



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Collateral Management Harmonisation Task-Force

Status update to AMI-SeCo

20 March 2018

# Contents

**1. Overview work of  
Collateral Management  
Harmonisation Task Force**

A large, light blue downward-pointing arrow is positioned to the right of the first box, pointing towards the second box.

**2. Status update: work to  
date**

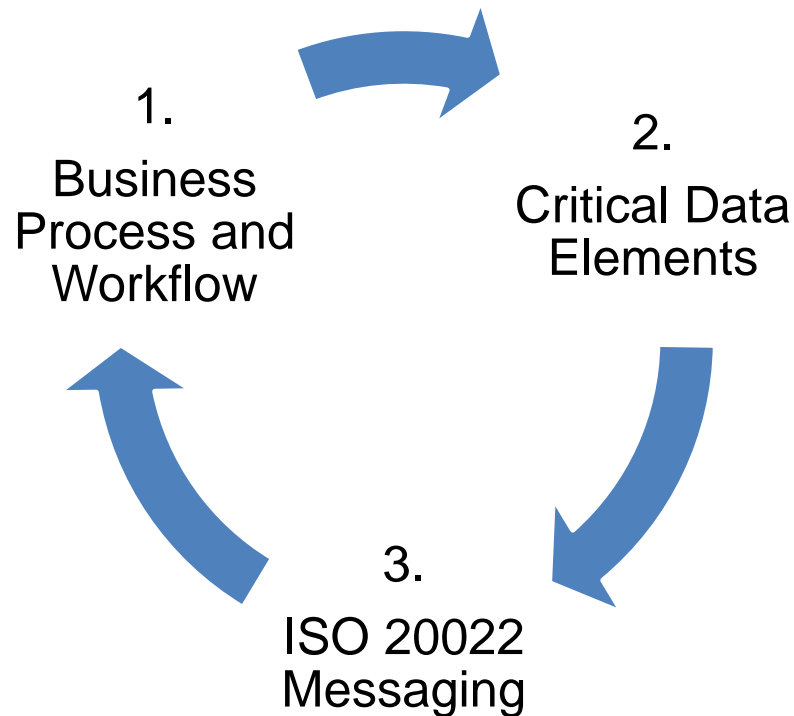
A large, light blue downward-pointing arrow is positioned to the right of the second box, pointing towards the third box.

**3. Next steps**

### Report on Collateral Management Harmonisation, as endorsed by AMI-SeCo in December 2017.

- **AMI-SeCo invited the HSG/CMH-TF to launch the work of the next phase:** The 10 collateral management harmonisation activities are being analysed by 5 different CMH-TF sub-groups composed of experts in the respective topics (including non CMH-TF members).
  - ❑ **Substream 1:** Triparty Collateral Management;
  - ❑ **Substream 2:** Corporate Actions, Taxation Processes, Non-Euro Collateral;
  - ❑ **Substream 3:** Bilateral Collateral Management, Margin Calls;
  - ❑ **Substream 4:** Billing Processes, Cut-Off Times;
  - ❑ **Substream 5:** Collateral Dynamic and Static Data.
- **AMI-SeCo invited HSG/CMH-TF to prepare concrete harmonisation proposals** in line with the priorities and timelines identified in the report: Triparty Collateral Management and Corporate Actions, are key to the efficient functioning of collateral management (June 2018).
- **AMI-SeCo shared the report with MMCG and AMI-Pay, and they fully supported the 10 activities relevant to collateral management** as requiring further harmonisation and agreed with the approach.

## Three deliverables for each harmonisation activity/functional area:



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 market standard message by which these data elements should be transmitted

### CMH-TF – Overall 2018 planning

- Agreed on overall timelines and deliverables for 2018.
- **Concrete harmonisation proposals**, i.e. definition of harmonised business processes, workflows and key data elements **in the areas of triparty collateral management and corporate actions should be delivered by June 2018** in order to allow the Eurosystem to reflect these harmonised practices in ECMS project documentation.

