

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

2 December 2020, 9.30 – 12.30 (CET) and 3 December 2020, 9.30 – 10.30
(CET)

Webex teleconference

0. Introductory remarks and approval of 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 European Commission (EC) published its new Action Plan on the Capital Markets Union (CMU) in September 2020 containing 16 actions, three of which are directly relevant to post-trade services (withholding tax, shareholder engagement and cross-border settlement services).

The amended regulatory technical standards on the Central Securities Depositories Regulation (CSDR) settlement discipline rules - changing the date of entry into force to 1 February 2022 - have been adopted by the EC and are now subject to the non-objection of the European Parliament and of the Council.

The review process of the CSDR has started and will also include a public consultation to be launched in December 2020 and closing after 8 weeks in early 2021. The review will focus on a few key areas including cross-border settlement services by CSDs (as also covered in the CMU Action Plan) as well as the rules on settlement discipline. The target date for the adoption of the legislative proposal on the review by the Commission is Q4 2021.

The EC closely followed the implementation of the recast Shareholder Rights Directive (SRD2) and has initiated infringement procedures against member states not notifying the implementation.

The EC has launched the review process of the Settlement Finality (SFD) and Financial Collateral Directives (FCD) both of which will also include public consultations.

In September 2020 the EC published a comprehensive digital finance strategy addressing 4 priorities: i) remaining fragmentation in digital single market for financial services, ii) adopting / promoting a regulatory framework facilitating innovation, iii) a European financial data space and iv) addressing the risks of digital transformation. In relation to the strategy the EC published legislative proposals on markets in crypto-assets, on a pilot regulatory regime for DLT infrastructures and on digital operational resilience for the financial sector.

ESMA published updated validation rules for regulatory reporting under EMIR applicable as of March 2021. It has also published its first reports on the implementation of CSDR, covering: i) CSD cross border services and handling of applications, and ii) internalised settlement.

ESMA together with EBA and EIOPA have published a final report with draft RTS proposing to amend the Commission Delegated Regulation on the risk mitigation techniques for OTC derivatives not cleared by a CCP (bilateral margin requirements) under EMIR. ESMA has also published a final report with new draft RTS proposing to amend the three Commission Delegated Regulations on the clearing obligation under EMIR. In the Brexit context, ESMA has published Statements on the Share Trading Obligation, and Derivatives Trading Obligation under MiFIR following the end of the UK's transition from the EU on 31 December 2020.

AMI-SeCo members highlighted the risk of a double-migration if the CSDR review changes the rules on settlement discipline, and if these changes take effect after the current expected date of entry into force of 1 February 2022. They urged the Commission to provide clarity on this issue as soon as possible.

2. AMI-SeCo post-trade harmonisation work

2.1 Collateral Management Harmonisation / SCORE

The Chair of the Collateral Management Harmonisation Task Force (CMH-TF) presented the work conducted by the Task Force since the June 2020 AMI-SeCo meeting.

Documents:

- *CMH-TF Guidance CA Standard 8 - Payment Time*
- *CMH-TF Guidance CA Standard 6 - Business Day Rule*
- *Presentation on CMH TF progress*

Outcome:

Guidance on SCoRE CA standards 6 and 8

The CMH-TF presented two proposals to amend the guidance related to Standard 6 (Business Day Rule) and Standard 8 (Payment Time) based on in-depth analysis and consultation with a wide set of stakeholders by the Expert Group on Asset Servicing.

AMI-SeCo members welcomed the analysis and suggested that further discussions are necessary with the relevant stakeholder groups, in particular issuers, paying agents and the Joint Working Group on Corporate Actions (CAJWG) to understand the impact of these amendments before they can be finally endorsed by the AMI-SeCo. In addition, the impact on non-EU issuers issuing in Europe should also be considered.

Follow-up:

- AMI-SeCo Secretariat will create a version of the texts which more visibly highlights the changes to the texts of the standards
- AMI-SeCo members are invited to review and comment in writing on the guidance on CA Standard 6 - Business Day Rule and CA Standard 8 - Payment Time. Feedback is welcome by 16 December 2020.
- The AMI-SeCo will further engage with stakeholders in a systematic manner, i.e. a set of specific questions will be sent on the need for some of the legacy practices. Responses will be collected by end January 2021. Afterwards the AMI-SeCo Secretariat will send a proposal for next steps on the proposals.

