ECB Operations Managers Group
Frankfurt am Main, Tuesday 12 December 2017, 14:00 – 18:00 CET

Summary of the discussion

1.   Project 'STELLA'

Dirk Bullmann (ECB) and Shuji Kobayakawa (BoJ) introduced the joint ECB-BoJ research project named 'Project STELLA', which explores the possibilities offered by the application of Distributed Ledger Technologies (DLT) to payment services in the field of cash, securities and collateral. As a first step, the project investigated the application of DLT to cash payment services. The tests undertaken in parallel at the ECB and the BoJ assess the safety and efficiency standards of existing functionalities (e.g. liquidity saving mechanisms) present in TARGET 2 and BOJ-NET, their respective Real-Time Gross Settlement systems, by replicating them in a publicly available DLT environment. The outcome of the tests was reasonably optimistic in terms of performance and resilience, although the technology is still considered to be at a premature stage. The Members then discussed the imperative need for a legal and governance framework to be developed. They touched upon the responsibility of the private sector to seek its own perspective on DLT.

2.   MIFID II implementation state of play

Jurius-Georg Dillmann (UniCredit) updated the Group on the implementation state of play of MIFID II at his institution. He first provided an overview of the regulatory roadmap his institution has had to implement in the past decade, and pointed at the wider scope of requirements underpinning MIFID II. In this regard, he underlined the challenge to streamline the reports mandated by all regulations, that cover different sources, techniques and products. Further challenges of a regulatory, markets and operational nature approaching the implementation deadline were highlighted. First, the absence of an equal playing field in light of the current fragmented regulatory environment is expected to incentivise investment firms to regulatory-arbitrage at the EU and global level. From a market perspective, the question of Systematic Internalisers is expected to be prominent in 2018, and will require further clarification from the regulators. In addition, the Members mentioned that the issue of registration and reporting of some derivatives was not expected to be resolved before the

implementation deadline. From an operational perspective, the reliance on external venues for data or software releases and the challenge of maintaining qualified operational units of staff were reported to be high. Members concluded that technological innovations are facilitating the implementation process but need to mature further.

3. 2018 Work Programme

The ECB collected the ECB OMG Members' feedback on the 2018 Work Programme, which will renew its focus on operational topics of interest, while developing work connected to the implementation of regulations and technological innovations impacting the back office space. In addition, the Group will continue to strengthen its collaboration with other ECB market contact groups as well as its co-operation with other groups at a global level.

4. Smart contracts from a legal perspective

Udo Milkau (DZ Bank) reviewed the legal implications of 'smart contracts', sometimes referred to as 'self-enforcing legal obligations', for which actions are based on conditions run via a computer code in a Distributed Ledger Technology (DLT) environment. The change of paradigm in software architecture raises the question of substituting strictly defined rules set out in overarching contracts (applicable law, form, language, offer and declaration of will with identification of parties) with distributed codes. While smart contracts can be deemed as legally enforceable on a short term horizon, U. Milkau pointed at the viability of the underlying code which may not be sustainable on a longer term, when considering software aging, the limited storage capacity of a computer to recalculate a contract in every node, or the inflexibility to update the code regularly. Finally, the Members discussed the need to shape a standard law, a risk layer and governance as a prerequisite for the technology to develop further and to be progressively implemented in the context of contractual relationships.

5. Confirmation and settlement processes at a major market player

Rakesh Venugopal (Société Générale) provided an overview of the confirmation and settlement processes at his institution. He started with the organisational structure of the bank set along three core business lines. CIB operations, which includes the OTC operational department responsible of the post-trade processing of OTC transactions, is mainly spread over two operational locations, in Europe and India. This set up allows to achieve a timely confirmation and settlement of all asset classes irrespective of the time zones. As far as smart automation is concerned, it was mentioned that the bank's operations had already achieved a certain level of automation. Further cognitive automation is now under scrutiny, which could be applied to different operational fields such as Paper confirmations.