



EUROPEAN CENTRAL BANK

EUROSYSTEM

Status update on ongoing work

Triparty Collateral
Management Expert
Group

CMH-TF
29/09/2020

Single Collateral Management Rulebook for Europe
common rules for managing collateral



Fabrice Tomenko
Chair of the Triparty Collateral Management EG

Introduction

- TPA contribution to work on the harmonisation of tax processes
- Agreement on cancellation of pending instructions
- Q&A to provide common guidance for implementation
- SCoRE update

TPA contribution to harmonisation of tax processes

- **TPAs agreed that there is a clear need for improvements in tax processing** (in accordance with the harmonisation needs previously identified in the context of CMH-TF Activity 3: Taxation Processes) and that there is now an opportunity to progress this work (e.g. by providing input to upcoming work in the context of the HLF).
- **TPAs agreed that their contribution to the work should be on:**
 - **(i) providing clear rules for determining who is the investor for tax purposes in collateral management transactions** (documenting use cases/exception cases for all transaction types e.g. COLO/COLI, REPU, SECL, BSBK etc.).
 - **(ii) providing best practices from some countries** (e.g. US market) **and possibly comparing it to difficult practices** (e.g. IT market).
- **Follow-up**
 - TPAs to contribute to work on documenting best practices and drafting of rules.

Guidance: Cancellation of pending instructions

- **Background:** *TPAs identified a need to check current practices for cancellation of pending instructions at EOD in order to determine a harmonised process for end of day cancellation for unmatched exposure notification (for commercial and central banks). A questionnaire was launched.*
- **TPAs agreed that clients should send cancellation instructions for pending instructions at the end of day.** The TPA may also do a clean-up of its system (at EOD), which could involve the auto cancellation of instructions which have not been cancelled by the client.
- **Follow-up**
 - The Rulebook for Triparty (Standard 6 on Cancellation) will be updated.

Guidance: Common Transaction Identifier (1/2)

- **Usage of a common transaction identifier for triparty transactions will become a recommended market practice with the introduction of the ISO 20022 messages.** According to the SCoRE Triparty Rulebook this common reference (“common transaction identification”) should be agreed between the collateral giver and collateral taker prior to the initiation of the triparty transaction in order to identify the individual transaction. Common transaction identifier will be optional but when used it will be a matching criteria, and mandatory in case of transactions involving central banks.
- **Given the similarities with the UTI, SWIFT organised a workshop to introduce the current processing rules for generation and usage of the UTI** in order to determine whether the same usage rules could be applied in a triparty context.
- **UTI Details:** The agreed format of the UTI is Max52Text. The Max is to take into account the legacy of the current systems generating identifications that probably are not 52text. However going forward the aim is to have Exact52TextFormat. The format of the UTI standard defines the code to make sure it is unique. In the long run the 52 text will be prefixed with the LEI (20 characters) of the party that issues the UTI combined with the transaction identification (32 characters).

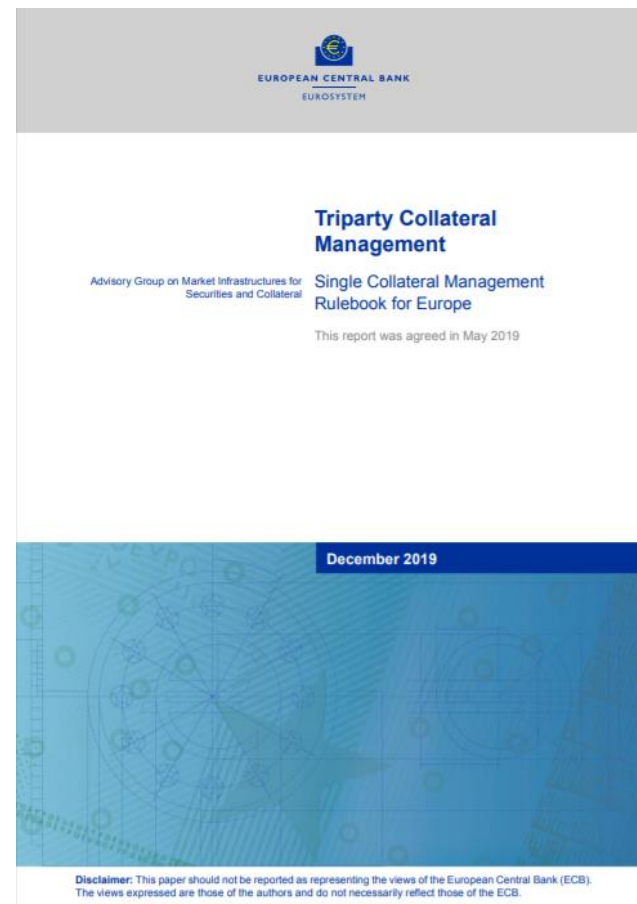
Guidance: Common Transaction Identifier (2/2)

- **The ISO standard does not prescribe rules for creation of the UTI (e.g. by who, when etc.).**
- **ESMA defined a waterfall approach on who should generate the UTI and how.** Either a party involved in the chain of event (clients, trading venue matching venue) or a third party (vendor) could be the issuer.
- As collateral providers are already generating the UTI in the context of other regulatory reporting requirements coupled with the need to include the reference in the initiation instruction, **the ISO Business Validation Group consider that the collateral provider should be responsible for the providing this reference in a triparty context.**
- **Question:** What is the experience of CMH-TF member firms in generating UTIs for regulatory reporting? Are you generating UTIs already today?

SCoRE Update

An update of the Rulebook is planned for Q4 in order to reflect:

- additional guidance formulated in the context of ongoing SWIFT workshops and;
- the aforementioned Expert Group topics.



Upcoming work

- TPA contribution to work on harmonisation of tax processes.
- Review of updated version of the SCoRE document following the stabilisation of the ISO 20022 messages and CMH-TF Expert Group discussions.