



EUROPEAN CENTRAL BANK

EUROSYSTEM

DIRECTORATE GENERAL MARKET INFRASTRUCTURE AND PAYMENTS

FINAL

OUTCOME OF THE CONTACT GROUP ON EURO SECURITIES INFRASTRUCTURES (*‘COGESI’*)

30 November 2016, from 15:00 – 18.15 CET at
ECB, Sonnemannstr 20, 60314 Frankfurt

1. Update on recent developments on euro financial market infrastructures

The Chair informed on the creation of the new Eurosystem advisory group on market infrastructures for securities and collateral management (AMI SeCo), replacing the existing T2S Advisory Group and COGESI.

Members explained that UCITS are increasingly using collateral to mitigate risk and are also progressively interested in pledging these assets to CCPs. Concerns were raised that regulatory requirements for UCITS might hamper the re-use of these assets and hence could be an impediment for CCP participation.

The ERCC explained that it has started to examine the underlying processes that give rise to intraday liquidity needs, aiming at achieving an efficient usage of intraday liquidity and relevant settlement arrangements. The Chair explained that further analysis is needed as no clear trend could yet be confirmed (from current data and in the absence of full migration to T2S) on the developments related to intraday credit needs for securities settlement. The ERCC has also published a study on CCP trade capture models and possible related trade rejection scenarios. CCPs confirmed to be in contact with ERCC on this topic.

The ECB informed on the Commission’s European Post Trade Forum work on securities/collateral. ESMA gave an update on their work.

2. Harmonisation of collateral management services

The co-leads of three work-streams presented the main issues identified, the consensual points reached in the work-stream and the proposed next steps. Members reviewed the issues and assessed possible areas for further harmonisation. The Chair thanked the participants of the three work-streams for their analysis on potential issues that hamper efficient collateral management on a cross-border basis.

(i) Collateral mobility

The co-leads on collateral mobility Laurence Caron-Habib/Jerome Blais (BNP Paribas) and Jean-Robert Wilkin (Clearstream) presented the analyses on cross-border connections in collateral chains performed from a bilateral and a triparty collateral management perspective.

- From a bilateral perspective, there should be the promotion of: (a) electronic messaging methods (also for buy side); (b) consistent storage/use of collateral information (to ensure that static data is aligned throughout the chain, use standard settlement instructions/SSI); (c)

improved inventory management for multiple places of safekeeping and settlement (in non-T2S markets) and (d) aligned cut-offs (non-T2S) to reduce the risk of unmatched trades.

- From a triparty perspective, there should be the promotion of: (a) automation/standardisation in sourcing/moving of collateral to/from triparty agents and (b) harmonised triparty models used for Eurosystem operations (also in light of moving to ISO 20022 and standardised interaction between triparty agents).

Members welcomed the analysis and supported the suggested next steps. Members confirmed that there will be a transition period with increased complexity in the migration period to T2S and with the involvement of new participants in collateral management. The complexity is related to the increased use of different settlement/collateral locations in Europe and the current lack of harmonisation of market infrastructure arrangements. Further harmonisation is needed related to cross-border connections in collateral chains to reduce complexity.

(ii) Collateral holding and segregation

The co-leads of the work-stream on collateral holding and segregation Gesa Benda (BNY Mellon) and Paul Symons (Euroclear) reviewed the issues that were discussed in the work-stream related to (i) whether there was a demand for increased transparency and real-time information on collateral balances and movements, (ii) how regulatory requirements for asset segregation might affect collateral management throughout the holding chain and (iii) how insolvency procedures might affect collateral held through the custody chain.

On the first item on transparency, the work stream clarified that current arrangements did not present barriers to have adequate information on received collateral. Further analysis could be performed on the possibilities of ISO 20022 to indicate whether/how messaging could meet future needs. On the second item on segregation, the work stream had contributed to detailed argumentation on how asset segregation requirements could affect the processing of collateral along the custody chain. It is expected that authorities will provide further clarification on segregation requirements. Further discussion on potential barriers might also take place in the EPTF. On the third item on insolvency procedures, the work stream concluded that further revisions to insolvency law of individual Member States might be required, but the work-stream was not equipped to resolve this issue. The work-stream also noted that current regulations protect SSSs but that there could be frictions/incompatibilities with obligations placed on the rest of the custody chain. Further discussions could also take place in the EPTF.

Members agreed with the analysis of the work-stream. Members explained that further contribution could be made on insolvency issues in the collateral chain and members considered that this topic might be further pursued in the context of EPTF and in public consultations (especially on issues related to entities in the custody chain beyond CSDs and CSD participants/intermediaries).

(iii) Collateral messaging

The co-chairs of the work-stream on collateral messaging Nicholas Hamilton (JP Morgan) and Thomas Wissbach (Eurex) explained the findings from the work-stream on messaging and

reporting standards/procedures in collateral management. The work-stream considered that using global messaging standards will foster automation for collateral processing and reporting, and ways should be assessed on how to promote the use of latest messaging standards (ISO20022). The initial observations suggest that message types/formats change (in the flow between FMIs and participants) and the repo product definition/information is not used consistently in post-trade processing. Most firms currently use messages that do not have the capacity to deal with new data attributes and rely on conversion processes. Further work on ISO20022 messaging is needed in a community of users to allow for a consistent identification of SFT/collateral information throughout the post-trade processing. As next steps, completion of the fact finding on messages and data attributes is needed, as well as further assessment on areas for harmonisation, the use of ISO20022 and arrangements to ensure completeness/accuracy of data.

Members welcomed the work on the reviewing collateral messages (mapping) and supported further work suggested by the work stream. Members suggested developing a prioritisation with sequencing or work plan (as not all changes can happen at the same time). Especially the messaging for SFT reporting could receive priority. The work plan could include identifying the main focus areas and time planning (trigger points). It was acknowledged that ISO standardisation of messages would need further specification (in a user community), comparable to the message specifications for T2S. The user community on messaging could be part of the AMI SeCo structure.

3. Next steps

COGESI members will receive an overview of proposed follow up items to the work prepared by the three COGESI work streams for comments. After this round of comments, COGESI will be considered as formally closed and follow up work will be taken up by the new AMI SeCo.

The Chair thanked COGESI members and the secretary for their commitment and contributions over the past years.

4. Any other business