



AMI-SeCo HSG

Collateral Management Harmonisation

Task Force

Substream 3: Bilateral & Margin call

Version 3

25 October 2017

- Statement of work
- Scope and concepts
- Workflow description
 - Between Market participants
 - Un-cleared OTC: Variation Margin (VM) on OTC Derivatives, Repo, SLAB
 - Un-cleared OTC: Initial Margin (IM)
 - Cleared OTC: IM & VM
 - Banks <-> Central Banks
 - Euro Financing
 - CCP exposure coverage
- Deliverables
 - Pre-existing works
 - 1st proposals
 - Priorities
- Appendices
- Glossary – cf Stream 1

Stream 3 - August 2017

Stream 3 Bilateral

Differences in messages for bilateral collateral management could hamper how collateral is allocated quickly and efficiently across borders.

2/8 Bilateral collateral

Messaging solutions are needed to meet requirements of smaller and mid-size players (which are cost efficient for electronic messaging e.g. for buy-side).

5 Margin Calls

Although part of the Collateral management workflow, it doesn't appear as a major barrier to harmonised market

Identify interactions

7 Reporting

18 Cut off

3/16 Corporate Actions

Static Data

9/10/11/12 or 13 ?

Stream 4

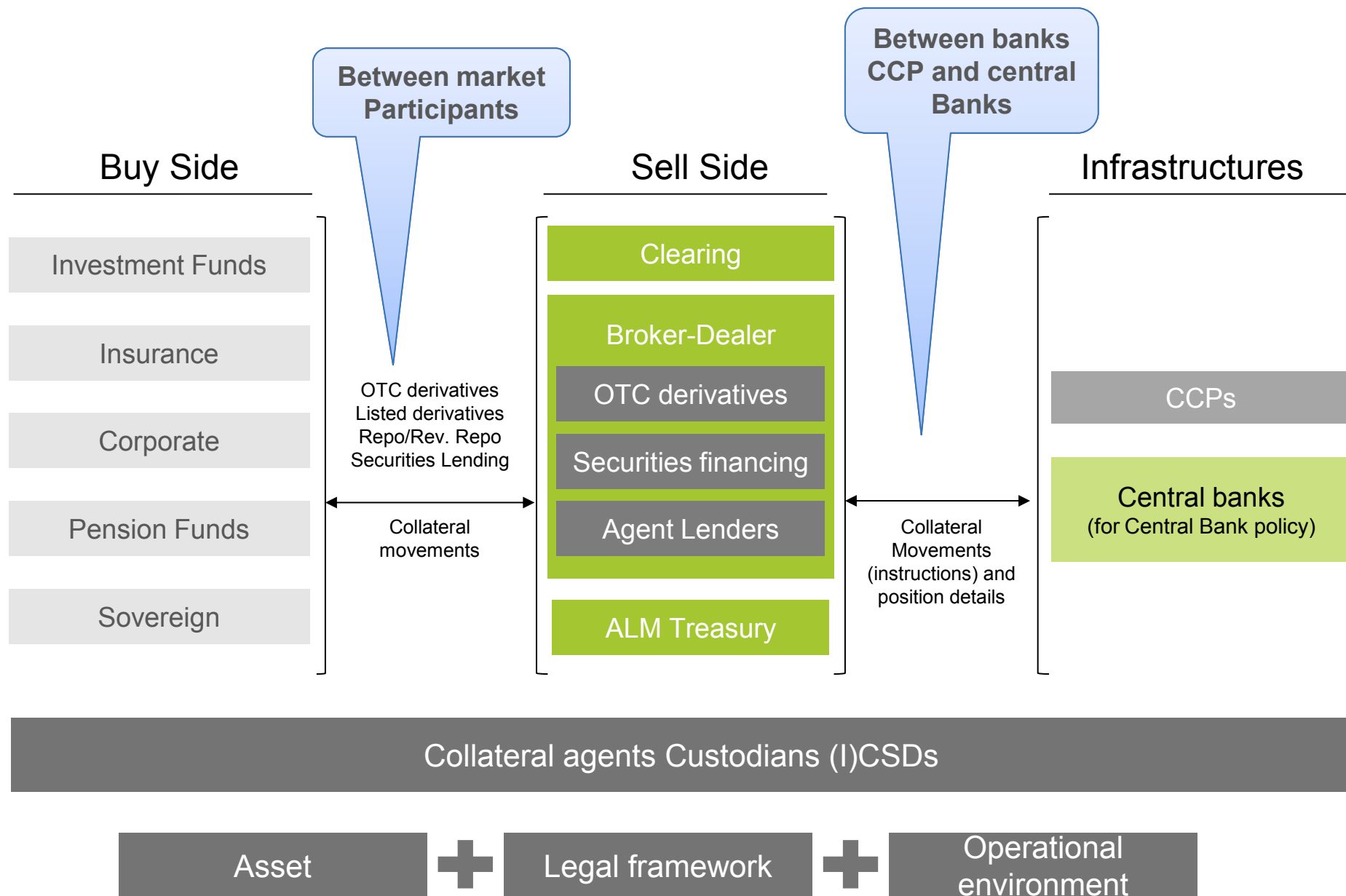
Stream 2

Stream 5

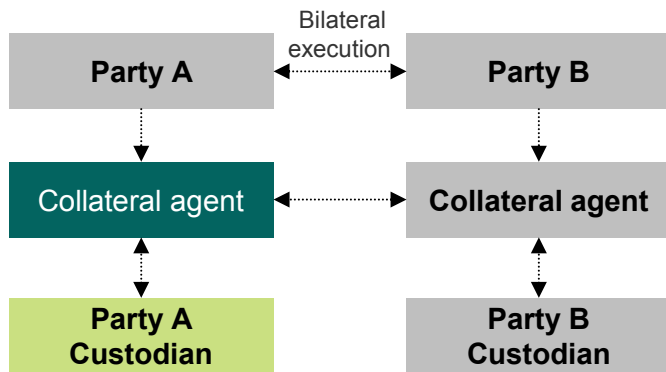
All

Definitions
Glossary

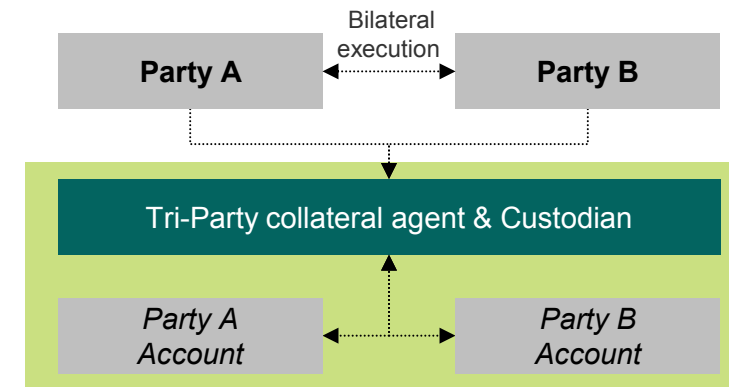
SCOPE AND CONCEPTS



Bilateral collateral management



Tri-party collateral management



Mainly cash
For VM securities mainly bonds (equities more widely used for IM)

