EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS ECB-PUBLIC

9 April 2017

ECB Operations Managers Group

Frankfurt am Main, Monday, 9 March 2017, 13:00 – 17:00 CET

Summary of the discussion

1. Revised role for the ECB Operations Managers Group (ECB OMG)

T. Silvonen (Deputy Director General of Directorate General Market Operations of the ECB) and M Stubbe (Chairman of the ECB OMG and Head of FOS Division in Directorate General Market Operations of the ECB) briefly explained the revisions to the role of the ECB OMG. The ECB OMG should continue to perform its work specialised in the field of bank operations (settlement and post-trade, use of SWIFT services, etc.), and should increase its role in analysing from a bank operations perspective horizontal topics across contact groups, and its communication with these. To this end, the Work Programme of the ECB OMG for 2017 was presented in the meetings of the other ECB contact groups. Topics mentioned for co-operation with other contact groups included the operational implications for banks of the current regulatory agenda (MIFIR, EMIR, CSDR) and of technical innovation (e.g. block chain, robotisation).

2. Update on SWIFT

J. Halberstadt (SWIFT) reminded the Group that, besides some other changes taking place for SWIFT payment and securities messages (not covered in his presentation), new fields will be introduced in SWIFT’s FX messages for non-deliverable forwards (NDFs) and non-deliverable options (NDOs) on the occasion of SWIFT’s 2017 Standard Release update. This replacement of the existing free-format fields containing NDF and NDO related codes, with dedicated fields having a strict syntax, aims to bring to the users enhanced validation possibilities, improved usage discipline and increased STP rate for NDF and NDO related messages. These changes are mandatory as there will be no backward compatibility - attempts to confirm an NDF or NDO using the old codes will be rejected by the SWIFT network. Migration will be necessary to interpret inbound messages and send out correct outbound messages. SWIFT has started to notify the community over 12 months ago about these changes. It was also mentioned that under MIFID2, OTC derivatives need to be assigned an ISIN code (a similar change to the UTI field added in past SWIFT updates); further regulatory changes may require additional message changes. MIFID2 Reporting obligations in respect of execution of orders other than for portfolio management require that investment firms having carried out an order on behalf of a client, other than for portfolio management, shall, in respect of that order send a notice to the client in a durable medium confirming execution of the order as soon as possible and no later than the first business day following execution. This will require analysis of a specified list of fields in SWIFT messages before the Reporting goes live in January 2018, and may generate future change request.

3. Digital technology developments

U. Milkau (DZ BANK) mentioned that banks have started to explore in depth the scope to enhance their post-trade processes via ‘robotics’ and ‘smart’ systems. The institution’s approach is to decrease the non-STP rate on international payments done via SWIFT to 1%, by implementing a rules based automated approach. This consisted of a combination of simple techniques (auto-correction, matching, checks on preformatted fields, automatic searches in databases, etc). The 1% target was derived from statistical measures which put the non-rules based cases at that level. The nature of the 1% of exception-based cases requires an artificial intelligence approach, only just beginning to be used in banks, but expected to increase substantially in the coming years. The discussion then touched upon the feasibility of a machine-performed four-eye principle check in trading and settlement. Members noted that this is conceivable but regulatory developments may not recognise such processes as being effective and may impose additional risk-mitigating requirements.

4. MIFID II/MiFIR Transactions Reporting

The ECB introduced a discussion on MIFD2/MIFIR. The implementation of the Transaction Reporting Rule of MIFID2/MiFIR, due to be enforced on 3 January 2018, is still in the initial phase with many banks. Members pointed to the many technical issues they are currently facing, in particular with the International Securities Identification Number (ISIN), the Legal Entity Identifiers (LEIs), and the treatment of branches located outside the EU. Implementation details sometimes differed slightly from country to country for no clear reason (e.g. registration processes for LEIs), causing additional costs.

Members noted that the concurrent implementation of many regulations continues to be challenging and costly for banks. For example, anecdotal evidence from members indicated that the implementation in 2017 of EMIR margin rules for non-cleared OTC derivatives was accompanied with difficulties in timely updating credit support annexes for exchanging collateral. This contributed apparently to an initial reduction in liquidity and trading, particularly with smaller customers. Some members mentioned that they also rely on external vendors and IT providers in order to implement regulation, but such expertise is in increasing demand and driving up implementation costs. Other members mentioned other implementation issues, such as acquiring client information for reporting purposes, connectivity with Repositories, and handling timestamps ad report rejections.

5. Update on FX Global Code of Conduct

G-C Marhic (ECB) updated the group on the status of the FX Global Code of Conduct. Besides communicating the envisaged timeline for publication, which will take place on 25 May 2017, he mentioned the Statement of Commitment as the main tool envisaged for demonstrating commitment to the Code. The Statement of Commitment is drawn up in a brief and high level in style and focuses on the commitment foreseen for FX wholesale market participants to conduct activities consistent with the Code. It has to be used by all market participants, including banks, platforms, buy-side institutions and central banks, and is foreseen as an eligibility criterion for ECB FX Committee membership, as for other FX Committees.. Furthermore, the update included information about possible mechanisms for demonstrating adherence to the Code, which are currently being discussed. Such mechanisms include publishing the Statement of Commitment on the banks' own website, setting up a public register collecting all the Statements of Commitment with a global FXC register providing links to the individual registers. Banks and other FX market participants are expected to adhere in the next 9-12 months after the Code is published in May 2017.

6. Update on the T2S migration

S Huett (Deutsche Bank) described the experience made by his bank during the Wave 4 migration of Target2-Securities, which went smoothly. T2S is consolidating the core of the securities infrastructure value chain, represented by settlement, supports central bank money-securities transactions and does not replace all the functions performed by central securities depositories. Key integration milestones are switching to ISO 20022, developing direct communication with T2S platform, migration of static data, holdings and pending transactions to T2S platform, as well as additional technical switch-overs required to migrate to T2S beyond the so-called 'Point of No Return'. The key pre- and post-migration challenges encountered during migration were also described, as well as the activities planned to mitigate migration risk, like outlining detailed activities of all parties and staff across cash and securities markets; contingency planning; and internal, executive and client communications. Settlement efficiency reported post-T2S migration returned to a level close to 100%, similar to pre-T2S migration levels.

The next meeting of the ECB OMG will take place on 22 June 2017 in Frankfurt. The 5 December 2017 meeting of the ECB OMG has been rescheduled to 12 December 2017.