

OUTCOME

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

4-5 July 2017

European Central Bank (Main Building)
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany

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 the following new members: Ms Anna Kulik (ECSDA), Mr Rory Byrne (Danske Bank), Mr Marcos Santos (Santander) and Mr Swen Werner (State Street).

The Chair further informed the members of changes in AMI-SeCo secretariat which will be held by Karine Themejian and in some AMI-SeCo and T2S governance substructures' chairs and secretariat.

The members agreed on the agenda.

1. Update on Eurosystem market infrastructure projects

The ECB will provide an update on Eurosystem market infrastructure projects which are in an investigation phase.

Outcome:

The ECB informed the participants on ongoing Eurosystem work on market infrastructure projects, namely:

- TARGET Instant Payments Settlement (TIPS), for which the Governing Council decided on 22 June 2017 to develop this new service for the settlement of instant payments¹.
- The TARGET2/T2S consolidation investigation, for which a public consultation on the requirements took place from 10 May to 30 June 2017² (see also item 5.1 of the agenda).
- Eurosystem Collateral Management Service (ECMS) investigation, for which the requirements are expected to be finalised over the summer within the Eurosystem (see also item 4 of the agenda).

The members took note of the update.

2. AMI-SeCo post-trade harmonisation work

2.1 EU public authorities' initiatives on post-trade harmonisation

The European Commission and ESMA are invited to provide an update on the EU initiatives relevant for harmonisation agenda. Members are invited to take note and exchange of views regarding the work.

Outcome:

The European Commission provided an update of EU initiatives relevant for the harmonisation agenda, and in particular the proposal on the EMIR review, the CSDR level2 adoption process, the revised Shareholders Rights Directive (SRD) adoption, the European Post-Trade Forum (EPTF) report to be published for public consultation shortly, the Withholding Tax Procedure Code of Conduct and the Conflict of Laws initiative.

With regard to the EPTF report, the ECB indicated that the HSG suggested that AMI-SeCo contributes to the forthcoming consultation, on the areas relevant for the T2S community.

Participants took note of the update and of the HSG proposal to contribute to the consultation on the EPTF report.

2.2 T2S schedule of the settlement day and calendar

The extension of the currency coverage of T2S raised the need to clarify the compliance criteria of the harmonisation standard on the use of a single schedule for the T2S settlement day. The HSG, with guidance from the Market Infrastructure Board, analysed the issue, the possible options with their pros and cons before suggesting a way forward. AMI SeCo members are

¹ <http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170622.en.html>

²

http://www.ecb.europa.eu/paym/pdf/consultations/executive_summary_market_consultation_future_rtgs_services.pdf?700a095c1e184565fd61da4564ee6593

invited to consider the HSG proposal and agree on the clarification for the application of the standard on the settlement day.

Documents:

Settlement day in T2S for settlement in non-euro

Outcome:

The HSG Secretary presented the HSG's analysis regarding the need to clarify the compliance criteria of the harmonisation standard on the use of a single schedule for the T2S settlement day as a consequence of the extension of the currency coverage of T2S. Considering the pros and cons of the pragmatic and rigid approaches to this issue, the HSG recommended following the pragmatic approach, i.e. adding one clarification on the standard compliance criteria.

AMI-SeCo participants took note of the HSG analysis and endorsed the suggested pragmatic approach which allows non-euro NCBs to manage the end-of-day cash sweeps to their national RTGS in line with their currency specific needs while respecting the single Schedule in T2S. This approach is also consistent with the T2S community objective to remove Giovannini Barrier 7 by keeping all the major deadlines and cut-off times harmonised for all T2S markets.

2.3 LEI usage in T2S message fields

Following T2S market practice, when instructing T2S, CSD participants should complete the optional matching field "client of the CSD participant" according to a predetermined order priority whereby LEI is the preferred identifier if no BIC is available. On the basis of deliberations from the SGMS, SMPG and XMAP discussions on the topic, the HSG suggested a possible way forward on the usage of the LEI in such circumstances. AMI-SeCo members are invited to consider the HSG proposal and agree on the approach to follow with respect to this T2S market practice.

Documents:

LEI usage in T2S message fields

Outcome:

The ECB presented the outcome of the HSG discussion based on the SGMS and SMPG analysis on the long term solution regarding the usage of the LEI in the T2S messages (client of the CSD participant identification). This analysis followed the November 2016 T2S AG meeting where two actions were approved, namely (i) to raise a T2S Change Request for the new fields in the T2S settlement instruction as a mid-term solution and (ii) to raise an ISO Change Request to move the new dedicated LEI field into the Party 2 Identification block as a long-term solution. Upon consideration of the SGMS and SMPG analysis, the AMI SeCo agreed to follow the HSG recommendation not to pursue the longer-term solution as it is not supported by the ISO community.

