ISO 20022 Messaging Solutions

Collateral Management

January 16th 2018 - Fifth meeting of the AMI-SeCo HSG’s Collateral Management Harmonisation Task Force (CMH-TF)
ISO 20022 and ISO 15022 Collateral Management offering

What is available...

• Current offering consists of two suite of messages, addressing both “bilateral” & “triparty” message standardisation requirements.

- **Bilateral Collateral Management** messages are based on ISO 20022 development methodology covering x-asset & x-segment, life cycle activity

- **Clearing** (ISO 20022) a few ISO 15022 MTs not used, background

- **Triparty Collateral Management** messages are based on ISO 15022 Standards & in use for more than 10 years, globally.
Positioning of current ISO 20022 and ISO 15022 messaging offering Upstream Business Models...

Collateral management ecosystem

Financial institution

ACTING AS: Trading party

ACTING AS: General Clearing Member

ACTING AS: Triparty Service Participant

Bilateral Collateral Management (x-asset & x-segment)

Bilateral Collateral Management (CCP coverage)

Triparty Collateral Management
Bilateral Collateral Management Solution

- Provides an end to end electronic messaging solution around collateral processes
- Cross asset & cross segment solution, complementary with downstream settlement processes
- Enables monitoring & mobilisation of collateral in the business chain
- Development based on ISO 20022 methodology
- Complementary to Clearing solution, addressing the communication needs of CCP to GCM/ICM and NCMs
Bilateral Collateral Management Messaging Solution

Collateral Management Process

- Initiation of underlying deal
- Margin Call Initiation
- Collateral Negotiation
- Dispute Notification
- Collateral Substitution
- Reporting
- Deal Closing
- Interest Processing

ISO 20022 messages

<table>
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<tr>
<th>Margin Call</th>
<th>Collateral Proposal</th>
<th>Dispute</th>
<th>Substitution</th>
<th>Reconciliation</th>
<th>Interest Processing</th>
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<tr>
<td>Margin Call Request (colr.003)</td>
<td>Collateral Proposal (colr.007)</td>
<td>Margin Call Dispute Notification (colr.009)</td>
<td>Collateral Substitution Request (colr.10)</td>
<td>Collateral Exposure Report (colr.016)</td>
<td>Interest Payment Request (colr.013)</td>
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<tr>
<td>Margin Call Response (colr.004)</td>
<td>Collateral Proposal Response (colr.008)</td>
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<td>Collateral Substitution Response (colr.011)</td>
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<td>Interest Payment Response (colr.014)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Collateral Substitution Confirmation (colr.012)</td>
<td></td>
<td>Interest Payment Statement (cole.015)</td>
</tr>
</tbody>
</table>

Generic messages: Collateral Management Cancellation Request, Collateral Management Cancellation Status
CCP Clearing Messaging Solution

- New messaging solution based on ISO 20022 methodology
- Servicing the communication and standardisation requirements of Clearing houses and GCM/ICM/DCM for cash markets (FI & equities)
## CCP Clearing Messaging Solution

