



Post-trade made easy

MINUTES OF THE ESES MAC HELD ON 3 FEBRUARY 2017

Jean-Paul Rousseau, chairs the meeting

Attendees:

Participants from Amsterdam (VTC)

Pieter Bongers	Rabobank Nederland
Henk Brink	KAS Bank N.V.
Bas Hemelaar	ABN AMRO Bank NV
Richard Ozinga	Deutsche Bank

By conference call

Ron Berndsen	DNB
--------------	-----

Participants from Brussels (VTC)

Jean-Paul Rousseau	Belgian MAC Chairman
Antoine Vonk	Dutch MAC Chairman
Yvan Timmermans	National Bank of Belgium

Participants from Paris (VTC)

Alain Pochet	French MAC Chairman
Emmanuelle Assouan	Banque de France
Eric de Nexon	Société Générale
Dominique De Wit	Groupe Crédit Agricole SA

By conference call

Adrien Decker	Crédit Mutuel / CIC
---------------	---------------------

Participants from London (VTC)

Richard Barber	Citibank International plc
Philippe Castelanelli	HSBC France

Excused today

Kris De Nul	KBC Bank
Guillaume Fromont	CACEIS
Kristof Meganck	BNP Paribas Fortis

Euroclear

Brigitte Daurelle	ESES CEO
Frédéric Germain	ESES COO
Marc de Jaeger	Euroclear Belgium Country Manager
Hugo Spanjer	Euroclear Nederland Country manager
Edwin de Pauw	Head of Europe Product Management
Philippe Laurensy	Head of Commercial
Sébastien Seailles	ESES Head of Product
Véronique Guillaume (for one item)	Euroclear Strategy and Public Affairs
Dimitri Pattyn (for one item)	ESES Projects Department - T2S
Ilse Peeters (for one item)	Director Public Affairs
Dan Toledano (for one item)	ESES Product Management - T2S Sponsor
Véronique Lodico	MAC secretary



Opening

Jean-Paul Rousseau, chairman of the meeting, welcomes the ESES MAC members to the ESES MAC meeting.

1. Approbation of the minutes of the ESES MAC held on 22 November 2016

The minutes of the meeting held on 22 November 2016, are approved as submitted.

2. European context – for information

Jean-Paul Rousseau introduces the topic. He reminds that the information provided to the Committee is confidential.

Brexit, Potential merger London Stock Exchange and Deutsche Boerse and CBF tariff

Ilse Peeters, Véronique Guillaume and Edwin de Pauw provide a Euroclear view on the 3 above topics. Jean-Paul Rousseau invites the members to share their thoughts. The Committee engages an interactive discussion.

Jean-Paul Rousseau proposes to Euroclear to share with the Committee a flavour of initiatives taken at market level in the Brexit context.

Marc de Jaeger provides the Committee with a flavour of the initiatives from the Belgian Market

It is clear that Brussels is not considered as attractive by the London Financial sector as for instance Paris, Frankfurt, Amsterdam or Dublin to potentially relocate their Investment Banking business to following the Brexit.

On the other hand there are some other domains in which Brussels could potentially play a role and is trying to position itself in the context of the Brexit.

One of them is Fintech. Indeed, in the beginning of this year, Johan Van Overtveldt, the Belgian Minister of Finance, started discussions with the UK around building bridges between the Fintech communities in London and in Brussels, and more in particular about working together on a collaborative platform called B-Hive in which a number of major banks, insurers and market infrastructures (including Euroclear) started working together on common innovation challenges.

Besides the Fintech initiatives, Belgium is also already playing an important role at the level of the market infrastructures like Swift and Euroclear and aims to continue to do so following the Brexit.

Jean-Paul Rousseau refers to a report from PwC, outlining the operational impacts and transformation challenges that Brexit poses to the provision of banking services in the EU, which was commissioned by the AFME encourages the Committee to read the document. The report will be shared with the Committee.

Sébastien Séailles provides the Committee with a flavour of the initiatives from the French Market

There is an active promotion of the Paris Financial Place by Authorities (government, BdF, ...), Paris Europlace and the region Ile de France.