2.4 Mid-year harmonisation update

Further to the seventh T2S Harmonisation Progress Report published in January 2017, AMI-SeCo has agreed to publish a mid-year update complementing this report with a focus on ex-post compliance of the markets that migrated to T2S on 6 February 2017 as well as on those migrating on 18 September 2017. AMI SeCo members are invited to consider the draft mid-year harmonisation update prepared by the HSG and endorse its publication in September 2017, before the launch of the last migration wave.

Documents:

T2S Harmonisation mid-year update

Annex 2 to mid-year update

Outcome:

The HSG Secretary presented the mid-year T2S harmonisation update prepared by the HSG. Overall, the report shows a good performance of the newly migrated markets and good expectations in terms of the compliance level for the final wave. Some compliance gaps however remain with regard to corporate actions standards and with the T2S calendar standard.

AMI-SeCo participants welcomed the HSG report and agreed to publish the report prior to the final T2S migration wave, i.e. before 18 September 2017. The 8th T2S harmonisation report will be considered by AMI-SeCo in its December 2017 meeting.

Following questions regarding the non-compliance of some T2S markets with the T2S calendar, it was noted that the AMI-SeCo will be invited to consider an HSG proposal on this matter in one of its next meetings.

2.5 Restriction Rules Catalogue

The chairman of Cross-border Market Practices sub-group (XMAP) will present the initiatives taken by the XMAP in order to measure the evolution of cross-CSD settlement activity in T2S as well an updated version of the Restriction Rules Catalogue (version 1.1), including a proposal for updating the current methodology. Members are invited to take note of the XMAP work to measure the evolution of cross-CSD settlement and to approve version 1.1 of the Restrictions Rules Catalogue and updated methodology.

Documents:

Catalogue of CSDs' restriction rules and their cross-border impact assessment (v1.1)

Updated methodology

Outcome:

The XMAP Chair presented the XMAP proposal for updating:

- the current methodology measuring the potential impact of the restriction rules defined by Issuer CSDs on Investor CSDs. The new methodology is expected to be applied for the first time for version 1.2 of the catalogue which is expected to be published after the AMI-SeCo meeting of December 2017.
- the catalogue as presented in version 1.1 which includes i) 11 new rules as well as updates on existing ones (based on the version 1.9 of the “CSDs’ Reference Data Extension”); and (ii) the results from the sanity check performed on the “Insolvency Procedures” business process after the implementation of CR558 in November 2016 as part of the T2S Release 1.2.

He further informed the participants on the discussion at XMAP on whether the low percentage of cross-CSD settlement activity on T2S is considered problematic, what factors might be influential and how to obtain a wider picture of the T2S contribution to facilitate the fluidity of securities settlement in Europe. Participants stressed the multi-dimension nature of this topic which, beyond cross-CSD settlement, also encompasses cross-border investment and settlement across multiple issuer CSDs.

One of the factors that has been reported, although by no means the main one, is the fact that some issuer CSDs charge for realignment fees, even though T2S does not charge such a fee to CSDs. While CSDs are free to determine their prices, the understanding of the issue is relevant for the Eurosystem, because it implies there is ultimately a different price for domestic and cross-border settlement. In this regard it was clarified that the analysis would focus on pricing principles but not on individual pricing policies.

The participants approved the proposal for updating the current methodology and the publication of the Catalogue Version 1.1. They further took note of the update of the XMAP ongoing work to measure the evolution of cross-CSD settlement that will be further brought to the consideration of AMI-SeCo in its December 2017 meeting. The DCPG will conduct further analysis on DCP settlement in view of the XMAP work and report to the December AMI-SeCo meeting.

2.6 Potential impact of DLTs on post-trade

Following the mandate it received, the HSG – with the support of a dedicated Task Force – prepared a draft report analysing the potential impact of DLTs on post-trade and on the wider EU financial market integration. AMI-SeCo members are invited to discuss the findings of the report in view of its possible publication and consider possible next steps.

Documents:

Report on the potential impact of DLTs on post-trade and on the wider EU financial market integration

Cover Note on the DLT Report

Outcome:

The DLT Task Force Chair presented the outcome of the work of the DLT Task Force on the potential impact of DLTs in the securities post-trade environment and how they may affect T2S harmonisation activities as well as further harmonisation needs in view of the wider EU financial integration agenda.

