

Minutes
DE AMI-SeCo NSG
19 November 2018

1. Opening remarks and approval of the agenda

The DE AMI-SeCo NSG chair Jochen Metzger welcomed the NSG members, in particular the representatives from the Asset Managers and the BVI, who were invited to the meeting as special guests in order to contribute to the discussion of the key topic of settlement efficiency. Furthermore, the chair informed the participants that the minutes of the last DE AMI-SeCo NSG meeting in June and the workshop on settlement efficiency in August have meanwhile been finalised and made available in the internet. The NSG approved the agenda for today's meeting.

2. T2S Settlement Efficiency

A Bundesbank representative introduced the topic recalling the main conclusions of the NSG workshop on settlement efficiency in August, in which inter alia the following issues had been identified as critical: (i) need for further discussion on the implementation of the Partial Release functionality (CR653 to be implemented in T2S Release 3.2 scheduled for November 2019) and its benefits as well as (ii) the need to raise awareness among market participants regarding the CSDR/Settlement Discipline Regime implications in view of reducing the volume of settlement fails.

The Bundesbank representative also explained the Partial Release functionality and summarised the main conclusions of the XMAP workshop on the implementation of the T2S Partial Release functionality in September 2018, including the input provided by the DE AMI-SeCo NSG in advance via the corresponding written consultation. In addition, the representative of the Association of German Banks presented an overview of the CSDR focussing on the Settlement Discipline Regime and the main remaining topics related to its implementation.

The discussion led to the following conclusions:

- The NSG recognised the benefits of the T2S Partial Release functionality and Partial Settlement by increasing the settlement efficiency and fulfilling the requirements set by the CSDR/Settlement Discipline Regime.
- The participants pointed out the costs resulting from the implementation of Partial Release in their own systems. Given that custodians can only act on their client's advice, the clients as well would have to implement the Partial Release/Partial Settlement logic along the whole custody chain and thus bare the respective adaptation costs. However, at the same time it was acknowledged that the current cancel-and-reinstruct-procedure triggers roughly the same costs, in particular for the retail business. What is more, the implementation effort would rather have to be borne by the delivering party than by the receiving party. In addition, participants highlighted that the implementation of Partial Release would also lead to higher settlement fees due to the increased number of settlement transactions. However, this would have to be weighed against the reduction in penalties charged for settlement fails, which Partial Release/Partial Settlement will help to avoid once the CSDR/Settlement Discipline regime has been introduced.
- The NSG appreciated the clarifications given on the implications resulting from the introduction of the CSDR/Settlement Discipline regime. Under certain conditions the CSDR prescribes a Partial Settlement attempt. I.e. before a mandatory buy-in takes place the delivering party has to provide the respective securities to the largest extent possible in order to reduce potential penalties for its clients.

The CSDR does however not prescribe how this Partial Settlement attempt shall be technically achieved. In that respect, the T2S Partial Release functionality was considered as very beneficial by the participants. But in order to ensure that the T2S Partial Release functionality can be used efficiently, all market participants need to be aware of its functioning and behave accordingly.

- Under the pre-condition that the German market sticks to the omnibus account model, the NSG deemed it necessary to establish a market practice to ensure that a Partial Release and thus Partial Settlement attempt do not fail due to either the delivering or the receiving party flagging NPAR. The background is that Partial Release would only be possible if both, the delivering and receiving side do not flag NPAR. The NSG considered a German market practice as not sufficient. Given the European dimension of settlement in T2S, a corresponding market practice addressing all T2S markets would be necessary to better cover the adaptation efforts and ensure that benefits are reaped to their full extent.
- In the August NSG workshop on settlement efficiency participants felt that in particular the buy-side would be hesitant to accept Partial Settlement. Against that background representatives from the Asset Managers have been invited to the NSG meeting. The attending Asset Managers did not confirm the perception of the NSG workshop. They argued that the reason for flagging NPAR in the past was mainly the lack of awareness and knowledge. Although increased settlement fees and reconciliation efforts due to increased number of transactions were considered as a disadvantage, the Asset Managers present did not see any reason for rejecting Partial Release/Partial Settlement.
- In view of the implementation of the T2S Partial Release functionality participants emphasized that also the work on adapting the relevant messages via the SMPG would have to be started to ensure their availability by November 2019 (implementation of CR653). In addition, also the contracts between custodians/intermediaries in the custody chain and their clients would have to be reviewed in order to cater for the possibility to settle partially/accept partial settlement.

