

Outcome

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

7 December 2017

From 9:30 until 16:30 CET

Meeting Room C2.01

European Central Bank, Kaiserstrasse 29, 60311 Frankfurt am Main

0. Introductory remarks and approval of the agenda

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

Outcome:

The Chair welcomed the participants and in particular Dominique Le Masson (BNP Paribas – already member of AMI-Pay) replacing Alain Pochet and thanked Alain Pochet for his major contribution to the AMI-SeCo and T2S AG work over the past years.

The members agreed on the agenda.

The Chair further informed that the ECB Governing Council approved the launch the T2/T2S consolidation and ECMS projects¹.

1. AMI-SeCo post-trade harmonisation work

1.1 8th T2S Harmonisation Progress Report

Following the publication of the 2017 T2S Harmonisation Mid-year Update on 15 September 2017, the HSG discussed and approved the first draft of the 8th Harmonisation Progress Report in its 26-27 October meeting. The report mainly focuses on the post-migration compliance status of the final wave and the new Slovakian CSD (NCDPC) that joined T2S on 30 October 2017. AMI

¹ <http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr171207.en.html>

SeCo members are invited to consider the progress report prepared by the HSG and endorse its publication in January 2018.

Document:

8th T2S Harmonisation Progress Report

Outcome:

The HSG secretary presented the main findings from the draft 8th T2S Harmonisation Progress Report prepared by the HSG. The main focus of the report is on the post-migration compliance results of the Final Wave, which overall presented a high rate of compliance with the T2S standards, and the new Slovakian CSD (NCDPC), that joined T2S on 30 October 2017.

The Iberclear representative questioned the red status allocated for the assessment on standard #3 that establishes that no registration info should be transferred via T2S settlement messages. He noted that the original objectives of the standard (i.e. ensure STP settlement) are not jeopardised as the registration system is completely detached from the settlement process and that the end-investor information is only used by some banks for internal reconciliation purposes and not for reconciliation purposes with the registry. The Spanish NSG will provide further clarifications on the mentioned reconciliation process in written to the AMI-SeCo secretariat. With these clarifications, AMI-SeCo members supported attributing a blue status to Iberclear for this standard

As for the application of agreement reached on the T2S calendar in the 6 December 2017 joint AMI-Pay/SeCo meeting, the members supported applying this starting in 2018 pending confirmation on the feasibility by CSDs by 20 December 2017. Should implementation in 2018 be confirmed, the status of the markets currently red would turn to blue. If not, they would turn to white.

AMI-SeCo participants endorsed the draft report in principle in view of publication by late January 2018.

1.2 Impact analysis monitoring update

The ECB will present the Impact Analysis report regarding the non-compliance of T2S markets (i.e. red compliance status) with the T2S harmonisation standards. AMI-SeCo Members are invited to approve the report for further distribution to the Market Infrastructure Board (MIB) for its next meeting.

Document:

Impact Analysis Report on non-compliance with T2S harmonisation standards

Outcome:

The HSG secretary presented the draft impact analysis report on non-compliance with Priority 1 T2S harmonisation standards, also reflecting the outcome of the discussion of item 1.1.

The members supported the draft report with the amendments stemming from the discussion of item 1.1 to be implemented before further submitting the report to the Market Infrastructure Board for endorsement and further publication.

1.3 Collateral management harmonisation

Further to the July 2017 AMI-SeCo meeting, the HSG – with the support of a dedicated Task Force - identified a list of collateral management harmonisation activities (CMHAs) with suggested priorities. AMI-SeCo members are invited to discuss the HSG proposal and agree on the suggested activities and priorities.

Document:

Report on collateral management harmonisation

Outcome:

The Chair of the CMH-TF presented the outcome of the work of the TF identifying ten harmonisation activities and needs for collateral management and five guiding principles to drive actions. This report is the basis for starting the next phase of the harmonisation effort, i.e. defining a harmonisation proposal for each agreed harmonisation need.

Following the question from a member it was clarified that the work would follow the approach used so far, i.e. once there is sufficient information reached in this group, this would be shared with the NSGs to receive broader feedback and eventually a market consultation could be organised.

As to the implementation of ISO20022 for ECMS, members generally concurred that new endeavours – either from the ECB or the market – would be based on ISO20022.

In relation to CMHA 7 (settlement/collateral cut-off times), the ICMA ERCC representative presented the preliminary results of the survey on cut-off times they recently conducted. The TF will be in close contact with the ERCC as their work progresses and then consider these findings as part of the TF work.

The ECB provided a presentation on the interaction between the work of the CMH-TF and the ECMS project. It was in particular stressed that the harmonised business processes and workflows for triparty and cooperate actions are required by June 2018.

