



EUROPEAN CENTRAL BANK

EUROSYSTEM

# **Status update Substream 1: Triparty collateral management**

CMH-TF 25 October 2017

## I. Triparty collateral management harmonisation.

- Analysis of issue: Triparty business processes and messaging are heterogeneous. Overview table is being created for CMH-TF.
- Harmonisation activity: Considerations have started on harmonisation of business processes for triparty collateral management.

## II. Sourcing of collateral to/from triparty agents (TPA).

- Analysis of issue: Issues may be related to cross-border movement of collateral (automated processes). Examples are related to the use of non-euro area EU securities, e.g., to the need to move non-euro area EU securities into (I)CSDs, and the move of securities between (I)CSDs.
- Harmonisation activity: Minimum requirements to operate from a collateral management perspective. (Ongoing)

## III. Triparty framework/interoperability. (This will start soon).

## I. Triparty collateral management harmonisation: Analysis

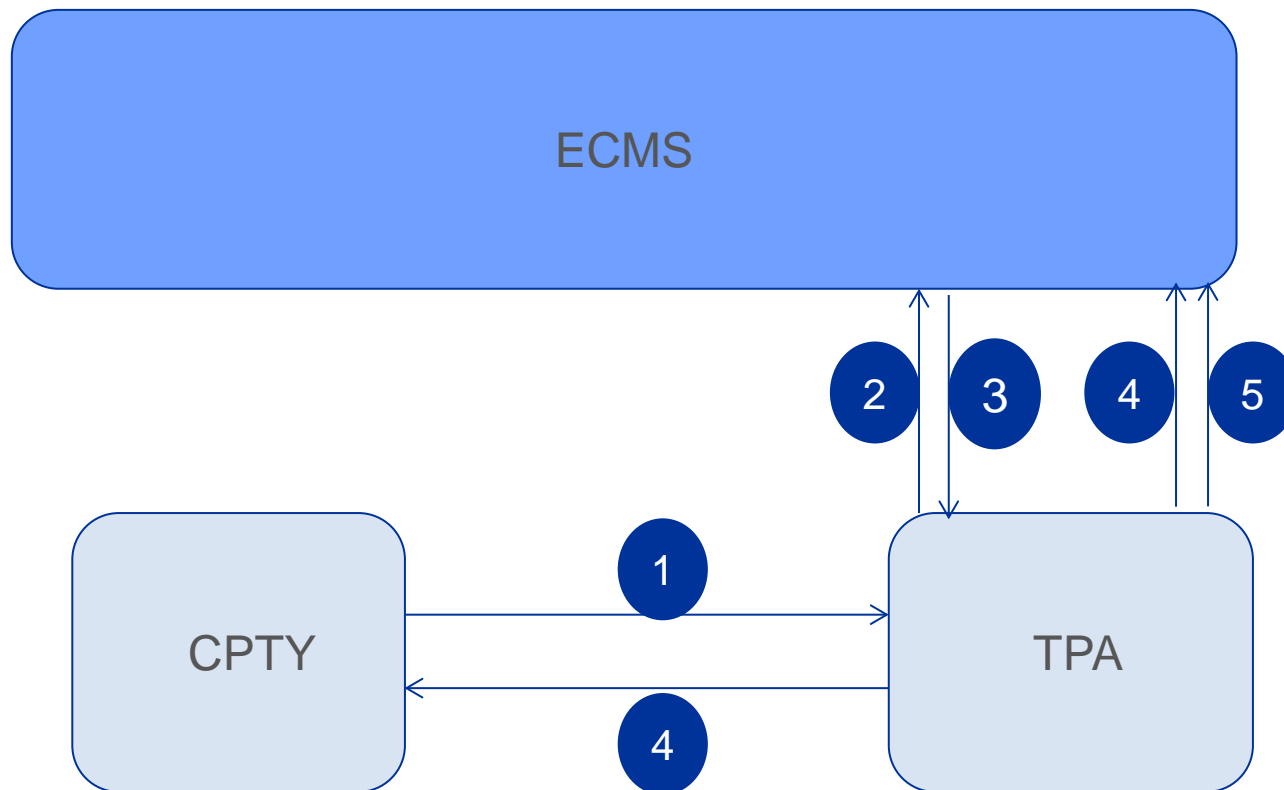
- Key principles

1. Focus on the harmonisation of the work flow/messaging between TPA and ECMS (*as starting point, afterwards extend to other market processes*).
2. No impact on the Service components provided by the TPAs.
3. *Aim to limit the* impact on the market specificities of the collateralisation model used by the market participants towards their respective central banks (HCBs).
4. *Aim to limit the* impact to market participants.
5. *Proposal focusses on business processes (taking into account the existing ISO 15022 as no collateral message exists yet in ISO 20022 – ISO 20022 messaging to be covered in next phase)*

## I. Triparty collateral management harmonisation: Analysis

- Fact finding exercise:
  - Overview table of work flows/messaging of triparty services in euro area. Identification of areas for further harmonisation.
  - Establish common definition of business processes.
- Summary of the findings (*draft – still to be confirmed by Eurosystem*):
  - Out of 24 BP's - 8 BP's priority 1 have been identified – 7 of them could be harmonised.
  - 7 BP's priorities still need to be confirmed – 2 of them could be harmonised.
- Explanation of priority categories:
  - (1) harmonisation is required - no harmonised process exists today.
  - (0) harmonised process not needed - as no differences exist or business process not relevant.

Example analysis : Decrease of Triparty Collateral Exposure (Global Amount)



1. Instruction from CPTY to TPA
2. Alledgement from TPA to Central Bank
3. Instruction from Central Bank to TPA
4. Status of allocation sent from TPA to CPTY /Central Bank
5. Statement sent from TPA to Central Bank

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
