



*Post-trade made easy*

MINUTES OF THE ESES MAC HELD ON 22 NOVEMBER 2016

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*Alain Pochet chairs the meeting*

**Attendees:**

Alain Pochet  
Jean-Paul Rousseau  
Antoine Vonk  
Emmanuelle Assouan  
Philippe Castelanelli  
Guillaume Fromont  
Eric de Nexon  
Kris De Nul  
Dominique de Wit  
Yvan Timmermans

French MAC Chairman  
Belgian MAC Chairman  
Dutch MAC Chairman  
Banque de France  
HSBC France  
CACEIS  
Société Générale  
KBC Bank  
Groupe Crédit Agricole SA  
National Bank of Belgium

**Guest:**

Francis Remacle  
Lieve Mostrey

Independent Director for EBE/EF/ENL  
Chairperson of the ESES Boards

**Exceptional Conference Call**

Ron Berndsen  
Henk Brink  
Bas Hemelaar

DNB  
KAS Bank N.V.  
ABN AMRO Bank NV

**Excused**

Marieke Bax  
Richard Barber  
Pieter Bongers  
Adrien Decker  
Kristof Meganck  
Richard Ozinga  
Nicolas Tissot

Independent Director for EBE/EF/ENL  
Citibank International plc  
Rabobank Nederland  
Crédit Mutuel / CIC  
BNP Paribas Fortis  
Deutsche Bank  
Independent Director for EBE/EF/ENL

**Euroclear:**

Brigitte Daurelle  
Frédéric Germain  
Marc de Jaeger  
Hugo Spanjer  
Edwin de Pauw  
Ernesto Gigliotti  
Philippe Laurensy  
Ilse Peeters (for one point)  
Sébastien Seailles  
Dan Toledano (for one point)  
Véronique Lodico

ESES CEO  
ESES COO and Euroclear France country Manager  
Euroclear Belgium Country Manager  
Euroclear Nederland Country manager  
Head of Product Management Europe  
ESES Management  
Head of Commercial  
Director Public Affairs  
ESES Head of Product  
T2S Sponsor  
ESES MAC secretary



- **Opening**

Alain Pochet, chairman of the meeting, welcomes the ESES MAC members to the ESES MAC meeting.

Alain Pochet informs the members that some people asked to be connected by conference call, as an exceptional basis. He recalls the members that physical presence is mandatory (except for the meetings which will be organized by VTCs).

Alain Pochet welcomes the new ESES MAC members, Guillaume Fromont, representative of CACEIS, in replacement of Jean-Marc Eyssautier.

Alain Pochet also welcomes Francis Remacle, Independent Director at the EBE/EF/ENL Boards.

Alain Pochet is pleased to open the meeting in presence of Lieve Mostrey as Chief Executive Officer (CEO) of Euroclear, replacing Tim Howell with effect from 1 January 2017.

Lieve Mostrey explains the background to the change of the CEO at Euroclear Group. Tim Howell decided to step down from the group after six years at the helm.

The decision was taken following the Strategy Board in October. With the company well-positioned and with a strong future ahead of it, it was felt that this was a sensible time to transition leadership.

Lieve confirms that she will take over as from 1 January 2017. She says she is very proud to lead an exceptional organisation. Over time, the organisation will evolve, but changes will be made gradually. Time will be taken for transitions, and at the right moment, such as the General meeting, once we have a good view, we will be prepared to share updates with everyone.

MACs are very important for Euroclear, allowing us to continue to feel the pulse of the market and be close to challenges and opportunities. Lieve thanks all MAC participants for their contribution, which she says underpins the success of the Company.

- **Ratification of the minutes of the ESES MAC held on 13 June 2016**

Alain Pochet asks the members of the ESES MAC if they have further comments on the minutes of the 13 June 2016 ESES MAC meeting which were sent to the members for validation by e-mail on 1<sup>st</sup> September. There are no further comments on the minutes, the minutes are approved.