The participants overall praised the Task Force for the quality of the draft report they prepared, stressing its educational value, and supported publishing it as an AMI-SeCo contribution to industry discussions. With regard to the possible follow-up actions to the Task Force work, at least until the expiration of its current mandate (by end 2017), participants supported prioritising work on the feasibility and practical interest in using DLTs for sharing information related to (i) corporate events originated by issuers (top-down information flow) and on decisions taken by securities holders (bottom-up flow for elective corporate actions and proxy voting); (ii) decentralised model for disseminating shareholders' registration information on a cross-border basis; and (iii) tracking of asset holdings for tax reporting purposes, as well as on standardisation and governance.

For this further work, AMI-SeCo organisations with experts in the DLT/FinTech space that are interested to actively contribute to the further work of the Task Force are invited to submit nominations ahead of mid-August Task Force meeting. Possible future work would be considered by AMI-SeCo on the basis of a concrete proposal from the HSG in December 2017.

2.7 Collateral Management Harmonisation

In their first meeting, AMI-SeCo members discussed the possible scope and methodology for collateral management harmonisation and invited the HSG to aim to present a first draft of the collateral management harmonisation activities by July. The HSG prepared a proposal, including possible next steps and organisation of the work. AMI-SeCo members are invited to discuss the HSG proposal and agree on the suggested activities and organisation.

Documents:

Proposal for collateral management harmonisation activities of AMI-SeCo

Outcome:

The HSG Chair presented the progress of the work conducted by the HSG in view of setting a list of collateral management harmonisation activities and the creation of a dedicated HSG Task Force on Collateral Management Harmonisation to deepen the analysis and develop a more detailed list for the December AMI-SeCo meeting. On the basis of a stable collateral management harmonisation list, approved by AMI SeCo, the HSG would thereafter prepare the next steps.

Participants took note of the update and agreed with the way forward.

3. Eurosystem deliberations on taking collateral in Eurosystem credit operations

As a follow-up to the first AMI-SeCo meeting a dedicated workshop on Eurosystem deliberations on taking collateral in T2S was organised on 11 May 2017. As a follow-up to the workshop:

- a written questionnaire was circulated to AMI-SeCo members with concrete questions related to the potential new Eurosystem policy to take marketable collateral in T2S. The ECB will present a summary of the replies received and invite AMI-SeCo members to express their views.
- the Eurosystem continued its discussions with the two ICSDs on the potential solutions for the realignment of Eurobonds. The two ICSDs will present a solution to AMI SeCo members.

Documents:

Summary of feedback to AMI-SeCo questionnaire on potential new Eurosystem policy to take marketable collateral in T2S

ICSDs suggested solutions for realignment of Eurobonds

Outcome:

The ECB presented the outcome of the 11 May 2017 AMI SeCo workshop and the results of the subsequent questionnaire on the potential new Eurosystem policy to consolidate the settlement of marketable collateral for Eurosystem credit operations in T2S. As an outcome of these interactions, no major new challenges were raised in addition to those already identified by the Eurosystem, i.e. the need for links, the need for ensuring the availability of asset servicing and triparty services as well as the need for resolving the realignment of Eurobonds. On the latter aspect, representatives of the two ICSDs presented their high level solution for realignment of Eurobonds settled in T2S. It was noted that while the availability of Eurobonds in Euroclear France and Clearstream Banking Frankfurt is already operational, the work focuses on making possible cross-CSD usage in T2S.

The members took note of the updates, welcomed the proposal prepared by the ICSDs and asked them to update AMI-SeCo and their substructures as relevant on the progress on remaining technical and legal issues. A workshop to present more detailed information will be organised by the ICSDs ahead of the next AMISeCo meeting.

4. Impact of ECMS on market participants

The Eurosystem launched an investigation phase for ECMS. On the basis of a presentation from the ECB, members will be invited to have a first exchange of views on the impact of ECMS for market participants.

Documents:

ECB presentation

Outcome:

The ECB provided a high-level introduction of the ECMS, currently under investigation by the Eurosystem, focusing on the key attributes of the current project phase and key functional areas.

Participants took note of the update, specifically of the assumption that ECMS will rely on adaptation to ISO20022 which is considered as a challenge. The resulting necessary adaptation should be flagged to the NSGs during the upcoming consultations.

AMI-SeCo will be kept updated of developments in this field as relevant in future meetings.

