



EUROPEAN CENTRAL BANK

EUROSYSTEM

Collateral Management Harmonisation

CMHA2: Corporate Actions

Status update – follow-up work

Collateral Management Harmonisation Task Force

Frankfurt, 8 November 2018

Background

- **AMI-SeCo approved the harmonisation proposals prepared by the CMH-TF for corporate actions in June 2018.**
- **A series of follow-up items were identified in the CMH-TF Report on Corporate Actions for which follow-up analysis has been conducted in view of developing further harmonisation proposals.**
- **Draft proposals and issues note were circulated to CMH-TF members with feedback requested by 12 November.**
- **This presentation provides a high-level overview of the issues / proposals under consideration.**



Status update – follow-up work

– CA Events Relevant to Debt Instruments

Topic	Description
Issue	A list of approx. 40 CA events were identified which all markets agreed were relevant to Eurosystem eligible collateral. A further 7 events were identified which were identified as being potentially relevant to Eurosystem eligible collateral but for which no consensus was reached.
Follow-up	The ECB deepened the analysis on the remaining 7 events in close co-operation conjunction with the CSDs and relevant market stakeholders.
Status	An issues note has been prepared which identifies the possibility to further harmonise the usage of CA event types (which are used only in selected markets)



Status update – follow-up work

– Usage of Decimals and Handling of Rounding Differences

Topic	Description
Issue	Assets adapt to the place-of-safekeeping/agent rules, and therefore the market where securities are held determine the application of payment amounts / security movements. The impact of the usage of different decimal places and the subsequent need to handle rounding differences causes friction in the CA handling process.
Status	<p>There is support by several (I)CSDs for a general rule across Europe concerning rounding differences.</p> <p>Draft proposals have been prepared covering rules for:</p> <ul style="list-style-type: none"> • Harmonisation on handling of Rounding Differences • Harmonisation on handling of Rounding Differences involving intermediaries



Status update – follow-up work

– CA Events Requiring Blocking of Securities

Topic	Description
Issue	There is a need to identify those CA events where participation in the CA event requires the blocking of securities.
Status	Further fact-finding confirms that practices differ per market partly as a result of different underlying account structures. The cornerstones of a harmonisation proposal are contained in the note for validation by the CMH-TF.

Status update – follow-up work

– Identification of Parties in a Collateralised Transaction

Topic	Description
Issue	The CMH-TF considered that there is a need to identify all parties to a collateral transaction in order to ensure that the collateral giver and/or collateral taker can be notified accordingly. The identification of the collateral giver/taker is not a problem for triparty transactions (as triparty agent has identified the parties) and it is also not an issue for transactions involving a dedicated collateral account (as in Eurosystem credit operations, the Eurosystem is always collateral taker).
Follow-up	CSDs are analysing how the collateral taker / collateral giver can be identified in bilateral market transactions. The impact of reporting obligations under CSDR (as of 2020) to identify if a security is being used as collateral are also being assessed.
Status	Detailed analysis is contained in the note circulated to the CMH-TF. (I)CSDs are further analysing the impact of upcoming regulations on the need to provide this data also.



Status update – follow-up work

– Negative Cash Flows

Topic	Description
Issue	The current process for handling negative cash flows is heterogeneous and may involve a number of complex processes (e.g. collateral taker / giver). As negative cash flows are not currently handled by all CSDs no standardised procedure exists.
Follow-up	Further detail on current practices across all European markets was collected. In some markets (I)CSDs do not accept to issue assets with a negative cash flow and / or announce the negative cash flow at zero. Initial feedback suggests that legal impediments in some jurisdictions preclude the possibility to have a harmonised workflow based on the debit of the account of the securities holder.
Status	Further fact-finding shows that the majority of markets cannot / will not accept to handle assets with negative cash flows. An issues note has been circulated to the CMH-TF describing the issue. It is proposed to consult market participants via the NSGs also.



Status update – follow-up work

– Non Euro CA Payments

Topic	Description
Issue	The process is heterogeneous across CSDs. Some (I)CSDs convert the cash proceeds of a CA event related to non-euro denominated collateral into the euro equivalent before crediting the collateral taker, whilst other CSDs always remit the FX proceeds.
Follow-up	Check with (I)CSDs if they are (i) able to process foreign currency payments and (ii) whether the (I)CSDs offer a conversion service.
Status	Issues note circulated to CMH-TF for feedback. As a first step, it is proposed that all cash notification messages for foreign currency payments should be sent in ISO 20022 format.



Status update – follow-up work

– Modified following business day convention

Topic	Description
<p>Issue</p>	<p>Issuer agents / (I)CSDs may pay corporate actions (CA) using “Modified following business day convention” (MFBDC) which means that, for the purposes of CA payment, in the event that the payment date falls on a holiday, the payment will be due on the immediately following day, or, if that day falls in the following month, on the day immediately preceding the original payment date.</p> <p>The CMH-TF identified that the MFBDC practice appears to be applied differently to securities issued in the Italian market, and there may be a need to implement a standardised procedure and workflow.</p>
<p>Status</p>	<p>It is proposed that all markets harmonise to a common approach of moving both days (i.e. record date and payment date) where relevant. A harmonisation proposal is contained in the issues note which has been circulated to the CMH-TF and will be discussed amongst Italian market participants also.</p>



Status update – follow-up work

– Procedures to support taxation related CA events

Topic	Description
Issue	Procedures and messages to support taxation related CA events namely CERT, TREC and WTRC should be documented.
Status	To be covered as part of CMHA3: Taxation Processes due to the dependency on taxation workflows. Detailed questionnaire being prepared for completion by all markets.
Next Steps	Further feedback is pending from some markets after which point more analysis will be conducted.

Next steps

- **CMH-TF written feedback on the issues note is requested by 12 November.**
- **Where relevant additional harmonisation proposals will then be submitted to the November meeting of AMI-SeCo for approval.**
- **Analysis on remain activities will continue in parallel.**