- **Regulatory initiatives update**

Ilse Peeters comments the main ongoing topics; i.e.:

a) CSDR

- The European Commission adopted the CSDR prudential standards on 11 November 2016. The European Parliament and Council now have a three months approval period, followed by a non-objection period of the European Parliament and Council.
- All the Prudential Standards should therefore enter into force in March 2017, after which all EU CSDs will need to apply formally for authorisation under CSDR by September 2017. Authorisation would then be expected by March 2018.
- The implementation of the Settlement Discipline Regime Standards is delayed and these may not be adopted by the Commission until Q1 2017. The regime is therefore unlikely to be implemented before Q1 2019.

b) Account segregation

- Broader discussion at the European Post Trade Forum across various topics: new Giovannini barriers, asset segregation...
- ESMA issued a call for evidence on asset segregation and custody services over the summer. The consultation is now over. Euroclear response stressed the importance of omnibus accounts for cross-border efficiency and effectiveness and provided legal and technical evidence why there is no reasons to change this practice.
- ESMA is likely to come with its opinion to the Commission in Q1 2017.

c) Distributed Ledger Technology (“DLT”)

- Euroclear issued a joint paper with Slaughter and May in early November 2016 which complemented our public response to the ESMA discussion paper on DLT in the securities market.
- The paper concluded that, while the application of DLT in securities safekeeping and settlement could yield substantial benefits, the regulatory and legal landscape is not yet optimised to facilitate its widespread use. The paper analysed many of these challenges such as legal certainty, interoperability, data protection and cyber resilience.
- **T2S post migration status and ESES Roadmap**

Dan Toledano comments the presentation. He highlights that:

#### **A. Post migration status**

##### a) highlights

- ESES CSDs, VP Securities and VP Lux successfully migrated to the T2S platform on 12 September 2016.
- T2S is now processing about 50% of the total transaction volume expected after the end of the migration in September 2017. Volume handled by T2S has more than double in terms of cash.
- We are very satisfied with the platform stability both on T2S and ESES sides.
- There are still a few points of attention to address mainly on settlement efficiency and “End Of Day” processes.
- Exceptional effort was made to correct most of the defects identified before and after the migration.
- We implemented proactive daily information with clients during the first weeks on pending issues in production.
- We successfully implemented all the manual workarounds for “descoped functionalities”.
- No major operational incident occurred since the migration.
- Shift organization for client support was stopped mid-October.
- Clients issue list has been stopped on 21 November, back to standard ESES evolutions management. The list of defects is still opened.
- Overall, the communication and relationship with all the actors (ECB, NCBs, CSDs, ESES client community) were very constructive, with a very good attention from the ECB to process issues which were all tackled and analyzed.
- Evolution of the T2S governance: the merger of the T2S AG and the COGESI was confirmed during the last AG and CSG meetings.

##### b) Remaining issues, not yet resolved

###### End of Day processing

- While we are satisfied with the stability of the platforms, the T2S platform is regularly suffering from delays around the end-of-day/start-of-day (EOD/SOD) period, which represents the highest workload during the day. Most delays seem linked to the arrival of substantially increased volumes with the migration of the ESES CSDs.
- Delays need to be investigated and immediate actions to be taken ahead of the wave 4 migration in February 2017, which will bring even more substantial additional activity.
- At the last CSG (16 Nov), the OMG (T2S Operations Managers Group) was mandated to work 1/ in the short term on an immediate action plan to solve the platform instabilities that are being perceived after wave 3 migration and 2/ in the mid-term, on a T2S capacity model.

###### GUI performance

- Performance of the T2S GUI remains a concern, especially for complex queries where response time is not acceptable due to too wide selection criteria and consequential too extensive database search.
- ESES Operations & Client Support teams have learned to circumvent this shortcoming, using other internal tools (Euroclear Connect for Screen) as temporary workaround.

- The T2S GUI performance issue is to be tackled at 4CB/ECB levels.

#### Communication costs

- Beyond some technical issues identified, the first two months have highlighted a significantly higher than expected T2S reporting communication cost, affecting both ESES CSDs and major DCPs.
- The issue of T2S being too “talkative” was already raised by the DCPG (DCP user Group) prior to ESES migration.
- ESES CSDs have raised this issue in the context of T2S working groups (PMG, CRG) and at the last CSG and have submitted a number of change requests to i) reduce the number of status related messages and ii) extend the scope of messages that can be received via bundled files.

