

OUTCOME

EIGHTEENTH MEETING OF THE AMI-SECO HSG'S

COLLATERAL MANAGEMENT HARMONISATION TASK FORCE (CMH-TF)

DATE & TIME	29 September 2020 – 10:00 to 12:00 and 14:00 to 16:00 CET
VENUE	Webex / Conference call

1. Introduction

Outcome

Members agreed with the agenda and took note of the outcome of the previous meeting.

Members concurred with the survey responses of the NSGs on the review of SCoRE timelines (the summary of the NSG survey responses on the timeline of the ECMS project and the adaptation to the SCoRE standards was sent to NSGs on 10 September 2020), which showed that the large majority of respondents were in favour of keeping full alignment between the Wave 1 deadline for adapting to the SCoRE standards and the go-live of the ECMS. On the basis of market feedback this would imply a market preference to move the SCoRE Wave 1 deadline to November 2023. Members underlined the need to have clarity on the revised timelines as soon as possible in order to maintain the momentum on SCoRE work and to allow planning work to continue. Members agreed that the additional time for SCoRE should relieve pressure from implementing actors while still allowing synergies with the annual SWIFT maintenance releases and the ECMS timeline.

Follow-up

- The CMH-TF should recommend to the HSG/AMI-SeCo that the adaptation for SCoRE should be kept aligned with the ECMS timeline. In agreement with the clear majority of the market feedback, the CMH-TF re-confirms that November 2023 should be the revised deadline for the first wave of the AMI-SeCo SCoRE Standards for Triparty Collateral Management, Corporate Actions and Billing Processes.
- The next CMH-TF meeting will take place on 17 November 2020 (via Webex / conference call).

Documents: [Outcome of the seventeenth meeting of the AMI-SeCo HSG CMH TF](#).

2. Follow-up actions from the Adaptation Plans Status Report (item 2 was merged with 3)

3. Follow-up actions from the SCoREBOARD – First Compliance and Progress Report

The [SCoRE Adaptation Plans Status Report](#) (published 21 July 2020 on ECB website) provides an overview of Adaptation Plans in AMI-SeCo markets. Each plan has been assigned a colour-code status to reflect the support and commitment to implementing the AMI-SeCo Standards. As a follow-up, entities were invited to provide an update on their planning by 11 September 2020. The updated versions of the Adaptation Plans will be published on the [ECB website](#).

The [SCoREBOARD report](#) (published 12 August 2020 on ECB website) provides an overview of compliance of CSDs, TPAs, Custodians and issuers/agents with the AMI-SeCo Standards for Triparty Collateral management, Corporate Actions and Billing Processes. As part of this report, a series of Action Points were identified for which follow-up actions were requested by 11 September. The status of the follow-up actions will be presented.

The CMH TF members are invited to

- o *Provide comments on the progress towards addressing the follow-up actions.*

Document: [Presentation on follow-up actions identified in the SCoREBOARD Compliance and Progress Report](#).

Outcome

Members agreed that the Adaptation Plan milestones/indicators need to be reviewed given the discussion on the revised timelines for SCoRE. Members also agreed that further updates of the Adaptation Plans are needed after clarity is provided on the revised timeline. Members agreed that further engagement is needed with those markets that still need to provide Adaptation Plans and achieve progress on the action points and further collection/verification of information is needed to meet the actions.

Follow-up

- The CMH-TF Secretariat should circulate a proposal for a revised timeline for the SCoRE milestones/ indicators and a new timeframe for updating the Adaptation Plans (following the decision on the revised ECMS timeline). The CMH-TF Secretariat should also contact the NSGs on the Plans and action points.
- Members should provide the CMH-TF Secretariat with further suggestions on how to improve fulfilment of the action points identified by AMI-SeCo (by 30 October 2020).

4. CMH-TF Expert Groups on Collateral Management Harmonisation

4.1. Triparty Collateral Management Expert Group

The Expert Group will debrief on its ongoing work. There will be an update on progress towards defining the related ISO 20022 messaging and the overall timeline for finalisation.

The CMH TF members are invited to take note of the work

Documents: [Presentation of the Triparty Collateral Management Expert Group](#)

Outcome

Members agreed that there is a clear need for improvements in tax processing and TPAs should contribute on providing clear rules for determining who is the investor for tax purposes in collateral management transactions (e.g. transaction types) and on best practices in certain countries.

It was agreed that clients should send cancellation instructions for pending triparty 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.

The usage of a common transaction identifier for triparty transactions will become a recommended market practice with the introduction of the ISO 20022 messages (UTI will be optional, but when used it will be a matching criteria, and it will be mandatory in case of transactions involving central banks). The usage rules are being defined. It is also considered that the collateral provider should be responsible for the providing the UTI reference in a triparty context (because collateral providers are already generating the UTI in the context of other regulatory reporting requirements).

The usage of Settlement Transaction Types (STT) should be seen in the context of the triparty operations (some involve settlement while others not) and whether STT are used in a bilateral context. TPAs are currently using already internal codifications and can identify if securities are collateral related.

Follow-up

- 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 topics.
- TPAs should document best practices on tax processing from US and Japan.

4.2. Bilateral Collateral Management Expert Group

The Expert Group will debrief on its workplan and focus of the work covering SFT and mobility of collateral across CSDs in T2S.

