

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

22 June 2018

From 10:00 until 16:30 CET

Meeting Room C3.08/09

European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main

0. Introductory remarks and approval of the agenda

The Chair will welcome the participants to the fifth meeting of the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) and ask for the approval of the agenda.

The Chair welcomed the participants and in particular Ms. Rebekka Schultz (Danske Bank replacing Mr. Rory Byrne), Ms. Montserrat Jiménez (Banco de España, replacing Jesús Perez Bonnilla), Mr. Simon Pettinger (EBF, replacing Daniele De Gennaro) and Ms. Chiara Rossetti (attending the meeting in her capacity as Fintech TF Chair).

Members agreed on the agenda.

Members approved the nomination of Ms. Paola Deantoni (Société Générale) as new chair for the SGMS. The Chair thanked again Mr. Paolo Carabelli for his contribution chairing this group over the past years.

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

The European Commission and ESMA are invited to provide an update on the EU initiatives relevant for harmonisation agenda. Members are invited to take note and exchange of views.

Outcome:

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

- CSDR Level2: the RTS on settlement discipline was adopted on 25 May 2018. The 3 months scrutiny of European Parliament and Council is ongoing. The phase-in of two years after final adoption is maintained, meaning an estimated entry into force in August 2020.
- Commission Communication on Post-Trade is expected in second half of 2018.
- Withholding tax code of conduct: the first meeting of Member States took place on 21 June 2018. The EC representative thanked AMI-SeCo for the letter they prepared to feed to these discussions.
- Shareholders Right Directive Implementing Act: a number of technical comments were received as part of the public consultation. The target date for publication is September 2018.
- Financial regulatory reporting: the assessment is now focusing on looking at possible inconsistencies between different reporting regimes.
- Fintech action plan: the expert group on regulatory obstacles for financial innovation has been set up. The report of the group is expected in June 2019. A number of sub-groups have been set-up including one on clearing and settlement, focusing on use cases to see if regulatory requirements supports or hinders these kind of developments. The fintech laboratory started with a first workshop on banking. An EU blockchain observatory was launched with several workstreams, potentially including post-trade use-cases.
- SFTR: the level2 package is still under Commission scrutiny.

The ESMA representative informed the members of the following topics:

- Workshop on CSDR settlement discipline organised by ESMA, preceded by a workshop with the T2S cooperative arrangement (focusing on the penalty mechanism, while the second focused on buy-in). The outcome of the ESMA workshop will be circulated before the summer break.
- ESMA is currently working on two sets of guidelines under CSDR (settlement fails reporting by CSDs, and standardised procedures and messaging protocols between investment firms and their clients to facilitate settlement). ESMA intends to launch public consultations on these guidelines towards the end of the year. ESMA also plans to issue guidelines on supervisory practices related to settlement discipline - the work on these guidelines will start at a later stage.

Following the question of a member it was clarified that no Q&A could be published before the publication of the RTS on settlement discipline in the Official Journal.

- SFTR: ESMA has started working on potential level3 measures.

ESMA intends to publish the XML template ISO20022 candidate message for internalised settlement reporting by the end of June. At the same time, the official assessment of the template to become an ISO message will be triggered. Besides, work on an XML template for settlement fails reporting is progressing.

Following the question of some members on the scope of the exemption of central banks with regard to auto-collateralisation in T2S, and the approach for client auto-collateralisation, the ECB and ESMA will further exchange on this topic before reverting to the AMI-SeCo.

- Questionnaire to competent authorities in relation to cyber security supervisory practices: on the basis of the outcome of the questionnaire ESMA will assess the need for further guidance in this regard, and if so, the target would be to publish guidance in the course of next year.

On this topic, the Chair updated the participants on the Eurosystem work in the field of cyber, stressing in particular the creation of a Cyber Resilience Board, TIBER-EU (a framework for conducting red-teaming exercise) that will be used for Eurosystem FMIs and systemically important FMIs, as well as a consultation on cyber resilience oversight expectations (aiming to operationalise the global CPMI-IOSCO guidance on cyber resilience for FMIs) that was published for feedback until 5 June 2018.