Answering a question from Guillaume Fromont, Dan reminds that the ECB invoices the CSDs for the use of T2S and then CSDs recharge their clients. All the costs that ESES bears are supported by the clients.

Guillaume Fromont says that, after having made calculation, his institution is disappointed by the overall cost of a settlement instruction. This topic will certainly continue to require attention.

Toine Vonk considers that an in depth reflection about the T2S pricing model is required.

#### c) Settlement efficiency

- We have seen a significant drop in ESES Settlement efficiency levels in September. While settlement efficiency for EBe and ENL is almost back to pre-migration levels in October, EF levels still require attention, especially in cash amounts. Since the ESES migration to T2S, the EF fail rate in terms of capital settled reached around 3% compared to around 1% before the migration.
- A continuous dialogue is organized with clients mainly during the ESES User Forum Settlement Efficiency sessions.
- The main root causes identified are the following:
  - Overall T2S design which concentrates most performances and optimizations in the NTS, while ESES CSDs are the first ones which make a significant usage of the RTS.
  - Defects impacting settlement efficiency are identified on T2S side, related to technical netting and partial settlement.
- Significant usage of the hold functionality by market participants.
- Ongoing actions are the following:
  - Fixes for some defects impacting settlement efficiency will be deployed in T2S production on 17 December 2016 (T2S release 1.2.1).
  - A workshop was held with the ECB on 28 October to analyse settlement efficiency issues and solutions. A proposal to add a new partial window at 7 am was proposed.
  - A number of good market practices have been discussed with the ESES Users Forum: i) privilege Night Time Settlement versus Real Time Settlement, ii) early input, matching and release of instructions and iii) cautions usage of the hold functionality.

All of those practices will be re-discussed during the ESES User Forum to be held on 24 November.

In preparation of the Wave 4, Alain Pochet suggests that ESES participants analyse fall back option in case the system would not be available on Monday morning as planned, due to potential hick ups during the migration. This should be discussed during the next ESES MAC.

Yvan Timmermans indicates that the T2S system will be upgraded with capacity in anticipation of Wave 4 volumes.

#### d) Harmonisation status

Edwin de Pauw comments the key discussion topics on ESES markets during the Harmonisation Steering Group. He highlights that:

- T2S CA standards: ESES markets (EBE, EF and ENL) have achieved compliance with many of the market claim CA standards, they maintain their red status pending implementation of Transformations in Q1 2017 for EBE, EF and ENL and Buyer Protection in Q1 2018 for EBE and EF.
- CA market standards: ESES markets (EBE, EF and ENL) are expected to achieve full compliance by Q1 2018 (implementation of CSE6 Elective CA processing)
- Restrictions on omnibus accounts: French market practise to differentiate holdings in bearer versus registered securities through the 'nature de compte' (using single ISIN code) creates restrictions on investor CSD and their members to hold a single omnibus account. In addition, for 2 shares, restrictions have been introduced by issuers.
- Settlement interoperability: discussions are ongoing about right trade-off between timing of settlement and credit/ liquidity usage without impacting end of day settlement efficiency.

## B. ESES Roadmap

Dan Toledano provides the members with the tentative view of the 6 ESES releases for 2017. He highlights that:

- The main specific focusses will be the following:
  - February: Wave 4 adaptations and direct link to Germany
  - March: Transformation and direct link with Mont Titoli (foreseen earlier in June)
  - May: CSDR (this will be transparent for clients)
  - July: Business evolutions (scope to be defined)
  - September: Migration of Wave 5 (Iberclear)
  - November: Swift release

The planning has been detailed until March 2017. The detailed planning for the other releases is still under discussion with participants.

