Frankfurt
Global SMPG Meeting
April 8 – 10, 2019

SMPG
Securities Market Practice Group
Your Gateway to Securities Standards !

Meeting Venue:	**Sponsored by:**	Co-Sponsor Deutsche Bank
BVI Bockenheimer Anlage 15 60322 Frankfurt Germany **Dress Code:** Business casual	.BVI clearstream | DEUTSCHE BÖRSE GROUP	DEUTSCHE BUNDESBANK EUROSYSTEM

I.   Meeting Global Agenda

Monday 8th of April	
12:00 – 13:00	Arrival & Check-in at BVI Premises + Light Lunch
13:00	**Plenary Session Opening**
13:00 – 15:00	1. **SMPG Welcome Address (Armin Borries, SMPG Chair, DE NMPG)** 2. **Welcome Address by Host (BVI)** 3. **Global Meeting Schedule (Jacques Littré, SMPG General Secretary)** 4. **ISO 20022 Migration and the ECB Planning (ESMIG, T2, ECMS)** 5. **Shareholder Rights Directive 2 Panel discussion** 6. **SMPG Steering Committee Elections**
15:00 – 15:30	**Transport to the Deutsche Bundesbank "Money Museum"**
15:30 – 17:00	**Visit of the "Money Museum"**
17:15 – 18:00	In the Deutsche Bundesbank premises: 7. **EMEA Regional Updates – (EMEA Regional Directors)** 8. **China Bond Market Overview & CCDC Practice (China, CCDC)** 9. **APAC Regional Updates (APAC Regional Directors)**
18:00 – 18:30	**Transport to BVI**
18:30	**End of Plenary Session**
	Free Evening

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II.   Settlement And Reconciliation WG - Agenda

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Tuesday 9ᵗʰ of April	
09:00 – 10:45	Welcome – Tour de table Payment/Liquidity management linked to Securities (Vincent Kuntz – SWIFT)
11:00 – 12:30	Bond Connect - Introduction and update (Harry Huang - SWIFT)
13:30 – 15:30	CSDR – MP/Discussion - Penalty mechanism (Euroclear/SWIFT) CSDR – Penalty mechanism – Penalty collection (Payment) (Vincent Kuntz – SWIFT)
16:00 – 17:30	CSDR – MP/Discussion - Buy-in process (Robin Leary/SWIFT)

Welcome - Tour de table
The group welcomed new participants from Malaysia, Japan, China and Slovenia.

S&R working group co-chair election.
Axelle Wurmser was unanimously re-elected as S&R SMPG co-chair for the next 2 years term.

Payment/liquidity management linked to securities (Vincent Kuntz)
SWIFT analysis shows that the securities business represents at least 30% of total payments traffic.
It is important to make sure securities related payment flows are executed in a proper way. Payments messages should contain sufficient data allowing execution and reconciliation of underlying securities transactions on standardised STP basis.
Vincent Kuntz from SWIFT presented typical payments scenarios with MT messaging illustration. Presentation included book transfers for non-financial institutions based on MT103, inter-bank bank transfer with MT202, serial payments, cover payments with MT103 and MT202 COV.
Payments related to cash legs of securities settlement scenarios were covered, including FX operations.
(slides available at SMPG website)
Cross-Border Payments and Reporting Plus (CBPR+) joint working group was created to prepare global ISO 20022 market practice guidelines for selected payments and cash reporting messages. Securities SEG and SMPG are members of the group (observer only). It is crucial to make sure the new payments are used in a proper way for securities related payments.
Settlement, reconciliation, funds, collateral and CA related flows should be covered.
Jason proposed to organise a special session for payments/securities before next SMPG meeting in Brussels or SWIFT La Hulpe.
A task force should be created that would prepare an inventory of flows covering S&R, CA, Funds – SWIFT may facilitate a work of this taskforce created by volunteers from SMPG WGs. It might be based on the work done by SMPG in 2010. Charles confirmed that SWIFT would be happy to facilitate these discussions. A session before Brussels meeting may be organised at SWIFT premises.

Jason presented securities related payments ISITC MP created in 2016. The flows illustrated there are based on the ones created in 2010. It is a detailed document with specific scenarios and code/qualifier usage. It might be a foundation for further SMPG discussions.

