



EUROPEAN CENTRAL BANK

EUROSYSTEM

Agenda item 3

# Collateral Management Harmonisation Activities (CMHAs)

Proposal for CMHAs of AMI-SECO.

CMH TF meeting of 24 August 2017

## Introduction - CMHAs

AMI-SeCo/HSG had a first discussion on integration/harmonisation of collateral management and key activities that could merit further work on harmonisation.

On the basis of the draft list of CMHAs, the Task Force of HSG should analyse further key harmonisation activities on collateral management.

	Activity		Definition
1. Messaging for collateral management	1	Messaging for triparty collateral management	R
	2	Messaging for bilateral collateral management	R
	3	Messaging for Corporate Actions (CA)	R
	4	Messaging for tax procedures	R
	5	Margin messaging	R
	6	Messaging on (I)CSD and TPA fee/billing information	R
	7	Messaging for reporting	R
	[8]	[Messaging for new participants in collateral markets (buy-side).]	R
2. Collateral Dynamic and Static Data	9	Collateral data (including pool factor and other data elements)	R
	[10]	[Consistent storage/ management of collateral information (SSI/ static data)]	R
3. Collateral operating frameworks	11	Managing multiple places of safekeeping and settlement (in bilateral collateral management)	R
	12	Source/move collateral to/from triparty agents	R
	13	Data exchanges via interfaces on asset information	R
	14	Data exchanges on fee/billing information	R
	15	Common triparty processes for interaction of TPAs with UCMS	R
	16	Data exchanges for CA processing	R
	17	Data exchanges for tax processing [NEW}	R
	[18]	[Collateral and settlement cut-off's times]	R
	[19]	[Framework for triparty interoperability ]	R
4. Non-euro collateral management	[20]	[Non-euro collateral management ]	R

# 1. Collateral messaging

	Activity
1. Messaging for collateral management	1 Messaging for triparty collateral management
	2 Messaging for bilateral collateral management
	3 Messaging for Corporate Actions (CA)
	4 Messaging for tax procedures
	5 Margin messaging
	6 Messaging on (I)CSD and TPA fee/billing information
	7 Messaging for reporting
	8 Messaging for new participants in collateral markets (buy-side).

- See next slides for further details on each of these activities.

# 1. Collateral messaging

- CMHA1: Messaging for triparty collateral management
  - Problem description: Differences in message types across TPAs, and differences in how these messages are used (interaction between TPAs and users), drives down efficiency in collateral management.
  - Examples:
    - Differences between (use of) messages for domestic and cross-border triparty e.g. Eurosystem-TPA (Triparty services of (I)CSDs).
    - ISO 20022 standard messages do not currently exist for triparty

