

## **Report on Collateral Management Harmonisation**

Prepared by AMI-SeCo HSG's Collateral Management Harmonisation Task Force  
(CMH-TF)

**Executive summary** [tbc: bullets points are added to facilitate CMH TF discussion]

- **Financial market stakeholders support the need for collateral management harmonisation in view of fostering the creation of a truly 'domestic pan-European' financial market.** Harmonisation reduces heterogeneity, increases collateral mobility, addresses the growing importance of collateral, contributes to ensuring a level playing field, allows for possibly enhancing service levels and, overall, aims at achieving a higher degree of efficiency. All this would also contribute to the European Capital Markets Union (CMU) initiative of the European Commission.
- **Harmonisation of collateral management is critical to further integration of financial markets in Europe.** Market harmonisation of collateral management processes is a further milestone towards the establishment of a pan-European financial market with efficient and effective financial market infrastructures for managing liquidity and securities, thereby promoting the smooth implementation of monetary policy and financial stability. The harmonisation of collateral management procedures should also be viewed in the context of other Eurosystem's deliberations on making collateral management procedures more efficient, in particular in order to further improve integration between cash and collateral. Significant progress has already been made in this regard through the introduction of TARGET2 and the completion of the final T2S migration wave. Furthermore there are ongoing policy considerations by the Eurosystem to consolidate the settlement of mobilisation of marketable collateral in T2S.
- **Analysis shows that operational barriers to efficient and effective collateral management exist which are related to differences in business processes, workflows and messaging.** Operational impediments to an efficient use of collateral across financial markets in Europe are related to diverging processes and interactions in collateral management activities. Other barriers to post-trade arrangements of financial markets in Europe also play a role, such as legal/regulatory barriers, but they are not part of this report as they are covered by other initiatives of CMU. This report sets the collateral management harmonisation agenda to remove the barriers.

- **A holistic approach should be taken to remove the barriers to efficient and effective collateral management. The adoption of international standards (i.e. ISO 20022) for collateral management is an opportunity for moving towards harmonised workflows and business processes as well as a common set of messaging with interoperable market infrastructures based on a common set of data.** Major financial market infrastructures in Europe have migrated (or will migrate) to the ISO 20022 standard, in particular for securities settlement (T2S) and cash settlement (T2). The Eurosystem is also considering the use of ISO 20022 to manage all processes related to the management of eligible assets as collateral in Eurosystem monetary policy operations (including triparty and corporate actions processes). Standardisation of messaging based on ISO 20022 would not only bring efficiency improvements for market participants and providers, it would also increase efficiency because of leveraging existing infrastructures and increasing interoperability of platforms to facilitate sourcing of collateral<sup>1</sup>.
- **Market stakeholders have identified and agreed upon a set of harmonisation activities in collateral management for which market stakeholders have agreed that harmonisation is most attractive in collateral management<sup>2</sup>.** For each of the activities and business processes, it is proposed to assign priority levels that take into account the criticality and externalities of each process. In line with the initial thinking of AMI-SeCo, it is proposed that the highest priority (Priority 1) processes are directly related to the markets that have migrated to T2S, are necessary for the safe and efficient functioning of financial market infrastructures, monetary policy and collateral management arrangements in T2S markets, and are feasible to be implemented in line with the timing of European integration efforts in the CMU. Lower priority (Priority 2) processes are regarded by market stakeholders as beneficial but might, at this stage, not be absolutely necessary for the safe and efficient functioning of collateral management arrangements in T2S markets. Finally, no harmonisation need (Priority 0) is assigned to some business processes which were either already harmonised or no longer required.
- **The following 10 collateral management harmonisation activities have been identified by market stakeholders.** Each harmonisation activity consists of several business processes. Detailed overview tables have been prepared, which list the business processes according to the priority level [see annexed tables].

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<sup>1</sup> To this end, common messaging and workflows [could] also be a step towards achieving triparty collateral management via the network of triparty agents (triparty [settlement] interoperability).

<sup>2</sup> • The collateral management harmonisation effort should be based on set of Guiding Principles for the safety and efficiency of collateral management. Harmonisation should lead to a pan-European to a single collateral management rule book, use of messaging based on international standards, straight-through-processing and increased availability of collateral.