The CMH TF members are invited to take note of the work

Documents: [Presentation of the Bilateral Collateral Management Expert Group](#)

Outcome

Feedback was collected from ECSDA CSDs on current usage of Settlement Transaction Type (STT) codes. Unfortunately not all CSDs replied. From a first review, the usage of the codes seems to be concentrated in a few CSDs. In those CSDs, the matching of codes varies (from 100% to much lower levels), indicating the codes are not uniformly well applied. Directly Connected Participants (DCPs) in T2S could provide justifications for some of the figures.

Follow-up

- Additional feedback should be requested from ECSDA from CSDs that did not yet answer (given the importance of STT) by 26 October 2020.
- Analysis of the feedback will be discussed in the Expert Group.
- Guidance on usage of Settlement Transaction Types will be considered in a guidance note.

4.3. Asset Servicing Expert Group

The Expert Group will debrief on its work, in particular related to guidance on the implementation of the already agreed Standards 6 and 8, and the applicability of the AMI-SeCo Standards on Corporate Actions (for debt instruments) to other instruments.

The CMH TF members are invited to provide direction on the work

Documents: [Presentation of the Asset Servicing Expert Group](#)

Outcome

Members took note that the Expert Group is preparing a Guidance note on CA STANDARD 6 (Business day rule) on the processing of payments falling on a non-business day. Feedback collected from NSGs indicates agreement for a consistent treatment across markets and the need to ensure level playing field between CA payments in central bank money and commercial bank money (i.e. no use of back valuation in commercial bank money). There is agreement that the Record date is determined by the CSD at close of business on the business day preceding the payment date. There is also agreement with the recommendation of avoiding usage of the “Unadjusted Modified Following Business Day Convention” (MFBDC) / “Unadjusted Preceding Business Day Convention” (PBDC). A reallocation procedure is being considered to handle existing securities (with unadjusted conventions).

Members also took note that the Expert Group is also preparing a Guidance note on CA STANDARD 8 (Payment time) to clarify that the distribution of CA cash proceeds & redemption of securities/collateral should be as early as possible. Members agreed to clarify that start of settlement should be 20:00 CET (NTS in T2S) and it should be strived that redemptions occur at the latest until 7:00 CET (which is the common deadline, after which status advice messages will be sent in case of delayed payments). Members supported the NSG feedback that all CA associated cash settlement should be done within the start of NTS on payment date (for all types of events without distinction). Members also agreed with the NSG feedback, which suggests that restricting the distribution of CA proceeds to NTS would be difficult to achieve, hence the proposal for the deadline until 7:00 CET.

Follow-up

- The Expert Group should finalise the guidance note on Standard 6 (to avoid the usage of “unadjusted” business day conventions which would result in the anticipation of payments) and Standard 8 (describing the CA distributions to take place until 07:00 a.m. CET).

4.4. Taxation Processes

The CMH-TF will discuss if/how the collateral management industry could formulate recommendations to improve the efficiency of tax collection and reclaim processes (best practices focussing on harmonised processes and practices and taking into account collateral management). The CMH-TF could also contribute on documenting the existing good practices of selected countries.

CMH TF members are invited to discuss the formulation of recommendations to improve the efficiency of tax processes

Documents: [Presentation of the improvements of Taxation Processes](#)

Outcome

BNY Mellon presented suggestions for improving the efficiency of tax processes. Members commented that the suggestions would have required earlier/wider involvement of the relevant experts but agreed that there is now an opportunity to enhance the efficiency of tax collection and reclaim processes in Europe, e.g. by providing input to upcoming legislative work and initiatives on the Capital Markets Union. Members agreed that the collateral management industry could formulate recommendations to improve the efficiency of tax collection and reclaim processes, such as best practices focussing on harmonised processes. This would ideally take into account collateral management arrangements (i.e. different collateral management models such as triparty/bilateral/securities lending) but it was recommended not to overcomplicate the work by focussing on account structures (with transfer of title vs. pledge). Further analysis should be undertaken on transaction type rules and the clear identification of the beneficiary.

There should be contributions on documenting the existing good practices of selected countries, e.g. more efficient markets competing with Europe such as the US or Japan (which are also markets with higher levels of collateral fluidity). This should be contrasted with cross-jurisdictional frictions and different treatments in Europe which add risk and complexity.

Follow-up

- Experts should (i) further detail a single set of rules to determine who the investor is for tax purposes and, subsequently, whether that investor is entitled to tax benefits; (i) document existing best practices applicable in non-EU countries as a comparison of practices in the EU.
- Consider if/how the recommendations and good practices could be transmitted to relevant competent authorities as input for further work.

5. Updates on ongoing developments

CMH-TF members are invited to debrief on ongoing developments (e.g. the ECMS project, industry work, etc.). CMH-TF members are invited to raise any additional points and report on developments which could be of interest to all members.

Outcome

CMH-TF members were debriefed on the ECMS project, which is on track. Feedback from the NSG survey on the ECMS timeline is currently being analysed.

Work on the finalisation of ISO triparty messaging is ongoing with stable draft messages expected to be available in October.

The ERCC informed members about their work on intraday liquidity.

Follow-up

- In the next CMH-TF meeting, the ERCC will present their work on intraday liquidity.

6. AOB

None