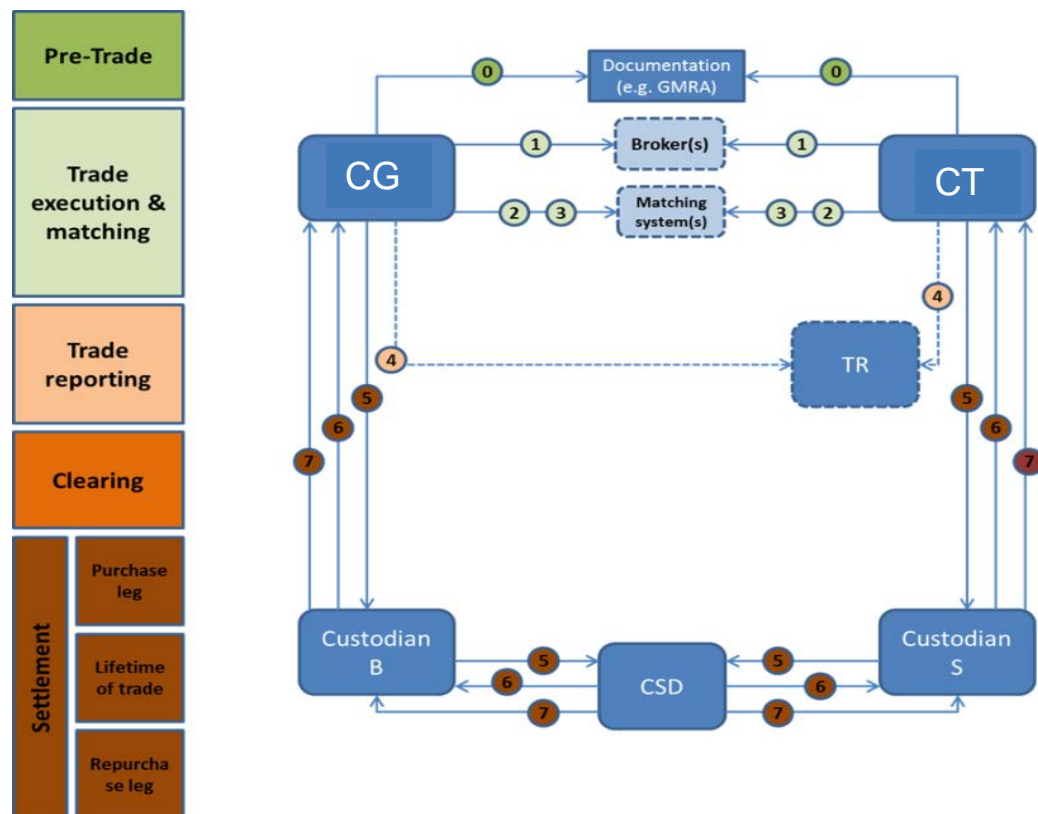
Cross-Border Models (3)	Domestic Models (7)	
Model 1 – Clearstream Banking Frankfurt	Clearstream Banking Frankfurt	DE
Model 2 – Clearstream Banking Luxembourg	Clearstream Banking Luxembourg	LU
Model 3 – Euroclear Bank	Euroclear Bank	BE
	Euroclear France - With Substitution	FR
	Euroclear France - Without Substitution	FR
	Iberclear CADE	ES
	Monte Titoli	IT

# 1. Collateral messaging

- CMHA2: Messaging for bilateral collateral management

- Problem description: Differences in messages for bilateral collateral management could hamper how collateral is allocated quickly and efficiently across borders. [tbc]

Example:



# 1. Collateral messaging

- CMHA3: Messaging for Corporate Actions

- Problem description: Heterogeneities exist in CA messaging, which drives down efficiency in collateral management processing (and could also impact the use of (I)CSD links).

- Example of existing ISO15022 messaging used by some market participants

Message Name	
Corporate Action Notification	MT564
Corporate Action Instruction	MT565
Corporate Action Confirmation	MT566
Corporate Action Status and Processing Advice	MT567
Corporate Action Narrative	MT568
Free Format Message	MT599
General Financial Institution Transfer	MT202
Financial Markets Direct Debit Message	MT204
Confirmation of Debit	MT900
Confirmation of Credit	MT910
Statement Message	MT950

# 1. Collateral messaging

- CMHA3: Messaging for Corporate Actions

## Examples:

- For certain CA events (relevant for collateral management):
  - messaging of (I)CSDs not consistent
  - no harmonised use of ISO 20022 CA messaging
  - Inconsistent usage of messaging results in non-harmonised business processes (see CMHA16 Data exchange for CA).
- Collateral takers have to receive (be in control) of CA cash flows for mobilised collateral.
- Costly and inefficient for collateral takers to adapt systems/processes to handle different message formats per (I)CSD.
- In some cases insufficient data (e.g. CA price/rate information) is provided by the (I)CSD in the CA messaging to enable the collateral taker to estimate the impact of the CA event on their collateral pool. Further analysis on data elements necessary for CA processing (see CMHA 9 Collateral data and CMHA 16).