### ISO 20022 messages

<table>
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<tr>
<th>Trade Management</th>
<th>Position Management</th>
<th>Settlement Management</th>
<th>Risk &amp; Collateral Management</th>
<th>Others</th>
<th>Interest Processing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade Leg Notification (secl.001)</strong>&lt;br&gt;<strong>Trade Leg Statement (secl.003)</strong>&lt;br&gt;<strong>Trade Leg Notification Cancellation (secl.002)</strong></td>
<td><strong>Net Position (secl.004)</strong>&lt;br&gt;<strong>Margin Report (secl.005)</strong>&lt;br&gt;<strong>Margin Call Request (colr.003)</strong>&lt;br&gt;<strong>Margin Call Response (colr.004)</strong>&lt;br&gt;<strong>Margin Call Dispute Notification (colr.009)</strong></td>
<td><strong>Settlement Obligation Report (secl.010)</strong>&lt;br&gt;<strong>Securities Transaction Pending Report (semt.018)</strong>&lt;br&gt;<strong>Bank To Customer Account Report (camt.052)</strong>&lt;br&gt;<strong>Bank To Customer Statement (camt.053)</strong></td>
<td><strong>Collateral Proposal (colr.007)</strong>&lt;br&gt;<strong>Collateral Proposal Response (colr.008)</strong>&lt;br&gt;<strong>Collateral Substitution Request (colr.010)</strong>&lt;br&gt;<strong>Collateral Substitution Response (colr.011)</strong>&lt;br&gt;<strong>Collateral Substitution Confirmation (colr.012)</strong>&lt;br&gt;<strong>Collateral Management Cancellation Request (colr.005)</strong>&lt;br&gt;<strong>Collateral Management Cancellation Notification (colr.006)</strong>&lt;br&gt;<strong>Default Fund Contribution Report (secl.006)</strong>&lt;br&gt;<strong>Interest Payment Request (colr.013)</strong>&lt;br&gt;<strong>Buy-in Notification (secl.007)</strong>&lt;br&gt;<strong>Buy-in Response (secl.008)</strong>&lt;br&gt;<strong>Buy-in Confirmation (secl.009)</strong></td>
<td><strong>Buy-in Response (colr.014)</strong>&lt;br&gt;<strong>Interest Payment Statement (colr.015)</strong></td>
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</tbody>
</table>
Most used messages on the SWIFT Network

Automated Margining and Substitution – Using ISO 20022 Colr. and Secl. series messages
Most used messages on the SWIFT Network

Automated Reporting – Using ISO 15022 Settlement and Reconciliation messages

Option 1:
- Use of existing – MT 15022 messages
- EOD / Intraday Cash and Securities Report
- Quantity and Identification of financial instrument
Automated Reporting – Using commonly used ISO 20022 Settlement and Reconciliation messages

Option 1:
- Use ISO 20022 semt and camt messages
- EOD / Intraday Cash and Securities Report
- Quantity and Identification of financial instrument
Automated Reporting – Using ISO 20022 Colr. series messages

Collateral And Exposure Report
Colr.016.001.xx

**Option 2:**
- Comprehensive detailed report:
  - Cash & Stock Valuation
  - EOD / Intraday Reporting
  - Exposure details / valuations
  - Confirmation of Exposure
  - Account Identification
  - Status Update
  - Margin Amounts
  - Accrued interest
Triparty Collateral Management Messaging Solution

Collateral Management Process

- Initiation of underlying deal
- Margin Call Initiation & Status
- Exposure and Collateral Mark-To-Markets
- Matching & Collateralisation Status
- Reporting
- Deal Closing
- Claim Return

ISO 15022 Messages

<table>
<thead>
<tr>
<th>Margin Call &amp; Status</th>
<th>MTM &amp; Collateral Valuation</th>
<th>Status update</th>
<th>Reporting</th>
<th>Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ MT527 Triparty Collateral Instruction</td>
<td>▪ MT569 Triparty Collateral and Exposure Statement</td>
<td>▪ MT558 Triparty Collateral Status Advice</td>
<td>▪ MT569 Triparty Collateral and Exposure Statement</td>
<td>▪ MT527 Triparty Collateral Instruction</td>
</tr>
<tr>
<td>▪ MT569 Triparty Collateral and Exposure Statement</td>
<td>▪ MT558 Triparty Collateral Status Advice</td>
<td></td>
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</table>

- Life-cycle of a triparty transaction: from matching to settlement
- Complies with regulatory requirements (US FED)
- Provides real time instruction, status and collateral position reporting
- Implemented by more than 150 institutions globally, facilitates single-window approach through Standards and SWIFT network
Triparty Collateral – basic scenario