Collateral Management Harmonisation Activities		
1	Triparty Collateral Management processes	Harmonisation of triparty collateral management workflows and messaging. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul> Interoperable processes allowing collateral mobility across triparty agents.
2	Corporate Actions processes relevant for collateral management	Harmonisation of Corporate Actions processes, workflows and messaging by reinforcing existing harmonisation standards/efforts or adding new harmonisation standards (taking into account specific considerations from a collateral management perspective). <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
3	Taxation processes relevant for collateral management	Harmonisation of tax processing in the context of collateral management (taking into account identification of parties in collateralised transactions). Creation of map of different national withholding tax requirements. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
4	Bilateral Collateral Management processes	Harmonisation of workflows for bilateral collateral management (covering non-cleared OTC derivatives and securities financing). Interoperability and leverage of existing infrastructures and market platforms. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul> Market practices needed for cleared OTC derivatives.
5	Margin call processes for collateral management	Interoperability and leverage of existing infrastructures and market platforms for margin processes. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
6	Billing Processes relevant for collateral management	Harmonisation of billing procedures, workflows and messaging. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
7	Cut-Off Times [tbc]	[Minimum requirements for end-of-day cut off times (to avoid possible different value dates in cross-infrastructure transactions in different markets, which may create frictions for market participants active in different markets)].
8	Collateral Dynamic and Static Data	Harmonisation of data exchanges to ensure that information / data is available where necessary. Market practises needed for use of data. <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
9	Sourcing of collateral	Minimum requirements for sourcing/movement of collateral across Europe.

10	Non-euro collateral	<p>Market practices for the handling of non-euro denominated collateral (including related corporate action processes).</p> <ul style="list-style-type: none"> <li>• [...] business process priority 1</li> <li>• [...]business process priority 2</li> </ul>
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- **Market stakeholders welcome the significant progress that has been achieved towards harmonisation of Triparty Collateral Management processes.** Triparty agents, together with market participants and the Eurosystem, have analysed the harmonisation of triparty processes (between triparty agents and involved stakeholders) and are working on a proposal for harmonisation of triparty collateral management which could be used in the context of Eurosystem credit operations and also in the context of market-related triparty transactions. The finalisation of the harmonisation proposal is subject to some further clarifications/feedback from the Eurosystem and triparty agents as it would require changes to workflows/business processes.
- **The report takes into account aspects and considerations that are relevant in the context of the Eurosystem’s investigations for a new Eurosystem Collateral Management System (ECMS).** Areas covered by the report which are key elements for harmonisation for ECMS include (but are not limited to) corporate actions, triparty collateral management services, taxation processes, non-euro collateral, billing processes and collateral data exchanges.
- **With the approval by AMI-SeCo of this report, the next steps could be started, i.e. the definition and implementation of the agreed harmonisation proposals.** With approval by AMI-SeCo of this report and the identified harmonisation activities and needs, ‘phase one’ of the collateral management harmonisation effort could be concluded and the ‘phase two’ of the effort could be started, i.e. the definition and implementation of the agreed harmonisation proposals. The agreed collateral management harmonisation activities would serve as the basis for the next steps. Work may include further work on the possible definition of standards for harmonised business process/workflows and a monitoring framework.
- **In the next steps, substantial market efforts will be needed for the implementation.** Market commitment is needed to define concrete harmonisation proposals for the agreed harmonisation activities and needs. In this context, it would also have to be considered whether harmonisation proposals should take the form of harmonisation standards and/or harmonised best market practices. The dedication of market participants is also needed to review and (where needed) enhance ISO 20022 messaging standards with harmonised workflows and data elements.
- **Implementation of the harmonisation proposals will require close market involvement.** It is expected that AMI-SeCo will play a major role in facilitating market involvement and assisting the market in the pursuit of the collateral management harmonisation activities and needs. AMI-SeCo is also taking into account other initiatives on establishing a CMU in the EU and the removal of barriers and bottlenecks to efficient and resilient cross-border post-trading.

