeCo members for their comments via written procedure.

4. T2S

4.1. Evolution of the aged transactions

Document:

Follow-up on 3rd workshop on market settlement efficiency – Evolution of aged transactions

Outcome

The ECB presented the outcome of the CSD Steering Group's (CSG) analysis on the 'aged' matched transactions that have reached their intended settlement date but not yet settled or cancelled. Recent clean-up activities by CSDs and market participants led to a significant decrease of the stock of such transactions, yet the new incoming flow of such transactions is still significant, keeping the absolute number of such transactions high. Most of these transactions are likely to incur a penalty once the CSDR settlement discipline regime enters into force. The analysis reveals that a significant (around 20%) reduction in the number of such transactions could be achieved if unsettled instructions would be kept in T2S only up to 60 business days, as is proposed in a change request (CR-691) under consideration by the CSG. As a result, the settlement efficiency would gain an additional improvement close to 2% on average.

AMI-SeCo members agreed that the issue of aged transactions needs special attention and generally favoured a measure in line with the proposed change request. Some members have asked for further analysis focusing on the optimal calibration of the number of business days until unsettled transactions are kept in T2S. It was also highlighted that legal challenges may arise in at least one T2S market with regard to the CSD cancelling settlement instructions on its own.

Follow-up: The CSG will discuss the change request to set the recycle parameter to 60 days in its meeting in December 2019. The CSG will also decide on whether a further workshop on settlement efficiency will be held potentially covering this topic.

4.2. T2S governance - reporting and debriefing

4.2.1. Market Infrastructure Board

Outcome

Relevant topics were covered under other agenda items in the agenda of the AMI-SeCo. No further debriefings were provided.

4.2.2. CSD Steering Group (CSG)

Outcome

The chair of the CSG provided an overview of recent CSG activities (beyond the items covered under other items of the AMI-SeCo agenda) including the T2S release management, T2S operations, T2-T2S consolidation, ECMS, a reporting on the securities management group and the CSDR.

4.2.3. Directly Connected Parties (DCPs) Group

Outcome

The chair of the DCPG provided an update on the recent work of the DCPG. The DCPG is currently reviewing its meeting schedule and modus operandi to further increase the efficiency of its work.

4.2.4. CSDR Taskforce (CSDR TF)

Document:

CSDR-TF update - presentation

Outcome

The rapporteur of the CSDR Task Force provided an update of the Task Force's activities. The implementation of the change request (CR-654) related to compliance with the CSDR settlement discipline regime is well on track. The documentation as well as the stable version of the relevant ISO message to report settlement fails have been published.

A-item – Update on T2S operations

AMI-SeCo will receive a report on the latest developments of T2S in operations. AMI-SeCo members are invited to take note.

Document:

Update on T2S in operations

Outcome

The AMI-SeCo took note of the update.

A-item – Change and release management

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

Document:

Status update on change and release management

Outcome

The AMI-SeCo took note of the update.

5. Any other business

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