Paris Europlace issued a report in November 2016 to promote Paris towards companies willing to relocate (part of) their activities in continental Europe. The report promotes the leadership position of Paris in many banking and financial services, the attractive ecosystem and also recent changes modernizing the social legislation.

The Paris Financial Place is an attractive ecosystem around 5 key sectors including market infrastructures.

Many roadshows have been organised (e.g. Fintech in Paris with Michel Sapin, Minister of Economy and Finance), as well as many targeted communications.

A dedicated desk has been set-up in Paris to welcome and support new comers willing to establish their activities in Paris.

Hugo Spanjer provides the Committee with a flavour of the initiatives from the Dutch Market

The Netherlands kept a low profile where it concerns its positioning towards the opportunities following Brexit. Several elements have possibly contributed to this 'below the radar screen' approach. Firstly, since the recession, the financial industry and (investment) banks in particular are not very popular in the Netherlands. Bringing a significant investment bank to the Netherlands would probably not receive

enthusiastic reactions. This weighs even more in light of the upcoming elections causing a split between the government in Den Hague and the more enthusiastic municipalities. Secondly, the Dutch government wants to position itself as a trusted friend of the UK and therefore does not engage in aggressive marketing.

Nevertheless, the Netherlands Foreign Investment Agency (NFIA) which was set up by the Minister of Economic Affairs now coordinates the efforts to assist companies in establishing itself in the Netherlands, and is now fully equipped to perform its role albeit 'below the radar screen'. They have increased their staff by 20 agents and cooperate with the Dutch Industry Association (VNO-NCW) in representing the interests of Dutch business. A recently held international pitch has resulted in 60 (mostly non-financial) leads. However, we must understand that the current climate (where our Minister of Finance is a strong supporter of strict requirements for the banking industry) is not particularly beneficial for banks.

3. Regulatory initiatives update – for information

CSD Regulation status update

Hugo Spanjer comments the slides sent with the agenda.

The main highlights are the following:

- Timeline: standards are expected to be published early March 2017 (except those related to Settlement Discipline) since neither the Parliament nor the Council proposed any amendment. We aim to file in September 2017 in view of obtaining our licence in March 2018. It is unlikely that Settlement Discipline standards be published in March 2017, which means that they will probably become effective later than March 2019 (2 years after publication).
- IT developments related to Record Keeping and Reconciliation are due for the moment we file (September 2017), which is still stretched since we continue to work on post-T2S releases in parallel.
- We progress to comply with Record Keeping requirements and have started the collection of the necessary data. On 25 January 2017, we have issued a Newsletter informing the clients of the ESES CSDs. This information should be available by the time of filing.
- Regarding the Settlement discipline, foreseen for March 2019 at earliest, we are waiting T2S to propose a solution in Q2 2017. ESES CSDs will have then to choose between the T2S solution and the Euroclear Group solution.
- Segregation of accounts: as CSD participants, we will offer you the choice between omnibus, client segregation and individual client segregation and advise you of the costs and risks associated with each option. You will have the same obligation at your clients' level, offering at least the choice between omnibus, client segregation and individual client account segregation and advise them of the costs and risks associated with each option.
- Capital requirements for CSDs become more important and may require additional capital injections for certain CSDs, when new calculation rules will enter into force at the time of the authorisation.
- In terms of communication, we have published a Client guide and organised a CSDR webinar. Further client communication activities are planned across entities through Users Committees and client dedicated sessions. The Euroclear website will be updated with a specific dedicated page on "CSDR impacts for all clients". This webpage will evolve over time as we update it with relevant information and documentation.

Richard Ozinga refers to the Settlement Discipline. He expresses concern and would like Euroclear to commit to the T2S solution. Bas Hemelaar indicates that such request is supported by ABN AMRO.

Brigitte Daurelle says that she can commit to go to the best solution for ESES but needs to get a complete view on all elements, including the price T2S will charge, before being able to make a decision in the best interest of ESES clients. She indicates that the rationale of the decision will be shared in full transparency with all the ESES MACs.

