



EUROPEAN CENTRAL BANK

EUROSYSTEM

AMI-SECO

8 January 2024

FINAL

OUTCOME

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

8 December 2023, 8:30 – 15:30 CET

via teleconference (MS Teams)

0. Introductory remarks and approval of the agenda

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

- a) The European Commission and ESMA provided an update on the EU initiatives relevant for the AMI-SeCo's harmonisation agenda. Members are invited to take note and exchange views.
- b) The ECB gave an update on developments in the EU Issuance Service.

Outcome:

The **European Commission's** ambition was always to ensure that, by the end of its political mandate in 2024, the development and integration of EU capital markets has improved. This was the objective of the 2020 Capital Market Union (CMU) Action Plan which proposed 16 actions to channel investment and savings to EU investors and companies. The European Commission (EC) has now acted on all 16 actions of the Action Plan. Following presentation of the Commission's proposals several actions are still with the co-legislators, the European Parliament and the Council. In particular, (i) the Listing Act (Action 2), under which several regulatory changes proposed by the EC to facilitate better access to capital by smaller enterprises, and (ii) review of the Solvency 2 directive (Action 4), which aims to encourage more long-term financing, have now entered the trilogue phase. Most recently, the review of the CSDR (Action 13) was adopted by the EU co-legislators and is expected to enter into force in the near future. As regards Action 10 (alleviating the tax burden in cross-border investment) the EC's proposal for Faster and Safer Withholding Tax Procedures (FASTER Directive) has progressed well in the Council but further discussions will be needed in particular on the scope of the directive and on the reporting requirements. The input sent by the AMI-SeCo on post-trade aspects of the proposal was appreciated by the EC and the Council. Looking into the future, the EC is carefully following the discussions on the potential shortening of the settlement cycle and this topic is likely to become a priority for the coming period. In addition, implementation of the CSDR Review will remain an important task, as several provisions require further specification in Level 2 acts.

ESMA has continued its work on settlement efficiency also building on the outcome of its dedicated workshop in September 2023. ESMA welcomes the industry initiatives to identify the root causes of settlement fails and to find solutions to deal with the pain points across the entire transaction and settlement chain. As part of the next steps, it will be important to assess what can be done at the level of market practices and standards and what should be covered through regulatory measures. CSDR Refit will mandate ESMA to develop RTS on measures to improve settlement efficiency, as well as RTS on settlement discipline, including monitoring and reporting settlement fails. ESMA intends to consult on these topics in 2024.

Following the requests for technical advice from the European Commission, ESMA will publish a consultation paper mid-December 2023, which will be open until the end of February 2024, seeking feedback from stakeholders on the impact of the CSDR penalty mechanism on settlement efficiency so far, as well as on potential amendments to the penalty mechanism. The main topics that will be covered by the consultation paper are: alternative parameters when the official interest rate for overnight credit charged by the central bank issuing the settlement currency is not available, historical reference data for the calculation of late matching fail penalties, and alternative methods for calculating cash penalties, including progressive penalty rates.

ESMA has issued a call for evidence on shortening the settlement cycle, which will be open until 15 December 2023. ESMA has also organised a workshop on this topic at the beginning of December. The input from this workshop together with the responses to the call for evidence will be used for the ESMA report on the assessment of the potential shortening of the settlement cycle in the EU, that ESMA will have to deliver within one year from the entry into force of CSDR Refit.

ESMA is also preparing a report on CSD cross-border services and the handling of passporting applications under CSDR. The report focuses on the CSDs' ecosystems, including the use of CSD links, T2S, access to other market infrastructures, and the evolution of trends regarding the provision of CSD core services to non-domestic users (issuers and participants) or in relation to financial instruments constituted under a non-domestic law. The report is expected to be published at the end of January/ beginning of February 2024.

It was clarified that the regulators do not have numerical targets on settlement efficiency rates but they expect a significant and sustained improvement in settlement efficiency compared to the levels observed before the entry into force of the CSDR settlement discipline regime. The EMIR review is currently with the co-legislators. Regarding the review of the Shareholder Rights Directive the EC is working on a study which is expected to be ready by summer 2024.

2. Update on the ECMS project

The ECB will give an update on the developments regarding the ECMS project.