Securities related data elements, like debit/credit notification, ISIN, safekeeping account are already included in T2S cash management reporting. T2S will use some of them from June this year. In pure payments messages they are not included, as there was no formal CR for that.

Bond connect – introduction and industry operational challenge (Harry Huang)

Harry Huang presented the characteristics of the Chinese capital market structure, which is 2nd biggest market in the world.

Market access types were presented:
- On-exchange Traded Securities access models: direct, Stock connect, mutual fund recognition;
- Interbank Bonds an FX access models: Interbank FX, Direct, Bond connect.

Bond connect is an international trading platform, aiming to increase the presence of foreign investors, which is about 2-5% at the moment.

CMU – Hongkong central clearing party is involved in the clearing and settlement as well as on shore CSDs: CCDS and SCH. Onshore vs Offshore Renminbi FX is done by HK custodian. Cost of FX between CNH and CNY is an issue. Investor has to open 2 cash accounts for CNH and CNY, even though it is formally the 'same' currency. Creation of new currency code under ISO4217 has been rejected.

The proposed solution is to use Place of Settlement codes to distinguish between CNY and CNH:

> :95::PSET//NDCCCNB1**CNY**
> :95::PSET//NDCCCNB1**CNH**

NDCCCNB1 BIC8 will be used as default for CNH.

The solution would require to register a non-connected BIC and new branch code.

After discussion during SMPG Sydney meeting, SMPG is supportive for the solution, even this is not an ideal one.

It provides opportunities for automation of the flows. The existing workaround is to have two cash accounts. However, for some custodians it may be an issue to provide two accounts for the same currency.

There are still discussions around the solution on the level of HK community and ASIFMA. SMPG will wait for consensus on the regional level before taking further steps.

CSDR –Penalty mechanism – Euroclear approach (Annemie Loose)

Annemie shared information on Euroclear approach for CSDR penalties reporting using MT537.

ECSDA prepared CSDR framework, the document which is a MP for CSDs to ensure all CSDs implement the requirements in a harmonised way. This document is not detailed enough from messaging perspective, though.

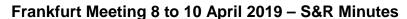Penalty information may be distributed using following messages:
- MT537,
- MT548 (daily information only),
- semt.044 (draft expected in June).

Euroclear will use MT537 in communication with their counterparties.

Timelines of calculation, corrections and cash distribution was presented. The deadline for penalty reporting is 12:00 the following day.

Both late matching and late settlement scenarios are reviewed.

Details of MT537 sections in a new PENA mode were presented. MT537 for normal usage will continue to be used the usual way.

Calculation methods and parameters were presented in details. The complex cross CSD scenario was covered. Issuer CSD is the one calculating the penalties.

There are still open points, including: pre-advice message, how to instruct payments, collection and redistribution of cross-CSD penalties, service offering by CSDs to their clients.

(slides available at SMPG website)

CSDR – penalty reporting (Alexandre Hotat /Paul Janssens)

MT537 and MT548 – messages have been already updated for SR2019.

Additional change needs have been identified since. MT537 and 548 will be updated for SR 2020.

4CB started to prepare ISO20022 message - semt.044. T2S plans to implement the functionality related to the new message by November 2020.

MP is needed to ensure common interpretation by the CSDs and other institutions down the settlement chain. The scope of the document will be different than ECSDA framework, which is CSD oriented only.

Alex and Paul compared the MT537 and semt.044 functionality and structure. Both semt.044 and 537 follows the same logic.

The only identified difference is location of Counterparty CSD field.

The counterparty CSD will be multiplicated and added to another place in semt.044, making it easier to map it to MT537.

LEI identifier are available in both messages.

A new related reporting message is under development – to be used by CSDs for monthly reports to regulators. The message should be ready by the end of the year for evaluation.

CSDR – MP discussion – buy-in process (Robin Leary/SWIFT)

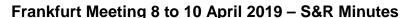Robin presented scenarios of buy-in process, involving various counterparties.

On the detailed level, there still a lot of issues to be determined.

MP document would be useful to clarify scenarios and message flows. Different indicators and sometimes transaction type is used in the flows, which may be confusing.

ISITC MP on buy-in process is under preparation. They may share the draft with SMPG. The process should be the same, even if the MP is not directly related to European regulations.

