

Collateral Management Harmonisation

*Triparty Collateral Management
Corporate Actions*

AMI-SeCo 22 June 2018

Overview

- 1 Collateral Management Harmonisation**
- 2 Triparty Collateral Management Harmonisation
- 3 Corporate Actions Harmonisation

Harmonisation proposals of triparty collateral management and corporate actions: *Single Rulebook*

- Proposals have been prepared by AMI-SeCo HSG's Collateral Management Harmonisation Task Force (CMH-TF) on:
 - a **single triparty model** for Europe with detailed harmonised business processes and workflows - for Eurosystem interaction with eligible triparty agents (TPAs).
 - a single list of **harmonised corporate action** events with detailed harmonised business processes and workflows, relevant to Eurosystem eligible debt instruments – for Eurosystem interaction with relevant stakeholders.
- Follow-up actions have been identified on a few remaining triparty and CA items.
- HSG endorsed the CMH-TF reports.

1. Collateral Management Harmonisation

Context: Harmonisation needs were identified by AMI-SeCo in Dec 2017 for collateral management harmonisation in view of fostering the creation of a truly ‘domestic pan-European’ financial market.

- **Increased importance of collateralised transactions:**
 - Market need for harmonised TPA procedures and efficient handling corporate action (CA) events when securities are used as collateral.
 - Market need to remove the barriers to efficient and effective collateral management and adopt latest international standards (ISO 20022).
- **The Eurosystem plans to go live with the ECMS in November 2022** (which will be based solely on ISO 20022 compliant messaging).

Stakeholder involvement

CMH-TF involved relevant financial market stakeholders:

- The CMH-TF had 8 meetings (between 08/2017-06/2018). CMH-TF subgroups had regular calls and involved external expertise.

Feedback on harmonisation proposals was collected:

- CMH-TF members and their constituencies (e.g. ICMA, ISLA, etc) provided feedback on the TPAs analysis on the harmonisation of triparty processes/workflows (March 2018 & May 2018).
- TPAs elaborated on the harmonisation of triparty processes and the interaction between TPAs and market participants (Triparty commercial model). Feedback showed that the processes are similar to those with Eurosystem (Central bank model).
- For CA events and processes, SWIFT, ECSDA, National Stakeholder Groups, and other stakeholders (ISLA, ICMA ERCC) have been involved.

1. Collateral Management Harmonisation

Key points

- 1) The adoption of ISO 20022 message standards is an opportunity for further harmonisation of post-trade activities (for triparty & CA).
- 2) There will be a single, harmonised triparty model based on the ISO 20022 standard (and new harmonised triparty processes have been developed for Eurosystem interaction with TPAs).
- 3) There will be harmonised processing for CA events which are deemed relevant to Eurosystem eligible debt instruments (with more detailed CA standards for collateral management, which are consistent with existing high level CA standards).
- 4) Follow-up work is ongoing on the identification of the collateral giver and collateral taker and the processing of CAs beyond the current focus on the interaction of NCBs and relevant stakeholders.
- 5) Following the approval by the ECB's Governing Council, the ECMS will be developed based on the harmonised processes/workflows.

CMH-TF and HSG identified that some of current market standards/ practices are influenced by legal and regulatory requirements (which are beyond AMI-SeCo's remit).

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Harmonisation of triparty collateral management

Achievements:

- Harmonised triparty procedures
 - based on a single set of ISO20022 messaging and common workflows, which all eligible TPAs will adhere to in time for the go-live of ECMS.
- For both Eurosystem central banks and market participants
 - To enhance and simplify the use of triparty services and transactions from the perspective of both Eurosystem central banks and market participants. The single set of TPA procedures will be supported by the ECMS.
- New harmonised processes: transmission of data on a timely basis and unilateral removal:
 - The possibility to receive detailed information on the securities collateralising triparty global amounts on a real-time basis to allow for the execution of close link and concentration limit checks.
 - The possibility for removal of specific asset(s) that breach limits.