Outcome:

At the end of November 2023, the ECB's Governing Council decided to move the go-live date of the ECMS from 8 April 2024 to 18 November 2024 based on the assessment by the Market Infrastructure Board (MIB) which found that the users need more time to complete testing of the ECMS functionalities in a stable environment. The current focus of the project is the on-going user and migration testing. User testing (involving CSDs, TPAs and counterparties) will continue until July 2024. Connectivity testing in the Pre-Prod environment was completed by NCBs, CSDs and the majority of the counterparties in May 2023. Migration tests will continue to be performed, with the next one scheduled for February 2024. As of December 2023, a fortnightly 'ECMS CSD TPA meeting' will be held to update CSDs and TPAs on testing conditions, release note and relevant incidents. An additional ECMS public focus session will be held in Q1 2024.

The ECB team underlined the importance assigned by the MIB and the Governing Council to keeping the ECMS go-live scope stable. The MIB will monitor very closely the final phases of the project and, in particular, assess carefully any risk stemming from potential new change requests.

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

3.1 Update on setting up the CMG / collateral management harmonisation

The ECB co-chair debriefed about the first meeting of the CMG. The AMI-SeCo discussed and approved the H2 2023 SCoRE compliance report (SCoREBOARD) for publication, discussed the fatal flaw and updating process of the SCoRE Corporate Actions Rulebook and the SCoRE CA Rulebook Wave 2 deadline.

Outcome:

The kick-off meeting of the AMI-SeCo Collateral Management Group took place on 5 December 2023. It focussed on the organisation of the group and the identification of the work. All CMG members expressed their desire and their commitment to continue working on the harmonisation / standardisation needs that had been identified and that had started some years ago (and that was successfully led by the former AMI-SeCo Collateral Management Harmonisation Task Force) and on new ones that might possibly have emerged since then. The CMG agreed to conduct a stock taking exercise to collect feedback about the current barriers and difficulties that members experience in collateral management on a day-to-day basis that hamper collateral availability and collateral mobility and are thus an obstacle to more efficiency and integration. It was recalled that setting up the CMG proved to be more difficult than originally planned by the AMI-SeCo secretariat due to lack of balance (both in terms of geography and stakeholder groups) in the nominations received. A second co-chair from the industry could not be found that would meet the criteria of geographical and institutional balance. This led to the decision to appoint a co-chair from the ECB next to a co-chair from the industry. The general principle of AMI-SeCo substructures being co-chaired by industry representatives is not challenged and the question of CMG co-chairmanship could be re-visited in due course if suitable candidate(s) from the industry emerged.

Following the formal decision by the Governing Council on moving the ECMS go-live to 18 November 2024, in line also with the AMI-SeCo's discussion in the ad-hoc call on 16 November 2023, the AMI-SeCo agreed to move the Wave 1 deadline of compliance with the SCoRE standards on billing, tri-party collateral management services and corporate actions to the same day, i.e. 18 November 2024. This change in the formal SCoRE compliance deadline does not pre-empt that parties subject to SCoRE could be SCoRE compliant prior to 18 November 2024.

The H2 2023 SCoRE compliance progress monitoring exercise was completed with a cut-off of 13 October 2023 (i.e. before the decisions to move the ECMS go-live and SCoRE Wave 1 deadline). The H2 2023 SCoREBoard report shows that, overall, partial compliance with the standards had been achieved (12% for Triparty Collateral Management, 43% for Corporate Actions and 49% for Billing Processes). Frequent delays in achieving the interim milestones on completion of internal testing and start of external testing were reported by stakeholders. Timely full compliance is expected by many entities, but non-compliance is expected by seven TPAs for Triparty Collateral Management, 14 CSDs for Corporate Actions and 14 CSDs for Billing Processes. Additional time stemming from the move of the ECMS go-live and the Wave 1 deadlines to 18 November 2024 will be available for those stakeholders who are lagging behind in ensuring compliance.

The fatal flaw review of the updated SCoRE Corporate Actions (CA) Standards Rulebook is ongoing. It was recalled that the updates to the Rulebook were necessary due to the relevant ISO 20022 updates that occurred since 2021. There was one comment in the fatal flaw round regarding the timing of the CA pre-advice message. After discussions with those raising this question, it was confirmed that the procedure set out in the rulebook currently does not need to be changed and this is not considered a fatal flaw. It was also confirmed that the ECMS will go live based on the version of the CA Standards Rulebook that will come out of the fatal flaw review. It was highlighted that the SCoRE CA Standards Rulebook maintenance process (as well as the maintenance process for the SCoRE Billing Rulebook and the SCoRE Triparty Collateral Management Rulebook) and the ECMS (and TARGET Services) change and release management process require coordination and synchronisation. Clear and concrete deadlines and milestones would need to be agreed and documented so that all stakeholders have a common understanding. Using the ISO annual updates and releases as the benchmark could be a good starting point in this discussion which needs to involve both governances (AMI-SeCo and TARGET Services / ECMS). In addition, the approaches followed by the relevant industry bodies will be considered.

