



ECB Operations Managers Group

Frankfurt am Main, Wednesday 4 September 2019, 13:00 – 17:00 CET

Summary of the discussion

1. Update on CLS

Sajjad Khan and Angus Scott (CLS) presented the CLS group and its strategic response to the most recent market and technology trends. As a settlement service provider, CLS settles over 5.5 trillion dollars of payment instructions daily across 18 currencies. CLS has developed their product suite to respond to the growth of cleared foreign exchange (FX) products (CLSClearedFX), facilitate real-time payment and settlement (CLSNOW), and address cost consciousness (CLSTradeMonitor) and regulatory dynamics. They are collaborating with CCPs to mitigate settlement risk for cleared NDFs and options in certain eligible currencies, as well as with other systems (TriOptima) for improved risk mitigation in the OTC derivatives market.

From a technological perspective, CLS is exploring the potentials of artificial intelligence, big data, cloud and DLT. It has recently developed its first DLT-based production - CLSNet. This innovative bilateral payment netting solution builds its learning on the technology of Hyperledger, with a small range of customers. Members discussed the interaction between CLS and the CCP in the case of novation, and the impact of DLT in their CLS client experience.

2. DLT/Blockchain initiatives at a major market player

Bernhard Brand and André Kolb (Commerzbank AG) gave an overview of DLT initiatives enabled within their institution by a “DLT Lab”, which belongs to a fully-owned subsidiary of Commerzbank “main incubator”, supporting the bank in its technological transformation. The DLT Lab at present focuses on four main areas, in close collaboration with other communities and ventures: payments (using e-money), capital markets (e.g. securities trading and settlement, tokenization of assets), trade finance and KYC (self-sovereign digital ID management). The last DLT pilots / use cases explored the trade and payment processing of a DLT-based Euro Commercial Paper and a repo transaction in a legally binding way, and confirmed the potentials of the technology in the field of securities settlement. Members discussed the concrete impact of blockchain and confirmed that a broader implementation for daily operational processes had not yet materialised. They shared experiences with experiments on DLT that are less resource-intensive, such as the execution of intra-day transactions. Members noticed an increasing use of DLT blockchain in the area of trade finance, driven by demand from corporate clients, in a lighter regulatory setting. Members stressed the importance of harmonising the EU-legislation to allow for the concept of digital ISINs, starting with debt securities (e.g. allowed in Luxembourg and France) and to support a sound expansion of digital and fintech technologies.

3. The COBAM initiative

Nicola Poole (Banco Santander) gave insights into the Client Lifecycle Management process at her institution, “the COBAM initiative”. This initiative aims at improving the client experience in a consistent manner across the Group, developing digitalisation and ensuring a robust governance and

risk framework in the field of AML. She recalled the main challenges for her institution in addressing the co-existence of inconsistent local AML standards at a Group level, the duplication and manual sourcing of data, and the difficulty in producing business intelligence and improving standards.

OMG members shared their similar experiences, most exploring possibilities to rationalise the KYC process for cost-efficiency gains. They generally do not see a business case for the concept of mutualisation through a KYC utility, as initiated in the Nordics. They stressed concerns with regard to data privacy, in particular in a blockchain scenario. Members expressed the need for a global harmonisation of the requirements in combatting AML and CFT.

4. Follow-up on the feedback surveys on the working of the OMG

Emily Witt (Chair of the ECB Operations Managers Group) presented the outcome of the two surveys launched in June with the purpose of ensuring the benefits of the meetings for all members. The OMG members confirmed the relevance of the main topics reflected in the OMG Terms of Reference for their work: i. settlement and confirmation practices, ii. regulatory trends, iii. financial innovations, iv. responses to crises situations. The group agreed to focus on operational concepts and implications, and to continue leveraging on the Members' core expertise. The members' proposals for concrete topics will be reflected in the work programme and agendas for 2020.

5. Operational implementation of risk-free reference rates

Yasmina Santalla (Secretariat to the Working Group on euro risk-free rates) recalled the transition path from EONIA to €STR, and the associated timeline. As €STR and the recalibrated EONIA, defined as €STR+8.5bps, will be published on T+1 as from 2 October 2019, market participants are encouraged to assess their internal processes and the possible impact of the move to a T+1 publication time from an operations and system perspective. They are also invited to take note of the analysis conducted by the working group on the impact of the transition on other aspects such as current market settlement conventions or models and the documentation used in derivatives and cash products for which the working group has also provided legal recommendations, as well as the work on €STR-based fallbacks to Euribor.

Leigh Meyer (Citigroup) reported on the background to the London Interbank Offered Rate (LIBOR) and elaborated on its significant product impact across all business units within his institution. Work on other reference rates is also in progress: €STR, SOFR in the US, SARON in Switzerland, TONAR in Japan. Relevant teams within his institution are committed to addressing the scope and impact, in particular the volumes associated to novation, margining, collateral and financial products.

Members welcomed the update given by the Secretariat to the Working Group on euro risk-free rates, and highlighted the massive changes implied by the introduction of €STR and €STR-based fallbacks in contractual arrangements. While members are taking the relevant steps to address legal, operational, and customer concerns, they anticipate a significant number of margin and calculation disputes after 2. October from the move to a T+1 publication time, potentially leading to delays in settlement time.

6. AOB

In a tour-de-table, members confirmed their operational readiness for any Brexit scenario. Several members have taken relevant actions in view of the uncertainty prevailing with regard to the temporary recognition of the UK-based CCPs until March 2020 by the EU.