2. Triparty Collateral Management

Priority 1 Harmonisation Needs			
	Process	Explanation	
1	Increase of Triparty Collateral Exposure (Global Amount)	There is a need to implement harmonised messaging and workflows for the increase of a triparty collateral exposure amount.	√
2	Decrease of Triparty Collateral Exposure (Global Amount)	There is a need to implement harmonised messaging and workflows for the decrease of a triparty collateral exposure amount.	√
3	Revaluation (Reception of a new Collateral Exposure Statement)	There is a need to implement harmonised messaging and workflows for the revaluation of a triparty collateral exposure amount.	√
4	Compulsory Decrease of Triparty Collateral Exposure Due to Deduction of Upcoming Corporate Action Event	There is a need to implement a harmonised business process.	√

2. Triparty Collateral Management

Priority 1 Harmonisation Needs			
	Process	Harmonisation Need	
5	End-of-Day Reporting on Stocks	There is a need to provide end-of-day reporting on stocks via a standardised message.	√
6	Unilateral Removal of Specific Asset(s)	There is a need to define a formatted ISO 20022 message for the communication of the unilateral removal of specific asset(s)	√
7	Partial Settlement of Triparty Collateral Exposure Increase	There is a need to ensure that partial settlement of triparty collateral exposures is possible (to the extent that the product allows) using any TPA in order to improve market liquidity.	√
8	Provision of Real Time Information on Securities Collateralising Triparty Collateral Exposure	There is a need to provide real time availability of information on flows (securities movements) to the collateral taker / giver.	√

2. Triparty Collateral Management

Priority 1 Harmonisation Needs			
	Process	Harmonisation Need	
9	Handling of a Maximum Triparty Collateral Exposure Value	There is need to ensure that the handling of a maximum triparty collateral exposure amount is supported using a harmonised (possibly existing) workflow (relevant to Eurosystem central banks).	√
10	Handling of Cash Proceeds Related to Corporate Action Events	There is a need to implement a harmonised business process.	...
11	Rejection of Decrease Instruction	There is a need to implement harmonised messaging and workflows for the rejection of a triparty collateral exposure decrease request (relevant to Eurosystem central banks).	√

2. Progress on Collateral Management Harmonisation: *Example triparty*

Business Processes, Workflows and ISO 20022 Messaging

> Triparty Collateral Management

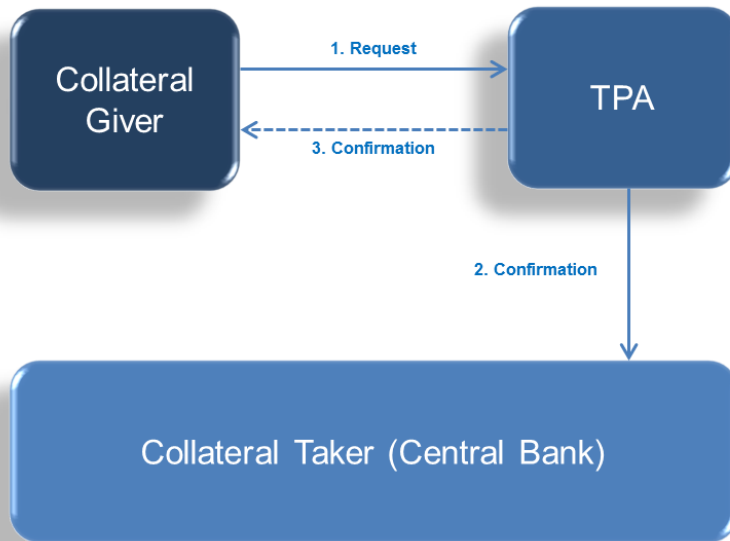
Initiation of Triparty Collateral Transaction

CMHA1 (P2.1)

The counterparty sends a message to the TPA to initiate a triparty transaction. The TPA forwards the message to the collateral taker who initiates the transaction in their collateral management system.

Workflow

Description of Steps



It is considered that in the case of initiation and increase, an allgedgement message from the collateral taker (central bank) to the TPA will not be needed as increases are always accepted by the central bank.

Pre-conditions

- All parties to the transaction have signed the relevant documentation and performed the necessary account setup

- The collateral giver sends a request to the TPA to initiate a triparty collateral transaction with the collateral taker.
- The TPA sends a message to the collateral taker* confirming that a triparty transaction has been initiated following the allocation of the securities to the collateral taker.
- The TPA, on an optional basis, sends a message to the collateral giver confirming the initiation of the triparty transaction.

* If the execution request date is in the future the TPA could forward the request to the collateral taker on the execution date.

For each business process the workflow and key data elements to be represented in the ISO 20022 message have been identified

Initiation of Transaction	Increase of Transaction	Decrease of Transaction	Revaluation	Cancellation	Unilateral Removal	Reporting on Stocks	Reporting on Flows	Handling of Cash Proceeds	Closure of Transaction
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2. Triparty Collateral Management

Priority 2 Harmonisation Needs			
	Process	Harmonisation Need	
1	Initiation of a Triparty Collateral Transaction	There is a need to implement harmonised messaging and workflows for the initiation of a triparty collateral transaction	√
2	Termination (Closure) of a Triparty Collateral Transaction	There is a need to implement harmonised messaging and workflows for the termination of a triparty collateral transaction	√
3	Cancellation of a Pending Triparty Collateral Exposure Instruction	There is a need to implement harmonised messaging and workflows for the cancellation of a triparty collateral exposure	√
4	Future Dated Processing	There is a need to ensure that all TPAs allow the sending of future-dated instructions for all relevant exposure types (to the extent that the product allows)	...