5. T2S

5.1. Future of RTGS services

The Eurosystem launched an investigation phase for the future RTGS service in the context of the T2-T2S consolidation. The AMI-SeCo members will be informed about the benefits, status of the project and the potential impact of the T2-T2S consolidation on the T2S URD.

Documents:

ECB presentation

Outcome:

The ECB presented the main cornerstones of the T2-T2S consolidation project which aims at consolidating and optimising the provision of the TARGET2 and T2S services and the overall provision of liquidity also to other services like TIPS. The members took note of the update and the potential impacts on T2S identified so far (on liquidity, settlement, business day, reference data) as well as potentially cost savings for T2S users stemming from shared services and change management for shared services.

5.2. T2S Operations

The AMI-SeCo will receive an update on the latest developments of T2S in operations. In addition the Eurosystem will provide a debriefing on relevant activities of the Operations Managers Group (OMG). The OMG is composed of operations experts from the CSDs, the European Central Bank, national central banks (NCBs) of the Eurosystem, non-euro area NCBs and the 4CB (Banque de France, Banca d'Italia, Banco de España and Deutsche Bundesbank).

Documents:

T2S Operations Reports – May 2017

Outcome:

The participants were informed of the latest developments in T2S operations as at May 2017, covering settlement data, availability and punctuality of the platform as well as the reporting on the incident and crisis management process.

5.3. T2S Programme Status

5.3.1. T2S Programme status – reporting by the Eurosystem

The ECB and 4CB will provide a summary of the project status.

Document:

T2S Programme - status as at June-2017

Outcome:

The AMI-SeCo was informed about the status and the risk situation of the T2S Programme. With the T2S Programme advancing and with more and more actors having gained experience with the T2S platform, the risk situation has significantly improved. As regards the follow-up to the CPMI-IOSCO Guidance on cyber resilience for FMI work is ongoing. It was confirmed that, overall, the project was on track. The focus of the steering level is now on monitoring the performance of the platform, the preparations for the forthcoming migration of the final wave and the planning for the Danish Krone to join T2S in 2018.

5.3.2. T2S Programme status – reporting by CSDs

The CSDs not migrated to T2S will be invited to provide an update on the status of their readiness to migrate to T2S.

Document:

Readiness report final wave

Outcome:

The AMI-SeCo took note of the status update of the CSDs that have not migrated to T2S yet. Overall the process appears to be on track for the Spanish and Baltic CSDs.

5.4. T2S governance - reporting and debriefing

5.4.1. 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 (work on cyber-guidance issued by CPMI-IOSCO and G7 as well as T2S data access in the context of the Data Access Task Force).

5.4.2. 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 cost recovery principle applied to future change requests, final wave CSDs migration, operational indicators, CSDR requirements, T2S data access Task Force and T2-T2S consolidation. The latter point will be a standard agenda item for upcoming CSG meetings.

5.4.3. Change Review Group (CRG)

The T2S Programme Office (PO) 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 of the scoping exercise for future releases, the final scope of Release 1.3, the CRs for T2S release 2.0 and the CR candidates for T2S Release 3.0. More detailed information can be retrieved from the CRG website.

5.4.4. Directly Connected Parties (DCPs) Group

The DCPG Chairperson 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 impact of the final T2S migration wave on DCPs and change release management as well as work in cooperation with other T2S governance sub-structures.

As a result of the discussion, the communication channel on new releases will be enhanced.

5.4.5. CSDR Taskforce

The Chairman 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 development of user requirements for a new calculation of the penalties for settlement fails. It was noted that the T2S Steering Level has decided to launch the detailed cost assessment of the CR to allow CSDs to know the cost of the new service and decide on this basis whether they would wish to use it.

6. Updated mandate of national stakeholders group

In their first meeting, AMI-SeCo members supported that the broader scope of the work of AMI-SeCo on collateral management (compared to the previous T2S AG) should be taken into account by the NUGs and possibly included in their mandate. AMI-SeCo members are invited to agree on the new mandate of the national stakeholders group.

Document:

Draft mandate of the national stakeholders group

Outcome:

The ECB presented the draft NSGs mandate reflecting the creation of the AMI-SeCo and the related increased scope of work to collateral management. The members approved the new mandate.

7. Any other business

Outcome:

AMI-SeCo members were invited to indicate by end-September 2017 to the Secretariat issues they would deem relevant to be discussed in the joint meeting with AMI-Pay in December 2017.

Next meeting:

7-8 December 2017 AMI-SeCo (incl. joint meeting with AMI-Pay)