



Post-trade made easy

MINUTES OF THE ESES MAC HELD ON 13 JUNE 2016

Antoine Vonk chairs the meeting

Attendees:

Participants from Amsterdam (VTC)

Richard Barber
Pieter Bongers
Henk Brink
Richard Ozinga

Citibank International plc
Rabobank Nederland
KAS Bank N.V.
Deutsche Bank AG

Participants from Brussels (VTC)

Antoine Vonk
Kris De Nul
Kristof Meganck
Yvan Timmermans
Francis Remacle

Dutch MAC chairman,
KBC Bank
BNP Paribas Fortis
NBB
Independent Director EBE/EF/ENL Boards

Participants from Paris (VTC)

Alain Pochet
Philippe Castelanelli (by Confcall)
Adrien Decker
Eric de Nexon
Dominique de Wit
Jean-Marc Eyssautier

French MAC chairman,
HSBC France
Crédit Mutuel / CIC
Société Générale
Groupe Crédit Agricole
CACEIS

Excused today

J-P Rousseau
Ron Berndsen
Bas Hemelaar
Frédéric Hervo (previous member)
Emmanuelle Assouan (new member)
Nicolas Tissot

Belgian Mac chairman,
De Nederlandsche Bank N.V.
ABN Amro
Banque de France
Banque de France
Independent Director EBE/EF/ENL Boards

Euroclear

From Amsterdam

Hugo Spanjer

ENL Country Manager

From Brussels

Marc de Jaeger
Edwin de Pauw
Ilse Peeters (for one point)

EBE Country Manager
Head of Product Management Europe
Director Public Affairs

From Paris

Brigitte Daurelle
Frédéric Germain
Ernesto Gigliotti
Philippe Laurensy (by confcall)
Jacques Lawrence
Sébastien Seailles
Vincent Clause (for one point)

ESES CEO
ESES COO
EF Country Manager
Head of Commercial
Commercial Division
ESES Head of Product
Commercial Division



1. Opening

Antoine Vonk, chairman of the meeting, welcomes the ESES MAC members to the ESES MAC meeting, held by VTC today. He informs the members of the ESES MAC that Emmanuelle Assouan will be the new representative of Banque de France in replacement of Frédéric Hervo. He added that Emmanuelle Assouan can unfortunately not participate to this ESES MAC meeting given she has to attend a meeting in Frankfurt.

2. Ratification of the minutes of the ESES MAC held on 17 March 2016

Antoine Vonk asks the members of the ESES MAC if they have further comments on the minutes of the 17 March 2016 ESES MAC meeting which were sent to the members by e-mail on 4 April. Given there are no further comments on the minutes of the 17 March 2016 ESES MAC meeting, the minutes are approved.

3. Regulatory initiatives update

Ilse Peeters informs the members of the ESES MAC of 6 ongoing initiatives; i.e.:

a) Securities Financing Transaction Regulation (SFTR)

The Securities Financing Transaction Regulation (SFTR) covers transparency rules on securities financing transactions (SFTs); i.e. for repos, securities lending and borrowing and other collateral management services. The SFTR requires financial and non-financial counterparties to SFTs to report transactions they have concluded to a trade repository (TR). The TR is a Financial Market Infrastructure regulated under the EMIR requirements for TRs. Ilse Peeters informs the members that to Euroclear's knowledge, today there are no specific SFTR TRs registered.

In April 2016, ESMA issued a discussion paper on the future Level II standards on reporting of SFTs. Euroclear has responded to the consultation in close cooperation with the industry associations (ECSDA, etc.) The market requested ESMA to be less demanding in terms of reporting requirements and to consider sufficient implementation time in order for the players to develop necessary IT systems for compliance with the regulation. Following this feedback, ESMA will issue another consultation paper on the matter later during the year and later-on propose the draft standards to the European Commission.