Regarding the SCoRE Wave 2 deadline which covers the ISO 20022 readiness of stakeholders (incl. also custodians), several members referred to the ongoing analysis by the AMI-SeCo's ISO20022 Migration Strategy Task Force (TF). It was agreed that, at the current juncture, there is no change to the SCoRE Wave 2 deadline but to represent in the SCoRE rulebooks by way of a footnote that an overall migration strategy is being analysed by the TF.

3.2 Corporate Events Harmonisation (CEG reporting)

The CEG co-chairs presented the 2023 Corporate Events Compliance Report prepared by the CEG on AMI-SeCo markets' compliance with the Market Standards for Corporate Actions Processing, the Market Standards for Shareholder Identification and the T2S Corporate Action Standards.

Outcome:

The 2023 CEG compliance monitoring exercise benefitted from the feedback of all monitored AMI-SeCo markets and constituted a major effort by all stakeholders and in particular by the drafting team also with a view to clarifications given to markets on the interpretation of the standards. The work of the CEG is seen as instrumental in bringing forward corporate events compliance in Europe.

All AMI-SeCo markets participated in this year's exercise helping to provide a comprehensive picture of the state of corporate event processing in Europe. In the field of corporate actions, the monitoring exercise shows few advances in compliance over the past twelve months. Many markets have developed a concrete action plan to achieve full compliance with corporate actions standards monitored by the CEG (i.e. the Market CA Standards and the T2S CA Standards) however with the SCoRE CA Standards acting as a catalyst for further implementation of the other CA standards (many markets report plans to either significantly increase compliance or achieve full compliance in the course of 2024). Regarding the Shareholder Identification (SI) Standards, the CEG observed some increases in compliance, but issues with the functioning of the process remain. The AMI-SeCo agreed with the publication of the 2023 Corporate Events Compliance Report.

In 2024, the CEG will initiate preparatory work on the creation of a true Single Rulebook for Corporate Events in Europe, starting with the full integration of all European corporate event standards in the scope of the CEG's work. The CEG will also tackle long-standing cases of non-compliance and support AMI-SeCo in its analysis of the impact on the processing of corporate events of (i) the European Commission's proposal on Faster and Safer Tax Excess Relief (FASTER) and (ii) potential recommendations by the European Commission for improvements to the Shareholder Rights Directive (SRD) and (iii) shortening the standard securities settlement cycle.

3.3 Securities Harmonisation (SEG update)

The SEG co-chairs gave an update on the work by the SEG since the June 2023 AMI-SeCo meeting and presented the draft 14th T2S Harmonisation Progress Report.

Outcome:

The SEG was set up in May 2023 and have worked on five areas falling in its mandate: i) it prepared the AMI-SeCo survey on remaining barriers to post-trade integration which was launched in November 2023 and is open for feedback by respondents until end-January 2024; ii) it prepared a letter that the AMI-SeCo approved and sent on the EC's FASTER proposal on more efficient withholding tax procedures; iii) it prepared a draft letter responding to ESMA's call for evidence on the potential

shortening of the standard settlement cycle for securities transactions (see item 4 in the agenda); iv) it set up the Task Force on the optimisation of T2S message customisation (TFOS); and v) it prepared the 14th T2S Harmonisation Progress Report.

Regarding the work of the TFOS it was highlighted that several T2S change requests are being prepared in connection with the TARGET Services ISO Unfreeze (scheduled for 2025) in order to give input to T2S governance on behalf of the community on the message elements that T2S could unprune / allow as of the Unfreeze. The draft CRs would be shared with the T2S CRG urgently considering the limited timeframe available to consider these change requests. It was also highlighted that TFOS members were of the view that a similar input to T2S governance should be given each year after the Unfreeze in relation to the ISO releases affecting the relevant messages. It was noted that such a standing arrangement needs to be carefully designed so that it is guaranteed that there is sufficient time for T2S governance to consider the relevant suggestions.

