

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

29 June 2020, 14.30 – 15.30 (CET) and 30 June 2020, 14.00 – 17.00 (CET)

Webex teleconference

0. Introductory remarks and approval of the agenda

Outcome:

The Chair welcomed the members. Participants agreed on the agenda.

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

The European Commission and ESMA provided an update on the EU initiatives relevant for the harmonisation agenda.

Outcome:

The High-level Forum on the Capital Markets Union has published its final report with 17 recommendations to the European Commission. 4 of these are related to post-trade issues (withholding tax; voting rights / corporate actions; CSDR review; and cryptocurrencies). The Commission will look carefully at the recommendations and develop an action plan during the summer of 2020.

Based on the proposal by ESMA, in May 2020 the Commission adopted an amending Delegated Regulation to postpone the entry into force of the RTS on CSDR settlement discipline rules to 1 February 2021. The Delegated Regulation will enter into force on the third day following its publication in the Official Journal of the EU, after the non-objection period in which the European Parliament and Council have the right to object ends.

In parallel the Commission is working on further guidance on the CSDR settlement discipline regime in the form of Q&As with regards to the questions to which the Commission is supposed to answer in the new Q&A framework as they require interpretation of Union law.

The Commission is currently conducting a scoping exercise for the review of the Settlement Finality Directive and the Financial Collateral Directive.

The entry into force of the first phase of the reporting obligations under the Securities Financing Transactions Regulation (SFTR) were postponed to July 2020 where it will enter into force at the same time as the originally envisaged second phase.

On the implementation of the revised Shareholder Rights Directive (SRD2) the majority of member states have reported full implementation of the Directive. The Implementing Regulation which is directly applicable will enter into force on 3 September 2020.

In preparation of reports to the Commission, ESMA has launched two surveys on CSDR implementation, covering cross-border provision of services by CSDs, and internalised settlement. In addition, ESMA has launched a survey on potential topics for the review of the CSDR, and the responses will be shared with the Commission. ESMA is working closely with the Commission in analysing the requests from financial market participants on a further postponement of the entry into force of the RTS on settlement discipline, considering the impact of the COVID-19 pandemic.

ESMA has also launched a consultation on its draft guidelines on outsourcing to cloud service providers by financial market participants, which is open until 1 September 2020.

2. Update on the creation and mandate of the Debt Issuance Market Contact Group (DIMCG)

The ECB provided an update on the creation of the DIMCG

Outcome:

The ECB has established the Debt Issuance Market Contact Group (DIMCG) as a temporary forum for interaction between the Eurosystem and industry professionals involved in euro area primary debt markets. The objective of the DIMCG is to identify, in a holistic way, issues that prevent further improvements in efficiency and integration in the area of debt issuance and initial distribution, covering the full transaction chain from pre-issuance to post-trade, and to investigate how these issues may be addressed. The starting point of the work of the DIMCG is the feedback provided by the market to the public consultation launched by the ECB in May 2019. The DIMCG is expected to prepare an advisory report to the Eurosystem and to complete its work in 12 months after its launch. There was a high interest among stakeholders to participate in the group and a balanced composition involving all key stakeholders could be found. The first meeting of the group is expected to be held on 23 September 2020.

3. Status update on the ECMS project

The ECB provided a status update on the ECMS project.

Outcome:

The ECMS project is on track in spite of a more difficult external environment created by the COVID-19 pandemic and the additional workload of many involved experts in relation to additional monetary policy

measures. The Eurosystem is finalising the ECMS Connectivity Guide which is expected to be published in July 2020. A message usage review exercise was conducted focusing on CSDs and tri-party agents (TPAs) between March and May 2020. A dedicated workshop was organised in June 2020 for eligible CSDs and TPAs focusing on readiness / milestone monitoring and the ECMS message usage for corporate actions, tri-party collateral management and billing.

Document:

- *Presentation - ECMS status update*

4. AMI-SeCo post-trade harmonisation work

4.1. Collateral Management Harmonisation / SCORE

The Chair and the Secretary of the CMH-Task Force presented the work conducted by the Task Force since the December 2019 AMI-SeCo meeting in particular on the adaptation plans and progress achieved by AMI-SeCo markets to comply with the SCoRE standards.

