

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

15 June 2022 9:30 – 15:30 CET

Webex teleconference

0. Introductory remarks and approval of the agenda

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

- a) The European Commission (EC) and ESMA provided an update on the EU initiatives relevant for the post-trade harmonisation agenda.
- b) The ECB debriefed participants on the Eurosystem's outreach to the industry regarding the potential use of new technologies for wholesale central bank money settlement.

Outcome:

Related to the Capital Market Union Action Plan, in the area of shareholder engagement, the EC is consulting expert groups on addressing possible legal barriers to the use of new technologies. ESMA is expected to issue a call for evidence to support the review of SRD II by the end of 2022. On withholding tax procedures the public consultation launched in April is on-going (see also item 4.3 below) with a high response rate so far among stakeholders. The EC will analyse the responses and prepare a summary report on the outcome. If the responses warrant this, a legal initiative is possible from the EC by early 2023. On the proposals on the consolidated tape and on the European Single Access Point (ESAP) a compromise within the Council could be reached still under this presidency. After European Parliament's position is reached, dialogues could start. With regards to the review of the CSD Regulation (CSDR) the first working party in the council took place. Furthermore, the amended RTS on the formal deferral of the mandatory buy-in rules for OTC transactions (as a follow-up to ESMA's earlier communication to national authorities) under the current CSDR – based on ESMA's report and proposal – is expected to be adopted by the EC over the summer.

In July, subject to the approval by the ESMA Board of Supervisors, ESMA intends to publish a consultation paper on draft RTS on the collection and distribution of cash penalties for CCP cleared transactions and expects to submit the draft RTS to the EC by the end of the year.

ESMA is also about to launch a consultation on Guidelines on standard forms, formats and templates to apply for permission to operate a DLT market infrastructure as defined by the DLT Pilot Regime Regulation.

ESMA, together with the NCAs, is closely monitoring the implementation of CSDR cash penalties.

The 3 European supervisory authorities (ESAs) have published draft RTS on risk mitigation techniques for OTC derivatives not cleared by a CCP under EMIR, proposing to extend the current temporary exemptions regime for intragroup contracts by three years. ESMA has submitted draft RTS to the EC including a proposal to increase the mandatory clearing threshold for commodity derivatives by EUR 1 billion (from EUR 3 billion to EUR 4 billion). ESMA has also recently published several draft RTS on the CCP resolution regime and guidelines on the circumstances under which a CCP is deemed to be failing or likely to fail, under the CCP Recovery and Resolution Regulation.

Regarding the Eurosystem's industry outreach on access to central bank money via new technologies it was highlighted that the ECB expects individual responses from the members of the associations addressed with the related questionnaire by 28 June 2022. The Eurosystem will closely analyse the feedback to the questionnaire and is planning to organise a multilateral meeting with all key stakeholders in early September. More details and the invitations will be issued for this meeting in July.

2. Revised strategy on ISO 20022 message freeze

The ECB informed AMI-SeCo participants on the updated strategy for the ISO 20022 message freeze and the gradual implementation of yearly ISO 20022 maintenance releases for all TARGET Services.

Outcome:

The ECB informed AMI-SeCo on Eurosystem considerations on the revised ISO message freeze strategy for TARGET services foreseeing to postpone the lift of the ISO message freeze by 6 months from November 2023 to June 2024, and to apply a staggered approach in implementing "real-time" ISO message maintenance releases on a yearly basis.

The members took note of the update.

3. Update on the ECMS project

The ECB gave an update on the developments regarding the ECMS project.

Outcome:

The ECMS project is on track to meet the key milestones leading up to the go-live in November 2023. The most recent (6th) ECMS community readiness report shows that the confidence level for both the reporting NCBs and their respective communities is high, even if slightly decreased since the previous report. The Eurosystem Acceptance Test is currently on-going with key functionalities

and change request being tested. Preparations for user testing and migration are currently ongoing involving the relevant stakeholders. A successful dedicated ECMS info session was held on 3 June (recording and documents available on ECB website). Next ECMS CSD-TPA workshop is planned for 4 July 2022.

The baseline go-live scope of ECMS was approved in January 2022 (cut off). However, additional change requests (CRs) have been identified, which the MIB is assessing by end June 2022, taking into account their criticality and the 4CB assessment on the feasibility to implement them on time for the go-live. The request by market stakeholders for ISO updates of relevant message versions is also being analysed in this context. Several participants stressed that not using the most recent ISO message versions for corporate action events by the ECMS at its go-live would have a significant impact on the readiness and preparations by CSDs and potentially also their participants. It was agreed that the right balance needs to be found between the stability requirements of the project and the requests by market participants / CSDs to interact with the ECMS based on the most recent ISO versions. The MIB will take into account this message from market stakeholders in its decision at the end of June 2022. An ad-hoc AMI-SeCo teleconference will be held first half of July to update the AMI-SeCo on the MIB's decisions.