# 1. Collateral messaging

## CMHA3: Messaging for Corporate Actions (Examples of ISO20022 defined)

Message Name	Msg ID (Schema)	Submitting Organisation
CorporateActionNotificationV06	<a href="#">seev.031.001.06</a>	SWIFT
CorporateActionEventProcessingStatusAdviceV05	<a href="#">seev.032.001.05</a>	SWIFT
CorporateActionInstructionV06	<a href="#">seev.033.001.06</a>	SWIFT
CorporateActionInstructionStatusAdviceV07	<a href="#">seev.034.001.07</a>	SWIFT
CorporateActionMovementPreliminaryAdviceV07	<a href="#">seev.035.001.07</a>	SWIFT
CorporateActionMovementConfirmationV07	<a href="#">seev.036.001.07</a>	SWIFT
CorporateActionMovementReversalAdviceV07	<a href="#">seev.037.001.07</a>	SWIFT
CorporateActionNarrativeV04	<a href="#">seev.038.001.04</a>	SWIFT
CorporateActionCancellationAdviceV06	<a href="#">seev.039.001.06</a>	SWIFT
CorporateActionInstructionCancellationRequestV06	<a href="#">seev.040.001.06</a>	SWIFT
CorporateActionInstructionCancellationRequestStatusAdviceV06	<a href="#">seev.041.001.06</a>	SWIFT
CorporateActionInstructionStatementReportV05	<a href="#">seev.042.001.05</a>	SWIFT
CorporateActionMovementPreliminaryAdviceCancellationAdviceV06	<a href="#">seev.044.001.06</a>	SWIFT
MeetingNotificationV05	<a href="#">seev.001.001.05</a>	SWIFT
MeetingCancellationV05	<a href="#">seev.002.001.05</a>	SWIFT
MeetingEntitlementNotificationV05	<a href="#">seev.003.001.05</a>	SWIFT
MeetingInstructionV05	<a href="#">seev.004.001.05</a>	SWIFT
MeetingInstructionCancellationRequestV05	<a href="#">seev.005.001.05</a>	SWIFT
MeetingInstructionStatusV05	<a href="#">seev.006.001.05</a>	SWIFT
MeetingVoteExecutionConfirmationV05	<a href="#">seev.007.001.05</a>	SWIFT
MeetingResultDisseminationV05	<a href="#">seev.008.001.05</a>	SWIFT

# 1. Collateral messaging

- CMHA4: Messaging for tax procedures

- Problem description: Differences in messages and non-availability of information related to WHT tax procedures might require the rejection of an instruction for the mobilisation of collateral. Standardised messaging is needed to transmit the required taxation information (e.g. details of beneficial owner) in an automated and efficient manner.

- Example

- Tax-related messaging (on parties and assets that are subject to withholding tax) is needed in a consistent manner to receive info on details of the underlying beneficial owner / UCMS's tax status.

<b>Message Name</b>	
Receive and store information relevant for documenting a UCMS's tax status	tbd
Pass on relevant information on a UCMS's tax status to the local (I)CSD	tbd
Pass on information or requests for information from the local (I)CSD to the UCMS as well as to pass on responses from UCMS back to the relevant (I)CSD	tbd

