EUROPEAN CENTRAL BANK

EUROSYSTEM

20 June 2024

ECB Operations Managers Group

Thursday, 20 June 2024

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed Jean Young as new member from Citigroup Global Markets Europe AG. The participants approved the agenda of the meeting.

2. Modern Operations in the European Investment Bank (EIB)

Simon Defat (European Investment Bank – EIB) presented the reorganisation of the EIB Back Office, which included the successful merger of the verification and validation teams and the integration of the treasury and derivatives back-office functions (on-going). The reorganization, driven by the changing nature of required back-office skills, focused on ensuring necessary competencies of team members by realigning the recruitment profile and utilizing the adaptability of existing team members to embrace change. In addition, a homogenous pool of skills was developed with dedicated training programmes prioritised in line with the complexity, frequency and seasonality of underlying tasks. The management of the reorganised teams is supported by two new tools: i) the ILU Management (Being *Informed* about, *Learn* and *Understand* the Task) is used to track team competencies and resilience, identify skill gaps and build development plans, and ii) a set of visual KPIs to display each team member's workload and progress, and facilitate a balanced workload distribution.

In the second part of his presentation, Simon highlighted the completion, in December 2023, of an AI project, which streamlined the bond purchasing process by automatically comparing PDF confirmation attachments received via email from counterparties against system data. The new system is currently used for two business cases: confirmation and coupon matching and owing to its modular design, it minimizes the need for IT interventions.

3. FX Settlement Risk

Stéphane Le Bail (CA-CIB) provided an overview of the main concepts and developments in the area of FX settlement risk. He noted that despite progress in mitigating FX settlement risks, challenges still remain due to the rise in FX claims caused by increased trading activities, complex products, and market volatility. The shift to a T+1 securities settlement timeframe amplifies these risks, necessitating better coordination and potentially prefunding of the underlying trades. Stéphane emphasized the importance of the FX Global Code's principles and adequate strategies for risk mitigation, including accurate risk measurement, governance enhancement, and adherence to regulatory frameworks like Basel III. In addition, he recalled that CLS's PvP settlement service and the use of bilateral netting and market solutions are encouraged to reduce settlement risk. Finally, Stéphane stressed (i) calls for best practices in payment shaping, (ii) same-day nostro reconciliation for settlement finality, and (ii) roll out of innovative technologies like blockchain to streamline processes, considering that global reach could be also improved to overcome various adoption barriers, including of operational and regulatory nature.

4. T+1 Settlement Cycle

Massimiliano Saccani (Intesa Sanpaolo) outlined, from Intesa Sanpaolo's perspective, the impact of a shortened securities settlement cycle, emphasizing key issues for a potential shift to T+1 settlement cycle in Europe. Intesa Sanpaolo's experience in the US highlighted the benefits of increased market efficiency and reduced settlement risk, though significant operational system updates were required. He considers that the transition to T+1 has made US markets more competitive, and it signals the need for Europe to have a coordinated and clear strategy to manage a similar change. In addition, operational processes such as settlement instructions and confirmations must be adapted to accommodate a reduced settlement cycle, calling for further automation and more standardized practices. Transition costs span from IT infrastructure updates to staffing for extended hours, with smaller entities likely facing greater challenges. Benefits include reduced counterparty, market, and credit risks, as well as lower margin requirements, promoting capital markets modernization through increased automation. The EU's transition to T+1/T+0 is far more complicated due to the European market heterogeneity with a high number of diverse stakeholders and complex regulatory frameworks compared to more centralized markets like the US. To facilitate the transition, Massimiliano recommended the establishment of a task force representing a broad range of industry stakeholders, which should create an impact assessment, a coordinated roadmap, and set a go-live date for T+1. As the UK also initiated the preparation for the shortening of the settlement cycle, with intention to complete it by 2027, there is a broad agreement in the market on the merits of a possible coordination of the transition to the T+1 Settlement cycle by the EU, UK, and Switzerland to reduce the impact on associated risks, costs, and efforts. The ECB representatives recalled that ESMA is the EU institution in the lead and referred to the consultations on shortening the settlement cycle[1]. Some market stakeholders have started examining relevant aspects.