The 14th T2S Harmonisation Progress Report shows a slight decrease in the overall rate of compliance with T2S harmonisation standards which is due to the composition effect of 5 new markets with slightly lower average compliance rates joining T2S in September 2023. Nevertheless, the level of compliance by these 5 markets is also high in absolute terms. A key point of attention is the non-compliant assessment given to Euroclear Finland and Euroclear Bank under T2S Standard 5 (T2S calendar and schedule of the settlement day) which contains a condition regarding access provided to directly connected parties (DCPs) in T2S where the interpretation of the requirement differs within the community which will be transparently marked in the report. It was agreed that the meaning and interpretation of this criterion of the standard will be discussed further by the AMI-SeCo in H1 2024 also in light of an overview of how DCP access is offered and used in T2S today. The AMI-SeCo approved the publication of the 14th T2S Harmonisation Progress Report.

4. ESMA call-for-evidence and industry work on shortening of the standard settlement cycle for securities transactions

The AMI-SeCo took note of the relevant industry discussions / analysis and discussed a draft letter to ESMA in the context of ESMA's call-for-evidence on shortening of the standard settlement cycle.

Outcome:

The SEG proposed to prepare and send a letter by the AMI-SeCo on shortening the standard securities settlement cycle to communicate high-level considerations on the post-trade impact of a potential move from T+2 to T+1 cycle based on a consensus by the community which can complement the individual submissions made by stakeholders to ESMA's call-for-evidence. The draft had been commented on by the members of the SEG, CEG and CMG.

Overall, the AMI-SeCo members agreed with the key messages of the draft. It was suggested to strengthen the point on potential coordination with regards to the UK decision and to share the letter with the UK Task Force as well as the relevant UK authorities. It was also suggested to add a reference to T+0 (in particular in the sense of 'atomic' settlement, i.e. trade and settlement happening at the same point in time) as it had been included in ESMA's call-for-evidence, by passing the message that the ecosystem is not ready for such a fundamental change in the architecture of financial market infrastructures. It was clarified that the ECB also sends a confidential response to ESMA's call-for-evidence on behalf of the ESCB, the messages of which are not expected to be in contradiction with those of the letter of the AMI-SeCo.

The ESMA representative urged all stakeholders to provide concrete and detailed evidence in their submissions to the call-for-evidence and highlighted that ESMA has to prepare a report on shortening the settlement cycle in the course of 2024. ESMA expects that it will be able to draw on the experiences of the US market as well.

As next steps by the AMI-SeCo it was agreed to submit the draft for a quick AMI-SeCo written procedure with a view of finalising it by 15 December. It was emphasized that the impact on corporate events will need a thorough reflection by the CEG in 2024 also with regards to the impact of the US migration on multi-listed securities.

5. Update on setting up of the AMI-SeCo's ISO20022 Migration Strategy Task Force

The AMI-SeCo received an update on the launch of the ISO20022 Migration Strategy Task Force.

Outcome:

The co-chairs of the ISO20022 Task Force gave a brief update on the first meeting of the task force. There is currently no consensus of views on the migration strategy of the AMI-SeCo community to ISO20022 (which is the reason why the TF was created). The Task Force agreed to take stock of the existing issues, challenges and opportunities related to the use of ISO20022, e.g. data standardisation issues (lack of data, usage of data, translation data), compliance with standardisation and incentives.

6. Update and debriefing by T2S governance

6.1 Update on T2S operations

The ECB provided an update on T2S operations and related topics.

Outcome:

T2S volumes and values evolution represent the usual seasonality changes in 2023 and, specifically in terms of average volume, the levels have normalised after a spike in turnover in Q1 2022 mostly attributed to the war in Ukraine and the related portfolio re-balancing by stakeholders. Settlement

efficiency has improved considerably since early 2022 especially in value terms which might be due to impact of the CSDR settlement discipline requirements and the relevant adaptations by stakeholders. The proportion of the use of auto-collateralisation in T2S turnover remained stable and significant since early 2022.

The migration of the five new markets to T2S in September 2023 was smooth also from an operational perspective which is considered a major achievement in view of the scale of changes in T2S (number of securities accounts multiplied). The success is due to the thorough preparations of both the T2S operator and the migrating CSDs. The system has shown stable operations also since the migration date.

It was agreed to investigate whether a break-down of the auto-collateralisation figures between the NTS and the RTS can be included in the regular slide deck for the AMI-SeCo as such information was deemed useful in light of the potential shift in volumes between the NTS and RTS if a decision was made to move the standard securities settlement cycle to T+1.

6.2 Debriefing on the CSG discussion on T2S strategic evolution

The ECB provided an update on the discussions in T2S governance on the T2S strategic evolution.