The regulation is expected to go live in 2018 depending on the timing of the issuance of the ESMA standards. The regulation could have potential impacts on market participants and CSDs.

b) COGESI

COGESI addresses developments in the field of collateral management and liquidity management. Currently there are many discussions on collateral management covering 3 streams; i.e. 1) collateral mobility, 2) standardizing messages for collateral and 3) asset segregation. COGESI wishes to receive feedback from the market on these aspects by 20 June.

c) European Post Trade Forum

The European Post Trade Forum is a Task Force assisting the European Commission in looking at post-trade in quite some depth with the objective to assess whether there are still regulatory gaps in the post-trade domain after the implementation of CSDR and other regulations. In this context, one of the main topics that will be re-assessed is "Asset Segregation" with the objective to increase asset protection. Euroclear believes that "Asset Segregation" will cause efficiency problems and not necessarily increase asset protection. Moreover the "Asset Segregation" rules are not the same for all players. This initiative will probably be the most important regulatory topic in the near future.

d) Distributed Ledger Technology for the Post-Trade industry – Regulatory impacts

ESMA issued a paper on the regulatory impacts of the Distributed Ledger Technology for the Post-Trade industry. Euroclear will respond to the paper, which is of a very good quality.

e) EMIR – Delay on un-cleared OTC derivatives

These rules cover the requirements for counterparties to un-cleared OTC derivatives. The Commission announced to delay this initiative until the end of the year.

f) FTT

No real progress at this stage on the European FTT initiative.

Eric de Nexon asks whether Euroclear is also looking into the ESMA consultation paper on Participants Default Rules. Ilse Peeters responds that Euroclear indeed reviewed this consultation paper and that it has several concerns with the paper. Ilse adds that Euroclear will respond to ESMA by the end of June.

4. CSDR Implementation - Impacts on ESES participants

Ernesto Gigliotti comments the presentation. He highlights that:

- The current indicative timetable will shift by 6 months implying that 1) the publication by ESMA of all the relevant standards and delegated acts in the Official Journal is now expected by end 2016 (I/O by June 2016), 2) CSDs will apply for Authorization (filing) by July 2017 (I/O by December 2016), 3) CSDs receive authorization from their National Competent Authorities and need to comply with the CSD regulations (except regarding Settlement Discipline) by January 2018 (I/O by June 2017), and 4) CSDs need to comply with the regulations regarding Settlement Discipline by January 2019 (I/O by June 2018).
- The main impacts of CSDR for CSD participants are that:
 - a) Participants must reconcile their records with the information received from a CSD on a daily basis and the CSD must also perform a reconciliation on a daily basis. CSDR foresees that in case of a mismatch in the reconciliation by the end of the following business day, the CSD should suspend the ISIN for settlement until the issue has been solved. Ernesto informs the members of the ESES MAC that ESES is currently discussing this point with the regulators given the risks linked to the suspension of an ISIN.
 - b) In terms of record keeping, participants and issuers must provide Legal Entity Identifiers (LEIs). Moreover, participants will have to segregate their accounts into participant's own assets account(s), client assets omnibus account(s) and client individual account(s).
 - c) CSDR aims to harmonize the Settlement Discipline Regime (SDR) across the European Union using 4 key pillars; i.e. 1) prevent settlement fails, 2) monitor and report settlement fails, 3) set up cash penalties for failed transactions, and 4) organize buy-ins in case of settlement fails. ESMA acknowledged CSDs are not responsible for executing buy-ins.
 - d) With respect to account segregation, CSD participants must offer their clients the choice between omnibus and segregated account(s) and inform their clients of the costs and risks associated with each option.
- CSDR will also impact the MACs which will become User Committees under CSDR. Euroclear is assessing the impact of CSDR on the governance and organization of the MACs and will make a proposal to the ESES MAC Chairmen. Following this, the members of the MACs will be informed of the changes proposed to be compliant with CSDR.

5. T2S status

Toine Vonk asks the ESES MAC members whether the T2S status update provided during the Joint ESES - T2S National Coordination Committee held on 13 June was sufficient and relevant. The members of the ESES MAC confirm the information provided during the Joint ESES – T2S National Coordination Committee was transparent and sufficient. No further questions are raised.