Some members noted that the EPTF had also identified a number of legal barriers relevant in the field of collateral and were consequently not dealt with by the TF. The European Commission action plan as a follow-up to the EPTF report will have to be taken into account in the further work.

AMI-SeCo members overall welcomed the CMH-TF report and warmly thanked the TF for the work they conducted under a tight schedule. The members further endorsed the report with the following caveats:

- those items that are not attributed a priority should be considered as a 'watch-list';
- priority 1 items should be clearly distinguished depending on the relevance/necessity for ECMS on the basis of the elements provided in the presentation given by the ECB on this topic. In this regard, the TF/ECMS team should determine the most critical priorities.

The members further agreed sharing the report with AMI-Pay and MMCG members and gather their possible requirements from a cash and treasury perspective.

AMI-SeCo invited the HSG/CMH-TF to launch the work of the next phase, as outlined in Section 6 of the report immediately and prepare concrete harmonisation proposals in line with the priorities and high level timelines identified in the report (in particular as regards the timelines for ECMS). As part of the further work, the HSG/CMH-TF should also consider the best timing to receive broader feedback including feedback from NSGs.

Regular updates (including work planning) on the collateral management harmonisation effort would be provided to AMI-SeCo as the work progresses.

1.4 Future of harmonisation agenda and activities

With a view to the completion of T2S migration and further developments in European legislation as well as the work on collateral management harmonisation the HSG will discuss the future of the harmonisation agenda including the scope and the modality of the related activities by the HSG and the AMI-SeCo in general.

Outcome:

The HSG Chair presented the preliminary HSG discussion on the future of the harmonisation activities considering that the framework designed for T2S was done having the T2S migration in mind, but also considering new harmonisation activities (collateral management harmonisation activities) or the follow-up to the EPTF consultation by the European Commission.

The HSG preferred keeping the tight framework for T2S harmonisation monitoring including the traffic light approach. It was also suggested to keep the existing list of activities but to flexibly add to the list any new ones that may come. It should be noted that more work remains to be done on the priority 2 activities. A milestone report would be prepared in 2018 looking back on the progress achieved under

the current framework and during T2S migration and also present the new / updated framework. Hence a more detailed proposal is expected to come to the AMI-SeCo in the first half of 2018.

The members overall supported the HSG proposal.

1.5 XMAP reporting

The chairman of the T2S Cross-Border Market Practices Sub-Group (XMAP) will update the members on recent XMAP developments including (i) the update of the Catalogue of CSD's Restriction Rules; (ii) the analysis carried out by the XMAP on T2S cross-CSD activity; and (iii) the outcome of the questionnaire on the usage of T2S optional matching fields. Members are invited to take note of the XMAP work and provide guidance on the way forward.

Documents:

Catalogue of CSD's Restriction Rules (version 1.2)

XMAP report on T2S cross-CSD activity

Outcome of the questionnaire on the usage of T2S optional matching fields

Outcome:

The XMAP Chair reported on the XMAP work covering in particular:

- the analysis carried out by the XMAP, in consultation with the DCPG, on T2S cross-CSD activity, with the objective to provide the T2S community of stakeholders with a status update;
- version 1.2 of the Catalogue, which is based on: (i) the version 2.0 of the "CSDs' Reference Data Extension" (6 new rules as well as updates on existing ones) and (ii) the updated methodology as approved by the AMI-SeCo in July 2017;
- the outcome of the questionnaire on the usage of T2S optional matching fields.

The members took note of the reporting on the XMAP work and:

- approved the publication of the report on T2S cross-CSD activity;
- approved the publication of the Catalogue version 1.2;
- agreed to respond to a survey to measure the effective usage within CSDs/user members of the restriction rule catalogue;
- agreed to invite XMAP to review the best market practice on client of the CSD participant; also to further investigate in view of empirical information in the T2S platform, for all 3 optional matching fields, how they are filled in.

1.6 Potential impact of DLTs on post-trade

Following the mandate it received, the HSG – with the support of a dedicated Task Force – conducted further work in the areas of (i) use cases where DLT solutions at a European level could increase the efficiency of post-trading, with a specific focus on the areas of shareholder registration and transparency, corporate actions information flow, and tax processing; (ii) definition of possible standards for the use of DLT cognisant of market integration needs; and (iii) governance framework of DLT networks. The HSG will report the outcome of its work on these items. Besides, the HSG will present a proposal for continuing the work with a broader focus on technological innovation beyond DLT but always with a clear focus on issues in the area of post-trade and market integration.

AMI-SeCo members are invited to discuss the HSG analysis and proposal for conducting further work in the field of technological innovation.

