



EUROPEAN CENTRAL BANK

EUROSYSTEM

Collateral Management Harmonisation

**CMHA1: Triparty
Collateral Management
Harmonisation proposal –
handling of corporate proceeds**

Collateral Management Harmonisation Task Force
Frankfurt, 8 November 2018

Background

- In the September meeting of the CMH-TF, the ECB provided an update to TF members on the Eurosystem's envisaged harmonised handling of cash proceeds related to CA events in central bank triparty transactions.
- CMH-TF members suggested further analysing the business process and assessing whether the proposal could be more aligned with commercial processes.
- An enhanced proposal was prepared by TPAs for consideration by Eurosystem central banks. The harmonised workflow is presented on the next slide.



CMHA1: Triparty Collateral Management

Handling of Corporate Action Proceeds	CMHA1 (P1.4 & P1.10)
<p>For central bank triparty transactions, two choices are available to the collateral giver in advance of the corporate action event:</p> <p>i) If the collateral giver opts for substitution, the TPA is responsible for the processing of the CA event without the involvement of the collateral taker (NCB);</p> <p>ii) If the collateral giver does not opt for the substitution, or if the substitution fails, the NCB will be in receipt of all relevant CA messaging and the cash proceeds will be transferred to an NCB cash account (T2S DCA in case of euro payments) on the payment date. In such case the workflow described below is applicable.</p>	

Workflow	Description of Steps
<p>The diagram illustrates the workflow between three entities: Collateral Giver, TPA (Triparty Agent), and Collateral Taker (Central Bank). The Collateral Giver is on the left, the TPA is in the center, and the Collateral Taker (Central Bank) is at the bottom. The interactions are as follows:</p> <ul style="list-style-type: none"> 1. Corporate Actions Messaging: An arrow points from the Collateral Taker (Central Bank) up to the TPA. 2. Cash: An arrow points from the Collateral Taker (Central Bank) up to the TPA. 3a. Approval: An arrow points from the Collateral Taker (Central Bank) up to the TPA. 3b. Initiate Debit: An arrow points from the TPA down to the Collateral Taker (Central Bank). 3c. Cash: An arrow points from the TPA left to the Collateral Giver. 	<ol style="list-style-type: none"> 1. The TPA sends all relevant CA messaging to the collateral taker e.g. CA notification, CA confirmation etc. (please see section 2.4 of the AMI-SeCo CMH-TF Report on Corporate Actions for full details of the applicable messages and workflows) 2. On the payment date of the CA, the TPA will transfer the cash proceeds of the CA to the NCB's cash account. The TPA will also send a CA confirmation message (seev.036) in parallel to confirm the execution of the CA event. 3. Upon receipt of the corporate action confirmation message and the cash notification message the collateral taker checks the sufficiency of the overall pool of collateral (i.e. the sum total of collateral mobilised bilaterally and via a TPA). Two outcomes are possible: <ul style="list-style-type: none"> ▪ 3a: If sufficiently collateralised, the ECMS sends a message to the TPA approving the debit of the NCB cash account where the CA proceeds are held. If the remaining collateral is not sufficient, no payments are performed and the NCB retains full control over the CA funds. ▪ 3b: The TPA initiates the debit of the funds from the NCB's cash account. ▪ 3c: The TPA is then responsible for the onward payment of the funds to the collateral giver.