Multi-custodian

T+1/+n settlement
Same day settlement possible but not efficient

Low turnover of client or counterparty portfolio

Limited possibilities implied by the settlement and substitutions workload and costs

OTC, Repo, SLAB, etc transactions excluding Basket (“GC”) Repo

TYPE OF COLLATERAL

CUSTODIAN

SETTLEMENT

PORTFOLIO TURNOVER

ALLOCATION

TYPE OF TRADES

Securities (Bonds, Equities , shares of funds) Cash possible

One single tri-party and Custodian for all parties

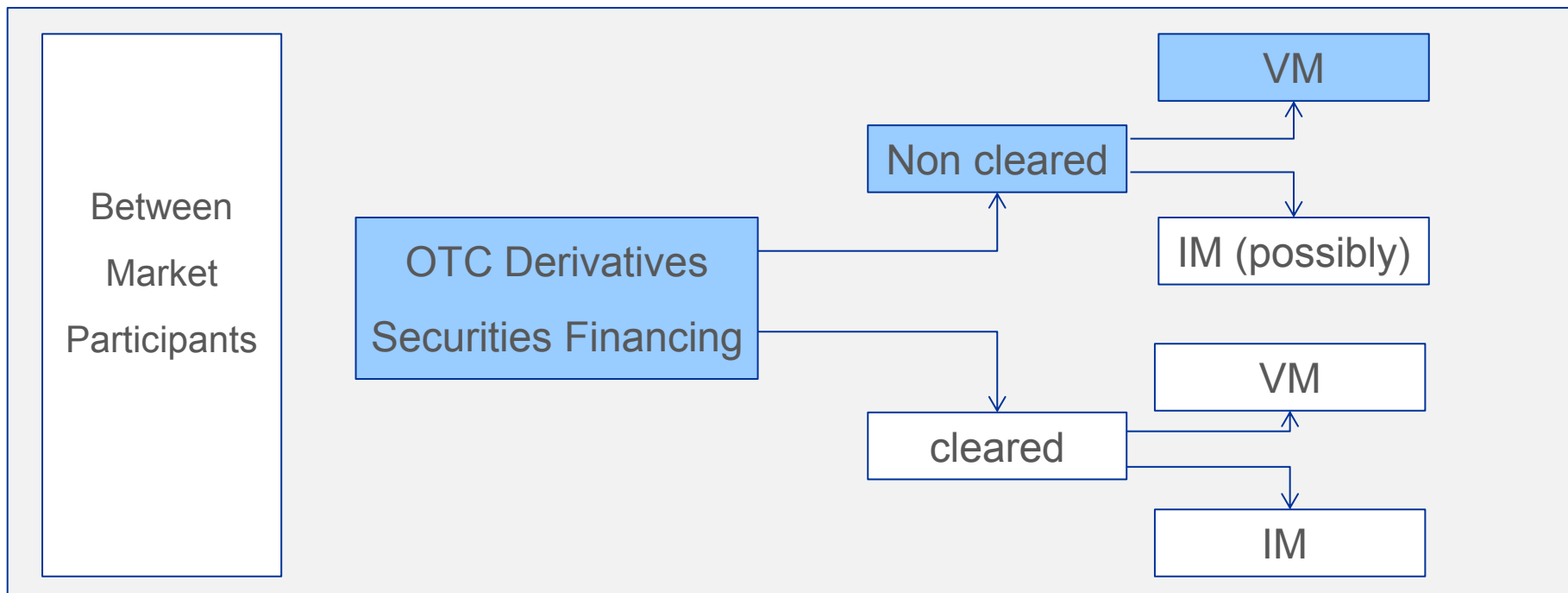
Same day settlement

High turnover of client or counterparty portfolio

High number of counterparties - sophisticated allocation

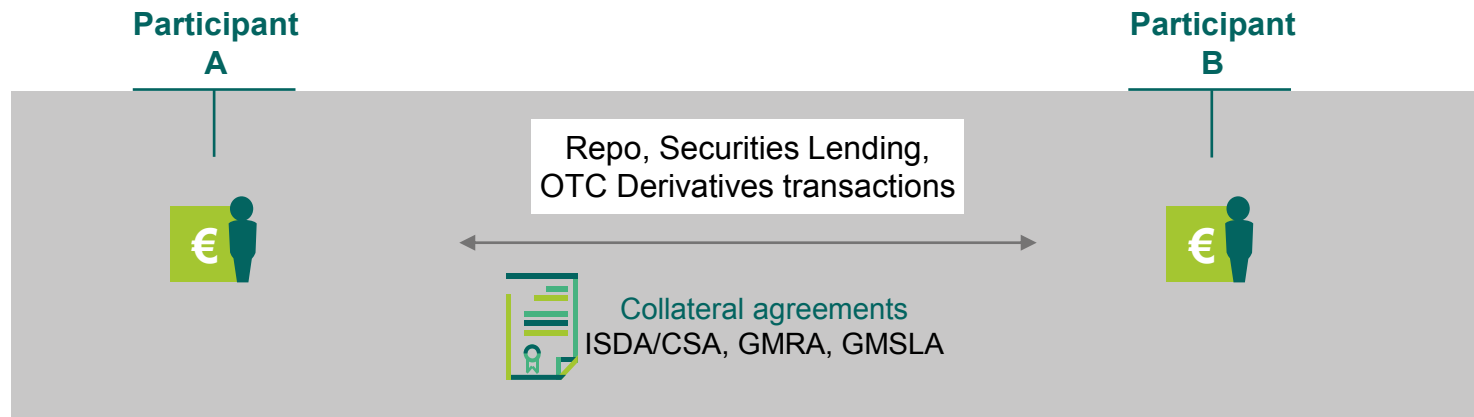
OTC, repo, SLAB, etc including Basket (or “GC”) Repo

