ECB Operations Managers Group
Thursday, 26 September 2024
Hybrid/MS Teams meeting

Summary

1. **Introduction**

   Emily Witt (Chair of the ECB Operations Managers Group) welcomed the members onsite and online and announced the changes to the group's membership. The participants approved the agenda of the meeting.

2. **The Future of the Market Infrastructures – The Euronext Perspective**

   Niels Hjort Rotendahl (Euronext) discussed the future of market infrastructures from Euronext's perspective, focusing on the European capital market infrastructure, its fragmentation, and Euronext's efforts towards convergence and harmonization. He identified four main factors contributing to the high fragmentation: legal and regulatory frameworks, fiscal rules, operational practices, and technical arrangements. Despite two decades of harmonization efforts, these barriers still impede pan-European cross-border activities.

   Euronext is addressing this fragmentation by gradually consolidating and converging exchanges and Central Securities Depositories (CSDs) across various European jurisdictions, moving from eight domestic markets to a single Euronext domestic market. The Euronext Convergence Programme aims to replace local legacy solutions with a unified platform, promoting cross-CSD harmonization and standardization of processes, systems, and products. This initiative is expected to enhance efficiency by reducing costs and risks, benefiting the entire value chain.

   Niels emphasized that successful change depends on adjustments in market behavior and the willingness of market participants to adopt new rules and practices. In response to an audience question, he noted that while reducing the number of CSDs in Europe would aid harmonization, ensuring their connectivity and interoperability is even more crucial. He stressed that harmonizing market practices should be a collective effort, grounded in an open-minded approach and strategic objectives that benefit the entire market.

3. **A Perspective on Triparty Operations**

   David Berry (AIB) presented an overview of triparty operations workflow, including collateral management harmonization standards and insights into AIB's triparty operations. AIB's historical model involved low-volume trading with limited counterparties and manual processes, which has since been upgraded to an end-to-end solution. The Securities Finance Project introduced new products and transitioned to multiple triparty agents. Regarding encountered challenges, those

in SWIFT messaging stem from cross-agent variations and nonstandard defaults, while account management complexity arises from differing agent-specific frameworks and static data filters.

David also mentioned the Single Collateral Management Rulebook for Europe (SCoRE) initiative, which aims to harmonize collateral management across Europe to increase efficiency and reduce costs. Finally, he discussed a simulation of default, highlighting the importance of timely collateral disposal to minimize credit risk.

4. Carbon Footprint Precious Metals

Marco Heil from UBS presented the bank's initiatives to manage the carbon footprint of precious metals, with a specific focus on gold. He detailed the CO_2 emissions associated with gold production across its entire value chain, categorizing them into three scopes: direct emissions, indirect emissions from consumption, and other indirect emissions. UBS aims to mitigate these emissions through both abatable and non-abatable approaches, including investing in carbon offset projects. Carbon compensation measures include using recycled gold and verified offsets, along with a commitment to annual emission reductions. An example of such offsets is an afforestation project, which aims to sequester carbon and provide local employment opportunities.

5. Key Insights from the ECB's Market Contact Groups outreach initiative on Artificial Intelligence (AI)

Daniel Hernansanz (ECB) summarized recent discussions on AI with the ECB market contact groups, which included various stakeholders such as sell-side, buy-side (asset managers), and market data service operators. Key insights revealed that AI is primarily seen as a tool to enhance productivity, with significant use in systematic trading, credit acceptance and process automation, although generative AI applications are still in explanatory stages.

AI's contribution to revenue generation remains limited. Participants expressed a preference for safe sandbox environments to deploy AI, with many developing proprietary models to mitigate dependency on third-party providers. There is no uniform approach to AI governance and talent acquisition, with firms at varying stages of adoption and different HR and financial investments. Concerns remain regarding AI integration complexity, data protection, high costs, and compliance with regulatory requirements, alongside the fear of unrealistic expectations and cyber-attacks.

6. Tour de Table

The meeting participants shared their observations on the presented topics.

Regarding triparty operations, they confirmed two main organizational approaches: managing activities through several teams and tools across the back office or centralizing them within a single team (e.g. Fixed Income). The operational challenges in managing triparty trading

activities include liquidity management, settlement timing, and data capture and reconciliation. The complexity of optimizing processes and coordinating among different teams is also a challenge.

In relation to the Carbon Footprint and Precious Metals, the vast majority of ECB OMG members reported having discontinued precious metals activities.

All members reported that their organizations have implemented measures to support the reduction of their carbon footprint, such as green bonds, carbon footprint compensation programs, or dedicated internal policies such as paper consumption reduction and optimization of business travel.

Many institutions are experimenting with AI for tasks such as document processing and email analysis. These projects are mostly in the experimental phase, with some successful applications but no widespread operational use yet. Initiatives include using AI for email confirmations, legal document analysis, customer interaction (Q&A or offering services based on observed events or expenditure) and mailboxes monitoring to improve efficiency. Overall, AI projects aim to reduce costs, enhance data quality, and improve customer support.

Key success factors for high adoption rates include simplicity of AI usage and its ability to handle tasks that staff find undesirable, thus making their jobs more efficient. A clear and positive cost-benefit analysis, along with real-life use cases, is crucial. Starting small and using an incremental approach helps building confidence and competence. Additionally, strong management support and ongoing education are essential for driving adoption and integration of AI into daily operations.

However, there are significant operational risks, such as data quality issues, cyber risks, and AI hallucinations, which require robust governance and strong human oversight. Confidentiality concerns, intellectual property issues, and high implementation costs also pose challenges. Addressing these risks involves re-skilling employees, ensuring rigorous quality control, and being cautious with client and payment activities using AI.

7. Work Programme 2025 and AOB

Following the tour de table discussion, the 2025 Work Programme was presented, and volunteers expressed their preferences for presentation topics for 2025.

Janusz Ryzner (ECB OMG Secretariat) provided an update on the ongoing review of the FX Global Code, which is expected to be finalized by the end of the year. He highlighted that one of the primary goals of this year's review is to better address FX settlement risk. Janusz invited ECB OMG members to submit their comments on the draft changes either directly to the local FX committees or through the ECB OMG.

Next MS Teams meeting is scheduled on 28 November 2024.