1	Initiation of a Triparty Collateral Transaction	An instruction sent by a trading party to its triparty agent to instruct the agent to initiate a collateral management transaction.	(Part of the set-up. It is not always market practice to use an initiation Message. Not needed in future from a central bank perspective)	TBC
2	Increase of Triparty Collateral Exposure (Global Amount)	An instruction sent by a trading party to its triparty agent to instruct the agent to perform a specific action on a collateral management transaction.	<p style="text-align: center;">YES</p> <p>An increase of a triparty collateral exposure is triggered via the sending of the request to increase to the TPA. (unilateral)</p>	1
3	Decrease of Triparty Collateral Exposure (Global Amount)	An instruction sent by a trading party to its triparty agent to instruct the agent to perform a specific action on a collateral management transaction. (and response)	<p style="text-align: center;">YES</p> <p>Workflow from trading party to its triparty agent and response.</p>	1

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
4	Revaluation (Reception of a new Collateral Exposure Statement)	A statement sent by the TPA to the collateral taker following the revaluation of the assets allocated as a result of price or reference data changes (e.g. change in the haircut of the asset).	<p>YES</p> <p>Workflow for revaluation from triparty agent to trading party.</p>	1
5	Termination (Closure) of a Triparty Collateral Transaction	A request to terminate the triparty transaction sent by the Collateral Giver to both the Collateral Taker and the TPA.	(This is considered as not required in the future from a Eurosystem perspective).	0 (not needed)
6	Cancellation of a Pending Triparty Collateral Exposure Instruction	A request sent by the collateral giver / taker to the TPA to cancel a pending instruction	<p>YES</p> <p>All unmatched instructions are cancelled at the end of day.</p> <p>To cancel a pending (unmatched) instruction during the day?</p>	TBC

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
7	End-of-Day Reporting on Flows (Securities Movements)	A message sent by an account servicer (account servicing institution) to an account owner or its designated agent	(not needed if intraday / realtime reporting requirement is met).	0 (not needed)
8	Compulsory Decrease of Triparty Collateral Exposure Due to Revaluation	A compulsory decrease of the Triparty Collateral Exposure amount	See workflow for revaluation from triparty agent to trading party. Should be the same as process 4 so therefore no specific process needed.	0 (not needed – covered by process 4)
9	Compulsory Decrease of Triparty Collateral Exposure Due to Deduction of Up-Coming Corporate Action Event	A compulsory decrease of the Triparty Collateral Exposure amount due to an upcoming corporate action event. or handling of cash proceeds	Eurosystem to agree on common requirement for the handling of cash proceeds	1



## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
10	End-of-Day Reporting on Stocks	A message sent by a triparty agent to both the collateral giver and the collateral taker	Yes Standardised message end of day reporting on stocks	1
11	Unilateral Removal of Specific Asset(s)	A request sent by the collateral giver / taker to the TPA requesting the removal of a specific asset(s) from the basket of securities collateralising the collateral exposure.	Yes New standardised message (subject to confirmation on need)	1

### Additional Features

1	Reporting Frequency	Specifies the frequency with which a collateral and exposure reporting statement is provided	TPAs will provide overview of timeliness of reporting  (Clarity needed on whether all TPAs provide event based reporting i.e. real time report upon change of allocation)	TBC
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## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
2	Future Dated Processing	Indicates whether it is possible for the collateral giver / taker to send a triparty instruction in advance of the execution date of the instruction.	Triparty activity is always same day for central banks [TBC by central banks] and thus there is no requirement for future dated processing	TBC
3	Partial Settlement of Triparty Collateral Exposure Increase	Specifies whether partial settlement of the increase in collateral exposure is permitted	<p style="text-align: center;">YES</p> <p>If targeted amount is not reached, remains open for settlement on subsequent business days. Reporting on what has been allocated.</p>	1
4	Automatic Increase / Decrease of Triparty Collateral Exposure following Revaluation	Identifies whether a revaluation of the collateral leads to an automatic increase or decrease of the triparty exposure amount	TBC	TBC

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
5	Accounting Modalities	The collateralisation technique employed in the triparty transaction	No business process (but may impact other business processes)	0
6	Provision of Real Time Information on Securities Collateralising Triparty Collateral Exposure	Identifies whether real-time information is available to the collateral giver / taker on the securities collateralising the triparty exposure amount	YES, Real time information will be provided in standardised business process  (related to process 1 reporting)	1
7	Handling of Principal Adjustment to Triparty Collateral Exposure	Identifies whether the request to adjust the exposure amount is communicated to the TPA on a Delta or a Cancel and Replace basis	No differences	0 (no differences)

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
8	Amendment of Triparty Collateral Exposure Instruction	TPA provides the possibility for the collateral giver / taker to amend the triparty instruction already sent to the TPA	No differences (market practice to cancel unmatched instructions TBC)	0 (no differences)
9	Handling of a Maximum Triparty Collateral Exposure Value	TPA allows the setting of a maximum triparty collateral exposure amount	TBC Trading parties set high/maximum target value, See partial settlement	TBC
10	Acknowledgment of Triparty Collateral Exposure Instruction Messages	TPA sends a message to the collateral giver / taker acknowledging receipt of a triparty instruction	No differences	0 (no differences)

## Triparty collateral management: **draft findings and priority**

No.	Process	Process Description	Harmonisation	Priority
11	Usage of Baskets (Including Messaging Used)	The collateral giver / taker can restrict the use of triparty services to a certain group of eligible assets	Eurosystem to agree on harmonised rule	0
12	Handling of Pending Instructions - Unmatched Instructions	Pending instructions are treated when the instructions are not yet matched	TBC See cancellation	TBC
13	Handling of Pending Instructions - Undercollateralised Transactions	Specifies how pending instructions are treated when the exposure is matched but there is insufficient collateral to settle the instruction.	See partial settlement	0

## Triparty collateral management: draft findings and priority

No.	Process	Process Description	Harmonisation	Priority
14	Opening Hours	The hours during which triparty services are available for use	Refer to substream 4	0
15	Handling of Cash Proceeds Related to Corporate Action Events	Identifies how cash positions related to the execution of a corporate action event are treated and reported	Eurosystem to agree on common requirement	0
NEW	Rejection of Decrease instruction	Description to be added	TBC	TBC

# II. Sourcing of collateral to/from triparty agents (TPA). (cross-border)

### ***Comment on T2S :***

T2S has improved the situation (less need for using domestic custodian in T2S markets) but market participants need to do some adaptation to reap full benefits (market participants are implementing changes gradually in T2S markets).

