

SUMMARY OF THE ECB OPERATIONS MANAGERS GROUP (OMG) MEETING MADRID - 20 MAY 2008

1 Introduction and approval of the agenda

The Chairman welcomed the participants and asked them to approve the agenda. He also greeted the guest speakers from SWIFT and OMGEO and mentioned that, in line with the OMG's ongoing intention to maintain a neutral stance vis-à-vis individual service providers, other external service providers would similarly give presentations on topical issues in the future. Then he introduced a new member of the OMG, Veronique Nejman (Fortis Bank) in replacement of Marc Camus. Thereafter, Concha Jimenez, (Head of Department Operations; Banco de Espana) greeted the participants for this meeting in Madrid and gave a brief introductory speech, reminding members that the increasing size in volume and activity taking place in FX markets which is enhancing back-office activity from a purely functional role into a growing value-adding activity.

2 Work on Standard Settlement Instructions and Trade Confirmations

Heiko Kroeber (Dresdner Bank) introduced the work carried out by the OMG Task Force on Standard Settlement Instructions (SSI). He mentioned the increasing importance of electronic platforms, currently generating up to 70-80% of the estimated overall volume of FX transactions. In addition, FX transactions are increasingly settling on a same-day and overnight basis. This is creating the potential for errors in payment execution that could in turn cause gridlocks and generate interest claims in case of delayed settlement. He emphasized the differences in requirements by banks' trading partners i.e. corporate entities and other players from the financial industry. In this sense the acceptance of SWIFT broadcast messages, the accurate input of settlement instructions and the availability of static data have a growing importance. For bigger corporations it should be easier to come up with standardised SSIs than for smaller players.

Bill Boss (UBS) introduced the work performed by the OMG Task Force on confirmations. Besides the stock-taking exercise on work done in other groups, he mentioned that further work would be necessary to analyse data on confirmations and that some vendors active on the markets were collecting and disseminating this type of data, albeit at a cost.

Tony Freeman and Aeneas O'Hara (OMGEO) then gave a presentation on current SSI operating models and possible future developments. After reviewing the European process model, the importance of the confirmation phase between the trading and the post-trading phase were highlighted, in particular that speed and accuracy of confirmation were driving the efficiency of the downstream processes. Central matching could be enriched through the use of SSIs before settlement notification took place. A number of different SSI operating models currently characterizing the markets were presented (enrichment, warehousing) as well as others operating models depending on the players (dealer-client, dealer-dealer). Issues that require additional work to be solved include the ownership and management of SSI static data collected in databases and an increased standardization of data.

The presentation then touched upon the importance of SDA - Same Day Affirmation (i.e. same-day matching of trade details). It was highlighted that this practice is not current practice throughout Europe because different players have different priorities in terms of trade-off between efficiency and risk/stability. SDA requires higher levels of automation of settlement processes to be achieved. It was mentioned that self regulation but more likely some sort of soft regulation (e.g. code-of-conduct style) might bring more harmonization in this area.

Jackie Farrow and Peter O'Keefe (SWIFT) reviewed the areas where SWIFT traditionally has a more established product offer for the financial community, as well as those areas requiring additional development of products. They also described some key initiatives currently being pursued (middle office products, buy-side- broker flow, trade capture at source). In addition, the establishment of an FX Advisory Group organized by SWIFT was reported. The objective of this Group, established in 2008 and made up of 15 members, is to study ways of expanding the role in FX post-trade/pre-settlement processing, validate community needs, formulate standardization and market solutions and make proposals for industry models. A first meeting held on 31 March 2008 identified four areas where progress can be made: i) allocations; ii) FX settlement; iii) buy side / hedge funds workflows; iv) front-end fragmentation. In particular, the repackaging of existing MT300 confirmation solutions for hedge funds and the creation of a standardized authenticated message for the notification of an SSI change as a first step were mentioned as having priority. Finally, it was mentioned that new users have recently started to be offered simplified and cheaper connectivity to SWIFT through the use of an internet-based product ("Lite").

The Group suggested continued exchanges with external providers around SSIs to avoid duplication of efforts around standard setting, capture and maintenance of SSIs.

3 Management of operational risk in a central bank

Pedro Tejado (Banco de Espana) gave a presentation on the operational flow management in a central bank. Having pointed out the differences between risk management in a central bank (few operations normally of a high/very high value; small size of the back office) as opposed to a commercial environment (high to very high volume of operations; various back office units specialising on specific instruments),

the presentation then provided an insight on some of the instruments used by a central bank (some of these instruments being shared within the Eurosystem central banks). Some typical examples and deadlines of daily performance of tasks - including monitoring instruments to ensure automatic check of tasks – were also part of the presentation.

4 The organisation of activities in a commercial bank

Alejandra Kindelan (Banco Santander) traced the history of Banco Santander's evolution from a domestic retail bank into a global financial group. She then gave some insight on issues such as diversification, efficiency, balance sheet composition, business portfolio, branding, cost control, risk management. Finally, she provided visions and strategy for the future development in the commercial and retail banking sector.

5 Other business

The next meeting will be held in Frankfurt on 6th October 2008.

List of participants

OMG- Meeting Santander Bank, Madrid 20 May 2008 - from 10:00 to 16:00

<u>Participant's organisation</u>	<u>Name of participant</u>	
AIB Global Treasury	Ms Adrienne Burke	
Banca Intesa	Mr Errico Rescigno	
Banco Santander	Mr Jose Muñoz	
BNP Paribas	Ms Sophie Gatellier	
CECA	Mr Pablo Quiralte	
Credit Suisse	Mr Andreas Gaus	
Deutsche Bank AG	Mr Ottmar Ackermann	
Dexia-Bil	Mr Christian Glesener	
Dresdner Bank AG	Mr Heiko Kroeber	
Fortis Bank	Ms Veronique Nejman	
HSBC Bank	Mr Mike Neale	
Rabobank	Mr René Steenhart	Chairman
UBS	Mr William Boss	
Banque Nationale de Belgique	Ms Catherine Specia	
Banco de España	Mr Pedro Tejado	
Banca d'Italia	Mr Aldo Marinozzi	
European Central Bank	Mr Orazio Mastroeni Mr Harm Metselaar	Secretary
Guest Speakers -	<i>Mr Tony Freeman</i> <i>Mr Aeneas O'Hara</i> <i>Ms Jackie Farrow</i> <i>Mr Peter O'Keefe</i>	<i>OMGEO</i> <i>OMGEO</i> <i>SWIFT</i> <i>SWIFT</i>