**Party A**
- I need cash, I ‘exchange’ this for ISIN A
- I need collateral for the ISIN (collateral taker)

**Party B**
- I have surplus cash, I ‘exchange’ this for ISIN A
- I must give collateral for the ISIN (collateral giver)

**“Lending / borrowing deal”**

**Triparty Agent**
- Match = YES
- Checks = OK

**Securities + cash movement**
- MT 527
- MT 558
- MT 569

**MT 527**
- This is the deal I made, I ‘lend’ ISIN A to party B. I instruct you to move the ISIN to party B and to collateralise the exposure, that is, to get collateral from Party B

**MT 558**
- There may be various MT 54x + payment messages to move securities & cash to the appropriate accounts

**MT 569**
- This is the deal I made, I ‘borrow’ ISIN A from party A. I instruct you to move the ISIN from party A and to collateralise the exposure, that is, to give collateral to Party A.
Triparty Collateral in context of CCP Links

CCPs using triparty agents to handle collateral management operations

- Due to the regulatory push towards CCP Clearing for standardised products, there is an additional demand on high quality collateral.
- In order to leverage their security holdings & meet the margining timelines with required quality of collateral, market participants are looking to leverage their triparty collateral management arrangements vis a vis the CCPs.
The scope of the project is the design of ISO 20022 messages to cover:

- The initiation/Amendment/Termination of a collateral profile with Eligible securities, Haircuts and Concentration limits
- The communication of a status following the receipt of the above data.
- The communication of a cancellation request following the sending of the above data.
- The communication of an end of day or intraday report following the receipt of the above messages.
ISO 20022 messages creation and maintenance

Process and Timeline

January 16th 2018 - Fifth meeting of the AMI-SeCo HSG’s Collateral Management Harmonisation Task Force (CMH-TF)
ISO 20022: The actors (1/2)

Submitting organisations
Communities of users or organisations that want to develop ISO 20022 compliant messages to support their financial transactions

Could be

ANBIMA
ASF
Banco de España
Bank of England
Banque de France
Berlin Group
BIAN
CBI Consortium
CFETS
CFTC
China UnionPay
Clearstream
CLS
Danish Bankers Association
Deutsche Bundesbank

DTCC
Early Warning Services
EPC
ESMA
Euroclear
European Central Bank
FED
FFI
FISD
FPL
FpML
IFX Forum
ISITC
nexo A.I.S.B.L.
OAGi

Omgeo
Payments UK
PBOC
RU-CMPG
SABS
SPRING
SWIFT
Target
TC68/SC7/TG1
Tieto Corporation
TWIST
T2S
UN/CEFACT

etc.
ISO 20022: The actors (2/2)

• **Registration Management Group, RMG**
  – Overall governance, court of appeal
  – Approve business justifications for new message standards
  – Approve new member entities
  – Create Standard Evaluation Groups (SEGs) and SubSEGs

• **Standards Evaluation Groups, SEGs and SubSEGs**
  – Represent future users in specific financial areas
  – Validate new candidate messages and change requests

• **Registration Authority, RA**
  – Ensure compliance
  – Maintain and publish ISO 20022 Repository

• **Technical Support Group, TSG**
  – Assist RMG, SEGs, RA and submitting organisations
ISO 20022 Registration Process

- Submitting organisation
- Business justification
- RMG
- Project approval & allocation to a SEG
- Development & provisional registration
- Business validation
- Official registration and publication
- Optional pilot testing or first implementers

Financial industry group or standards body

Candidate ISO 20022 messages

ISO 20022 messages

Repository
Dictionary
Catalogue

Optional pilot testing or first implementers

www.iso20022.org
ISO 20022 Registration Process: Yearly Maintenance Process

**Timing**

By June 1
- Users introduce Change Requests to the RA

By July 7
- SEG screens Change Requests (CRs)

By August 21
- Submitting organisation prepares ‘Maintenance Change Request’ with each CR implementation
- SEG approval/rejection

By October 1
- Development of new versions
- Validation of new versions

By December 1
- Registration and publication

By February 1
- First implementers

April-May
- Repository
- Dictionary
- Catalogue