6. Pricing review - Closing of the consultation period

Philippe Laurensy comments the presentation. He highlights that:

- It must be noted that ESES has incurred substantial investments to adapt to T2S and that T2S will not allow ESES to reduce its running cost while T2S will bear its own costs.

- Despite the above, and looking at what the competition is proposing in terms of pricing (known today for Monte Titoli but not yet for Clearstream), ESES proposes to reduce its settlement fees by +/- EUR 10 million per year. The same tariff will be applied for intra and cross (T2S) settlement and the principles of economies of scale and aggregation of volumes across CSDs / family level will be maintained. ESES safekeeping and other fees will remain as today. Finally, all the external T2S related fees (settlement, communication, SWIFT) will be recharged at cost. The new pricing proposal will be implemented as of 1 September 2016. ESES will continue to closely monitor competition and adapt if necessary its pricing proposal going forward.
- All MAC clients have been consulted. Overall the feedback was positive on the ESES settlement tariff reduction while the communication costs (T2S and SWIFT) caught the attention of some clients as it leads to a total net fees increase.
 - Henk Brink said the consultation went very well and mentioned that overall the ESES pricing proposal is fair but that the communication cost increase is an issue.
 - Eric de Nexon commented that the communication cost increase is not acceptable. He said that the increase in the communication cost is the result of the choice of architecture between ESES and the ECB resulting in the fact that clients directly connected to T2S will have to pay two times the communication cost for one transaction (duplication of the transaction in T2S and ESES). He asked ESES to review the exchange of messages with T2S. Jean-Marc Eyssautier said he agrees with the comments made by Eric de Nexon.
 - Alain Pochet asked ESES to closely monitor what the competition, particularly Germany and Luxembourg, will propose in terms of pricing. He said he also noted that the overall cost of settlement will be higher following the migration to T2S compared to today and that this is particularly due to the increasing communication costs. He asked ESES to discuss this point, and more particularly the communication aspect, with the ECB.
 - Brigitte Daurelle and Philippe Laurensy responded ESES will assess how to further adapt the tariff proposal in the light of the comments made about the communication costs. A final proposal will be issued to the market before the end of June. Philippe Laurensy added ESES will continue monitoring what the competition will propose in terms of pricing and adapt the ESES pricing if needed. Antoine Vonk, chairman of the ESES MAC held on 13 June, concluded that Euroclear will follow up and come back to the market with a revised pricing proposal before the end of June.

7. Custody Services Enhancement (CSE) status

Sébastien Seailles comments the presentation. He highlights that:

- A consultation paper on CSE 6 was issued on 3 March and a dedicated meeting to share the market position was held on 21 April.
- Following the consultation, it was agreed that CSE 6 will be launched end February / early March 2018. The ESES markets also agreed to extend the usage of the interim solution – originally foreseen until September 2017 - until the launch of CSE 6. Richard Ozinga reminds the members that extending the interim solution implies the use of non-matching free of payment (FOP) instructions. The Dutch market agreed to this extension under the condition that their usage is restricted to elective corporate actions. Richard Ozinga also reminds the members that ESES must ensure a specific monitoring to identify any deviation from the specific usage of FOP instructions.
- Discussions are still ongoing with the three market representatives regarding the business requirements. Two points require further follow-up; i.e. securities blocking and French DVOP. By the end of June the discussions around the scope of CSE 6 should be finalized.
- The planning of CSE 6, together with the other expected service evolutions (CSE 4, CSE 5 and T2S descoped functionalities) will be communicated early July at the next EUF.

8. Miscellaneous

Antoine Vonk asks the members of the ESES MAC whether they have questions on the ESES Service Quality; i.e. on the settlement efficiency and / or on the system availability. No questions are raised.

There being no other business, Antoine Vonk thanks the participants and closes the meeting at 16.00.