(slides available at SMPG website)

ISITC update – (Jason Brasile)

- Third Party Foreign Exchange Market Practice – SR2019 updates.
  - Reviewed with working group for informational purposes and notified of the draft document posting to the SMPG website. Pending finalization with ISITC prior to posting updated version to SMPG website as final.

- ISO20022 drivers and justification tracking sheet – ISITC previously was tracking a list of business processes that helps act as a driver/justification for the investment as a community (IM to custodian/fund accountant) to use ISO20022 over existing ISO message formats.

- ISITC Settlements WG Market/CSD Impacts Matrix latest list

  - SMPG is for harmonizing of global market practices and does not own the accountability of local market practice documentation. Nor does the SnR WG have the capacity within the volunteer membership to identify and proactively notify on all possible market/CSD changes that have potential messaging or SSI impacts. SMPG does commit to assisting with inquiries to facilitate introductions to local market contacts where known.
  - J. Brasile reiterated ISITC membership are global organizations looking at global market practice issues and not just US (DTCC and FED settlement.). Highlighted need for close coordination with APAC RMPG and local NMPGs.

- Additional market specific topics of discussion raised by ISITC for discussion:
    - KELR local code usage latest update
        - The current market practices and requirements (since year 2010) are applicable in the market, DEAG/REAG should populate the account holder institution's 4 digit KELR code and not the BIC code
        - KELR BANC implementation that was scheduled for November 21, 2016 after being postponed several times have been postponed indefinitely. No new updates on implementation timeline known by SMPG at this time. No local NMPG contact for Hungary participates within SMPG.
        - The default requirement in the BaNCS system (that will be T2S compliant), in line with the T2S standards will be the 11 digit long SWIFT BIC.
    Frankfurt Update - KELER has discontinued working with TCS. They are reshaping their project without any significant progress. There will be a meeting with them next week on the topic, what we know is that they are looking for alternate provider. The existing account structure remains as is even no information re CSDR requirements and how KELER intends to implement the changes necessary.

- Time Deposits – complex roll scenarios documenting.Looking for participants to include globally to setup sub-group to revisit open questions in SMPG MP.
    - J. Brasile sent out email (Jan. 15th) list of SMEs globally for interest in leading a sub-group to document a business case on potential future amendments.
    - Joe Halberstaadt (SWIFT FX WG facilitator) feedback was the FX WG did not have good SME contacts from their WG to drive this topic.
    - Interest from others, but no group or individuals were willing to organize/lead to collect feedback and formulate a business case for SMPG and ISITC discussion.
        - UK NMPG – Paul Baybutt (AFME, IA-UK), and Robyn Leary
        - US ISITC – Audrea Jarvis and Gary Heald as ISITC Settlements WG co-chairs to coordinate for ISITC SMEs
        - AU NMPG – Tim Long

- Updated SMPG bi-lateral repo MP – finalized and posted to SMPG website.
    SMPG to own update to document to incorporate ISO20022 illustrations and MyStandards digitization of MP.

(documents available at SMPG website)

Wednesday 10th of April	
8:30 – 9:00	Arrival & Check-in at BVI Premises
09:00 – 10:45	Employee Shares – MP / Discussion (Armin) Transaction indicator (TRAN) and relation to Settlement Transaction Indicator [SETR] – MP/ Discussion (VP Denmark)
11:00 – 12:30	SFTR – Discussion (Paul Janssens) MP inventory review – document naming harmonisation, ISO20022 illustrations, identified update needs (Marcin, all)
13:30 – 15:30	Migration to ISO20022 – is it chaotic (Axelle) Foreign Exchange business area (Axelle) Collateral Management – AMISeco - ECMS(Axelle)
15:45 – 17:00	AOB

Employee shares MP (Armin)

In several countries there are employee share programs in place, where employees get some shares at discount price, but they need to keep them for a defined period of time.

For portfolio transfers, the information telling its employee share must be kept.

CR has been raised several times to create a new code/qualifier for this purpose, but was rejected.

Armin proposes a CR for MT540/42, 536, 535, 586, 578, 537 and ISO2022 equivalent, requesting for a new qualifier.

Armin will prepare a CR in the name of German, Swiss and Belgian markets that will be later supported by SMPG.

The new code should be a matching criterium – probably as an additional/optional matching criteria. The open question is, if it can be a matching field at T2S level.