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

4.1 Collateral Management Harmonisation / SCoRE (CMH-TF)

The AMI-SeCo discussed the reports on the adaptation plans by markets towards the SCoRE standards (SCoRE Adaptation Plans Status Report) and on the progress by markets with compliance with the SCoRE standards (SCoREBOARD).

Outcome:

An update of the adaptation plans was needed regarding SCoRE Corporate Actions (CA) standards, following the updates agreed by AMI-SeCo in December 2021. With the exception of a few (non-euro area) markets all markets have provided an updated plan. There are some further clarifications needed from some tri-party collateral service providers (TPAs) and CSDs.

Regarding the progress towards compliance with SCoRE standards all but one AMI-SeCo markets participated in the H1 2022 monitoring exercise. Overall, there is good progress towards compliance. 2 TPAs will have delays to reach November 2023 deadline, while on the corporate actions and billing processes 6 CSDs indicated a delay (these primarily concern those that did not provide an adaptation plan). There are a number of stakeholders who already comply with some of the SCoRE standards. The current compliance rates are 15% for triparty collateral management, 30% for corporate actions and 45% for billing processes.

Participants advocated a holistic view, also taking into account the need to build SCoRE compliance on the relevant SMPG guidance and the latest ISO version for CA messages. Some expressed the

view that some of the SCoRE standards cannot be fully complied with based on the 2019 ISO20022 message versions. It was also mentioned that In the TPA domain the ECMS will not use the latest ISO messages as originally foreseen by the SCoRE standards.

Furthermore, it was noted that aggregate figures might hide that stakeholders are in very different stages of implementation of the SCoRE standards even across certain relevant subprocesses.

Finally, it was highlighted that the AMI-SeCo should continue to discuss ISO20022 implementation deadline, which is currently November 2025, for account servicers other than CSDs or TPAs ('Wave 2' implementation of SCoRE CA standard #15). Despite the AMI-SeCo's request, SWIFT has not yet defined a timeline for ending the co-existence between the ISO15022 and the ISO20022 standards in the securities domain which is a key question for the industry. It was agreed that this question should be discussed as soon as possible by the AMI-SeCo, ideally based on further updates from SWIFT and the global community.

4.2 Update on the work by the Corporate Events Group (CEG)

The CEG co-chair updated the AMI-SeCo on developments / progress made in the CEG regarding the monitoring of shareholder identification standards and other CEG-related developments.

Outcome:

The CEG had two meetings between December 2021 and June 2022 and discussed various interpretation and implementation questions on the Shareholder Identification industry standards (SI Standards). The CEG is also working on an FAQ document on the SI Standards to help a harmonised implementation across markets.

Furthermore, the CEG has discussed and agreed on its internal working procedures.

The AMI-SeCo took note of the CEG update and approved the changes in CEG membership put forward by participating institutions since December 2021.

4.3 The AMI-SeCo's response to the European Commission's public consultation on withholding tax (WHT) procedures

The Harmonisation Steering Group had agreed on the draft response to the consultation (a cover letter and consultation form) and submitted the draft for approval by the AMI-SeCo before it is submitted to the European Commission in the context of the public consultation.

Outcome:

The European Commission (EC) launched its public consultation in April 2022 with a deadline of 26 June 2022. The draft response by the AMI-SeCo was prepared on the basis of previous stances by the T2S Advisory Group and the AMI-SeCo and is broadly in line with the general market consensus (also including dedicated EC expert groups that were set up on this topic over the last 15 years). The

key points to be highlighted by the AMI-SeCo include the importance of a fully harmonised, common EU system of relief-at-source that is based on the same forms and procedures across Member States as well as harmonised framework for tax-payer identification and a common EU standard for the certification of residence.

Participants overall supported the key messages but noted that the reference to the compatibility of the harmonised EU framework with the OECD's TRACE system is not necessary as it is not clear whether TRACE would lead to a fully harmonised processing across EU Member States and as TRACE has not been tested in practice sufficiently to assess its efficiency. AMI-SeCo members were invited to provide further comments to the draft text in writing by 22 June 2022.

5. Review of the functioning and governance of the AMI-SeCo

The Secretariat presented the outcome of the survey among AMI-SeCo members and National Stakeholder Groups on the functioning of the AMI-SeCo, including the Secretariat's own considerations and key takeaways.