Outcome:

In February 2022, a Eurosystem task force was mandated by the Market Infrastructure Board (MIB) to investigate potential enhancements and changes to T2S to keep delivering full benefits at a 5 to 10 year horizon. The workstream benefitted from interviews with CSDs, market participants and other stakeholders of T2S. The proposed measures were endorsed by the MIB in September 2023, and consist of (i): functional enhancements to improve the operability, efficiency, and performance of the T2S platform; these will be submitted through the T2S change and release management process, and (ii) exploring alternative technologies in the domain of Application Programming Interfaces (API) and microservices for a leaner T2S. External APIs could also provide additional integration / communication channel with T2S actors. Dedicated workshops will be organised to define a potential use case.

It was noted that it is difficult to predict the technological and market environment of T2S over a 10-year time horizon which will depend, inter alia, on the take-up of new technologies or developments in cyber-security. It was suggested that, from a business perspective, further discussions could be helpful to understand how T2S actors use T2S and where T2S could potentially offer further benefits (e.g. potentially also in areas of post-trade processing other than settlement, e.g. corporate actions processing, etc.). It was also highlighted that the developments related to the T2S GUI are crucial also in light of evolving cyber security requirements. The AMI-SeCo will be kept up to date on the future steps of this work.

6.3 Debriefing on the CSG discussion on T2S recovery

The ECB provided update on the CSG discussion on T2S recovery evolution.

Outcome:

The T2S recovery solution provides tools and functionalities enabling the operator to resume operations within 12 hours from a disruption caused by a large-scale incident or a cyber-attack, resulting in a massive loss of data. The solution provides tools and functionalities to restore the snapshot from the previous business day and to rebuild the data of the business day subject to recovery process. The T2S recovery solution is implemented via a series of change requests to T2S and is foreseen for testing as of June 2024 and go-live by the end of 2025. The testing of the T2S recovery solution shall follow two stages: i) qualification testing (one-off), and ii) operational testing (recurrent). A new physical test environment will be set up to test the T2S recovery solution. The AMI-SeCo will be kept up to date regarding the roll-out of the T2S recovery solution.

6.4 Debriefing on the recent T2S CSG Market Settlement Efficiency workshop

The chair of the CSG MSE workshops will give an update to the AMI-SeCo on the most recent discussions regarding settlement efficiency.

Outcome:

Two Market Settlement Efficiency workshops were held since the last regular AMI-SeCo meeting (in July and in October 2023). The workshops provide a key forum for T2S CSDs and industry stakeholders to perform in-depth analysis of the trends and reasons for settlement fails in T2S markets.

CSDR settlement efficiency generally improved in the last two years. In 2023 this trend was more evident in value than in volume. The entry into force of the penalty mechanism seems to have had a positive impact. Settlement efficiency ratios of free-of-payments (FOP) transactions seem to be lower which needs to be further investigated. A constant and progressive increase of the share of transactions eligible to partial settlement is observed, but only small part becomes subject to actual partial settlement, especially in volumes. In conclusion, T2S generally works well when resources (securities and cash) are available. The main challenges seem to be further down the custody chain, such as relating to the ability of counterparties to ensure that securities are available for settlement on the intended settlement day. Accordingly, factors that are external to T2S, e.g. movement of resources with ICSDs, also play a role for settlement efficiency. To further improve settlement efficiency, it is important that stakeholders use the tools already available and offered by T2S and the T2S CSDs, in particular partial settlement and partial release functionalities. In the context of the broader industry discussions further suggestions had been put forward by market participants, some of which (e.g. shaping) could potentially lead to changing T2S functionalities. Ongoing engagement with regulators, i.e. ESMA would be important. The dedicated ESMA workshop on settlement efficiency was a valuable forum to exchange views.

AMI-SeCo members praised the work done in the MSE workshops and agreed that this work provides a significant contribution to understanding the reasons for settlement fails. It was highlighted that higher transparency on the nature of business activity behind the settlement instructions reaching T2S could help in further identifying the root causes. It was also noted that the work by the industry outside T2S

governance also contributes a great deal on settlement efficiency, in particular reports by trade associations prepared based on the feedback from their members (AFME, ICMA) contain very valuable further insights.

6.5 Change and release management

The AMI-SeCo received an update on the T2S change and release management since the last regular AMI-SeCo meeting (meeting document shared). The update was not discussed in the meeting (A-point).

7. Any other business

The next regular meetings of the AMI-SeCo are scheduled on 25 June 2024 (in-person) and 4-5 December 2024 (including joint session with AMI-Pay, format tbc)

Some AMI-SeCo members expressed their preference for a higher frequency of regular AMI-SeCo meetings and more in-person meetings in the future.