- ***[The CMH-TF is invited to consider the draft report, in particular the collateral management harmonisation activities and needs identified by the CMH-TF's sub streams, the proposed prioritisation methodology and resulting prioritisation proposals,]***

*[The AMI-SeCo [HSG] is invited to agree with the proposed harmonisation activities and needs. In particular the following points ...[for CMH-TF feedback]*

## 1. Introduction

- As it is part of its mandate, the Eurosystem fosters European financial market integration and promotes the delivery of a truly domestic Single Market in Europe. It actively contributes to establishing an integrated Capital Markets Union (CMU) and continues to promote harmonisation of securities settlement with the T2S harmonisation agenda. The Eurosystem contributes as a catalyst in the discussion with market participants and providers of collateral management services.
- [The Eurosystem's Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) assists the Eurosystem in contributing to the harmonisation in the fields of securities clearing and settlement, and collateral management, with a view to fostering integrated financial market infrastructures. In its March 2017 meeting, the AMI-SeCo invited the HSG to develop a comprehensive list of collateral management harmonisation activities. Given the importance and complexity of the matter, the HSG decided to establish the CMH-TF. In line with the mandate of the AMI-SeCo and its HSG, the CMH-TF was asked to analyse any matters related to collateral management and identify a list of key harmonisation activities related to the efficient functioning of collateral management. The CMH-TF consists of Eurosystem central banks, market participants and market infrastructures primarily active in collateral management. ]
- The CMH-TF analysed barriers to efficient functioning of collateral management and existing market standards/market practices and processes on the efficient functioning of collateral management with a view to overcoming fragmentation and operational constraints. The CMH-TF considered recent market developments and earlier work by COGESI [add link] and also took into account aspects that may be relevant for harmonisation in the context of the Eurosystem's investigations for a Eurosystem Collateral Management System (ECMS)<sup>3</sup>. For the Eurosystem central banks, ECMS would manage eligible assets as collateral in Eurosystem credit operations. ECMS would establish harmonised functions and services for the Eurosystem and its counterparties.

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<sup>3</sup> In September 2016, the Eurosystem's Governing Council agreed to conduct the investigation phase for ECMS (until December 2017).

- A wide range of topics were addressed by the CMH-TF for the identification of the barriers to efficient and effective collateral management, including existing market arrangements, market standards and market best practices/guidance. This analysis led to a set of Guiding Principles for overcoming the barriers and guiding the harmonisation of collateral management. Finally, the CMH-TF agreed on a set of harmonisation activities to overcome barriers.
- This report is structured as follows: Section 2 describes the barriers to efficient and effective collateral management which market stakeholders/the CMH-TF has identified and agreed upon. Section 3 sets out the CMH-TF's agreed upon Guiding Principles for collateral management harmonisation. Section 4 explains the approach for analysing current differences in the mobilisation and management of collateral that led to identifying the list of harmonisation activities. Section 5 explains the list of harmonisation activities [agreed by the CMH-TF and endorsed by the HSG TBC]. Section 6 outlines the next steps. Annex 1 provides the detailed overview of the proposed harmonisation activities in tables. Annex 2 provides relevant data attributes of a security which are used in the context of collateral management. Annex 3 provides [a glossary of terms/terminology] to ensure a common understanding.

## **2. Existing barriers to efficient and effective collateral management**

- Market participants currently manage their collateral assets more proactively in view of market and regulatory developments, which results in more frequent interactions and movements of assets from one location to another<sup>4</sup>. In view of these developments, market participants in COGESI expressed the need for enhancements to existing arrangements to better support collateral and liquidity management activities (see “Euro Repo Market: Improvements for collateral and liquidity management”, 2014).<sup>5</sup> Market participants in particular expressed the need for collateral to be able to be moved quickly and managed efficiently across Europe via tri-party and bilateral collateral management processes. The mobilisation and management of collateral should meet the demand of market participants to use collateral where and when it is needed and to meet regulatory

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<sup>4</sup> [The overall collateral demand has increased, e.g. due to implementation of margin obligations. And at the same time, the demand/scarcity of specific high quality and liquid collateral types has increased which requires to implement more efficient collateral mobilisation techniques.]