SCOPE AND CONCEPTS



Bilateral process

- ▶ Bilateral collateral management has been developed as a mitigation technique to reduce counterparty risks between market participants entering into Over-The-Counter transactions

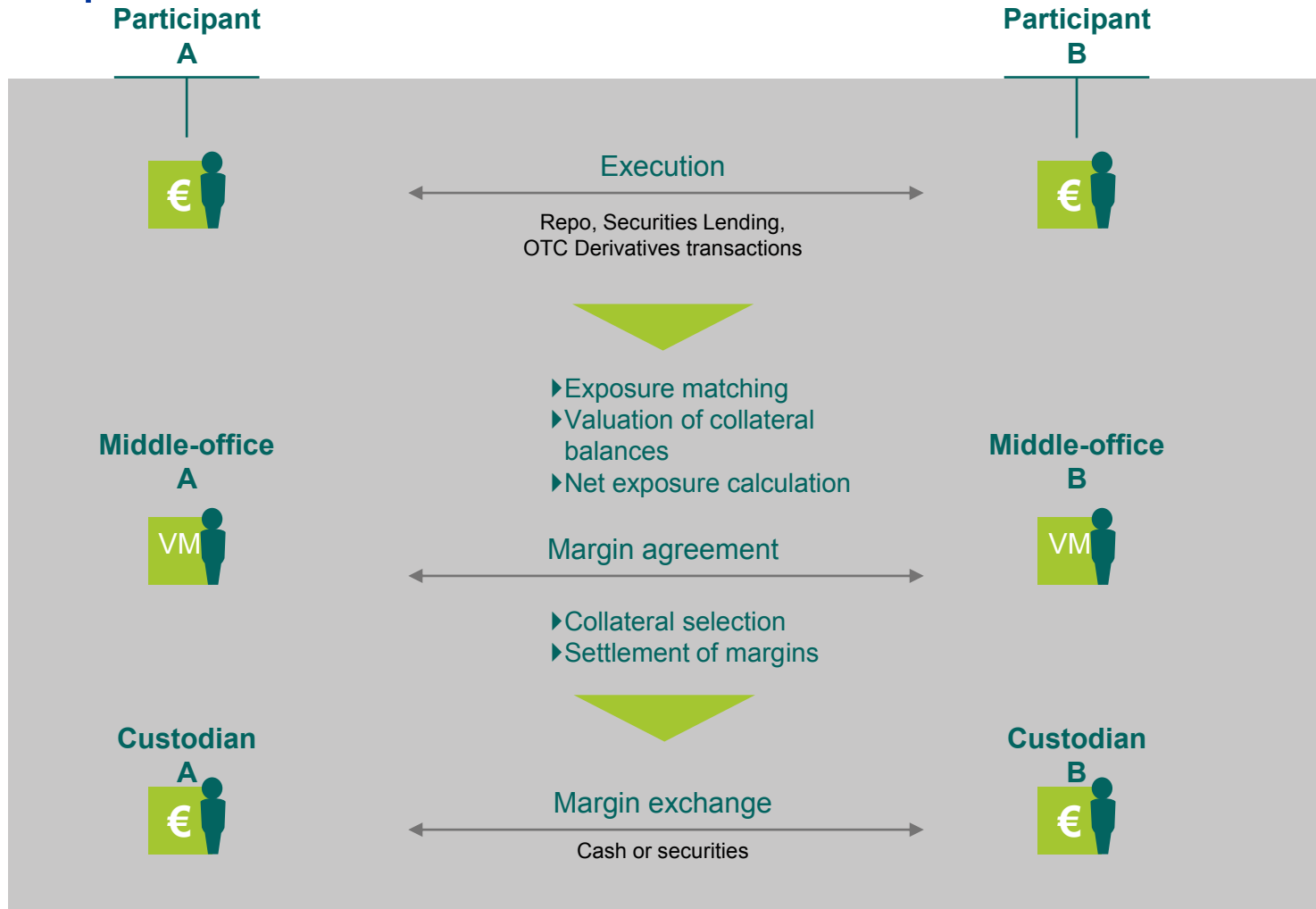


WHO?

Market participants entering into bilateral collateral agreements:

- ▶ **Sell-side** (Banks, Brokers)
- ▶ **Buy-side** (Asset Owners, Asset Managers, Corporates, Sovereign entities, etc.)

Bilateral process



Bilateral process

COLLATERAL AGREEMENTS

Master agreements

(GMRA, GMSLA, ISDA, etc.)

+

Eligibility matrices

are signed between both parties of a collateralised transaction
(Repo, Securities lending, OTC derivatives, etc.)



MTA

Minimum Transfer Amount

THRESHOLD

Level of unsecured exposure each party will allow the other before any call for collateral is made

NOTIFICATION TIME

Means the cut-off to send/receive margin calls

ELIGIBLE CURRENCY

Agreed currency to exchange margins

ELIGIBILITY MATRIX

Specifies the type of collateral permitted: cash, government bonds, haircuts, etc.

