



ECB Operations Managers Group
Frankfurt am Main, Monday 3 June 2019, 13:00 – 17:00 CET

Summary of the discussion

1. Update on SWIFT

Joe Halberstadt (SWIFT) updated the members on the treasury related SWIFT message standards evolution, the standard release changes to appear in 2019, and explored the possibility to apply their Global Payment Initiative (GPI) to FX.

He recalled the importance of market practice groups and national communities in developing message usage guidelines, and in proposing changes in new standard releases. Current programmes aim at increasing consistency and harmonisation to support straight-through-processing (STP), reducing operational risk and complying with regulations. For instance, in 2019, SWIFT users can expect a mandatory change in the trade and settlement party fields of confirmation message MT300 and MT304, which are subject to high volumes and manual resolutions in case of non-match. This change will consist of moving from unstructured text to semi-structured, with an impact for Non-Deliverable Forwards (NDF) and other netted trades. This should significantly improve the automated confirmation process and STP amongst counterparties. Another example is the processing of post-trade events in MT300 to add efficiency through further automation of the confirmation process.

Joe Halberstadt elaborated on the expected benefits in applying GPI for FX transactions, which is currently subject to a consultation of the FX industry. This unique mechanism would aim at tracking payments real-time and improving STP in the field of FX. Operational efficiency gains could particularly be expected in the area of nostro reconciliation allowing real-time monitoring of nostro account balances. Ultimately, it could improve liquidity management and credit risk. The OMG members welcomed this initiative as it is expected to ease confirmation automation for FX volumes processed outside of CLS.

2. The European Master Agreement: collecting views from the market

Volker Enseleit (ECB) introduced the European Master Agreement (EMA), or Master Agreement for Financial Transactions, defined as a multi-language, multi-jurisdictional and multi-product agreement supported by European Banking Federations.

Francis Lepori (Crédit Agricole CIB) and Kristin Claessens (Belfius) shared different perspectives on using the EMA at their institution. Credit Agricole only uses the EMA sporadically, which can partly be explained by (1) the segregation of business activity: the repo desk and derivatives desk are separated so that a multiproduct agreement does not fit; (2) the lack of regular updates of legal opinions creates an obstacle for using the EMA; (3) his institution's own governance and risk requirements impose other types of agreements. By contrast, Belfius Bank predominately uses the EMA for derivative transactions with MiFID II non-professional domestic clients, mainly linked to the Belgian linguistic specificities (the same agreement can be used in the different national languages

such as Dutch / French) and also to the accessible wording. ISDA – CSA is used for derivative transactions with professional - and eligible counterparties and also in case of non-plain vanilla derivative transactions and collateral transactions with non-professional counterparties.

Overall, OMG members reported that they hardly use the EMA (many members do not use it at all). Instead, they currently use predominantly (i) local agreements (Fédération Bancaire Française or “convention cadre” for France, Rahmenvertrag or “German Master” for Germany, Contrato Marco de Operaciones Financieras or CMOF for Spain) with smaller financial corporates or institutions because of their simplistic nature, and the counterparties’ requirement to work in their local language; and (ii) ISDA/GMRAs for cross-border transactions with important market players given their institutional reliance, and sections on derivatives.

Members shared the view that the use of EMA could be enhanced for medium-sized counterparties by responding faster to the market needs. This would entail broadening the product coverage to more sophisticated products (e.g. equities and complex derivatives, collateral management incl. initial margin and variation margin requirements), establishing a robust governance structure with sufficient support from the financial community, especially domestic banking federations, engaging in dedicated committees to address changes. It would be essential that the legal opinions are updated on a yearly basis and that new developments and regulatory changes are addressed by the European Banking Federation via protocol/amendments. Finally, members underlined the strong support and willpower required for this European project to be successful.

The OMG also recommended that the on-going EMA review should address the potential of DLT for smart contracts, which some associations are currently exploring to integrate self-enforcing computer scripts.

3. Confirmation and settlement at a major market player

Wolfgang Vogt (Erste Group) presented the confirmation and settlement processes at his institution, a 200-year old banking group focusing on retail and corporate business in Central and Eastern Europe. The banking operations fall under the Group Treasury and deal with both banks and nonbanks. They are complemented by a specialised area in digitalisation and processes, and a Group-shared service centre for payment transfers and static data management. Specialised in FX/MM and OTC derivatives, Vogt explained that Erste Group acts as a settlement hub for the Group and a significant number of local savings banks in Austria. Calypso has been used as the core Treasury operations system since 2007, and today works with a variety of interfaces and operational functionalities, which include message transfers, automatic cash booking and payments generation.

Wolfgang Vogt mentioned that their current focus is on harmonising the system landscape rather than on Robotic Process Automation. Members shared their experiences, highlighting that the implementation and maintenance of the Calypso system is very resource-intensive, especially when applying customisations, which are very test-intensive.

4. Feedback survey on the ECB OMG meetings

OMG members were invited to take part in an interactive and anonymous “Mentimeter” survey on the organisation of OMG meetings, with the purpose to identify opportunities for improvement. A complementary Epsilon survey is running in parallel, and aims at prioritising topics of interest as input for the 2020 work programme. The outcome of the two surveys will be discussed at the forthcoming OMG meeting.

5. The introduction of euro-risk free rates: update on operational implications

Yasmina Santalla (ECB Secretariat to the Working Group on euro risk-free rates) provided an update on the work carried out by the Working Group on euro risk-free rates. She reviewed the key points of the last announcements made by the European Money Markets Institute (EMMI) and the ECB. In particular, she recalled the move from EONIA under the current methodology in T to €STR and EONIA modified in T+1 as from 2 October 2019, the calculation of the one-off spread between €STR and EONIA at 8.5 basis points as the backbone for the new EONIA methodology, and the ISIN assigned to €STR. From a legal and contractual perspective, Yasmina Santalla elaborated on the EONIA legal action plan which addresses the change of methodology for EONIA and its cessation at the end of 2021, which the WG recommends to address through the replacement of the rate via novation of the contract, or the insertion of robust fall-backs. The recommendations also refer to the use of master agreements and standard documentation to embed robust fallbacks in new contracts and the use of protocols to amend legacy contracts. The legal action plan will be complemented by final recommendations at the beginning of July 2019. Finally, Yasmina Santalla provided an update on the Euribor reform, and presented the new organisation of the working group on euro risk-free rates substructures and their key deliverables on cash products and derivatives, financial accounting and risk management, and communication and education.

Members confirmed that implications concerning the legal contracts and inventories are currently under discussions within their institutions. They highlighted the urgency to clarify the system impact caused by the move from T to T+1 on 2 October, in particular for batch processing and STP. They are still in the process of assessing all implications for settlement and confirmation and associated costs. Based on the experience with the introduction of SONIA, one member underlined the global nature of the project initiated at his institution for €STR, and its massive budget impact. Yasmina Santalla encouraged the members to actively follow the work done by the Working Group, which is expected to provide guidance mid-July 2019 on operational issues that could arise due to the transition.