5. Remote working: New perspectives, trends and risks

Kiriakos Vavelidis (Commerzbank) presented new perspectives, trends and risks arising from remote working. The pandemic served as a learning curve for remote work, with successful outcomes in collaboration across distances and a newfound appreciation for the benefits of

[1] ESMA: T+1 feedback report shows mixed impacts of shortening the settlement cycle in the EU

mobile working among employees. The hybrid model, combining mobile and office work, presents advantages such as increased flexibility, work-life balance, and the elimination of travel for employees; for customers, it means greater accessibility and choice of communication channels; for the bank, it translates to higher attractiveness as an employer and more efficient collaboration across locations.

Kiriakos outlined some trends and risks: on one hand, remote work is transforming the workforce landscape, offering notable advantages such as enhanced flexibility, financial savings, and a positive environmental footprint. Yet, it also presents notable challenges, such as cybersecurity vulnerabilities and privacy issues. Finding an equilibrium between these benefits and risks will be essential for both organizations and employees in the future.

6. Tour de table questions

In the tour de table, the ECB OMG members discussed FX settlement risk and remote working, emphasising the following aspects:

A. FX Settlement Risk

ECB OMG members confirmed using various methods for mitigating FX settlement risks, including maximizing the use of CLS for volume handling, reliance on bilateral netting (although considered inefficient as relying on manual interventions), enforcing risk limits for counterparties, ensuring adequate credit lines before booking trades, and manual splitting of transactions for certain currencies (mainly done by back offices). As additional measures helping to manage FX settlement risk, the participants highlighted coordination between different time zones, intraday reconciliations, early trade matching, proactive counterparty communication, client engagement, partial settlement, and the adherence to the FX Global Code.

The participants confirmed that the transition to T+1 settlement in the US was smooth and did so far not result in a noticeable increase in settlement fails, with most transactions settling on time. While they acknowledge the challenges in aligning different markets to the same settlement cycle, they believe it is beneficial. As concerns T+1 settlement cycle in the EU, most ECB OMG members are in very early preparatory stages, noting that it is a complex task due to differences in taxation, legal frameworks, market practices, and time zones as compared to the US.

B. Remote working: new perspectives, trends and risks

Almost all member institutions adopted a hybrid model, allowing employees to spend 2-3 days in the office and the remainder working from home, though this can vary by institution and division.

The onboarding of new employees in a hybrid environment is considered a significant challenge, as it negatively impacts new joiners' integration, learning pace and maintaining a corporate culture. Measures to mitigate related obstacles include extended onboarding periods, mandatory onsite work, daily stand-ups, and obligatory camera usage by all the staff during meetings. One member reported that teleworking is restricted for new hires, gradually increasing with tenure.

With the shift to remote work, the number of online meetings has risen, leading to fewer informal interactions, and thereby weakening team spirit and issue handling. To ensure accountability, dedicated productivity tools and dashboards are used to monitor activity, in some cases employee's area also required to notify when they start and end their workday or to keep open calendars. While some OMG members reported monitoring the staff presence, others emphasised the trust-based culture, with management focussing on the quantity and quality of output, not on the time spent.

Furthermore, to improve the quality of remote interactions, investments have been made in adequate bandwidth, video rooms and other infrastructure to support hybrid working.

Finally, hybrid working is connected with stronger cybersecurity measures, with many participants referring to regular awareness training and testing, e.g., phishing simulations, and safeguarding internal systems for example by prohibiting the use of private devices.

7. AOB

In the context of the ongoing review of the FX Global Code, Janusz Ryzner (ECB OMG Secretariat) recalled the main objectives of the Code, aimed at enhancing resilience and safety of the global FX market. Inter alia, the current review of the Code aims to strengthen of FX settlement principles in order to make them more precise and agile. ECB OMG members are encouraged to subscribe to the adherence to the Code, also owing that the ECB OMG intends to make commitment to the Code a criterion for future ECB OMG membership.

Marijana Bottari (ECB OMG Secretariat) informed the members about the recent review of the ECB OMG Terms of Reference which have been harmonized with those of the other contact groups within the ECB's Directorate-General for Market Operations. The updated Terms of Reference will be published soon and require a re-application of members after 5 years. Membership will be assessed based on fit of the candidate's profile and motivation with the ECB OMG's mandate, and for potential continuation, as well as active contributions in the past period.

The next meeting will take place on 26 September 2024 as a physical meeting hosted at the ECB in Frankfurt.