Outcome:

Overall, the feedback from AMI-SeCo members and NSGs in the survey was positive regarding the AMI-SeCo fulfilling its key roles as described in its mandate. This suggests that there is no need to a major overhaul of the AMI-SeCo's functioning but rather potential targeted improvements. Among these the Secretariat highlighted two:

- Clarity on roles of AMI-SeCo participants depending on the subject of discussions: The AMI-SeCo inherited the formal role of the T2S Advisory Group regarding T2S governance which means that in certain well-specified T2S-related matters only direct T2S stakeholders should be counted when striving for a consensus. However, these matters constitute a very limited proportion of the discussions in the AMI-SeCo. When it comes to market standards all AMI-SeCo participants count to be a directly affected stakeholder and should be treated as such. Hence the Secretariat raised the idea of delineating two compositions of the AMI-SeCo: one for the former role in T2S governance and one for the broader role of discussion market harmonisation and integration matters not falling into the scope of the first one. This would create a more transparent governance and would allow not calling key stakeholders in the harmonisation discussion 'observers'. This change would not constitute a major change in practice.
- Lean structure of substructures: Following the de facto developments over recent years on the way the AMI-SeCo's substructures have worked and to target a lean set-up the Secretariat put forward an idea for three groups (on collateral management, on securities settlement and on corporate events). In addition, the idea of finally abolishing dormant substructures which have not been used for a long time was also presented. These changes would not constitute a major change compared to today's functioning.

In addition to the above the Secretariat also identified a few smaller improvements on the AMI-SeCo's working procedures and in the interaction with NSGs. Participants overall welcomed the discussion. It was raised that there should be higher clarity on the difference between market standards and regulatory requirements and that it is important to ensure that substructures do not do overlapping work.

It was agreed that AMI-SeCo members will send further written comments / observation on the ideas introduced by the Secretariat and the Secretariat will follow-up by drafting an updated AMI-SeCo mandate and elaborate on the additional proposals (which do not require changing the mandate).

6. T2S

6.1 Update on T2S operations

a) The ECB provided an update on T2S operations, in particular regarding the developments related to the Penalty Mechanism after the February 2022 entry into force of the CSDR settlement discipline regime.

Outcome:

Overall, T2S operations were smooth in the period since the last AMI-SeCo meeting. Settlement turnover largely followed the usual seasonal variation/pattern in terms of volumes and value in the first five months of 2022. Settlement efficiency (both in volume and value terms) increased from December 2021 to February 2022 but, following the entry into force of the CSDR settlement discipline regime, has been on a gradually decreasing trend. An explanation for this may be that the market still adopting to the new regime and it may be premature to draw any conclusion yet between the entry into force of the settlement discipline regime and the developments relating to the T2S settlement efficiency.

The stability of the T2S penalty mechanism was overall satisfactory in the period since the last AMI-SeCo. Processing times stayed below the threshold of 315 minutes set in the relevant SLA with a few exceptions stemming from minor incidents.

Participants asked to include the developments in cross-CSD settlement volumes / values in future updates given to the AMI-SeCo on T2S operations.

b) AFME debriefed the AMI-SeCo on the joint industry work targeting industry standards for the processing of CSDR settlement fail penalties.

Outcome:

The processing of CSDR settlement penalties is a complex process also due to the need to cascade penalties and the associated reports / information down the custody chain. This is shown in the recurring operational issues at various stakeholders in the process. The industry (coordinated by AFME, ECSDA, AGC, EBF and EACH) established three short-term industry working-groups to focus

on reference data issues, calendar issues and messaging issues with a view to review existing standards, create new market standards (where necessary) and to coordinate the industry's input to the review of the CSD Regulation regarding settlement discipline.

6.2 Change and release management

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

Outcome:

In March 2022, the CSG and MIB confirmed the rescheduling of both (i) the start of user testing for release 6.0 of T2S and (ii) the deployment of the release in the production environment. User testing started on 2 May 2022, and the release is set to be deployed in the production environment on 2 July 2022. With this release T2S will start using the common components: ESMIG (connectivity layer); CRDM (reference data); BILL (Billing) BDM (Business day management); DWH (Data warehouse); LEA (Legal archiving). This is a complex release including 15 change requests and 24 fixes for production problems. The MIB and the CSG have very closely monitored the implementation status and the testing process. The situation has been characterised by a significant number of release defects affecting especially the new Common components interfaces, mainly instability of CRDM and BILL (missing T2S messages, expected responses on reference data queries, on business day queries or billing messages). The MIB and CSG took note of the critical items raised by the PMG and the 4CB action plan in addressing these, by e.g. weekly deployments of fixes of several release defects. A CSG meeting and ad-hoc MIB meeting will decide later in June 2022 on whether to deploy release 6.0 in production.