<sup>5</sup> The Contact Group for Euro Securities Infrastructures (COGESI), and analysed barriers and national restrictions that prevent a greater level of automation and connectivity between market infrastructures. This resulted in the identification of a first list of relevant barriers to collateral mobility that impedes movement of collateral and provision of related services. Market participants in COGESI also stated to identify the main areas for harmonisation of collateral management arrangements: (i) Prompt access to collateral and opportunities of using ISO 20022 for collateral messages in the various layers of the chain; (ii) Improvements for cross-system transactions in Commercial Bank Money (iii) Triparty-related harmonisation

requirements. Market participants in the European Post Trade Forum (EPTF<sup>6</sup>) also underlined the importance of the ability to move collateral efficiently between counterparties, markets and accounts for the adequate functioning of financial markets.

- Barriers to an efficient use of collateral across financial markets are particularly related to operational impediments, i.e. differences in the business processes and messaging of collateral management activities, which hamper collateral mobility.
- Local market practices and arrangements which have evolved over time also hamper efficient mobilisation of collateral across the euro area and the use of collateralised transactions at end-of-day for treasury adjustment operations. Other barriers/problems to post-trade arrangements of financial markets in Europe also play a role, such as legal/regulatory barriers, but they are mainly covered by other initiatives in the context of the Commission's Capital Markets Union.
- Existing local collateral management arrangements have evolved over years to meet local user requirements while continuing to cope with existing and new operational differences. As a result, there is fragmentation and market participants and the Eurosystem counterparties have to deal with different procedures when mobilising collateral with other market participants or the Eurosystem. These differences result in operational inefficiencies which can be particularly detrimental in times of financial stress and collateral shortage, and involve unnecessary cost.
- As the euro area's banking and financial markets become increasingly integrated, industry demand for more efficient and harmonised collateral management arrangements within the Eurosystem central bank community has increased as well. The Eurosystem has explored existing barriers and prospects of harmonisation related to current processes for monetary policy in view of its considerations for the development of a common ECMS. Furthermore there are ongoing policy considerations by the Eurosystem to consolidate the settlement of mobilisation of marketable collateral in T2S. The triggers for the Eurosystem's considerations were key post trade developments in the recent years, in particular the go-live of T2S, ICSDs' public announcements to make their services available also on T2S, the entry into force of the CSDR (in particular the freedom of access to CSDs) and the European Commission's CMU initiative. The Eurosystem therefore actively contributes to the momentum of removing the impediments to efficient collateral management.

### **3. Guiding Principles for Collateral Management Harmonisation [TBC]**

In response to the issues and impediments to efficient collateral management, the CMH-TF has agreed on [five] Guiding Principles for the harmonisation of collateral management. [For the CMH-TF to consider, if there are further principles which should be added].

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<sup>6</sup> In early 2016 the European Commission set up the EPTF as an informal expert group on post-trading, including the areas of collateral markets and derivatives [add text and link]