Implementation timeline of Wave 2 of SCoRE standards

The CMH-TF proposed to keep the Wave 2 timeline unchanged in November 2025. Some AMI-SeCo members highlighted that further considerations / analysis should be done in reviewing the Wave 2 timeline taking into account also the impact of COVID-19 lockdowns. It was confirmed that Wave 2 only pertains to the already endorsed standards and pertains to the use of ISO20022 messaging.

Follow-up:

- On the Wave 1 of SCoRE implementation, AMI-SeCo secretariat will check that the timing for responses to the first monitoring survey (next year) could be extended (more time than the current two weeks).
- On the timeline of Wave 2 of SCoRE implementation, AMI-SeCo secretariat will reach out to SWIFT and will then send a proposal on the next steps.

2.2 Report by the Corporate Events Group (CEG) on compliance with corporate action standards

One of the CEG co-chairs presented the findings of the 2020 consolidated report on markets' compliance with the CAJWG and the T2S CA corporate action standards and the forward-looking organisational considerations by the CEG.

Document:

- *Report by CEG on corporate actions harmonisation*

Outcome:

The CEG was set up in October 2020 and had already two meetings where it discussed its organisation and working procedures as well as the 2020 consolidated compliance assessment on the T2S corporate action standards and the market (CAJWG) corporate action standards. The CEG membership covers a wide set of stakeholders relevant for corporate events. A sponsorship system has been put in place to efficiently cover all markets in scope of the standards. The CEG will continue its work by refining its work plan for 2021, further enhance its monitoring framework and develop a systematic approach to reach all the relevant stakeholders in all markets. The CEG will embark on a comprehensive review of existing procedures in 2021 with a view to driving further compliance with the applicable standards.

The 2020 exercise and report by the CEG showed a high-level of participation – extending beyond the levels perceived in recent years – and progress in a number of markets. At an absolute level more than half of T2S markets now fully comply with T2S CA standards while only 3 markets are deemed fully compliant with the market (CAJWG) standards.

AMI-SeCo members welcomed the report and the formation of the CEG and acknowledged the efforts by the co-chairs, the members and the secretariat in delivering a high-quality report in such a short time frame. AMI-SeCo endorsed the report by the CEG for publication. The CEG was also invited to establish a framework of outreach as part of its work plan which efficiently channels in the views by all stakeholders from covered markets and which also ensures a high level of awareness among the same stakeholders on the output of the group.

Follow-up: CEG report to be published on ECB website

2.3 2020 T2S Harmonisation Progress Report

The ECB presented the draft 2020 Harmonisation Progress Report on T2S markets' compliance with T2S harmonisation standards (HPR).

Documents:

- *Draft 2020 T2S Harmonisation Progress Report and annexes (Annex 2 and Annex 3)*
- *Background note on the interpretation and compliance with Standard 15 (T2S account numbers)*

Outcome:

The 2020 T2S HPR shows a slight further improvement in the level of compliance with T2S harmonisation standards. The most difficult areas remain corporate actions. The AMI-SeCo endorsed the 2020 T2S HPR taking note of additional potential updates from markets that have not yet reported.

The AMI-SeCo took note of the diverging interpretations among T2S markets of T2S harmonisation Standard 15 (T2S account numbers). While some members supported the HSG analysis of applying the

broad interpretation of the standard (i.e. accounts managed in T2S should be identified with T2S account numbers regardless of whether the messages in which they are referred to are generated in T2S or outside T2S) the AMI-SeCo agreed to mandate the HSG to further discuss the topic with those T2S markets which have had a differing interpretation.

Follow-up: HSG will organise and coordinate discussions with T2S markets using legacy securities account numbers in corporate action messages

2.4 Update on further HSG activities

The HSG provided an update on the HSG discussions beyond those covered in the previous agenda items, in particular on the HSG's reflections on potential enhancements to the compliance framework for AMI-SeCo standards as well the HSG's reflections on the AMI-SeCo's contribution to the CMU Action Plan.