3. Reporting and debriefing from T2S Steering Level

The chairman debriefed the NSG on issues occurred at MIB-level and other major developments in the T2S-area. In particular, he informed about the migration of the Danish Krona as first foreign currency in T2S. In October 2018 also the French CSD ID2S and the Central Bank of Ireland migrated to T2S and VP Lux was closed end of 2018. He also reported on changes in the T2S Governance (i.e. merging of PMG and RMSG, the change of ISSG to Security Management Group (SMG) as well as the fact that CRG and PMG remain unchanged but administration related synergies will be explored). Finally, he referred to the publication of the T2S Financial Statements for the year 2017 on the ECB's website and reminded of the T2S price adjustment as of January 2019.

The Clearstream representative comprehensively debriefed the NSG on key issues discussed at CSG-level. She provided an update on the CSDR related T2S Change Requests and informed about the letter of the CSDR TF to ESMA on the rationale for implementing the T2S penalty mechanism only in November 2020, i.e. two months later than the entry into force of the CSDR Settlement Discipline. In addition, she reported on the CSG's reaction to the introduction of an ISO message freeze period in T2S between November 2020 and November 2023 to support the T2/T2S consolidation and ECMS projects. As a consequence market participants would have to support two versions of the ISO20022 standard during the freeze period, in case they implement the ISO Maintenance Releases for their messaging outside T2S. She emphasised that this freeze should be clearly understood as an exception not to be repeated in the future. A Bundesbank representative confirmed the one-off nature of this exercise. He also explained that by the time when implementing the ISO Maintenance Releases 2012 to 2017 (i.e. in T2S Release R3.0 in June 2019) and the ISO Maintenance Release 2019 (i.e. in T2S Release R4.2 in November 2020) all messages will be up-to-date and that presently no major ISO changes are expected for the ISO Maintenance Releases to be implemented after the freeze period. Apart from that, in case of need ad-hoc exceptions could be made during that period to meet participants' needs. After the freeze, the T2S minor release in November each year will introduce the upgrade to the most recent ISO Maintenance Release. The Bundesbank representative also referred to a confirmation of ESMA that the ISO freeze is compliant with CSDR requirements set out on communication procedures. Finally, an

update was provided on the Eurosystem initiative regarding the European Distribution of Debt Instruments (EDDI), which aims at facilitating a centralised issuance and distribution service for European debt securities.

4. Review of AMIs functioning

A Bundesbank representative reported that according to AMI-Pay and AMI-SeCo mandates their set-up and the outcome of their work should be evaluated after two years of functioning. Therefore, an assessment of the AMI functioning was made in the light of the experience gained since the first meetings in February/March 2017. In view of the Eurosystem proposal prepared for the joint AMI-Pay/AMI-SeCo meeting in November to reduce the regular AMI-Pay/AMI-SeCo meetings to two meetings p.a. (including one joint session), the participants discussed the frequency of future NSG meetings. The NSG concluded that ideally the number of three regular meetings p.a. should be maintained, even if the number of AMI-Pay/AMI-SeCo meetings would be reduced. In addition, ad-hoc workshops on specific topics involving the relevant experts from the institutions represented in the NSG should be organised, e.g. on Collateral Management Harmonisation or joint workshops with the AK ZVS (German AMI-Pay NSG) concerning topics related to the T2/T2S consolidation project.