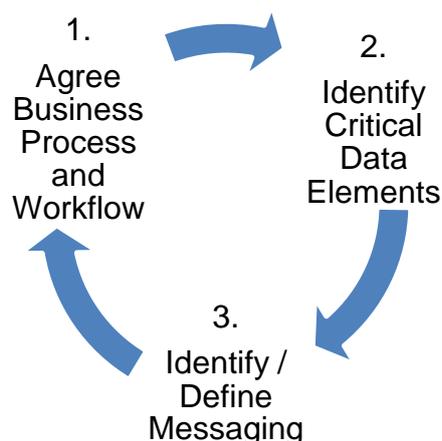
- **Principle 1: Harmonisation [should lead to] pan-European to a single collateral management rule book for financial market infrastructures (FMIs), their users and Eurosystem central banks:** In the past, FMIs were free to impose local market practice rules that work for their business or local needs with specific business processes and messaging which in a pan-European context leads to significant heterogeneity. Harmonisation should allow for pan-European rules for the safe and effective mobilisation and management of collateral relevant for processes related to market transactions and Eurosystem credit operations, involving triparty and bilateral collateral management arrangements. [The focus is not on bank-to-bank or bank-to-buy side interaction and processes, but they will benefit from the implementation of harmonised rules].
- **Principle 2: Harmonisation [should lead to] messaging based on international standards:** Harmonisation should promote the use of the ISO 20022 standard, which is emerging as the default messaging standard used by FMIs and their communities, and should cover workflows, business processes and data formats relevant to collateral management. Standardisation and technical implementation of the latest international standards fosters automation, reduces cost and contains operational risk. There are also wider benefits of using standardised ISO 20022 messaging and data/workflows, e.g., for internal and external reporting, risk management, decision-making and facilitating aggregation of data.
- **Principle 3: Harmonisation [should lead to] interoperability:** Harmonisation should lead to interoperable or compatible market infrastructures and arrangements (including data processing platforms/warehouse) to allow interaction across global networks regardless of their technical operating systems. Interoperability should facilitate harmonised interaction between market participants for collateral management according to international standards. This is also relevant for interaction of market participants with existing Eurosystem market infrastructures such as TARGET2 and TARGET2-Securities.
- **Principle 4: Harmonisation [should lead to] straight-through-processing (STP):** Harmonisation should lead to automation of collateral management, i.e. foster the processing of collateral transactions in real time on a straight-through-processing (STP) basis, requiring, as a rule, minimum manual intervention. The sourcing of collateral to/from triparty agents should also be possible using automated processes.
- **Principle 5: Harmonisation [should remove] operational restrictions which impede availability of collateral:** Harmonisation should improve the availability and usage of securities in collateralised transactions and remove restrictions, i.e. related to the need to remove securities from the collateral pool at the time of a corporate action events/due to specific operationally complex taxation processes. Harmonisation of operational processes associated with the usage

of securities as collateral through the implementation of harmonised workflows and messaging is therefore needed in order to ensure maximum availability of securities for use as collateral.

- [Principle ...-For CMH-TF feedback]

#### 4. The CMH-TF's approach towards overcoming barriers

- The objective of the CMH-TF is to deepen the analysis of the AMI-SeCo's/HSG's initial deliberations on collateral management harmonisation with a view to presenting a detailed list of harmonisation needs and activities to the AMI-SeCo/HSG by Q4 2017. Subject to AMI-SeCo approval of the list of CMHAs, work on the next steps of the CMH-TF may include further work on the possible definition of standards for harmonised business process/workflows, the identification of harmonised data elements necessary for the functioning of this process and the identification/definition of ISO 20022 compliant messages. Finally, further work is needed to identify how compliance with the new harmonisation standards/best practices should be measured and at which level. The monitoring framework used in the T2S harmonisation work will be considered in this context.
- The CMH-TF agreed to take a 3-step approach to structure the work in each functional area and conduct an in-depth analysis:
  1. Define and agree the harmonised business process and workflow
  2. For each business process identify the critical data elements necessary for the functioning of this process
  3. Identify / define an ISO20022 compliant message by which these data elements should be transmitted



- In its first meeting, CMH-TF established five substreams, which consisted of members from the Eurosystem, market participants and market infrastructures. Each workstream was coordinated by a

substream lead. Additional contributors were invited from outside the CMH-TF to become involved in the substreams and bring expertise from other institutions. [see annex list of contributors].

- Substream 1: Triparty Collateral Management (lead: Clearsteam – 29 contributors);
  - Substream 2: Corporate Actions, Taxation Forms, Non-Euro Collateral Management (lead: Citi – 27 contributors);
  - Substream 3: Bilateral Collateral Management, Margin Calls (lead: BNPP – 30 contributors);
  - Substream 4: Billing Processes, Cut-Off Times (lead: Monte Titoli– 12 contributors);
  - Substream 5: Collateral Dynamic and Static Data (lead: Deutsche Bank– 12 contributors).
- Weekly teleconference calls were organised for each substream, resulting in around 30 conference call meetings. Each substream launched detailed fact-finding exercises to identify the barriers to collateral management. The collected facts of the surveys identified differences in current procedures, workflows and messages, and the substreams actively discussed and analysed the merits of harmonised business processes for both central banks and market participants based on the ISO 20022 standard.
  - The CMH-TF also considered the Eurosystem investigations on ECMS. The Eurosystem analysis revealed the current highly fragmented landscape of collateral management systems across the Eurosystem. Given the growing importance of collateral, the Eurosystem analysis also identified an opportunity for further financial integration within the Eurosystem’s Market Infrastructure landscape. The ECMS aims to bring several benefits, such as reducing fragmentation and heterogeneity within the Eurosystem, allowing for efficient mobilisation and management of collateral and contributing to the European Capital Markets Union. In principle, the ECMS shall only support harmonised functionalities, services and processes. The ECMS will benefit from the ongoing and future market harmonisation, notably in the following functional areas: Usage of ISO 20022 for all communication between ECMS and all market participants (CSDs, tri-party agents, counterparties); tri-party collateral management services used when mobilising marketable assets in Eurosystem credit operations; corporate actions management