INTEREST RATE

The interest rate in relation to the eligible currency

DIFFERENT TRANSFER REGIMES

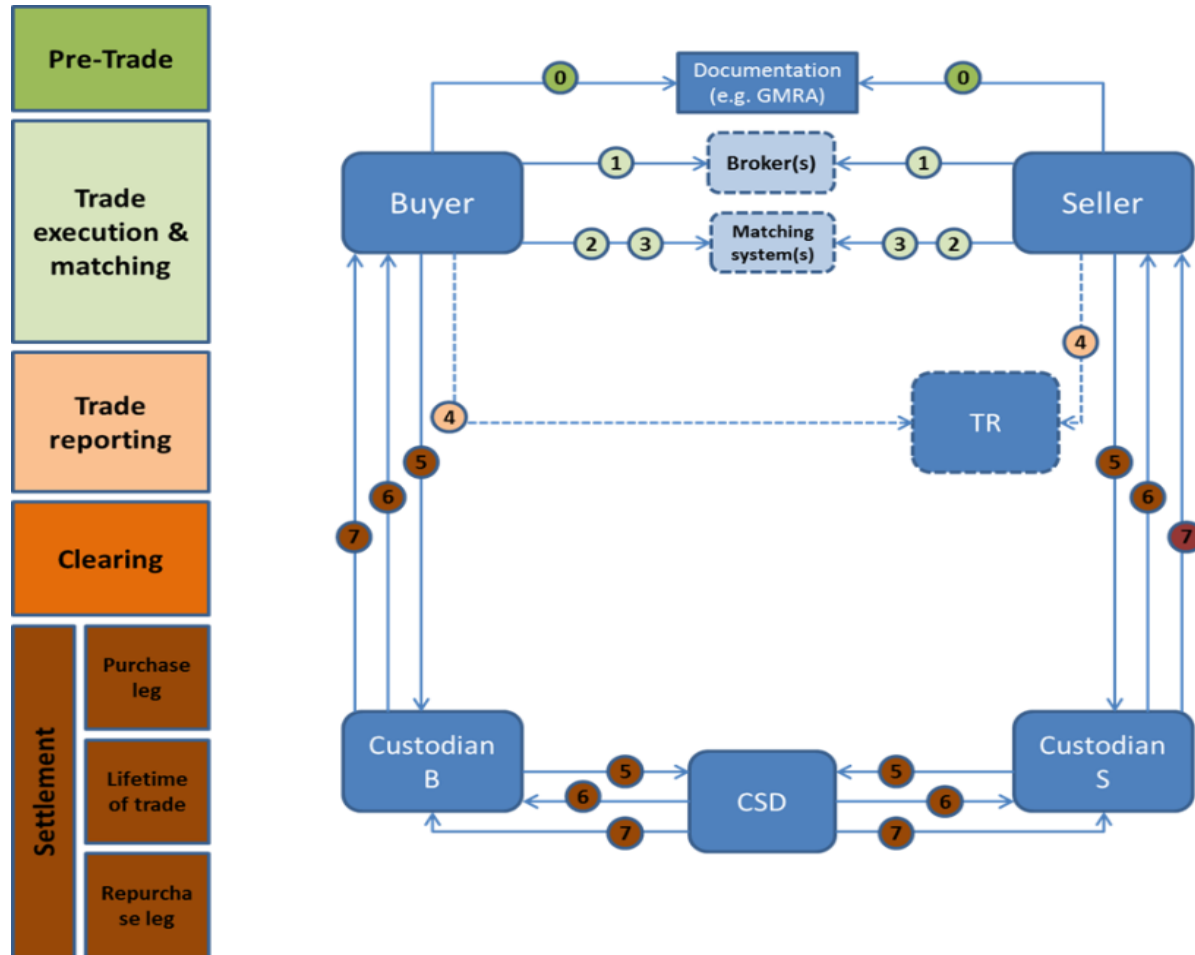


Full title transfer
e.g. ISDA CSA (English law)

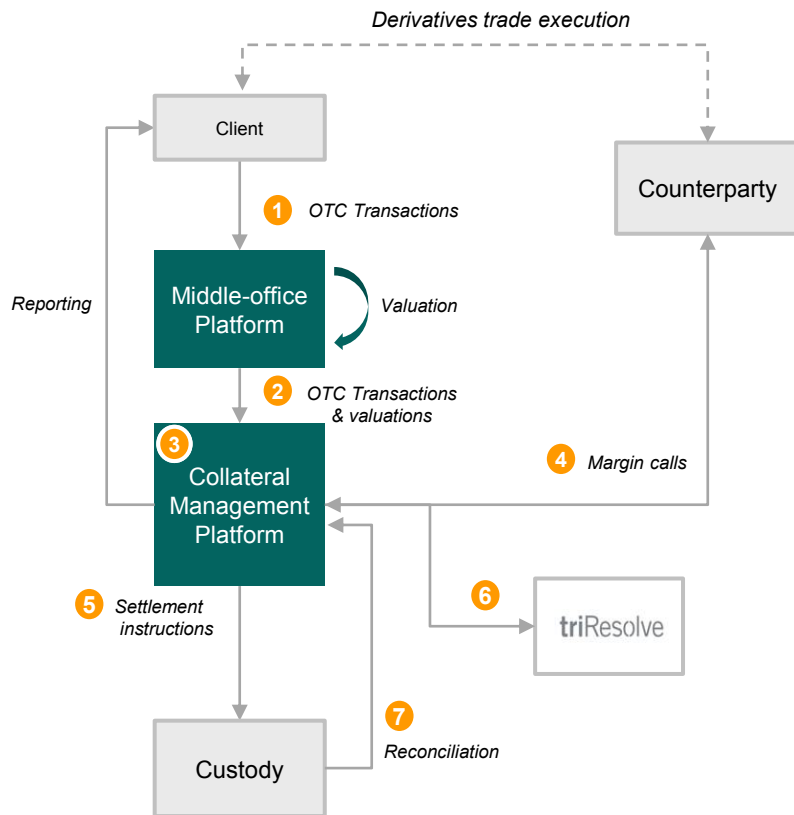


Security interest (usually called "pledge")
e.g. ISDA CSA (New-York law) or ISDA CSD

Global Workflow (1)



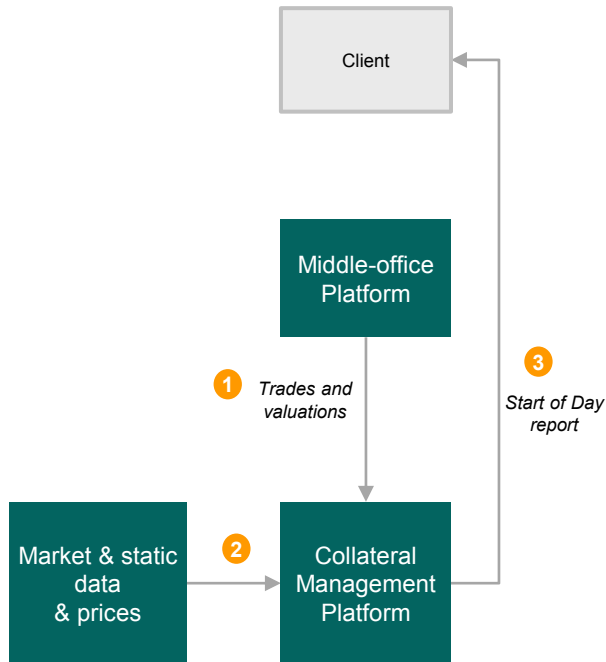
Global Workflow - non cleared - variation margin