Documents:

Use cases for using DLT

Draft mandate for the HSG fintech Task Force

Outcome:

The Chair of the DLT TF outlined the work conducted by the TF since the July 2017 AMI-SeCo meeting on analysing the feasibility and practical interest in potential DLT solutions to share info related to: i) shareholders' information for registration; ii) corporate events originated by issuers (top-down) and decisions taken by investors (bottom-up); and iii) tracking of asset holdings for tax reporting. He further presented the proposed Terms of Reference (ToR) for a new HSG Fintech Task Force that would: i) carry on the analysis of potential impact of fintech innovations (beyond DLT) on T2S harmonisation and on the broader post-trade market integration in Europe, and ii) complete the assessment of the three initial use cases, with a view to expand similar work to other areas of post-trade services where fintech innovation might possibly yield efficiency gains.

The members welcomed the TF work. With regard to the analysis on the use cases, the members showed substantial interest on the shareholders' information use case that could allow intermediaries in the custody chain to comply with the new requirements set by the recast Shareholders' Rights Directive. It was noted that such a solution could also possibly be based on an advanced database.

The further analysis to be conducted on the work on uses cases related to shareholders' information and corporate actions would need to involve all relevant stakeholders.

AMI-SeCo members further supported the ToR of the fintech TF. Members are invited to nominate participants to the TF reflecting its broader scope.

2. Eurosystem deliberations on taking collateral in Eurosystem credit operations – follow-up on open issues for Eurobonds realignment

As a follow-up to July 2017 AMI-SeCo discussion on the potential new Eurosystem policy to consolidate the settlement of marketable collateral for Eurosystem credit operations in T2S, ICSDs will report on the progress on the remaining technical and legal issues for the realignment of Eurobonds settled in T2S.

Document:

Presentation by the ICSDs on follow-up on open issues for Eurobonds realignment

Outcome:

The ICSDs representatives presented the progress of the work on the technical solution to settle Eurobonds in T2S cross-CSD between Euroclear FR participants and CBF participants with immediate finality in T2S, i.e. without the need for conditional settlement in the ICSDs. This work was discussed in a joint Clearstream-Euroclear workshop to customers of Clearstream and Euroclear on 6 December 2017. Following a question from a participant, the ICSDs representatives clarified that while the settlement of Eurobonds is already possible in T2S via Euroclear FR and CBF, their intention is to set the date for the solution for cross-CSD settlement by mid-2018.

Participants overall thanked the ICSDs representatives for the presentation and efforts made to progress on this issue.

The discussion highlighted the need to clarify whether any constraints stem from the T2S platform to allow other CSDs to link directly to the ICSDs. For this purpose, a note would be prepared presenting facts on the functionalities of the platform.

The AMI-SeCo members agreed that the XMAP would tackle this issue in its February 2018 meeting with the possibility for interested AMI-SeCo members to take part to this meeting.

The Chair remarked that this discussion also showed there is still a need to work on a European issuance mechanism.

3. T2S

3.1 T2S governance - reporting and debriefing

3.1.1 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:

The AMI-SeCo took note of the status update of the MIB activities beyond those already covered under previous agenda items (in particular work on the inclusion of DKK in T2S, financial dimension of the T2S platform, different aspects of the organisation of the new T2S releases). AMI-SeCo participants were also informed of the change of Eurosystem MIB member, with Kirsi Ripatti (Bank of Finland) replacing Ron Berndsen following his change of functions.

The AMI-SeCo chair congratulated the final wave migration CSDs for the smooth migration to the T2S platform.

3.1.2 CSD Steering Group (CSG)

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

Outcome:

The AMI-SeCo took note of the status update of the CSG activities related in particular to the migration of the Baltic CSDs, the envisaged integration of a new CSD (Rooster) to join in October 2018 pending decision of the T2S governance, the migration of the DKK, the migration of Euroclear Finland to the T2S platform possibly in 2019, T2S CRs, cyber-security, T2S financial controlling framework for CRs for next three years, the procedure for new incomers joining T2S.

3.1.3 Change Review Group (CRG)

The ECB 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.

Document:

Status update on CRG activities

Outcome:

The AMI-SeCo took note of the status of the CRG activities and in particular CR654 (penalty mechanism). CSDs will decide in April 2018 whether they want the penalty mechanism to be developed in T2S.

3.1.4 Directly Connected Parties (DCPs) Group

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

Outcome:

The AMI-SeCo took note of the status update of the DCPG activities in particular related to the completion of the migration phase and, the involvement with future T2S release deployment. The DCPG mandate review is still under discussion and is expected to be completed by the next AMI-SeCo meeting.

3.1.5 CSDR Taskforce (CSDR TF)

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

Outcome:

The AMI-SeCo took note of the status update of the CSDR TF activities on T2S matters related to the first set of CRs raised by the CSDR TF and the progress of the CSDR TF.

4. Any other business

Outcome:

The AMI-SeCo meeting dates for 2018 will be:

- 20-21 March
- 21-22 June
- 21 November with joint meeting with AMI-Pay on 20 November