## 5. Overview Collateral Management Harmonisation Activities

### 5.1 [Ten] Collateral Management Harmonisation Activities (CMHAs)

- The following list of harmonisation activities were identified and agreed by the CMH-TF:

Collateral Management Harmonisation Activities	
1	Triparty Collateral Management processes

2	Corporate Actions processes relevant for collateral management
3	Taxation processes relevant for collateral management
4	Bilateral Collateral Management
5	Margin call processes for collateral management
6	Billing Processes relevant for collateral management
7	Cut-Off Times
8	Collateral Dynamic and Static Data
9	Sourcing of collateral
10	Non-euro collateral

- Each harmonisation activity contains several business processes. The need for harmonised business processes is explained below. A more detailed explanation of the business processes and the harmonisation needs is provided in the Annex 1, which includes overview tables. The tables lists (i) an identification of the business process, (ii) a briefly explanation of the business process and (iii) the proposed harmonisation need.
- The harmonisation activities require the implementation of ISO 20022 for standardising business processes and messaging. It is reminded that, with an ECMS, the Eurosystem would migrate its collateral management infrastructure towards the exclusively usage of ISO 20022 messaging.

## 5.2 Description of Collateral Management Harmonisation Activities

- In the area of **triparty collateral management** there is a need to implement a single harmonised model with common processes for interaction between triparty agents and central banks using (yet to-be-defined) ISO 20022 messaging. Market participants have also identified a need for common messaging and workflows to be adopted by all TPAs in order to reduce the costs associated with adapting to the differing messages and workflows employed by triparty agents. Common messaging and workflows could also be seen as helping achieve triparty [settlement]

interoperability<sup>7</sup>. In line with the time horizon for Eurosystem considerations on harmonisation of triparty procedures, there is a need to agree on a harmonisation proposal in the area of triparty collateral management in Q2 2018 at the latest. A series of priority 1 harmonisation needs have been identified related to the business processes, workflows and messaging. Priority 2 harmonisation needs have also been identified with regard to business processes including (but not limited to) the initiation and termination of a triparty collateral transaction).

- The taskforce has identified a strong need to harmonise the handling and processing of **corporate action events** (CAs) relevant to collateral management. The need for accurate and timely corporate action information using harmonised messaging is seen as key to ensuring that the impact of upcoming corporate action events on the pool of collateral is projected accurately. Furthermore the current heterogeneous processes which exist today are seen as a barrier to the use of securities as collateral at the time of a corporate action event. Therefore there is a need to ensure that automated processes can be put in place using harmonised ISO 20022 messaging and harmonised workflows in order to ensure that the securities can remain part of the collateral pool at the time of the corporate action event (thus obviating the need for substitution of these securities). Accordingly priority 1 harmonisation needs have been identified in the following areas: (1) provision of CA information from the (I)CSD to the collateral taker / giver (2) CA payments (3) negative cash flows (4) corporate action events requiring manual processing (5) CA events requiring specific handling and (6) handling of elective events. A smaller number of priority 2 harmonisation needs were also identified. Harmonisation proposals in the key areas relevant to workflows and messaging should be agreed by end Q2 2018.
- As a particular element of CA handling, the need to handle heterogeneous **taxation forms** and procedures has been identified as a barrier to the usage of securities as collateral. [Operational differences in taxation processes hinder the mobilisation of collateral and thus may accelerate the scarcity of collateral.] Given the importance of the topic the CMH-TF propose to assign a priority 1 status to all (eight) identified harmonisation needs. [TBC]

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<sup>7</sup> A distinction needs to be made between triparty settlement interoperability (TSI) and tri-party sub-custody interoperability (TCI). Both models allow participants to pool collateral across borders in an efficient way and choose their preferred triparty agent.