Financial Stability Board consultation on access to FMI s

Ilse Peeters comments the slides sent with the agenda. The main highlights are the following:

- It is a very specific consultation about, when a firm (bank) is in resolution, will it still have access to FMIs, and under what conditions.
- Arrangements required at level of i) providers of critical FMI services, ii) firms and iii) relevant authorities of firms and providers of critical FMI services.
- Critical FMI services provided either directly by an FMI or custodian to a participant (direct access), or by an FMI intermediary that itself has direct or indirect access to an FMI through one or more other entities of firms (indirect access).
- Response due by 10 February 2017
- At CSDs level, this is not a complex issue however this requires internal processes. We will have to update our Terms and Conditions.

Shareholder Rights Directive

Ilse Peeters highlights the following:

- The text of the directive approved by co-legislators will enter into force two years after its publication in the official journal which is foreseen mid-2017.
- The reference to CSDs has been maintained: “Member States may provide that the company may request the central securities depository or another intermediary or service provider to collect the information regarding shareholder identity, including from the intermediaries in the chain of intermediaries and to transmit the information to the company.”
- We do not expect big impact but we will carefully look at this (level 2 by ESMA)

Jean-Paul Rousseau says that we should keep in mind that it will lead to re-open for ESES and participants the discussion on European standards on General Meeting.

Speech by Yves Mersch: Digital transformation: Europe’s integrated market of tomorrow

Ilse Peeters debriefs the following:

The ECB wants to be more active in the harmonisation of post-trade processes for achieving a truly integrated European financial market. According to Yves Mersch, with T2S, the Eurosystem has created the basis for an efficient and effective settlement mechanism for securities in Europe. At the same time, by adopting the CSD Regulation (CSDR), the Commission has contributed to further harmonisation of the CSDs’ regulatory framework. However, there is still a need for further and coordinated action in the harmonisation of post-trade processes. The first area is securities issuance, the second is instant payment settlement across Europe. In both areas, digitalisation is opening up new opportunities. The ECB, together with market stakeholders, wants to explore how to best take action in these areas.

More to come in the coming years.

4. ESES T2S Status

Dimitri Pattyn and Dan Toledano comment the slides sent with the agenda. The main highlights are the following:

Wave 4 preparation – ESES clients readiness

- Migration of Wave 4 (CBF, Lux CSD Keler, OeKB, KDD, CDCP) is planned on 6 February 2017
- This is the biggest wave for all in terms of volume (+/- doubling)
- All governance bodies, included CSG, are monitoring very closely the preparation of Wave 4 to ensure feasibility of the migration playbook and stability of the T2S platform after migration, through 4 dimensions :
 - Migration WE
 - Platform stability after migration
 - Internal readiness
 - Clients readiness
- Migration WE

The last migration rehearsal of mid-December 2016 delivered mixed results. Most visible aspects suffered delays (10+ hours) which was seen as a serious issue. The positive aspect relates to the fact that all CSDs have completed activities according to plan, as expected. The root cause for delays came from technical issues encountered by T2S.

Upon request from the CSG, the T2S Operator conducted successfully an internal rehearsal mid-January 2017 to which we have all participated.

- Platform stability

- T2S Maintenance Activities

T2S Operator identified a need for long lasting (10h) maintenance during the migration process. T2S Operator confirmed having performed these activities successfully in Dec. 2016.

- The Framework Agreement foresees that if a CSD fails during the migration itself, other CSDs can continue their own migration. This is the so called contingency scenario. However, it was agreed that if CBF has to stop its migration during the week end, this contingency scenario would not apply and a full roll-back would take place. It has created a lot of discussion within the Wave 4 CSDs but finally, an agreement was reached.

- Roll-back Scenario

The T2S CSD Steering Group endorsed that the only possible scenario in case CBF steps out is a “full” roll-back (i.e. whole Wave 4 steps out and situation on Friday End Of Day is retrieved). Ability to roll-back was tested successfully

- Volume Testing

We have done volume testing comparison in December 2016 (which was not as successful) and in January 2017 (which was positive) to assess the T2S stability and performance in production-like conditions after migration of Wave 4. An action plan to redeployed the software was executed between the 2 runs with a positive outcome.