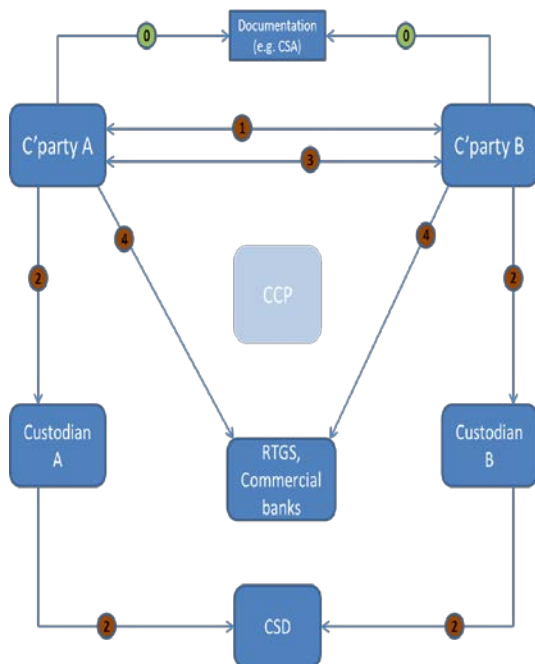
# 1. Collateral messaging

- CMHA5: Margining messaging

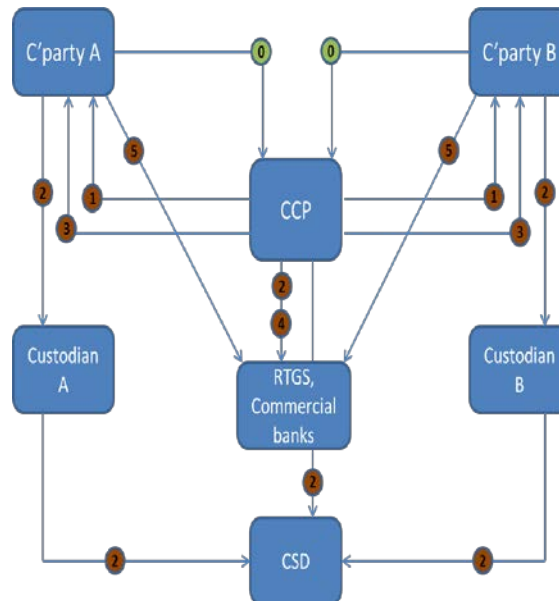
- Problem description : Messaging is divergent for margining, which is relevant for efficient collateral management.[tbc]

Example (page 18): bilateral, CCP, triparty.

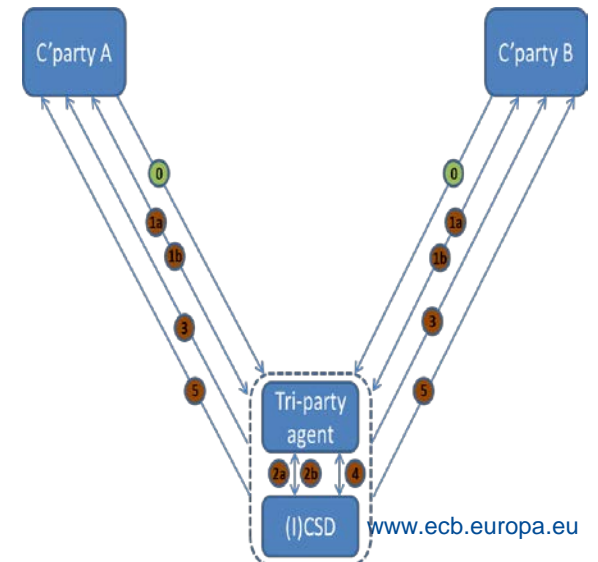
(1) Bilateral:



(2) CCP:



(3) Triparty



# 1. Collateral messaging

- CMHA6: Messaging from (I)CSD and TPA on fee/billing information
  - Problem description : Messaging is divergent and hampers handling of information of invoices with fee/billing information from local (I)CSDs and local TPAs in an automated manner (per individual and omnibus account for collateral held in (I)CSD/TPA). In some cases the information provided in the invoice is insufficient for the proper reconciliation of invoices received.
  - Example
    - (I)CSDs/TPAs currently do not provide information on the total fee via a standardised ISO20022 message/xml.
    - In case omnibus accounts are used, insufficient information may be available in the invoice provided by the (I)CSD to allow the collateral taker to accurately redistribute the fees amongst the participants using the account.

# 1. Collateral messaging

- CMHA7: Messaging for reporting
  - Problem description : Common messaging is not available to meet reporting requirements (which should introduce unique identifiers/ attributes) [tbc]
- CMHA8: Collateral messaging for new participants in collateral markets (buy-side)
  - Problem description : 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). [tbc]

## 2. Collateral Dynamic and Static Data

	Activity	
2. Collateral Dynamic and Static Data	9	Collateral data (including pool factor and other data elements)
	10	Consistent storage/ management of collateral information (SSI/ static data)

- Further details for each of these activities can be found on the next slides.