Note: reporting to be added

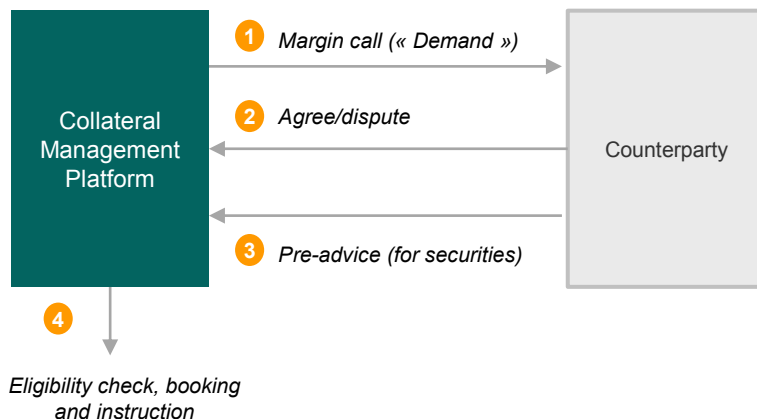
#	Description
Trade process (Trade date T) & valuation	
1	• Client sends open trade population to BNP Paribas
2	• OTC prices are distributed to BNP Paribas Collateral Management
Collateral Management process (T+1)	
3	<ul style="list-style-type: none"> • BNP Paribas Collateral Management team controls incoming positions (data checks) • BNP Paribas Collateral Management platform calculates the net exposure at a portfolio / counterparty level • Margin call notices are sent / received
4	<ul style="list-style-type: none"> • BNP Paribas Collateral Management team manages the daily margining process at a portfolio / counterparty level • Margin call agreement with the counterparty
5	• Cash & securities movements are instructed to the custodian
Dispute process & reconciliation	
6	• BNP Paribas Collateral Management team accesses to TriResolve for Reconciliation purposes (in case of dispute, and on a reactive basis)
7	• BNP Paribas Collateral Management team performs a reconciliation of collateral movements between the collateral management systems and the custodian statements

Exposure and margin call calculation

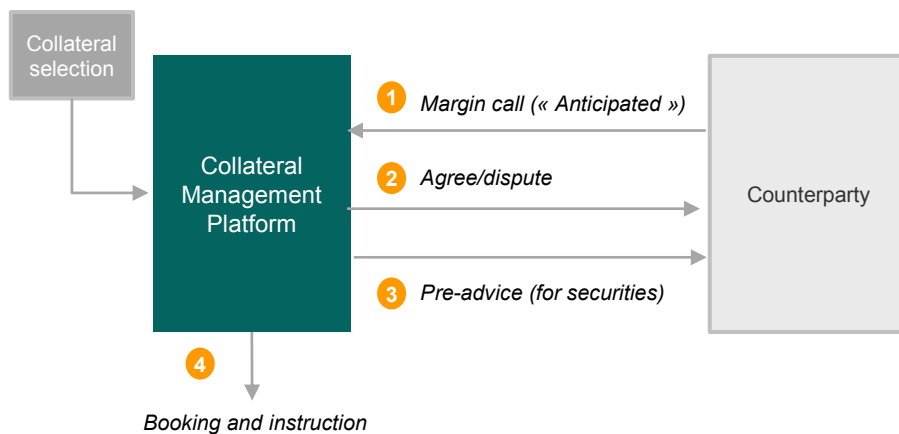


#	Description
1	<p>Trade integration and controls</p> <ul style="list-style-type: none"> • BNP Paribas integrates the OTC trade population (including fx) with their valuations as of previous COB every morning 7.30 GMT • BNP Paribas performs data integrity checks on the trades received (stale PV, 0 PV, matured trades , rejection...)
2	<p>Margin call calculation</p> <ul style="list-style-type: none"> • BNP Paribas integrates different information required to perform the margin call calculation: <ul style="list-style-type: none"> • Prices to value collateral balances • Ratings for collateral securities • Market data for collateral securities (e.g FR-Gov bonds – coupon / maturity date) • Rating for parties (for threshold/MTA rating based) • FX rates <p>Data integrity checks are performed to validate the quality of the data</p>
3	<p>Reporting</p> <ul style="list-style-type: none"> • Once the above information are integrated in the collateral management system, BNP Paribas will issue the Start of Day margin report showing the expected margin calls for the day

Margin call

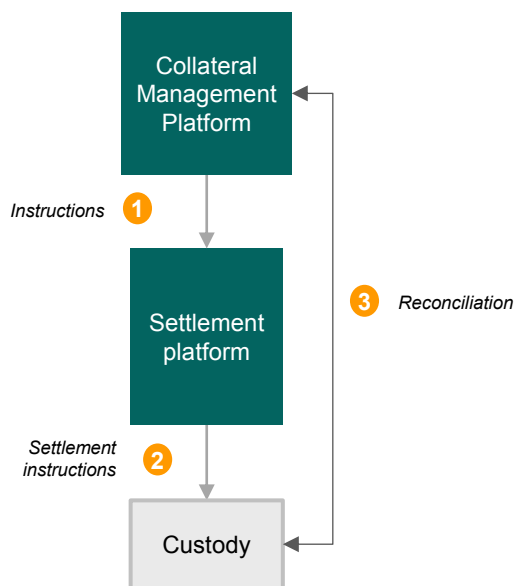


#	Case of Deliver / Return to Client
1	BNP Paribas sends a margin call notice to the counterparty before CSA notification time
2	Counterparty agrees / disputes the margin call
3	Counterparty advises to BNP Paribas the nature of collateral to be posted
4	BNP Paribas checks the eligibility of collateral to be received, then books the movement into its platform and generates the settlement instruction (see "collateral settlement")



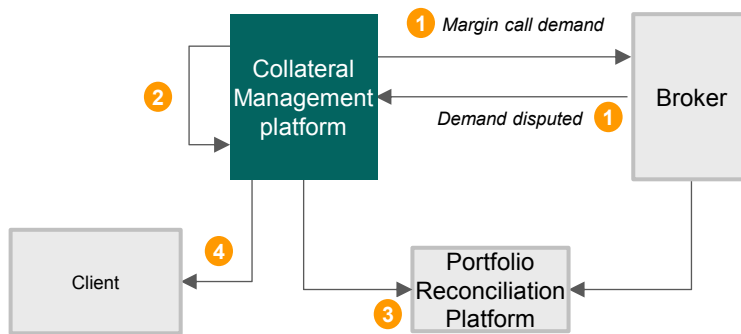
#	Case of Deliver / Return to Counterparty
1	BNP Paribas receives a margin call from counterparty before CSA notification time
2	BNP Paribas checks with its own calculation and agrees / disputes the margin call
3	For deliveries to Counterparty, BNP Paribas either posts cash to the counterparty, or if securities need to be delivered, selects the appropriate securities.
4	BNP Paribas books the movement into the collateral management platform and generates the settlement instruction (see "collateral settlement")