2. Triparty Collateral Management

Priority 2 Harmonisation Needs

	Process	Harmonisation Need	
5	Usage of Baskets (Including Messaging Used)	There is a need to implement a standardised format of communication (including selection criteria) for lists of eligible assets.	...
6	Amendment of Trade Details (Rate, Basket, Termination Date)	There is a need to implement harmonised messaging and workflow for the communication of information on amendments of trade details (rate, basket, termination date).	...
7	Trade Type Supported by TPA	There is a need to ensure that in cases where a TPA offers the same type of product as another TPA, that the communication with users is conducted in a harmonised way.	...

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Harmonisation of Corporate Actions

Achievements:

- Confirmation of a single list of CA events relevant for Eurosystem collateral management together with the harmonised attributes and data elements for each CA event.
- Extensive analysis of all CA events resulting in the definition of detailed workflows and key data elements for around 40 events relevant to Eurosystem eligible collateral.
- Harmonisation of CA processes, workflows and messaging by specifying detailed requirements (taking into account specific considerations from a collateral management perspective). Existing market standards are taken into account*.

*i.e. work carried out by CA experts globally under the auspices of the Securities Market Practice Group (SMPG), Corporate Action Joint Working Group (CAJWG) and the Joint Working Group on General Meetings (JWGGM).

3. Corporate Actions

Priority 1 Harmonisation Needs			
	Process	Explanation	
1	Workflow for Mandatory CA Events	There is a need to implement a standardised workflow for the processing of mandatory events (incl Notification/ final notification, and Confirmation)	√
2	Workflow for Elective CA Events	There is a need to implement a standardised workflow for the processing of mandatory with choice or elective events: events (incl Notification, Instruction, Advice, final notification, and Confirmation)	√
3	Identification of Parties in a Collateral Transaction	There is a need to identify all parties to a collateral transaction in order to ensure that both the collateral giver and collateral taker can be identified and notified accordingly.	...
4	Provision of Sufficient Information to Calculate Expected Payment Amount / Security Movement in the Corporate Action Notification	There is a need to ensure that a minimum set of information is provided in the CA notification	√

3. Corporate Actions

Priority 1 Harmonisation Needs			
	Process	Explanation	
5	Consistency of Information Provided by Issuer CSD and Investor CSD	There is a need to ensure that the information provided by Issuer CSD is passed on in a consistent manner by the Investor CSD in line with the agreed market standards.	√
6	Usage of Standardised Calculation Formula	There is a need to implement a harmonised market practice for the calculation of CA payment amounts.	√
7	Reconciliation of Actual CA Payment Amount vs. Expected	There is a need for harmonised market practices in order to reduce instances where the actual CA payment amount does not match the expected payment amount (rounding).	...
8	Payment Procedures per CSD	There is a need to ensure that all markets comply with the market standard i.e. one payment per ISIN per CA rather than the aggregation of the payment.	√
9	Handling of Rounding Differences	There is a need to implement a harmonised market practice regarding the usage of decimals in order to eliminate the occurrence of rounding differences	...
10	Handling of Negative Cash Flows	There is a need to implement a harmonised workflow for the handling of negative cash flows.	...

3. Corporate Actions

Priority 1 Harmonisation Needs			
	Process	Explanation	
11	Corporate Action Events Requiring Manual Processing	There is a need facilitating straight through processing of all CA events from the Issuer CSD to the relevant parties in the chain CA relevant to Eurosystem eligible debt instruments.	√
12	Process for the Substitution of Fungible Securities	There is a need to implement a harmonised procedure and workflow for the execution of the Pari-Passu CA event.	√
13	Processing of CA ' Modified Following Business Day Convention '	Regarding the specific practice for securities issued in certain markets, there is a need to implement a harmonised procedure and workflow.	...
14	Handling of CA Events with Different Quotation Types	All Eurosystem eligible debt instruments should be quoted in FAMT.	√
15	Handling of Elective CA Events	There is a need to support automated processing of voluntary events where more than one deadline and several options with detailed differences exist (in those cases where an early deadline is offered)	√
16	Collateral Valuation Process	There is a need to harmonise the use of instrument prices around pending corporate actions for the calculation of collateral values	...

