Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed Sven Bollingh from KBC as a newcomer, who introduced himself to the Group. The participants approved the agenda of the meeting.

2. Tokenisation of Cash and Securities

Philippe Verriest (Euroclear) presented an overview of Euroclear activities in the context of Distributed Ledger Technology (DLT) with a focus on the tokenisation of cash and securities. Philippe noted that as the value proposition of blockchain becomes clearer, the market is more intensively developing new services across both the value chain and market segments. Central banks, also with an involvement of market participants, are now actively experimenting or implementing blockchain solutions, such as Central Bank Digital Currency – CBDC, arising from the desire to improve international payments as well as geo-political considerations around reserve currencies.

Philippe provided some insights on a comprehensive joint project - Settlement in CBDC, which aimed at experimenting settlement of French sovereign debt via CBDC where the primary distribution of tokenized securities and the secondary market transactions such as standard settlement instructions, repo transactions, auto-collateralization transactions took place on a blockchain platform. The project allowed for an assessment of the value that DLT could bring by testing of entire flows within one ecosystem and of the interactions between market players (primary and secondary market dealers and custodians). The project confirmed that DLT can successfully support capital market activities, bringing benefits such as: (i) cheaper and easier access to settlement services, (ii) removal of the reconciliation process, (iii) increased interconnectivity with back office systems and real-time view on investor holding data for issuers and regulators.

Philippe presented also Euroclear's on-going initiative: Distributed Financial Market Infrastructure - DFMI. The main priority of DFMI is to address the market participants’ key pain points such as fraud reduction, transparency or reconciliation needs and to unlock market efficiencies. They identified the biggest DLT efficiency gains potential in the areas of services as pre-issuance, securities issuance, tax and registry. As a first step, Euroclear intends to build a DLT securities issuance platform, with full listing and secondary market liquidity in the legacy system. Such a design would allow for: interaction of the DFMI with (i) external platforms to create their digital tokens, and (ii) with Euroclear’s legacy platform to create its digital cash tokens, as well as for (iii) primary market settlement in the DFMI, with legacy bridges (temporarily) to ensure immediate access to digital securities and liquidity for all investors.
As it is assumed that the number of DLT platforms will increase in the future, Philippe stressed that standardisation is key to ensure their interoperability. He mentioned as benefits a holistic approach, focussing on transparency, simplification, speed, security and resilience. While blockchain solutions often trigger high energy costs and data privacy issues, Euroclear’s approach envisages to limit such challenges by involving only four institutions in the validation to reach decision: seller, buyer, CSD operator and the banking operator.

3. Recent developments in OTC Clearing & Settlement

Ian Downes (BBVA) gave an update on recent developments in OTC Clearing and Settlement. He emphasised difficulties in the comparison of the Central Counterparties (CCPs) owing to their different profiles, services, activity concentration and risks. Overall, the growth in volumes on repo markets leads to an increasing importance of CCPs. He outlined the observed shift in volumes and the growing importance of Paris for this activity. As regards the OTC derivatives markets, the rates’ volumes grew considerably over the past years and LCH is the dominant provider on a global currency basis. In relation to euro, Eurex is becoming more relevant and although it is difficult to estimate and uncertain, indications are that a notable increase has occurred in the booking of EU domiciled Euro rates business at Eurex.

In the context of these developments, Ian referred to the extension by the European Commission of the equivalence for UK central counterparties until 30 June 2025 and the subsequent opening of an industry consultation (with a deadline of 22 March 2022) that aims at receiving feedback on the measures that could improve the Central Clearing Framework in the EU.

4. CSDR

Janusz Ryzner (ECB OMG Secretariat) gave an update on operational implications of the CSDR Settlement Discipline Regime (SDR) for the ECB activities. He reported that Eurosystem securities transactions are also subjected to the SDR rules and thus the ECB had to put in place necessary operational measures. In addition, SDR has some implications for the market infrastructure operated or developed by the Eurosystem. The ECB is actively observing its impact on the functioning of the money market, especially securities lending activities.

5. Digitisation: concrete utilisation of back-office data

Christian Wennerberg (Nordea) provided insights on the back-office data usage in his institution. He explained how Nordea started by creating a vision, selecting the right people and competences, performing data mining activities, cleaning data and making them easily accessible to everyone. He described the stepwise implementation and outlined the purpose of the data processing, illustrated by a case example and a data dashboard used among others for stakeholder management, informed decision-making process and progress monitoring. Finally, Christian gave a brief outlook on the future use of data, which includes more data-backed operations, diversified workforce (new profiles), increase of machine learning and artificial intelligence, prediction of issues and more experiments for innovation purposes.

Ria Soedhoe (ABN AMRO) complemented Christian’s presentation with an assumption that the banks of the future must be data-driven in order to understand the needs of their customers.
This will require a change in the behaviour of all stakeholders and reorganisation of existing processes to allow for efficient human-machine interactions, supported by a future-proof data-platform, digital workflow capabilities and client interfaces. Ria emphasised that the value of data could be only unlocked if it leads to actions and decisions, thus the data and analytics should be a tool to reach business value, not a means in itself. Building own analytical capacity is important for getting new insights on data quality and requirements and allows for faster improvements but it should be done via small steps, backed by experiments. Both presentations highlighted the shift in back office from a cost centre to a centre of excellence supporting decision making.

6. Tour de table on OTC clearing, CSDR and follow-up on sanctions on Russia/Belarus

In a tour de table, ECB OMG members provided their input on OTC clearing, DLT Pilot Regime, CSDR and sanctions imposed on Russia and Belarus.

As concerns the OTC clearing, most of the participants noted that their institutions do not plan to respond individually to the European Commission’s consultation on the central clearing framework in the EU, but as part of dedicated industry groups (e.g. ISDA). Referring to DLT, ECB OMG members mainly monitor on-going developments, with a few institutions having initiated some experimental projects in this domain.

On the impact of CSDR, a slight improvement of the settlement ratio was observed but not as much as expected. In addition, a minor increase of partial settlement to reduce settlement failures was reported. As main challenges the ECB OMG members considered communication with customers on the implications of CSDR for their transactions and reconciliation of reported cash penalties, which result among others from currently faced issues with the penalties reporting.

Concerning the follow-up on sanctions on Russia and Belarus, the members confirmed close monitoring and application of the sanctions, some ECB OMG members reported having only very limited exposure to Russia, whilst others were strongly engaged in the region. The sanctions are considered very fragmented and requiring intensive and dedicated control, handling (e.g. on the solvency of counterparties or rouble exchange mechanisms) and communication. In addition, participants reported on activities aimed at setting up a possibility for Ukrainian refugees to exchange the Ukrainian currency (UAH) into euro, continuation of limited operations of Russian branches and assessment of the impact of potential Russian retaliations on SWIFT.

7. Outcome of the ECB OMG Satisfaction Survey

Marijana Tipuric (ECB OMG Secretariat) presented the outcome of the ECB OMG Satisfaction Survey conducted in December 2021 among the members, which highlighted overall satisfaction with the content and structure of the ECB OMG meetings and outlined only few improvement measures.

8. AOB

In a short survey, ECB OMG members expressed a preference for holding on site (potentially as a hybrid meeting) the ECB OMG meeting in September 2022.