Expiration of cancellation (Suzanne Forup - VP Denmark)

Cancellation requests in T2S expire after 20 days. The counterparty is not informed about expiration, which might cause operational issues.

T2S position is that it is a normal situation.

Hiroko confirmed, that JASDEC have similar function and they inform the counterparty about the situation.

Transaction indicator TRAN and relation to settlement transaction indicator SETR - (Suzanne Forup - VP Denmark)

Transaction activity codes in 537 are different than SETR transaction codes.

Suzanne presented a mapping document, where in some cases the guidelines are not clear enough.

Ton found the document from Helsinki, where SMPG discussed this initially in 2016. There is mapping between activity type and transaction type. It was endorsed by SMPG at the time, but now it has to be reviewed.

T2S currently reports all transactions as SETT.

The group will look at the documents and come back to VP with some advice.

SFTR discussion (Paul Janssens)

SFTR RTS got approved on 22 March 2019. Reporting will start in April 2020 for credit institutions and investments firms. Other institution types will join later in 2020 in a few phases.

ESMA developed a number of ISO20222 messages to fulfil the regulatory requirements. Evaluation by SEG will start in April. The main message for reporting is DRAFT2auth.052.001.01.

ISO20022 communication will be required end-to end. Usage guideline of the draft is available on MyStandards.

There are some challenges that community should be aware of: the common understanding of the data elements, data fragmentation, data quality, resources (CSDR/SFTR).

MP inventory review – document naming harmonisation, ISO20022 illustration, update needs (Marcin Zawistowski)

The list of all MP prepared and published on smpg.info website by S&R WG were reviewed. A proposal to change the document names was presented, to make them more consistent and aligned with respective MyStandards usage guidelines.

It was decided that the group will review around 5 MP documents at each future meeting to make all the documents continuously up to date.

At the next meeting in Brussels the five oldest MPs will be reviewed.

Each of the MP document should have an assigned 'god parent', responsible for making the necessary updates. Volunteers are welcome as the workload should be balanced across the participating countries.

Migration to ISO20022 - is it chaotic? (Axelle Wurmser)

ISO20022 survey results were discussed. For securities segment the answer was around 50/50, with no clear position. More detailed results revealed the different approach across the regions, with AM-UK 18/12, APAC 11/11 and EMEA – 30/17 in favour of migration.

Payments messages will migrate, many other new ISO20022 messages esp. in regulatory space will be introduced. Securities sector is definitely impacted.

CBPR+ - SMPG will have an observer role there.

A number of issues with ISO20022 development, management and adoption were presented and discussed.

The number of BJ and new developed messages reviewed by ISO02022 SEG and their evaluation teams is significant. There are currently 7 outstanding BJ submitted to SEG.

Submitters follow different calendars for their developments, there is poor level of reusing existing ISO20022 messages. Market infrastructures and regulators can mandate usage of a particular standard, while the global players cannot. The documentation provided with BJ are similar to Market Practice document. Can it be taken as MP?

ISO20022 does not always follow yearly standard release calendar, as it is in MT world.

IT is often a bottleneck with introducing ISO20022 solutions.

There is often a problem with business case. With migration to 15022 which was done 20 years ago, most problems had been already fixed.

Renewal is an opportunity for change. Migrations occurs usually with MI or regulatory requirements. Many major payments infrastructures are renewing their systems right now.

Around the core business there are more and more areas, where ISO20022 is to be used.

Japan – from business case, and regulatory perspective the answer for migration was 'no', but from community perspective – the answer was 'yes' for payments, because the community is supposed to move there.

Denis: Instant payments are bigger innovation than ISO20022, with related technologies including APIs and JSON.

Paul: the real driver for change in payments are the new players coming into competition.

Collateral management - AMISeco (Axelle Wurmser)

ECMS (Eurosystem Collateral Management System) is under development by Eurosystem, going live in 2022.
CA flows will be significantly impacted. Eurosystem will mandate using ISO20022 messaging for all CA processing on assets being used as collateral.

AOB

The next SMPG global meeting will be held in Brussels at Euroclear premises on 18-20 September 2019. It was also proposed to add September 17th as an extra day to have payments/securities workshop at SWIFT headquarters in La Hulpe.
The participants were strongly encouraged to submit agenda topics suggestions for the next meetings. One of the areas of interests is DLT/tokenisation process.