TSI: The TSI model is currently worked upon by the (I)CSDs and ECAG in relation to ECAG's GC pooling services (see COGESI 2014 report on improvements to repo market). TSI should foster collateral mobility through automated trading, CCP clearing, triparty collateral management services and settlement. The timing should be reviewed and specified for the TSI deliverables after T2S full implementation and CSDR's impacts on the Bridge have been implemented.

Triparty interoperability via sub-custodian structures: The transfer of collateral via the sub-custody network of custodians would be FOP collateral movements. Some of these interoperability models already exist or are being worked on between some TPA's.

- A number of priority 1 harmonisation needs have been identified in the context of **bilateral collateral management** primarily with regard to the need to promote wider automation for key processes through the usage of electronic platforms. Priority 2 needs have also been identified.
- In the area of **margin calls** a priority 1 harmonisation need has been identified to promote wider use of electronic platforms for margin calls.
- In the area of **fees and billing** processes, a combination of priority 1 and priority 2 harmonisation needs have been identified. The increasing movement towards holding collateral in different CSDs puts a subsequent requirement on the collateral taker and collateral giver to manage the different CSD processes for the reconciliation and payment of fees invoices for the assets held as collateral. The need to implement harmonised ISO 20022 messaging for the transmission of the fees invoice together with the migration to harmonised monthly billing cycles (i.e. 1<sup>st</sup> to 31<sup>st</sup> of each calendar month) are identified as being the highest priority items in this area.
- Analysis in the area of **cut-off times** relevant to mobilisation of collateral using links between (I)CSDs on both a DVP and FOP basis is currently ongoing.
- A series of core **collateral data elements** have been identified for which there is a need to ensure that data is exchanged in a timely manner in order to ensure harmonised application of the most up to date (accurate) data by all parties (see Annex 2). Today the most up to date information may only be available to participants in certain markets with the effect that collateral in other markets is not valued using the correct information (e.g. up to date pool factor information, data is not always available on time). Processes to exchange data and workflows to contribute to the collateral data evaluation process are listed in Annex 1.
- A series of harmonisation needs related to the **sourcing of collateral** have been identified all of which have been assigned a priority 1 status as the taskforce see the timely sourcing of collateral as being fundamental to the efficient functioning of collateral management processes. A series of needs have been identified related to, amongst others, the maximum time required for the processing of collateral instructions and the need to further improve bridge settlement processes. In addition the market see a need to further encourage non-T2S participating CSDs to join T2S in order to help non-T2S markets achieve the level of service required to ensure the efficient sourcing of collateral.
- Processes related to the handling of **non-euro denominated collateral** have been identified as being heterogeneous across markets. Accordingly two Priority 1 harmonisation needs have been identified to harmonise business processes and messaging in the settlement and custody layers. In particular harmonisation is needed in the sourcing of non-euro denominated collateral together with the handling of cashflows emanating from corporate actions events on non-euro denominated assets.

**5.3 Prioritisation and implementation of collateral Management Harmonisation Activities**

- To determine the relevance of each harmonisation need vis-à-vis the other harmonisation needs, a prioritisation is applied to group the harmonisation needs. In line with the discussion in AMI-SeCo, the methodology is largely based on the framework that is used in the context of the T2S harmonisation agenda<sup>8</sup>, but is amended and complemented with the harmonisation needs for collateral management.

<b>Priority 1</b>	<p>Activities (business processes and messages) necessary for the safe and efficient functioning of collateral management arrangements in T2S markets (involving the Eurosystem, collateral management service providers (CMSPs) and users of collateral management services (UCMS) in T2S markets). The activities are only priority 1 if:</p> <ul style="list-style-type: none"> <li>• directly related to the markets that have migrated to T2S, involving financial market infrastructures (FMIs), their users and Eurosystem central banks.</li> <li>• necessary for the safe and efficient functioning of financial market infrastructures, monetary policy and collateral management arrangements in T2S markets, and</li> <li>• feasible to be implemented in line with the timing of European integration efforts in the CMU.</li> </ul>
<b>Priority 2</b>	<p>Activities (business processes and messages) that are beneficial but not essential for the safe and efficient functioning of collateral management arrangements in T2S markets, and involve activities beyond T2S markets.</p>