Outcome:

The Chair of the CMH-TF gave an overview of the substantial progress made and traction achieved. Adaptation Plans have been provided by the majority of AMI-SeCo markets, each of which have expressed strong support and commitment to implement the AMI-SeCo SCoRE Standards on corporate actions, tri-party collateral management and billing. No plans have been received from some non-euro area countries, although positive feedback was received also from some of these countries. The CMH secretariat will follow up on the missing plans, also in view of supporting the role of NSGs in these markets.

The CMH-TF secretariat then presented in more detail the report on the first compliance progress exercise ('SCoREBOARD') highlighting that, based on the SCoRE roadmap, in most cases progress on compliance is on schedule. Some markets without an active NSG are incorporating / relaunching their relevant stakeholder fora and indicated that they will participate in the next round of monitoring. The report also identifies a series of follow-up actions to improve compliance with the AMI-SeCo SCoRE Standards.

With regards to the question on the impact of a potential change in the timeline of the ECMS on the timeline and relevant deadlines for compliance with the SCoRE standards on corporate actions, tri-party collateral management and billing, AMI-SeCo members asked to get clarity on any changes to the timelines as soon as possible in order to facilitate budget and resource planning. It was agreed that any updates to the timeline could be discussed by the CMH-TF in its meeting in September 2020 (subject to availability of new information on potential changes to the ECMS timeline).

The AMI-SeCo expressed its high appreciation for the work done by the CMH-TF and endorsed the reports on the SCoRE adaptation plans and on the SCoREBOARD for publication.

Document:

- *Report on SCoRE adaptation plans*
- *Report on compliance with SCoRE standards (SCoREBOARD)*

4.2. Self-assessment and update by the Finnish market against T2S harmonisation standards in relation to Euroclear Finland's migration to T2S

The HSG representative from the Finnish market presented the market's self-assessment against T2S harmonisation standards in light of Euroclear Finland's migration to T2S in 2022.

Outcome:

The Finnish market has good prospects of securing full compliance with T2S harmonisation standards. At this juncture two areas seem to pose challenges: certain elements of the T2S corporate action standards (settling market claims in central bank money) and the restrictions on omnibus accounts where the Finnish national legal requirements prevent Finnish investors to use omnibus accounts even if when using non-Finnish intermediaries.

Document:

- *Self-assessment by FI NSG*

4.3. Consolidating the compliance monitoring of European corporate action standards

Following the agreement in the December 2019 AMI-SeCo meeting, the AMI-SeCo chair contacted the industry associations and stakeholder groups that have been active in corporate action harmonisation in Europe with the proposal to consolidate the monitoring of the CAJWG standards, the T2S CA (CASG) standards and the SCoRE (CMH) corporate actions standards in order to reap synergies and increase efficiency. The industry associations overall welcomed the proposal and a more detailed discussion ensued with the CAJWG on how this could be achieved. The ECB presented the outcome of these discussions and the draft Terms of Reference including the details on the modalities of the consolidated monitoring.

Outcome:

The ECB presented the HSG's follow-up to the AMI-SeCo's December 2019 proposal to consolidate the monitoring and assessment of the AMI-SeCo Corporate Actions Sub-group (CASG) / Target2 Securities (T2S) CA standards and Collateral Management Harmonisation–Task Force (CMH-TF) (SCoRE) CA standards as well as the Joint Working Group (JWG) CA standards into a new, all-encompassing and

inclusive group under the AMI-SeCo. It was particularly stressed that the Terms of Reference take into account the positive feedback from the consulted industry associations, the additional considerations expressed as well as previous AMI-SeCo discussions. It was also emphasized that the ownership of the standards in scope (i.e. the right to define, maintain / update the standards) does not change, as the new group will focus on monitoring and assessing compliance with the standards by markets. Another key principle is inclusiveness involving all the relevant stakeholders and reaching all local markets. The new group will converge and merge the best out of the former groups and their practical arrangements (e.g. single contact point for all CA harmonisation, single secretariat, single contact list, single reporting template, harmonised reporting deadlines, annual review meeting, sponsor system, transparency of documentation). As requested by financial market stakeholders, the scope of the new group is open to cover the monitoring and assessment against further standards (e.g. SRD2 standards / general meeting standards). The new group will take over the tasks of the AMI-SeCo's existing CASG and the CASG will be dissolved as of the launch of the new group. The chair of the JWG (who attended this discussion point) confirmed the JWG's backing of the proposal.