In order to achieve harmonisation the following recommendations should be adopted across all EU markets:

### ***Recommendations :***

1. *CSD's must support real time or quasi real time settlement.*
  - Members supported that collateral transactions cross-border should be settled in quasi real-time.
2. *Automated processes should be ensured at CSD level.*
  - Members supported that collateral instructions cross-border sent to the (I)CSD should be processed by the (I)CSD in a fully automated manner, and manual procedures in some CSDs should be removed (if any still exist).

## II. Sourcing of collateral to/from triparty agents (TPA). (cross-border)

3. Same day settlement should be possible
  - Members supported that same-day settlement should be possible (for collateral instructions cross-border).
  
4. Some market have pre-matching process for settlement instruction – this process should be automated or considered as not required for collateral transfers.
  
5. A cross-border transfer of collateral should take less than 20 min from initiation of the instruction to the settlement especially when there is an Agent/Global custodian involved in the settlement process.
  - Members supported that collateral transfers cross-border should be automated and take less than 20 min (from initiation to settlement).



# Sourcing collateral (cross-border transactions)

6. Harmonization on the settlement/Tax specific requirements in certain markets should be reviewed in the context of collateral. Example of Italian Tax process, Turkish Tin number, Spanish Equities for loan, UK Stamp duty .....all these create exceptions in these markets and therefore require special processes to be put in place ( often manual process) – this impacts mobility of collateral.
- Members explained that national specific requirements/processes could reduce collateral mobility. (Reference to Substream 2 CA/tax processes Members could contribute to finding a common way for processing.)
  - First, currently collateral movements are not identified as collateral transfers (versus settlement transactions), and there is a need to identify and communicate collateral information.
  - Second, and in addition to the identification of collateral transactions in settlement at CSDs, there is also the need to enrich the securities instruction in light of the tax process requirements. Tax obligations are different and make it complex. This might reduce the willingness of counterparties to mobilise an asset as collateral.
7. Cut-off time are under discussion in the Stream 4 .

# Sourcing collateral (cross-border transactions)

8. Effect of Omnibus structure at CSD to increase settlement efficiency
  - Members explained that there is increased segregation (e.g. because of upcoming regulation/market practices). The overall impact on collateral mobility is still being analysed.
9. As a minimum all securities in EU markets should be Bridge or T2S eligible
10. All EU non euro-securities eligible in Euroclear or Clearstream should be Bridge Eligible where possible
11. Improvements of the Bridge is needed to further improve settlement efficiency
  - A second phase of enhancements were successfully implemented on 19 June 2017 (further improving the Bridge input deadlines, increase the number of exchanges files in order to decrease the turnaround settlement times to between 10-40 minutes compared to 35-90 minutes before).
12. The market sees it as highly beneficial to encourage non-T2S participating CSDs to join T2S to improve collateral fluidity and access to all markets in order to source collateral according to harmonised procedures
  - There should be an effort to reach out to these CSDs / markets to make these assets available for use as collateral in all EU markets in a harmonised way.

### **Actions Required:**

#### I. Triparty collateral management

- **CMH-TF are invited to:**
  - Confirm the summary findings and classification of priority (so far Eurosystem relevant processes).
  - Agree to work further on other market processes.
  - Take note of interdependencies, i.e. processing of corporate actions (substream 2)

#### II. Sourcing of collateral to/from triparty agents (TPA).

- **CMH-TF are invited to:**
  - Confirm the summary findings.
  - Take note of interdependencies, i.e. bilateral collateral management (substream 3) and cut-off times (substream 4).

**Need to involve/reach out to market participants.**