### Preparing Wave 4

- Wave 4 migration to T2S production platform is scheduled in weekend of 4-5 February 2017.
- ESES CSDs and its clients will be impacting by Wave 4, and potentially impacting on volume.
- ESES links with CBF and OeKB
  - EF with a direct link with CBF for German securities
  - EF with a relayed link with OeKB via EB
  - CBF and OeKB will become investor CSDs on ESES securities
- Main benefits:
  - DVP settlement with CBF counterparts
  - Cross CSD autocollat with ESES NCBs in Euroclear France
  - New settlement opportunities (e.g. for settlement in EF of German debt cleared by LCH SA)

Edwin de Pauw refers to one big open point for German market: they do not comply with market claims. It is still an open item on our side, which is not an easy one to solve. We hope it is temporary, but the German Market has no clear deadline to change the current process.

- Dedicated plan have been implemented to allow ESES users to test Wave 4 impacts in both Community and Pre-Production testing platforms.
- We are currently assessing how to stress test with ESES, Clearstream and other CSDs volumes just after the completion of the Wave 4 last migration dress rehearsal.
- During the last CSG meeting, escalation was made between CBF and the 4 CBs. CBF requested an urgent review of the wave 4 migration playbook. The point of non-return will be delayed by 30 min. The maintenance window just after the migration is still to be assessed.
- The main deliveries requested for future releases are provided to members. The first element of planning will be provided during the ESES Users Forum of 24 November 2016.

- In parallel to the ESES Roadmap, ESES is also adapting to the T2S software planned evolutions. We have also initiated, via the ESES Users Forum, a consultation of the 3 ESES markets about the future T2S release 2 in 2018.

- **Custody Services Enhancements (CSE) stream 6 status update**

Sébastien Seailles comments the presentation. He highlight that:

- We have progressed accordingly to the planning, mainly on the scope of the CSE 6 project. All the points have been closed in ESES Users Forum, including solution for securities blocking: NDC blocking is chosen as no international norm exists and this is the best internal IT option.
- French DVOP: French market is not in favor of the AFME proposal. Easy MIG to be organized to agree on an interim solution and next steps.
- On 10 November, we have released for review of the ESES Users Forum members the DSD and collected comments which will be discussed during the ESES Users Forum of 24 November. We will officially published the DSD next week.
- Before year end, we will communicate i) the detailed CSE 6 planning for testing and migration (we still need to determine the start of testing in the Community platform in December) as well as ii) the high level planning for expected services evolutions (leftovers of CSE4 and CSE5 and other evolutions of standards).

- **ESES Client survey results**

Philippe Laurensy provides a brief summary of the key highlights from the 2016 ESES client survey.

- Philippe Laurensy thanks the ESES MAC members for their participation to the ESES survey.
- The ESES client survey, which reached a response rate of 72%, showed that we have continued to build momentum with overall client satisfaction reaching 78.9% this year, despite a slight decrease compared to 82.9% in 2015. ESES contacts remain the key driver of satisfaction. ESES staff managed to fulfil and exceed client expectations in demanding T2S times.
- The areas for improvement and areas requiring continued attention identified by ESES clients are the following:
  - T2S: resolution of post-migration issues and roll-out of descoped features,
  - Approach: ensure an open and timely dialogue with clients on ongoing projects and market developments
  - Digital Customer Experience (DCX): continue to enhance local entities' users' experience with the website (euroclear.com and MyEuroclear) and connectivity channels (e.g. EC4Screens).

- **Miscellaneous**

Frédéric Germain comments the ESES service quality presentation, he highlights that:

ESES Service Quality

- The ESES system availability continued to display a good performance with 99.69 of availability at the end of November (99.74% year-to-date).

We experienced 2 main incidents, on 16 August, due to an infrastructure failure (unplanned Swap) and on 8 September, during the preparation for the T2S release, due to a failure on SBI. Since then, the availability went above the expected target.

Insolvency dry run

Frédéric Germain informs the ESES MAC members that a WebEx workshop on the ESES insolvency procedures will be organised on 8 December 2016. The objective of the workshop is to reinforce the

resilience of the financial sector in the face of an insolvency situation. A newsletter will be issued today with more details.

2017 Calendar

CSDR will also impacts the MACs which will become User Committees under CSDR as from September 2017.

The 2017 calendar provides the planning of the ESES MACs and local MACs for the first half of the year and the provisional calendar of the user Committees for the second part of the year.

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 adaptations proposed to be compliant with CSDR.