Documents:

- *Note on HSG reflections on enhancing the non-compliance framework*
- *Presentation on HSG reflections on AMI-SeCo contribution to CMU Action Plan, Digital Finance strategy and digitalisation in post-trade in light of the COVID-19 experience*

Outcome:

On the potential contribution of AMI-SeCo to the new CMU Action Plan by the EC the HSG highlighted that in the key areas (withholding tax, corporate events, cross-CSD settlement) in the action plan the AMI-SeCo and the T2S community in general have developed a wealth of expertise and have clear positions both of which can be leveraged in helping the EC in its analysis and impact assessment in relation potential legislative proposals. By linking the post-trade aspects of the CMU Action Plan, the EC's digital finance strategy and the practical experience from the COVID-19 lockdowns on the barriers to using digital procedures the AMI-SeCo can be in a unique position of supplying evidence to the European legislators to shape future legislative actions and policies with the objective of further market integration.

AMI-SeCo members supported the HSG view and highlighted that potential impact of the pilot regulatory regime on DLT infrastructures should also be closely followed by the AMI-SeCo. In addition it was highlighted that the AMI-SeCo should also actively participate in the public consultation on the CSDR review and provide input from an integration / harmonisation aspect.

Follow-up:

- AMI-SeCo Secretariat will initiate fact-finding on COVID-19 experience with National Stakeholder Groups and will collect further input from members on the existing barriers to digital post-trade procedures

- AMI-SeCo Secretariat will prepare a draft AMI-SeCo input to the CSDR public consultation based on the final public consultation document
- AMI-SeCo members are invited to provide written comments to the Secretariat on the HSG's reflections on enhancing the non-compliance framework on AMI-SeCo standards (topic not discussed in the meeting)

3. T2S

3.1. Update on T2S operations

The ECB provided an update on T2S operations and related topics

Documents:

- *Presentation on T2S operations*
- *Presentation on OMG activities*

Outcome:

T2S key production indicators have been stable since the last meeting of the AMI-SeCo.

The OMG chair provided an update on current T2S operational topics covering the dry-run for the T2S penalty mechanism in light of the postponement of the entry into force of the CSDR settlement discipline regime to 1 February 2022, the follow-up measures related to the May 2020 T2S incident and the implications of the 11 August 2020 and 23 October TARGET2 incidents on T2S.

The AMI-SeCo took note of the updates.

3.2. ECB information on the Community Readiness monitoring being set up for the T2S usage of ESMIG

Outcome:

The ECB informed that there is a need to set up a community readiness monitoring for the T2S usage of ESMIG as T2S will be accessed via ESMIG before the T2 service due to the recent re-planning of the T2-T2S consolidation project. Currently the scope of the monitoring in terms of milestones and timelines is discussed at PMG level.

The AMI-SeCo took note of the need to set up a community readiness monitoring for the T2S usage of ESMIG.

3.3. T2S governance - reporting and debriefing

3.3.1. Debriefing on the Fourth CSG Market Settlement Efficiency workshop

AMI-SeCo was debriefed on the outcome of the fourth CSG workshop on market settlement efficiency.

Document:

Outcome of the CSG workshop on settlement efficiency – presentation

Outcome:

The chair of the CSG Market Settlement Efficiency workshop gave an update to the AMI-SeCo on the analysis and discussions on the evolution of settlement efficiency in T2S. The main reasons of settlement fails at the T2S level are the instructions on hold and late matching of instructions. The background reasons for the use of the hold functionality by T2S participants and late matching lie outside T2S and can only be explained by analysing the behaviour of T2S participants in the layers outside T2S. This will be part of the agenda of next meeting with the feedback from CSDs after discussing with their respective communities.

Based on preliminary analysis the implementation of partial release has not contributed significantly to increasing settlement efficiency. The implementation of limiting the recycling period to 60 business days has improved settlement efficiency in T2S. The CSG agreed to have at least one additional settlement efficiency workshop to further analyse the findings and the background reasons in more detail.

AMI-SeCo members emphasized the importance of continuing this analysis to understand better the underlying factors of the behaviour by T2S participants in the system.

3.3.2. Market Infrastructure Board

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

3.3.3. CSD Steering Group (CSG)

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

3.3.4. Directly Connected Parties (DCPs) Group

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

3.3.5. CSDR Taskforce (CSDR TF)

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

A-item – Change and release management

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

Document:

Status update on change and release management

4. Any other business