Follow-up:

In view of next meetings, AMI-SeCo participants will be invited to indicate ahead of the meeting items they would support seeing covered in this update.

2. Status update on the T2-T2S consolidation project

The ECB will provide a status update on the T2-T2S consolidation project.

Outcome:

The ECB provided an update on the progress in the T2-T2S consolidation project, noting that work is currently focusing on the definition of payment messages.

3. Status update on the ECMS project

The ECB will provide a status update on the ECMS project.

Outcome:

The ECB provided an update on the work conducted so far with regard to the ECMS project following up from the CMH-Task Force harmonisation proposals.

AMI-SeCo members were invited to indicate how best they would be involved in the review of the relevant parts of the ECMS UDFS related to triparty and corporate actions. AMI-SeCo supported this review should be conducted in the context of the CMH-Task Force, sharing the documentation with AMI-SeCo and the AMI-SeCo NSGs to ensure all relevant parties are duly involved.

4. AMI-SeCo post-trade harmonisation work

4.1. Collateral Management Harmonisation Task Force

The Chair of the CMH-Task Force will present the work conducted by the Task Force since the March 2018 AMI-SeCo meeting with a particular focus on the harmonisation proposals for triparty collateral management and corporate actions. AMI-SeCo members are invited discuss the CMH-TF proposals and provide guidance as required.

Document:

CMH TF update and harmonisation proposals for corporate actions and triparty collateral management

Outcome:

The Chair of the CMH-TF presented the outcome of the work conducted by the Task Force to deliver harmonised processes and workflows for the harmonisation needs deemed most critical for the ECMS, triparty collateral management and corporate actions. Besides the immediate follow-up on the work for needs identified with respect to the management of Eurosystem eligible collateral, the work of the CMH-Task Force will continue on the management of non-Eurosystem eligible collateral, on other harmonisation needs covering bilateral collateral management, billing processes and data for collateral management,

The AMI-SeCo Chair and participants praised the Task Force and its Chair for the impressive harmonisation work achieved within tight deadlines.

Following the question of a member it was noted that the need for a harmonised process for handling rounding differences, e.g. for Italian municipality bonds, has already been identified as part of the immediate follow-up work. It was also clarified that the objective is to have a common rule.

AMI-SeCo approved the reports prepared by the Task Force and the follow-up work, noting the importance to keep the pace for the next steps of the work and the continued willingness and commitment of all parties to find a common process.

4.2. HSG Fintech-Task Force reporting

The Chair of the HSG Fintech Task Force will update the AMI-SeCo on the work conducted by the Task Force since the last AMI-SeCo meeting. AMI-SeCo members are invited to take note of the update and provide guidance as required.

Outcome:

The Chair of the Fintech Task Force updated AMI-SeCo on the progress of the Task Force work on the three use cases (Shareholder transparency and proxy voting, Corporate Actions information & Withholding Tax procedures) since the last AMI-SeCo meeting. With regard to the further work, the Task Force is conducting a stock-take of most relevant fintech initiatives in post-trade and collateral management.

To increase knowledge on technologies in the Task Force, AMI-SeCo participants were invited to nominate additional TF members with expertise in innovative technologies

AMI-SeCo took note of the update.

4.3. T2S harmonisation milestone report

Following the March 2018 AMI-SeCo, the HSG prepared a detailed outline and the first draft of the backward-looking part of the milestone report to be published at the end of 2018. AMI-SeCo members are invited to discuss and provide guidance on the HSG proposal, focusing in particular on the practical benefits and challenges in the T2S harmonisation agenda so far.

Document:

Draft outline and backward-looking part of 2018 milestone report

Outcome:

The HSG Secretary presented the suggested detailed outline and backward looking part of the T2S harmonisation milestone report prepared by the HSG as a follow-up to the March AMI-SeCo meeting.