3. Corporate Actions

Priority 2 Harmonisation Needs			
	Process	Explanation	
1	Provision of Complete Corporate Action Notification in Advance of the Payment Date	All relevant information necessary for the calculation of the cash and/or security movement should be provided no later than 15:00 on the record date.	√
2	Processing of Delayed CA Payments	There is a need to implement a standardised market practice and message to inform clients of a delay in the processing of the CA payment.	√
3	CA Events where Participation Requires the Blocking of Securities	The CA events for which participation requires blocking of the underlying security have been identified	...
4	Usage of Default Options in CA Events	A default option is available for all CA events relevant to debt instruments and which should be supported by all CSDs processing these event types.	√
5	Handling of Fees for Participation in Elective CA Events	There is a need to implement a standardised workflow for the payment of consent fees related to participation in certain CA events	√

3. Progress on Collateral Management Harmonisation: *Example CA*

Business Processes, Workflows and ISO 20022 Messaging > Corporate Actions

DRAW | Drawing

CA Event ID and Event Name

Securities are redeemed in part before the scheduled final maturity date. It is done without any pool factor reduction. The redemption is reflected in a debit of the face amount (FAMT). Drawing is distinct from partial call since drawn bonds are chosen by lottery. Therefore, not every holder is affected in the same way.

CA Event Description

Key Attributes

CAMV	Options	Cash Movement	Security Movement	Subject to Blocking
MAND	CASH	Credit (ELIG * RATE * OFFR)	Debit (ELIG * RATE)	N/A

Indicates if participation is mandatory or elective

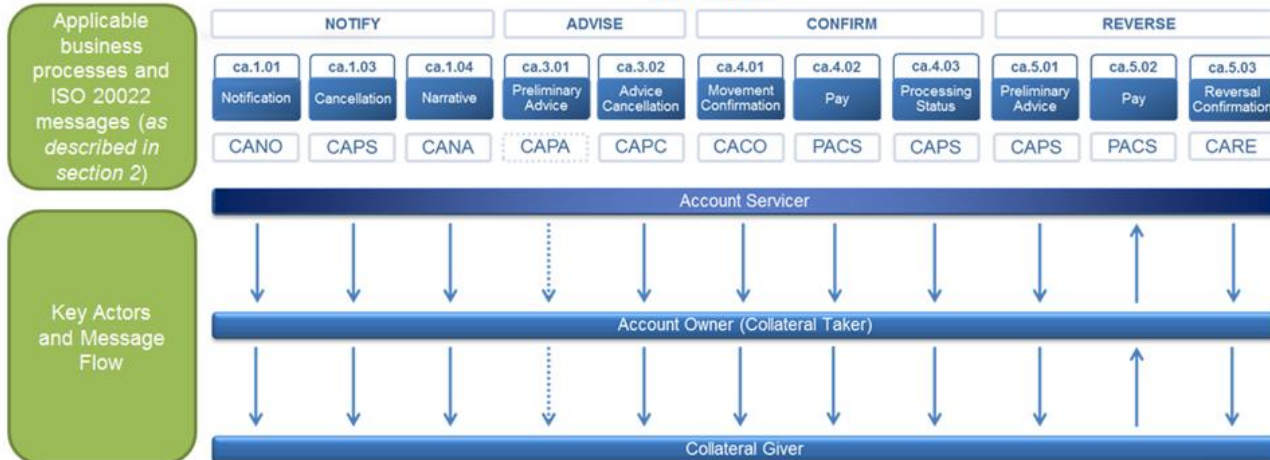
Options available

Indicates if there is a cash movement, and the data elements required to calculate the movement

Indicates if there is a security movement, and the data elements required to calculate the movement

Indicates if participation in the CA event will result in a blocking of the underlying security

Workflow



For each CA event relevant to Eurosystem eligible collateral, the relevant business processes and ISO 20022 messages have been identified and mapped to each CA event as per the example

Next Steps on Collateral Management Harmonisation

Suggested by CMH-TF to keep the momentum

Immediate follow-up (short term)	Focus on analysis collateral giver/taker identification, data elements and harmonisation needs of relevance to ECMS.
Follow-up (medium term)	Consistent definition and implementation of ISO20022 messaging standards for triparty & CA, detailing of TPA reporting/messaging cycles/operational day.
	Development of monitoring and compliance framework (medium term).
	Remaining CA harmonisation needs (transversal activities and events relevant to equities).
Continue the work on other harmonisation needs (medium term)	Bilateral collateral management, billing processes and data for collateral management.