- End Of Day Reports

The root cause for latency of EOD reports identified as a SWIFT testing infrastructure issue. We received commitment by Swift that such issue will not arise in production. Punctuality of EOD reports was confirmed in production (with sufficient buffer)

- Internal readiness

All the pre-migration tasks and testing has been completed accordingly and the go/no go decision process has been made on time. The final step is the confirmation of readiness at T2S Programme Level (SP16.4), which is foreseen today, 3 February 2017. We are ready to support the Wave 4 migration to T2S.

- Client readiness

- The main impact for clients will be the creation of a direct link between Euroclear France and CBF, offering additional benefits of ESES T2S migration

- Cross CSD DVP settlement with CBF participants, for ECB eligible German debt and listed equities
- Cross CSD auto-collateralization with your central bank
- New opportunity to concentrate in ESES, assets and collateral from main T2S markets, complementing ESES coverage: NBB SSS (since Wave 3), CBF (Wave 4), Monte Titoli (March 2017), Iberclear (Wave 5)

The benefit of managing collateral from Euroclear France will not be available from the first day, since it still need assessment from the BdF and the Eurosystem. This does not prevent the migration. It will only start 2 or 3 weeks after, in the course of February 2017 and before the launch of the LCH German debt clearing service on 27 February 2017 (with option to settle in Euroclear France).

- ESES and several clients participated to the last migration rehearsal and Wave 4 volumes testing.
- ESES support during the migration

Specific information on the week-end of migration is available in a dedicated Newsletter. We will ensure communications during the week-end via Newsflash for the main milestones.

Follow up actions from the last ESES MAC

- Settlement Efficiency

ESES settlement efficiency level has improved in October 2016, with an overall stabilisation since November 2016. The resolution of 2 T2S defects in January 2017 has further slightly improved the EF Settlement efficiency in cash amount. Nevertheless, the efficiency levels are still below the pre-migration period. We are looking with the ECB and clients how to improve.

As concrete actions, a workshop will be organised on 27 February 2017 to identify further windows of improvement. Creation of additional change requests are being considered. We will also published ESES best practices. We agreed with the ESES Users Forum members to improve the Settlement Efficiency. We will also organise dedicated ESES User Forum sessions, workshops/telcos with the ECB, and we will regularly create incidents or change requests.

According to Richard Ozinga, the level of settlement efficiency, even improved, is not high enough. What we would like to see is Euroclear proactively contacting those parties who are causing this inefficiency, in order for them to make analysis and to further detail where are the issues.

Dan Toledano answers that Euroclear is about to take some proactive action in contacting participants:

- Already started since 1st January 2017: reactivation of the process of sending alerting in place before migration
- To be implemented shortly: Commercial team will also contact those participants to see the root causes and solutions.

- End of Day performances

Euroclear has shared with the ESES users a set of recommendations issued by the T2S Operating Model Group (OMG) in order to reduce the volumes received by the T2S platform at the end of the day (6 – 8 pm).

We consulted clients (both DCP and ICP) about their possible contribution to reduce this congestion. Several participants have implemented or are ready to implement the bundling of their messages into files.

Still most clients reported that they are not able to delay / filter the volumes of messages sent during the critical period: this would require deep modification of market behavior and could degrade the service quality for end clients.

Defining post launch evolution

- We have kicked-off during the ESES Users Forum of 1st February 2017 a new round of consultations to define the service priorities for 2018 onwards based on the former ESES clients wishlist, remaining services that were descoped from ESES T2S migration and new requests received since T2S migration. A single list was provided to the 3 ESES markets for prioritisation. This will be discussed during the ESES Users Forum of 21 March 2017.