The AMI-SeCo welcomed the proposal for the new group, in particular its inclusiveness and the fact that its scope in terms of the standards it could cover will be open allowing to bring substantial consistency and efficiency benefits to the financial industry as a whole. As the group will reach out beyond AMI-SeCo markets, it will be important to have good and sensitive communication. The AMI-SeCo endorsed the proposal on the new group's mandate and agreed that the name of the new group will be Corporate Events Group (in line with terminology used also in the Shareholder Rights Directive) and agreed that the group will directly report to the AMI-SeCo. As for the next steps, the ECB will fine-tune the draft mandate, also based on the outcome of the discussion, and the AMI-SeCo chair will inform the relevant industry associations, the Joint Working Group and NSGs / MIGs with a call for nominations to the new group. The AMI-SeCo will decide on the final composition of the group via written procedure.

Document:

- *Draft Terms of Reference on consolidated monitoring of corporate action standards*

4.4. Update on further HSG activities

The AMI-SeCo received an update on the HSG activities beyond those covered in the previous agenda items, in particular on the HSG's initiative to provide a feedback on the report by the High-level Forum on the CMU.

Document:

- *Draft feedback by the AMI-SeCo to the EC on the report by the High-level Forum on the Capital Markets Union*

Outcome:

The ECB presented the draft feedback to be submitted by the AMI-SeCo on some of the post-trade related recommendations of the report by the High-level Forum on the CMU in relation to the Commission's call for feedback by stakeholders. The draft was prepared based on previous AMI-SeCo stances and communication on these subjects. The key messages to be passed to the EC would be to highlight that the findings of the 2017 report by the EPTF are still valid and that the existing and widely recognised industry standards should be taken into account when designing regulatory action. On withholding tax the procedure the draft points out the link with corporate action processes as well as the additional elements considered by the AMI-SeCo as essential for an efficient framework. On shareholder identity and corporate actions the AMI-SeCo would call for further harmonisation on operationalising shareholder identity.

The AMI-SeCo agreed to include a reference also to the recommendation on further harmonising insolvency regimes due to its relevance to post-trade services. The updated draft will be subject of a written procedure in the AMI-SeCo after which it will be sent to the Commission.

5. T2S

5.1. Update on T2S operations

The 4CB provided an update on T2S operations, also covering the 26 May incident on the basis of the related CSG and OMG discussions.

Outcome:

The discussion focused on the incident that occurred in T2S during the night-time settlement (NTS) phase of 25th May 2020, causing negative positions and balances as well as missing and incorrect settlement confirmations for some instructions subject to partial settlement. The incident had its origin in a settlement algorithm that during the last cycle of NTS showed a long duration and which prevented the sequence from closing normally. In order to unblock the situation and progress with the T2S Settlement day, the T2S Operator decided to manually close the job linked to the event that was stuck. As a consequence of this, settlement attempts took place on outdated cash balances and securities positions, causing negative positions after the necessary corrections were executed. The incident also implied that some of the reports on settlement transactions were either not generated or contained incorrect information.

As a follow-up the 4CB has implemented correcting measures in the system, which were tested and went live (production) early July 2020. In addition, workaround solutions have been developed for potential future specific scenarios until further related changes can be implemented. At the business level the need to enhance the decision-making and information flow during crisis management was identified. AMI-SeCo members emphasized the importance to prevent such an incident from

re/occurring and the need to improve communication in similar crisis situations. It was acknowledged that there is a trade-off and hence the right balance need to be found between the speed at which information is passed on to stakeholders and the clarity and correctness of such information. It was also stressed that the markets using T2S are different which also led to different impact on stakeholders across T2S markets which needs to be taken into account when reviewing the crisis communication framework. Any considerations on changing communication procedures and channels have to take into account the principles of governance of T2S.

Documents:

- *Presentation by 4CB on the operation of T2S*
- *Presentation by 4CB on 26 May T2S incident*

5.2. T2S governance - reporting and debriefing

5.2.1. Market Infrastructure Board

The Chairman of the MIB will report on the relevant MIB Board topics discussed during the latest meetings.

5.2.2. CSD Steering Group (CSG)

The CSG Chairman will report on the outcome of recent CSG meetings.

5.2.3. Directly Connected Parties (DCPs) Group

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

5.2.4. CSDR Taskforce (CSDR TF)

The Chair of the CSDR-TF will provide an update on the activities of the CSDR-TF.

Outcome:

The chairs of the respective groups gave an update on the main activities of their groups.

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.

Document:

Status update on change and release management

6. Any other business