Settlement



#	Description
1	<p>Settlement instruction</p> <ul style="list-style-type: none"> Once BNP Paribas agrees with Client 's counterparty on the margin call (amount, ISIN), the collateral management system sends information to the settlement platform
2	<p>Settlement monitoring</p> <ul style="list-style-type: none"> This system will <ul style="list-style-type: none"> retrieve the SSI generate automatically the Swift to the custodian to receive/post collateral (MT202/210/542/540) <p>This process is managed by a specialized settlement team. This team ensures that the settlement instruction is received and processed by the custodian without any issue</p>
3	<p>Settlement reconciliation</p> <ul style="list-style-type: none"> The collateral management team performs a reconciliation of the collateral movements and positions between the collateral management systems and the custodian statements (MT940/950/535/536)

Dispute



#	Description
1	<ul style="list-style-type: none"> BNP Paribas collateral management team agrees on the undisputed amount with the counterparty. The dispute amount will be subject to further investigation
2	<p>Dispute identification</p> <ul style="list-style-type: none"> The collateral management team looks if there are differences between: <ul style="list-style-type: none"> Client and counterparty CSA terms (threshold, MTA ...) Collateral balances Exposure differences <p>In case of issues with the CSA terms and collateral balances, the collateral management team re-validate the data (in analysing the CSA and the price feed)</p>
3	<p>Portfolio reconciliation</p> <ul style="list-style-type: none"> If there is a mismatch in term of exposure, the collateral management team will connect into a Portfolio Reconciliation Platform to prioritize the reconciliation of the OTC trades subject to a dispute (OTC derivatives uncleared) For other activities (SLAB, Repo) the reconciliation takes place via exchange of files by email The reconciliation process aims at reconciling the trade details and the valuation with client's counterparty.
4	<p>Reporting</p> <ul style="list-style-type: none"> The collateral management team provides details on the dispute ("dispute report")

Reporting

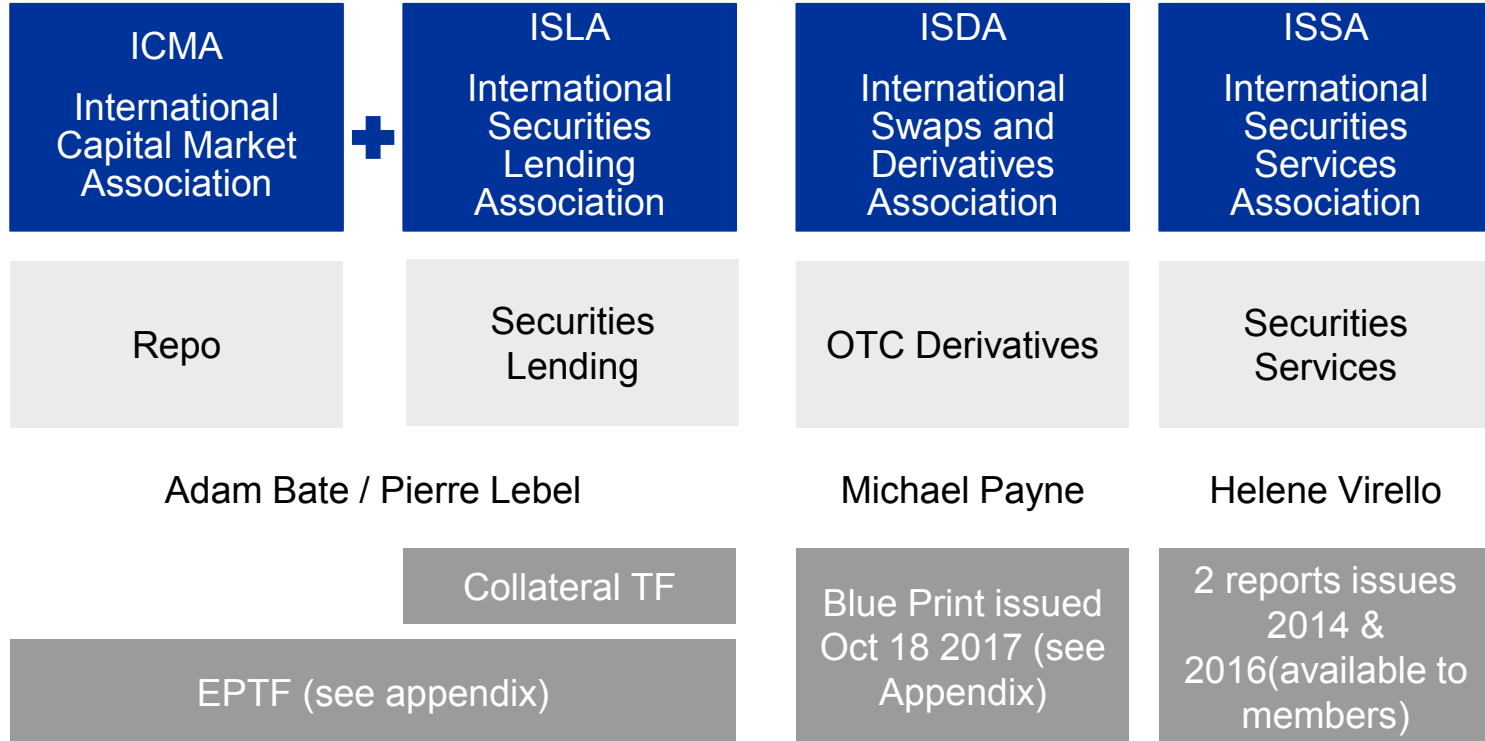
TO BE DOCUMENTED

Complementary workflows - to be completed

- Between Market participants
 - Uncleared OTC: IM
 - Cleared OTC: IM & VM

- Banks <-> Central Banks
 - Euro Financing
 - CCP exposure coverage

Pre-existing working groups in the Industry



Some issues which may fall outside the mandate of Group3, however important for the market participants

- Harmonisation of
 - Data
 - CCP margin mechanisms
 - Settlement sequencing
 - “Transatlantic” treatment of firms => promote alignment across jurisdictions
- Legal
 - Promote standardized documentation as much as possible
 - Collateral matrixes