The members overall welcomed the HSG proposal with the following comments:

- while the scope of the report is on T2S harmonisation, following the suggestion of a member, it was suggested to refer briefly to the overall benefits of T2S;
- the right focus should be given to corporate actions as this is a key area where harmonisation is needed;
- it should be stressed that T2S benefits all and not only internationally active players;
- the focus of the report should not overemphasise new joiners;

- in the status part and forward looking part, particular attention should be given to measures to remedy to existing non-compliance cases.

4.4. XMAP reporting

The Chair of the T2S Cross-Border Market Practices Sub-Group (XMAP) will update the AMI-SeCo on the XMAP work since the last AMI-SeCo meeting, including on the outcome of recent XMAP discussions on the use of optional matching fields in T2S markets. AMI-SeCo members are invited to take note of the reporting and provide guidance as required.

Outcome:

The Chair of the XMAP informed AMI-SeCo of the outcome of the analysis of statistical information on the usage of optional matching fields, CSD per CSD. In conclusion, in most transactions, no effective content is matched because either one or both counterparts leave most of the optional matching fields blank. Participants appear to be more concerned about the risk of a matching fail than about the risk of cross-matching. This low effective usage of the optional matching fields is not considered to be currently problematic by a majority of XMAP/HSG members.

The members took note of the update.

4.5. Update on the HSG work

AMI-SeCo members will be informed of the work conducted by the HSG beyond the items covered in the agenda.

Outcome:

The HSG Secretary presented the status of the HSG work on (i) the further harmonisation and integration in the field of portfolio transfers and a related potential review of T2S harmonisation standard 4 (tax info) and on (ii) the consolidation of the monitoring the T2S and CAJWG corporate actions standards.

With regard to portfolio transfers and a related potential review of T2S harmonisation standard 4 (tax info), the HSG agreed to continue the work on this dossier with the immediate goal of preparing a handbook for portfolio transfers for T2S markets containing current local practices and giving high-level principles for cross-border transfers. The long-term goal is full harmonisation with a single detailed set of procedures for portfolio transfers across T2S markets. As the current T2S harmonisation standard on tax info prohibits the transmission of tax information in T2S (settlement) messages it is considered suboptimal in light of the prevailing practices in some communities which use settlement messages to convey such info for portfolio transfers. A proposed reformulation is being worked on by the HSG which would allow the transmission without endangering the objective of harmonisation and without having an

effect on any other parties in T2S. The revision to the standard would only be submitted for final approval by the AM-SeCo once the handbook on portfolio transfers is available for endorsement.

AMI-SeCo endorsed the principles defined by the HSG to review standard 4 but noted the need for further work before finalising a new draft.

On corporate actions standards monitoring, the HSG and NSGs supported in principle the consolidation of the monitoring processes, while governance and resources still have to be defined.

AMI-SeCo took note of the updates.

5. T2S

5.1 T2S volumes

As follow-up to the 17 May ad hoc AMI-SeCo on the T2S pricing review, AMI-SeCo will be invited to discuss on further actions to increase volumes in T2S going forward. This discussion will draw on the outcome of an ad hoc workshop held on 21 June.

Outcome:

The Chair of the workshop on T2S volumes presented the outcome of the workshop focusing on the opportunities, barriers, measurement and actions for increasing volumes in T2S. As outcome, workshop participants suggested a list of potential opportunities and measurement / actions and pre-conditions for each. There were opportunities discussed for the further analysis of the drivers for settlement internalisation, CCP to CSD & primary cross border activity and developments in settlement of investment funds, commercial paper and retail activity in addition to innovative products in digital asset on-boarding.

The Chair noted that some of the initiatives the ECB is currently exploring, inter alia in potentially developing a European Distribution of Debt Instruments (EDDI) service, could support some of the issues identified.