5. Status update on the T2/T2S consolidation and ECMS projects

- Bundesbank's Level 2 TCCG-member provided an update on the progress of the T2/T2S consolidation project. She reported on the drafting progress with regard to the Business Description Document (BDD) as well as the User Detailed Functional Specifications (UDFS) and mentioned that the BDD V1.0 was also available in German on the Bundesbank website. Moreover, she informed about the agreement on key milestones for banks, which were developed in order to monitor the readiness of the user community, thus ensuring a successful big-bang migration. In that respect, she invited all NSG members to start their internal projects and preparations for the T2/T2S consolidation sufficiently in advance. Furthermore, the Bundesbank representative explained the concept of necessary and optional changes in T2S (and TIPS) resulting from the T2/T2S consolidation project. She also gave an overview on the topics identified so far to adapt T2S to the T2/T2S consolidation and outlined the intended drafting process for those Change Requests (CRs). In view of the strong interdependencies the Bundesbank representative emphasized the importance of a close cooperation between the cash and securities side within each institution, within each national market and also at the European level. Against that background she proposed to hold a joint workshop of the DE AMI-SeCo NSG and the AK ZVS to raise the market's awareness of the (optional) CR topics with the aim to get a common view on the need of the German market to potentially raise/support the optional CRs. The NSG welcomed the proposal and agreed to organise such a workshop in the beginning of Q1 2019.¹ Finally, the Bundesbank representative debriefed the NSG on the intended timing of the Network Service Provider Selection Procedure.
- A Bundesbank representative also briefly updated the NSG on the progress of the ECMS project, in particular on the drafting process for the UDFS.

6. Issues around T2S

6.1 T2S in operations

A Bundesbank representative gave a short overview on the T2S settlement statistics mentioning that the latest figures do not show any unusual developments. Due to timing constraints the report on the achievements regarding optimisation and automation in T2S was postponed to the next NSG meeting.

¹ In the TCCG in December 2018 it was meanwhile discussed/ agreed that the optional CRs "CR for liquidity transfers from T2S (and TIPS) to other services" and "CR for making optional the T2S end of day cash sweep" will be drafted by the ECB while the "CR for rule-based liquidity transfers from/to a T2S DCA" was rejected. The "CR for the shift of the T2S maintenance window" was put on hold until discussions on potential changes in the RTGS business schedule would have been concluded. Thus, no decision needs to be made whether or not to raise those CRs. Therefore, the intended joint workshop will be organised once the draft CRs are available (most likely end Q1 2019) to discuss the CRs and develop a common view of the German market.

6.2 Technical issues: Update on CRG activities

A Bundesbank representative provided the regular status update on all ongoing activities at CRG level. This included an update on the forthcoming T2S releases as well as information on this year's CRG ranking process for CRs. Moreover, an overview has been provided on new CRs, which had been raised since the last NSG meeting. Based on the enquiry by one NSG member, the Bundesbank representative confirmed to elaborate on the content of the new CRs in more detail in the next NSG meeting. Moreover, a status update on the remaining open T2S CRs raised by the NSG will be provided in the next NSG meeting. In addition, a status update was provided on CR444 (User authentication without USB-token/SmartCard for GUI-access), which had been raised by the German T2S NUG. While T2S CR444 will formally continue to exist, the implementation of the currently envisaged tamper-proof Hardware Secure Module (HSM) based solution will be carried out in the context of implementing the Eurosystem Single Market Infrastructure (ESMIG) currently scheduled for T2S for mid-2022. In that respect, one NSG member asked to give extra consideration to the definition of up-to-date encryption related requirements when specifying the technical requirements for ESMIG/ the Network Services Providers (NSP).² Finally, a NSG member made the NSG aware of a CR, which was raised only recently and aims at maximising settlement at DvP-cut-off (CR689).³

6.3 T2S Volumes

A Bundesbank representative briefly informed about the interim reporting prepared for the AMI-SeCo on the opportunities to increase T2S volumes following the AMI-SeCo workshop on T2S volumes in June 2018.