Mapping of prioritisations 1-3

Criticality

1 very critical 2 highly 3 medium

Implementation

1 very difficult 2 medium 3 easy

Type issue (operational, legal, documentation, technical,)	Criticality	Harmonisation proposal	Implementation	Barrier to implement
Email exchanges for margin calls	1	Promote wider use of electronic platforms. As a general statement, the working group will not promote a particular utility but will promote the interoperability between the various initiatives launched at particular points of the processing chain	3	Several utilities already active in this space (Acadiasoft, Bloomberg/CloudMargin), but the industry needs to address the cost issue for some players especially buy-side, for complete harmonization. It is mentioned this point is being addressed by some market participants
Email exchanges for substitutions implying operational risks and settlement issues	1	Promote wider use of electronic platforms. As a general statement, the working group will not promote a particular utility but will promote the interoperability between the various initiatives launched at particular points of the processing chain	2	There is a growing interest from vendors in this space. The collateral group should liaise with the Corporate actions group which is tackling this point.
Cleared Derivatives : Connectivity between Clearers and Clients / Asset Servicers - no common framework implying substantial development requirements to integrate the reports (for reconciliation, payments...) - Every onboarding is cumbersome as every clearer appears to have its own operational market standards as well. Upcoming EMIR deadlines for category 3 and 4 will imply a growing industry concern in this space.	1	Promote a "Minimum market standards" framework across Clearers and CCPs to harmonize the information available to end-users and its format	3	

Mapping of prioritisations 2-3

Criticality

1 very critical 2 highly 3 medium

Implementation

1 very difficult 2 medium 3 easy

Type issue (operational, legal, documentation, technical,)	Criticality	Harmonisation proposal	Implementation	Barrier to implement
Lack of convergence and harmonisation in information messaging standards This concerns all fields from Legal documentation to trade lifecycle management. See "Mapping MSG" for details	1	digitisation (in order to improve STP), harmonisation (or interoperability when full harmonisation is not possible) and standardisation (common identifiers should be a common basis) should be the guiding principles.	1	Proprietary standards: best is to push interoperability as suggested in the rest of this table
Regulatory reporting demand very large data flows that demand stringent data standardisation. Post-Trade reporting structure is too complex	1	digitisation (in order to improve STP), harmonisation (or interoperability when full harmonisation is not possible) and standardisation (common identifiers should be a common basis) should be the guiding principles.	1	

Mapping of prioritisations 3-3

Criticality

1 very critical 2 highly 3 medium

Implementation

1 very difficult 2 medium 3 easy

Type issue (operational, legal, documentation, technical,)	Criticality	Harmonisation proposal	Implementation	Barrier to implement
Email exchanges for interests payments	2	Promote wider use of electronic platforms. As a general statement, the working group will not promote a particular utility but will promote the interoperability between the various initiatives launched at particular points of the processing chain	2	Several utilities already active in this space (Acadiasoft, Bloomberg/CloudMargin), but the industry needs to address the cost issue for some players especially buy-side, for complete harmonization. It is mentioned this point is being addressed by some market participants
Lack of standardization of documentation	2	Promote standardization of documentation	1	Difficult to achieve 100% standardization as a CSA needs to respond to some privately negotiated terms, depending on legal and risk/credit views. Point tackled at ISDA (probably). EFAMA explains the impact of collateral matrixes will make it difficult to reach. Workgroup agrees that a possible way to go forward would be to recommend an industry-wide central HQLA matrix administered by a central party (still to be determined) - that the parties to a CSA could negotiation parties would agree to refer to.

Key principles for harmonisation

- Standardisation
- Interoperability
- Leverage existing infrastructures where relevant
- No barrier to entry for market participants

- Promote common standards across
 - Collateral operations
 - Underlying transactions
 - Actors



A pre requisite to the above is a common set of messaging:

Whatever the model, Bilateral or Tri-party, whatever the underlying trade CB policy related or not, securities related or not, Messaging will relate to the same 8 types of messages

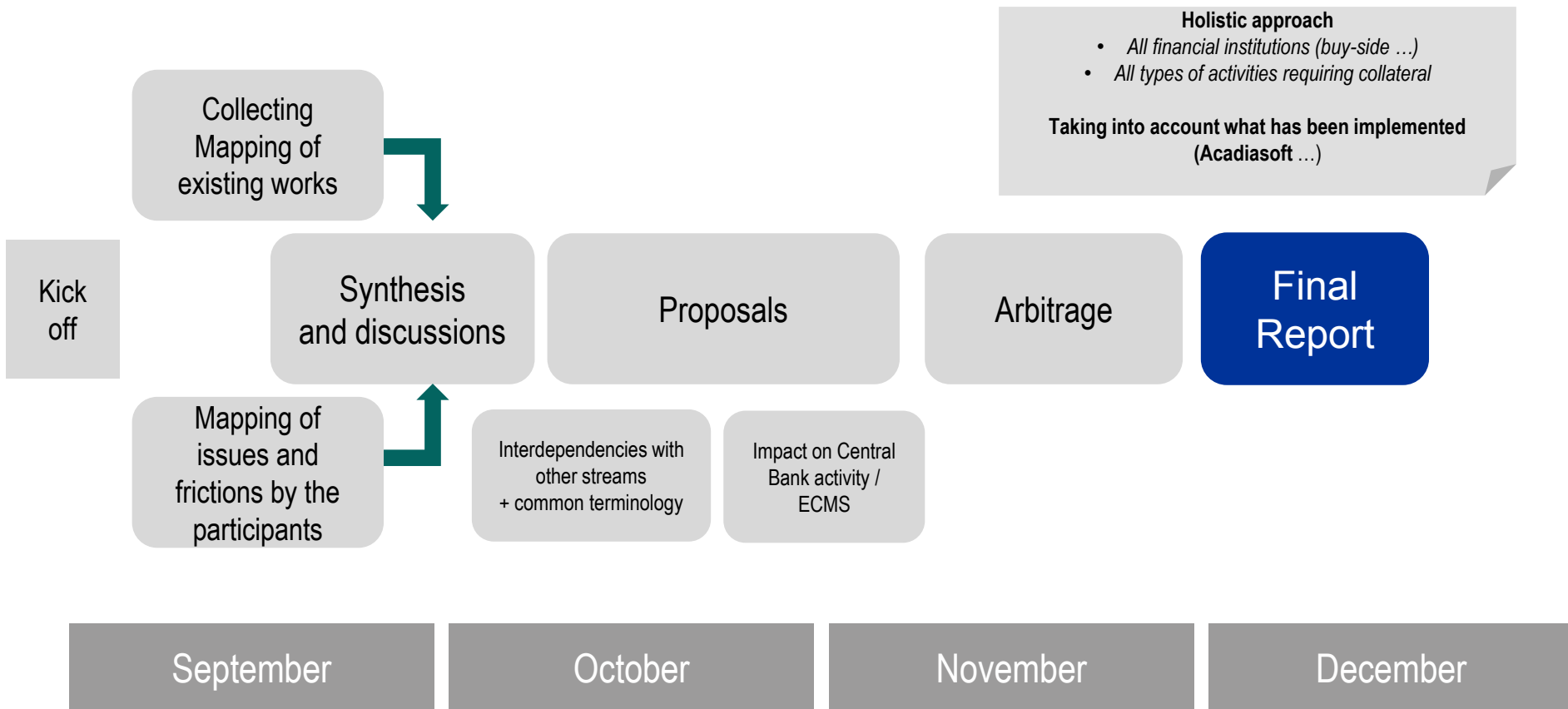


0-Legal documentation – 1-Trade execution – 2-Trade Affirmation – 3-Trade confirmation – 4 Trade reporting – 5 Settlement instructions – 6 Matching & Settlement status – 7 Lifecycle Management