- In addition to the criteria listed above, the level of priority should also be a consideration on the criticality of processes and the dependencies/ externalities.
- Criticality of processes (priority 1) refers to the key collateral management processes that highly relevant for meeting the Guiding Principles. Critical processes should establish a harmonised way of interaction for financial market infrastructures (FMIs), their users and Eurosystem central banks in markets that have migrated to T2S. The harmonisation should allow stakeholders to ‘speak the same language’ and act in the ‘pan-European domestic market’ (with harmonised key business processes). should allow market participants in T2S markets to use providers outside their home country, for collateralisation of transactions according to standardised processes and messages, for Eurosystem and market operations. Criticality of processes for priority 2 indicates that harmonisation would be

<sup>8</sup> The T2S harmonisation agenda is using the following high level approach: Priority 1 activities are necessary to ensure efficient and safe cross-CSD settlement in T2S. Priority 2 activities are not essential to ensure safe and efficient cross-CSD settlement in T2S, but they are key for the enhancement of the competitive environment and the efficiency of T2S, and could continue to be pursued after the markets’ migration to T2S.

beneficial for collateralised transactions, but are beyond T2S market and/or are not essential for the interaction between providers, users and the Eurosystem in T2S markets.

- Dependencies of the processes upon other processes should also be considered, because there could be an impact or dependency upon other processes. For example, the harmonisation of processes for triparty collateral management may introduce changes to other workflows and messaging activities. The harmonisation of processes related to corporate actions may be closely associated with the CMHA on handling of taxation forms.

*[For CMH-TF Feedback – in view of discussion on overall prioritisation]*

## 6. Proposed next Steps

As from Q1 2018, the next steps towards implementation have to be developed. It is proposed that, in this phase two of the AMI-SeCo's collateral management harmonisation effort, a harmonisation proposal should be defined for each agreed harmonisation need. It will have to be determined by AMI-SeCo, if a harmonisation proposal should result in a standard or a market practice<sup>9</sup>. The harmonisation proposal should document the business process, the data elements necessary for the functioning of this process and the ISO 20022 message which should be used for the transmission of the required data elements.

Phase two also requires the setting up of a framework for monitoring compliance with agreed collateral management harmonisation proposals. The successful conduct of this Phase two work will thus lead to the following **deliverables**:

- **defining a harmonised business process and workflow [the harmonisation standard]** to address the identified harmonisation needs, in line with the ISO 20022 standard, where applicable;
- **identifying the data elements necessary for the functioning of this process;**
- **identifying / defining an ISO 20022 compliant message(s) by which these data elements should be transmitted;** This will likely require updates and/or development of messages needed for collateral management (taking into account the schedule for the updates or development of ISO 20022 messages)
- **identifying who will have to implement the new harmonisation proposal** and what should be monitored at which level (e.g. only at the level of CMSPs, at the level of direct users of CMSPs, at national level) and how.

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<sup>9</sup> In the T2S context, standards have been developed for post-trade harmonisation, which have been endorsed by the AMI-SeCo's predecessor T2S AG, and are addressed to all FMIs, NCBs and users in T2S markets. All CSDs and their users should abide by these standards for all activity on T2S. Market practices have been developed for guidance.

- **preparing a detailed timeline for the definition and implementation of the harmonisation proposal.** The timeline should take into consideration various criteria, e.g. key timelines for the implementation of the harmonisation proposal in the proposed Eurosystem Collateral Management System (ECMS) which will rely exclusively on the usage of the ISO 20022 standard for communication with market participants.
- **Further enhancing a glossary for commonly used terminology relevant to collateral management harmonisation activities** (work has already commenced in this regard).

#### **Annex 1**

- [Table Priority 1]
- [Table Priority 2]

#### **Annex 2: Relevant data attributes of a security which are used in the context of collateral management**

- [List of static data elements which have been identified as being potentially relevant for collateral management]

#### **Annex 3: Terminology**

- [Draft terminology on triparty collateral management could be added and complemented later – incl. Interoperability, etc,]