5. ESES roadmap 2017

Dan Toledano comments the slides sent with the agenda. The main highlights are the following:

- The ESES roadmap priorities for 2017 are the following:
 - Adaptation to upcoming T2S waves
 - Further stabilize the platform by resolving the main defects remaining from ESES migration
 - Compliance with CSDR
 - Deliver the main services descoped in the context of ESES migration
 - Deliver a number of evolutions from ESES clients wish list
 - Deliver the first benefits of cross CSD settlement with other T2S markets
- 6 releases are planned in 2017, with tentative delivery scope as from September 2017. The overview of the content per release is shared with the Committee.
- Custody Service Enhancements, stream 6

- Currently the French Market is working on a request for an ISO evolution to be presented prior to 1st May 2017 deadline. French DVOP will be performed under the current process (FOP without matching) until a standard solution is implemented.
- The Detailed Service Description was published in December 2016.
- We have shared with the ESES markets the CSE 6 detailed tentative delivery plan. Feedback from the markets is that there is no objection to the testing plan with 2 months of testing.
- We have received a number of requests from the French Market to try lengthening the testing period. We are investigating and we will come back mid-February 2017 with an answer. Richard Ozinga, on behalf of the Dutch Market, thanks Euroclear for delivering the “4 eyes principal” functionality in July 2017.

He also would like to address a remark to the CSE 6 delivery date and testing: it is more important to stick to March 2018; other delay would not be possible, even if he would prefer to benefit from a longer testing period.

Euroclear will confirm the CSE 6 delivery date in March 2017.

Alain Pochet reacts to the organization of the proposed test schedule and refers to the comments and suggestions made by the French Market, e.g.

- The testing period has been reduced to 6 weeks instead of the 4 months requested by the market, so the possibility to start the tests earlier should be further investigated
- The need to get the Swift template in April / May 2017 (and not 2 weeks before)
- Extend the number of pilots;
- Extend the users tests dedicated to retails

Alain Pochet would like Euroclear to answer the requests/suggestions in February 2017.

6. Blockchain initiative

Sébastien Séailles comments the slides sent with the agenda. The main highlights are the following:

- Euroclear is still actively participating to industry discussions. We recently published a joint White Paper with Oliver Wyman. The aim is to help leaders in capital markets to understand the potential of the technology and lay out the paths for its adoption around key questions raised by the introduction of the DLT mechanism.
- We are pursuing our collaboration in the Consortium in Paris. This initiative aims at exploring the development of a Post trade Blockchain infrastructure for SMEs likely to improve access to capital markets while facilitating secure and transparent post-trade operations. The scope concerns the European SME equities, both listed on Euronext markets and non-listed.
- Shareholders are currently Paris based only but we are discussing with some potential new shareholders in the Belgian and Dutch markets.
- Next steps :
 - June 2016, signature of the MoU
 - Q3/Q4 2016: exploration of the use case i.. regulatory and legal environment, business plan, governance...
 - January 2017: final agreement and start of the anti-trust process
 - Q2 2017: new company to go live

Answering to Toine Vonk, Brigitte Daurelle indicates that the technology provider has not been decided yet.

Edwin de Pauw indicates that the ECB already made several official communications on DLT, stating that whatever the underlying technology, efforts made so far in terms of harmonization should be preserved.

7. Miscellaneous

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

ESES Service Quality

- The ESES system availability continued to display a very good performance with quite 100% of availability at the end of December 2016 (YTD 99.77%) and 99.82% in January 2017.
- We experienced some incidents on T2S side,
 - In December 2017, Swift issue led T2 to delay its processing, as a result T2S had to align its schedule on the new T2 timeline (1 hour delay). The issue was taken by T2S and resolved.
 - On 2 February 2017, Interbolsa sent a huge number of instructions just before the DVP cut-off. In order to process them, and upon request of Interbolsa, T2S, in agreement with all the CSDs, decided to delay the standard deadlines by 2 hours. The night-time settlement started at 10.30 pm.
 - Since then, the availability went above the expected target.

Insolvency workshop

Frédéric Germain thanks the participants for their active contribution during the insolvency workshop organized on 8 December 2016. The aim of the workshop was to share rules and procedures planned in case of insolvency and to run a test case. The workshop went well and the outcome was very positive according to the feedback received. We will replicate this exercise each year.

One of the important elements is a need for improving the harmonization between the ESES markets. Some specificities (e.g. purge of instruction) may create discrepancies in case of default.

Jean-Paul Rousseau closes the meeting and thanks all the members for their contribution.