7. Issues related to AMI-SeCo post-trade harmonisation work

- A Bundesbank representative briefly informed the NSG about the latest stance regarding the future handling of coupon proceeds in triparty services, on which the NSG had been consulted in August 2018. He also debriefed the NSG on the work conducted by the CMH TF since the last NSG meeting, including planning aspects and the start of the preparations of a CMH monitoring framework similar to what had been implemented for T2S. However, the main topic of discussion was the draft letter of intent of the DE AMI-SeCo NSG regarding the implementation of the collateral management harmonisation standards. The NSG agreed to amend the draft letter of intent by the following aspects:
 - While acknowledging that ECMS communication will be solely based on ISO 20022, the DE AMI-SeCo NSG does not commit to simultaneously change all other communication in the market related to the respective harmonisation areas. Instead, a co-existence period of ISO15022 and ISO20022 for 5-8 years after the ECMS go-live (i.e. November 2022) should be introduced. During that period only communication with ECMS would be based on the ISO20022 standard. For other activities and for those actors not directly connected to ECMS the opportunity to communicate in ISO15022 (e.g. communication of CSDs and TPAs with their counterparties and CSD participants with their clients) should remain.
 - The DE AMI-SeCo NSG deemed the scope of the envisaged harmonisation standards and monitoring approach as not wide-stretched enough. While so far the focus of the CMH-TF was on Eurosystem eligible debt instruments handled by the ECMS, also for Eurosystem non-eligible debt instruments and equities handled by other infrastructures than the ECMS, harmonisation and respective monitoring activities need to be prepared. Regardless of whether Eurosystem eligible or

² Meanwhile the NSP tender documentation, including the technical requirements has been prepared. The encryption related requirements can be considered as "best practice" and are defined as minimum requirements, thus offering the NSPs the possibility for upgrades.

³ Link to CR689: https://www.ecb.europa.eu/paym/target/t2s/governance/pdf/crg/ecb.targetsecrcrg181025_T2S-0689-SYS.en.pdf?fd6880956cfd58c74e3d484c1cf69763

non-eligible securities are concerned, there must be only one harmonised process per type of corporate action. Moreover, the implementation of a single process for the same ISIN has to be ensured independent from whether the ISIN is used as collateral within ECMS or held in regular custody. The harmonised process has to be followed by the participants in all T2S markets. Otherwise, the DE AMI-SeCo NSG fears that market participants have to support different processes for different types of securities in the long-term. This implies that the full set of CAJWG standards needs to be covered by the harmonisation and monitoring activities by the ECB to avoid monitoring gaps through fragmentation and different responsibilities.

- Last but not least, the DE AMI-SeCo NSG emphasised the need for a reliable monitoring, which ensures, that all markets adhere to the agreed standards.⁴
- Finally, a Bundesbank representative provided a status update on the further harmonisation topics. In particular, she informed about the progress in compliance with T2S harmonisation standards and the discussion on the potential resolution of existing non-compliance cases. For the German market a Clearstream representative updated the NSG on the latest implementation plan for the outstanding T2S Corporate Actions Standards. She explained that a concrete plan can only be communicated at the beginning of 2019, since until that point in time the focus will be on the implementation of the CSDR. She added that the implementation will most likely take place via a November release. However, it would be questionable whether the November release in 2019 is feasible. Some NSG members expressed their expectation that the implementation of the respective standards will take place in 2019.

8. Miscellaneous

A Bundesbank representative announced that in view of the General Data Protection Regulation all NSG members, whose names and institutions are published on Bundesbank's website, would receive a data protection notice via e-mail after the meeting. NSG members were asked to confirm their agreement to the publication of the respective data on Bundesbank's website.

Due to time constraints participants agreed to postpone the following items to next NSG meeting:

- Information on results of Bundesbank's survey on collateral scarcity,
- Information on My Global Treasury View (MyGTV) app

Participants were informed that the dates for the NSG meetings in 2019 will be communicated via e-mail as soon as possible after the dates for the AMI-SeCo meetings are available.⁵

⁴ On 3 December 2018 the letter of intent as agreed with the NSG has been provided to the ECB.

⁵ A draft planning for the NSG meetings in 2019 has been sent to the NSG on 14 January 2019.