## 2. Collateral Dynamic and Static Data

- CMHA 9: Collateral data (including pool factor and other data elements)
  - Problem description : Data sources differ significantly for pool factor and other information (used for the valuation of mobilised ABSs and some non-ABSs having pool factors). Up to date information is needed for the valuation of collateral.
  - Examples:
    - Issuer (I)CSDs are deemed to have the most reliable source for up-to-date pool factor information, but in T2S-context settlement confirmation message does not quote asset pool factor information. Missing dedicated data feeds from issuer (I)CSDs towards end of business day (for eligible collateral at collateral taker).
    - Intraday corporate action notifications may be used for updated on pool factor of already mobilised collateral.
    - It could be avoided to provide TPAs with for up-to-date pool factor information, if TPAs use information directly from connected (I)CSDs

- CMHA 10: Consistent storage/management of collateral information (SSI/ static data)
  - Problem description : At cross-border level, there is a risk of unmatched transactions because of manual intervention/repairs to have correct information for collateral instructions. [tbc]



### 3. Collateral operating frameworks

	Activity
3. Collateral operating frameworks	11 Managing multiple places of safekeeping and settlement (in bilateral collateral management)
	12 Source/move collateral to/from triparty agents
	13 Data exchanges via interfaces on asset information
	14 Data exchanges on fee/billing information
	15 Common triparty processes for interaction of TPAs with UCMS
	16 Data exchanges for CA processing
	17 Data exchanges for tax processing [NEW}
	18 Collateral and settlement cut-off's times
	19 Framework for triparty interoperability

- Further details for each of these activities can be found on the next slides.

### 3. Collateral operating frameworks

- CMHA 11: Managing multiple places of safekeeping and settlement (in bilateral collateral management)
  - Problem description : Increasing cross-border complexity in management of safekeeping and settlement processes hampers bilateral collateral management.
- CMHA 12: Source/move collateral to/from triparty agents
  - Problem description : Complexity for sourcing/moving collateral from domestic markets to the custody network of a TPA hampers triparty collateral management.

### 3. Collateral operating frameworks

- CMHA 13: Data exchanges on asset attributes
  - Problem description: Certain information relevant for the securities properties and valuation of collateral is provided by the (I)CSD (e.g. Quantity Type code (UNIT, FAMT), UNIT Size information for assets where quantity is expressed as UNIT, Minimum Amount Unit for assets). Workflows differ significantly on how this data is exchanged (i.e. workflows related to the static and dynamic data identified above).
- CMHA 14: Data exchanges on fee/billing information (schedule-periods)
  - Problem description : There is no common schedule and thus no harmonised approach on when/how to receive information on fee/billing data. For participants holding collateral in multiple locations, this makes the management of invoices problematic.

### 3. Collateral operating frameworks

- CMHA 15: Common triparty processes for interaction of TPAs with UCMS (collateral allocation and risk control)
  - Problem description: Workflows differ significantly in triparty arrangements for interaction with users, hampering triparty collateral management.
  - Examples:
    - Collateral allocation processes differ (opening hours, end of day revaluation timelines and account structure).
    - Information used for the triparty service differ when providing pool factor information to the TPAs (see CMHA 9 Data).
    - Risk control measures differ (detailed & timely information is needed by users on the securities used for collateralising triparty global amounts).

### 3. Collateral operating frameworks

- CMHA 16: Data exchanges for CA processing
  - Problem description: Differences in the processes to receive information on CA from (I)CSDs and TPAs hamper collateral management, i.e. related to CA cash flows/ The CA-related revaluation of an asset. All information relevant for the processing of CA events (e.g. price/rate information, record date etc.) should be contained in the ISO20022 messaging.
- CMHA 17: Data exchanges for tax processing [new]
  - Problem description: There are no common processing for tax-related activities, which hampers collateral management.

### 3. Collateral operating frameworks

- CMHA 18: Collateral and settlement cut-off's times
  - Problem description: Differences in the cut-off's times for collateral operations [in non-T2S markets] hamper collateral management.
- CMHA 19: Triparty frameworks/ interoperability
  - Problem description: Triparty frameworks/interoperability arrangements are not (yet) available for mobilising securities involving different TPAs, CCPs and (I)CSDs.

## 4. Non-euro collateral management

	Activity	
4. Non-euro collateral management	20	Non-euro collateral management

- CMHA 20: Non-euro collateral management

- Problem description: Procedures for the handling of non-euro collateral differ amongst (I)CSDs (e.g. related to the handling of foreign currency payments for CA may differ per CSD (the FX proceeds may be converted to euro)).