AMI-SeCo welcomed this work and supported that the analysis continues in the workshop (with possibly an extended membership) on this basis, taking into account the work already conducted in the AMI-SeCo or other relevant fora as regards the barriers. The result of this analysis would be reported to the next AMI-SeCo meeting.

5.2 Workshop on market settlement efficiency and RTS/NTS

AMI-SeCo will be debriefed on the outcome of CSG workshop on settlement efficiency held on 3 May 2018. AMI-SeCo members are invited to take note.

Document:

Outcome of the CSG workshop on market settlement efficiency

Outcome:

The Chair of the CSG workshop on settlement efficiency and NTS/RTS updated AMI-SeCo on the workshop organised in May on this topic.

The main outcome of the workshop was that (i) further analysis shall be conducted on a national/market basis on the reasons for failure (“on hold”), best practices that could be implemented and (ii) a further workshop should take place later this year which deepens the analysis and simulations on the reasons for the on hold, partial settlement and a different structure of NTS.

AMI-SeCo praised this analysis and noted the value in continuing this reflection.

5.3 T2S governance - reporting and debriefing

5.3.1 Market Infrastructure Board

The Chairman of the MIB in T2S composition will report on the relevant MIB Board topics discussed during the latest meetings.

Outcome:

AMI-SeCo took note of the status update of the MIB activities beyond those already covered under previous agenda items, in particular work related to enhancements for cyber-resilience of the Eurosystem’s Financial Market Infrastructure . He further informed about the closing of VP Lux. The MIB acknowledged this change.

5.3.2 Change Review Group (CRG)

The ECB team will provide a report on the activities of the CRG and an overview of the status of the change requests that have been approved or have arisen since the last AMI-SeCo meeting, including the status of CR-653. AMI-SeCo members are invited to take note and provide guidance as relevant.

Document:

Status update on CRG activities

Presentation on the status of CR-653

Outcome:

The CRG Chair presented the status of the CRG work since the last AMI-SeCo with a focus on CR-653 (partial release functionality). In light of the T2S governance feedback received on this CR, the presentation clarified functional aspects and potential impacts of CR-653.

Some AMI-SeCo members raised concerns on the costs of the CR and risk of insufficient adoption of the future functionality.

While members generally supported the improvements this CR would bring from a functional perspective, they supported the organisation of a workshop to ensure an optimal implementation for the T2S community.

5.3.3 CSD Steering Group (CSG)

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

Outcome:

AMI-SeCo took note of the status update of the CSG activities related in particular to migration of DKK and ID2S in October 2018, reporting deployment of release 2.0 into production, CSDR, T2S pricing review, workshop on settlement efficiency.

5.3.4 Directly Connected Parties (DCPs) Group

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

Outcome:

AMI-SeCo took note of the status update of DCPG activities with a focus on the deployment of release 2.0, CRG activities of relevance to DCPs, CSG settlement efficiency workshop, T2S penalty mechanism and how this would impact the T2S community, T2S pricing review. Going forward, more emphasis would be given to cyber resilience and T2S penalty mechanism.

5.3.5 CSDR Taskforce (CSDR TF)

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

Outcome:

AMI-SeCo took note of the status update of the CSDR TF activities with a specific focus on the T2S penalty mechanism and the importance to have all the necessary clarifications in time for delivery by November 2020 (Release 4.2).⁷

One member noted that from user perspective a single tool applied even beyond T2S CSDs would be beneficial and facilitate a high degree of harmonisation in this process. The ECB noted that the feasibility of offering this extension of the T2S penalty mechanism is being explored with CSDs upon their expression of interest.

A-item – Update on T2S operations

The 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:

Members took note of the update.

6. Any other business

Outcome:

- T2S pricing review: the decision on the T2S pricing has been finalised taking into account the AMI-SeCo advice.
- Consultation on SWIFT paper on migration to ISO20022: the letter will be finalised remaining at the general level and expressing broad support.
- The next meeting of AMI-SeCo will take place on 20-21 November with a joint session with AMI-Pay.