

ECB Operations Managers Group
22 September 2022 11:00 - 17:30 CET hybrid meeting

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed the members and introduced two new members. Thereafter, the participants approved the agenda of the meeting.

2. Digital innovation in capital markets

Pavel Harvanek (European Investment Bank - EIB) and David Durouchoux (Société Générale FORGE – SG FORGE) shared experience with Blockchain-based bond issuance, a pilot executed by EIB, SG FORGE jointly with Banque de France in June 2021. The goals of this project included decreasing issuance complexity, achieving more straight through processing (STP), reducing intermediaries and fixed costs, bringing higher market transparency, improving settlement process and reducing reconciliation efforts.

In the pilot, the OTC bond issued by the EIB was created by SG FORGE as security token on a public blockchain platform and settled on primary market against tokenised cash created by Banque de France.

Security tokens issued by SG FORGE include only necessary data, such as ISIN, buyer, seller, etc., while remaining information is stored as reference data available for issuer and regulator. Tokenisation relied on CAST security token compliance framework allowing for operation of blockchain securities services in a fully regulation-compliant environment and it was based on the French securities tokens framework, i.e. during the lifetime/existence of the security, issuers are responsible to maintain the registry. The project indicated that the availability of tokenised wholesale central bank digital currency (CBDC) is crucial, to allow for immediate finality when processing tokenised securities transactions also on the secondary market, and to fully benefit from related gains, such as real time issuance and settlement, T-0 repo operations, improved liquidity management, elimination of short-selling.

The available API's bridge would allow the issuers to seamlessly integrate data from the whole process into their internal systems, allowing STP, together with smart contracts encompassing corporate actions this would significantly increase the efficiency of the back office post trade processes.

The integrated blockchain infrastructure could lead to a reduction of energy consumption as it removes the multiplication of data of the various actors in the transaction and eliminates the need to send and reconcile (up to 20 currently required) SWIFT messages. Further development of such blockchain solutions relies however on building awareness and knowledge of new technologies among financial market participants, strong collaboration to build on and reuse individual innovations and on technical, legal and regulatory interoperability between all the actors.

3. FX Operations – current themes and challenges

Steve Forrest (UBS) presented his perspective on the main current issues and challenges faced by operations managers, focussing on the FX market.

Steve stressed that the role of the operations manager has become more complex, exceeding its initial focus on pre/post settlements, and becoming more business aligned with a deeper understanding of ancillary services and the wider front-to-back value chain. This new profile requires greater client focus combined with a digital mindset to exploit new technologies (such as blockchain, crypto currencies etc.) as well as advanced talent management capabilities.

Current operational themes and challenges include the time pressure that derives from the entire trade processing combined with high expectations on the settlement side, such as the move to T+1 settlement cycle in the US market, the need for new technological solutions and new approaches addressing e.g., PVP processes or settlement chains in emerging market currencies.

Further developments at macro level impacting FX operations encompass: (i) environment of rising interest rates, which increases the number of interest claims, associated, resource intensive, disputes and cost of doing business in general; (ii) various environmental, social and governance initiatives transforming traditional ways of working and involving client outreach; (iii) need to develop hybrid, agile and digitally aware workforce, and lastly (iv) different challenges stemming from not actively traded currencies, as well as the uncertainty of crypto currencies in the future.

4. KYC/AML and how the new technologies are impacting these processes

Juan Antonio Castellero (Santander) outlined the impact of new technologies on the KYC and AML processes.

Juan noted that the compliance environment is in constant evolution due to a range of factors, such as new financial crime channels and practices, changing geopolitical situation, artificial intelligence based risk management technological developments and new regulatory initiatives, such as new regulations and financial technology regulatory sandboxes.

To cope with the changing environment, traditional AML/CFT processes consuming significant human and capital resources are replaced or enhanced with multiple new technologies encompassing data science, cloud, hyper automation and API. In this transformation, which improves control effectiveness and cost efficiency, operations are becoming a key player whose success depends on teams upskilling, stronger coordination between lines of defense and adequate data quality.

5. The future of post-trade processing: What are possible future scenarios?

Christian Wennerberg (Nordea) shared his view on the future of post-trade processing which he expects to be shaped by regulation and fintech. Regulatory initiatives are expected to bring further standardisation, leading to efficiency and market discipline. Processes should become faster, reaching instant settlement. Due to new technologies and skill sets, operations and IT will work closely together, merging to competence centres. Data will be key, requiring institutions to create a golden source for all their data via APIs in order to measure various

key performance indicators. Technology will remain a powerful driver of change, leading to enhanced resilience, scale, and efficiency. This transformation, requiring gradual replacement of legacy systems, will require high initial investments which however is expected to be amortized by lower processing costs in the long run.

Overall, Christian believes that while the overall future operating model will be simpler, the operational issues will be more complex with constant changes in the post-trade landscape. Therefore, the right people with the right skills sets will be crucial, requiring considerable investments in staff education.

6. Location strategy in a post-COVID environment

Leigh Meyer (Citi) analysed changes in the location strategies of financial institutions in a post-Covid environment. He observed that the changes implemented during the Covid crisis affected the behaviour of people as well as their career expectations and impacted HR culture and processes. Consequently, corporate location strategies have had to be modified to adjust to new working models and the availability of talent, as well as taking into account market competitors and the changing global political, cultural and economic environment.

7. Tour de table questions and Work Programme 2023

In a tour de table, meeting participants reflected on current challenges faced by operational areas and ways of addressing them.

Major challenges listed by the participants encompass: i) the changing role and growing importance of operations, ii) the trade-off between addressing varying client requirements and pressures to reduce costs and increase standardisation and STP, and iii) post-Covid talent management, including dealing with remote teams spread across the globe, maintaining teams' cohesion and retaining expertise.

Ways to cope with these themes include i) automatization and reliance on artificial intelligence, ii) transformation of processes to take full advantage of technological changes and iii) new ways of attracting talents and upskilling people and roles.

In addition, OMG members shared their experience regarding the adoption of new technologies for AML processes. They underlined the on-going implementation of new AI solutions and machine learning technologies to support and improve AML/CFT checks and monitoring without compromising processing time.

Work Programme 2023

Based on the feedback collected from the ECB OMG members, participants confirmed the proposed topics to be addressed in the coming year in three virtual and one physical meeting (potentially complemented with ad hoc calls to address important arising issues). Further expressions of interest will be collected over next months to finalise the work programme in the December meeting.

8. AOB

Topics and presenters for the next meeting to take place on 01 December have been confirmed.