- SWIFT Presentation on Corporate Actions / Substitution
- Document other bilateral processes between market participants
- Form a sub-sub groups on Central Bank Bilateral Movements with / without CCP
- Glossary – complement if needed the proposal made by Stream 1

- Planning and methodology
- Members of the stream
- Preexisting works
 - EPTF
 - ISDA
 - ISLA – ICMA
- Interactions with other streams

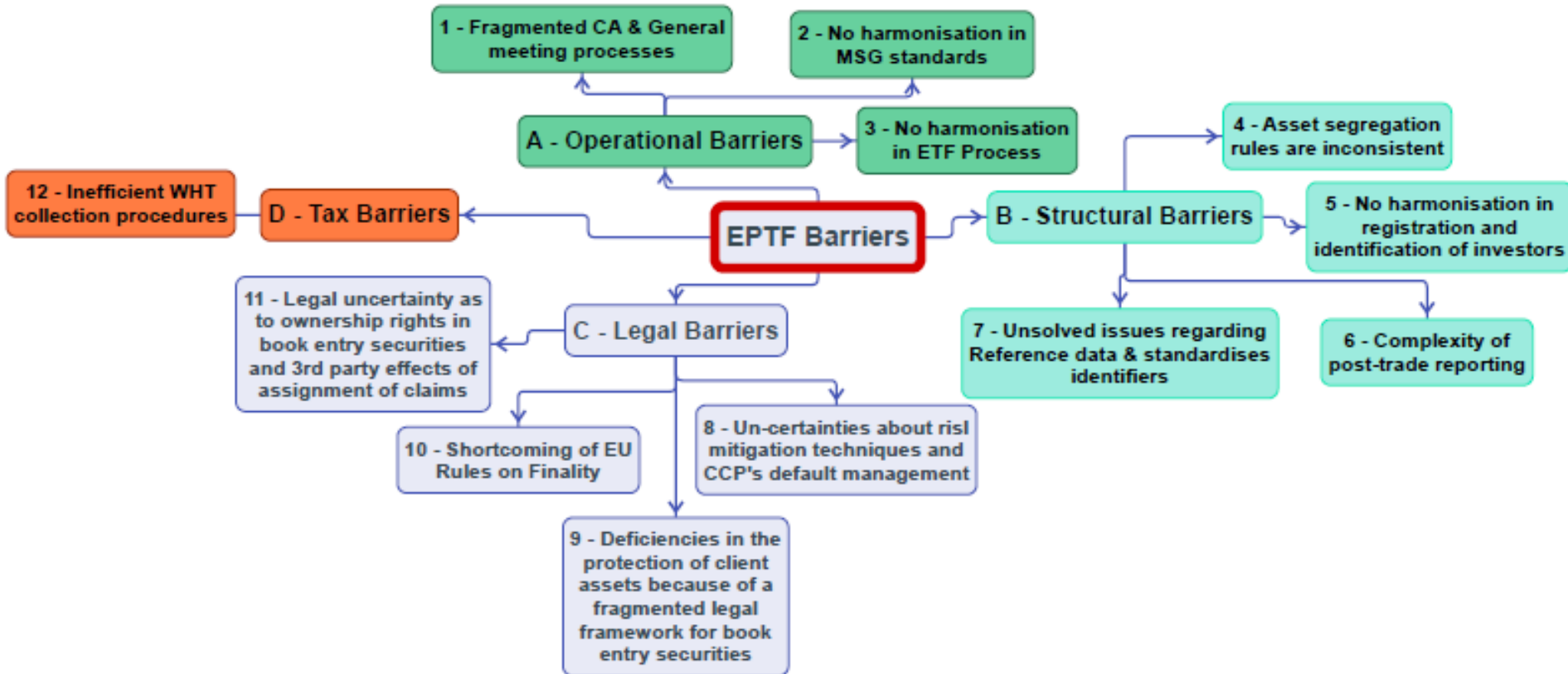
Planning and methodology



Participants to the Stream

BNPP (lead)	Hélène Virello
Bundesbank (secretariat)	Steffen Bruns
BNY Mellon	Peter Wijns
Deutsche Bank	Marko Niederheide
Citi	Michael Payne
EFAMA	Vincent Dessard
BME-Clearing	Teresa Castilla
Eurex Clearing	Oliver Bartel
Société Générale	Pierre Lebel
BNPP	David Beatrix
DZ Bank	Kristian Hartmann, Frank Günzel
Clearstream	Marc Poisignon
Monte Titoli	Fernando Gilardi
Danske Bank	Mar Dennis Borella
ECB	Benjamin Hanssens, Michael Schroter, Gary McNamara, Joao Tiago Amaro
LCH	Caroline Collette-Jones
SWIFT	Cecile DESSAMBRE, Charles-Raymond BONIVER, Matthew COOK, Karine TAQUET
UBS	Sally Shackleton
DZ Bank	Frank Guenzel, Kristian Hartmann
LSEG	F. Gilardi
Bundesbank	Cantje Heikamp, Norman Isermann
Morgan Stanley	Adam Bate
Northern Trust	TBC
JP Morgan	Mikal Lovett

EPTF barriers



ISDA –“A Blueprint for the Optimal Future State of Collateral Processing” Oct 2017

*TO BE DOCUMENTED
SUBJECT TO ISDA PERMISSION*

Interactions with other groups

Stream 1	Triparty
Stream 2	3/16 Corporate Actions
Stream 4	7 Reporting
Stream 5	Static Data 9/10/11/12 or 13
All	Glossary

TO BE DOCUMENTED

Interactions with other groups – stream 1 - similarities & differences with triparty