*To support this:*

- There has been extensive engagement with relevant market stakeholders e.g. involvement of all (I)CSDs in ECSDA and CASG. The importance of further market engagement (in particular ECSDA) in view of the June timeline has been highlighted.
- The CMH-TF in conjunction with SWIFT are also conducting further work in view of verifying the coverage of the full lifecycle for CA, reverse engineering of existing MT messages and new triparty ISO 20022 messaging to cover gaps
- Full elaboration of all data elements required in the messaging will take place thereafter as part of the ISO 20022 message development/update process.
- **Other harmonisation work** started/will start in parallel (incl. bilateral collateral management, billing processes and collateral data processes).

## 2. Work to Date

# CMH-TF – 2018 planning (excerpt)

### COLLATERAL MANAGEMENT HARMONISATION ACTIVITIES - 2018 PLANNING

CMHA	Step	Description of Activity	January	February	March	April	May	June
1. TRIPARTY COLLATERAL MANAGEMENT	0	Terminology	[Bar from Jan to Mar]					
	1	Elaboration of harmonised workflows and business processes	[Bar from Jan to Jun]					
	2	Identification of data elements for each business process		[Bar from Feb to Jun]				
	3	Development of ISO 20022 messages						
	i	Development of implementation, monitoring and compliance framework						
2. CORPORATE ACTIONS	0	Terminology	[Bar from Jan to Mar]					
	0	Extend CA Survey to ECSDA	[Bar from Jan to Mar]					
	0	SWIFT to verify existence / identify gaps in existing ISO 20022 messaging	[Bar from Jan to Mar]					
	1	Elaboration of harmonised workflows and business processes per CA event	[Bar from Jan to Jun]					
	2	Identification of data elements needed for each CA event			[Bar from Mar to Jun]			
	1	Standardisation of business process / data elements			[Bar from Mar to Jun]			
	3	Potential development of additional ISO 20022 messages						
4. BILATERAL COLLATERAL MANAGEMENT	0	Terminology	[Bar from Jan to Jun]					
	0	Fact-finding	[Bar from Jan to Jun]					
	1	Elaboration of business process and workflow for substitutions						
	2	Identification of data elements						
	3	Identification / development of ISO 20022 message						
10. NON-EURO COLLATERAL	1	Analyse potential harmonised workflow for the handling of non-euro CAs	[Bar from Jan to Jun]					
	0	Survey to identify markets not in line with recommendations re: sourcing of non-euro collateral					[Bar from May to Jun]	
	i	Development of implementation, monitoring and compliance framework						
Meetings		CMH-TF	16	20		17		5
		HSG			5 & 6		23 & 24	
		AMI-SeCo			20 & 21			21 & 22

Explanation of Steps	0	Fact-finding (including terminology)
	1	Elaboration of harmonised workflows and business processes
	2	Identification of data elements
	3	Identification / development of ISO 20022 Message
	i	Development of implementation, monitoring and compliance framework

### (1) CMH-TF – Work on triparty collateral management

#### Identified harmonisation needs:

- 11 priority 1 activities
  - 7 priority 2 activities
- Work to date has focused on priority 1 activities.*
- **The TPA's development of harmonised business processes and workflows has progressed well** for most priority 1 activities involving interaction with the Eurosystem.
    - Two pending activities require further input from the Eurosystem (i.e. Compulsory decrease of triparty collateral exposure amount due to deduction of up-coming corporate action event; Handling of a maximum triparty collateral exposure amount). The Eurosystem is working on these issues and will soon provide input to the CMH-TF in this respect.
  - **Business processes and workflows with market participants are expected to be largely identical (as with the Eurosystem)**, but final confirmation is being obtained on the scope of some of the required processes.

### (2) CMH-TF – Work on corporate actions

#### Approach:

- **The CMH-TF aims to identify existing standards and/or market practices and assess their application/usability.**
- **The CMH-TF take an event based approach to the analysis, i.e. identification of the business process, workflow, data elements and ISO 20022 message to support the full lifecycle of the CA event.**
- **Work on the harmonisation of corporate actions has been assigned a top priority status** also in light of the Eurosystem's need to receive market input on harmonised processes and workflows based on ISO 20022 messaging by June 2018. Accordingly work has commenced immediately on all Priority 1 and Priority 2 activities.
- **The focus is on CA events deemed relevant to Eurosystem eligible collateral** in view of providing input to the Eurosystem by June 2018.



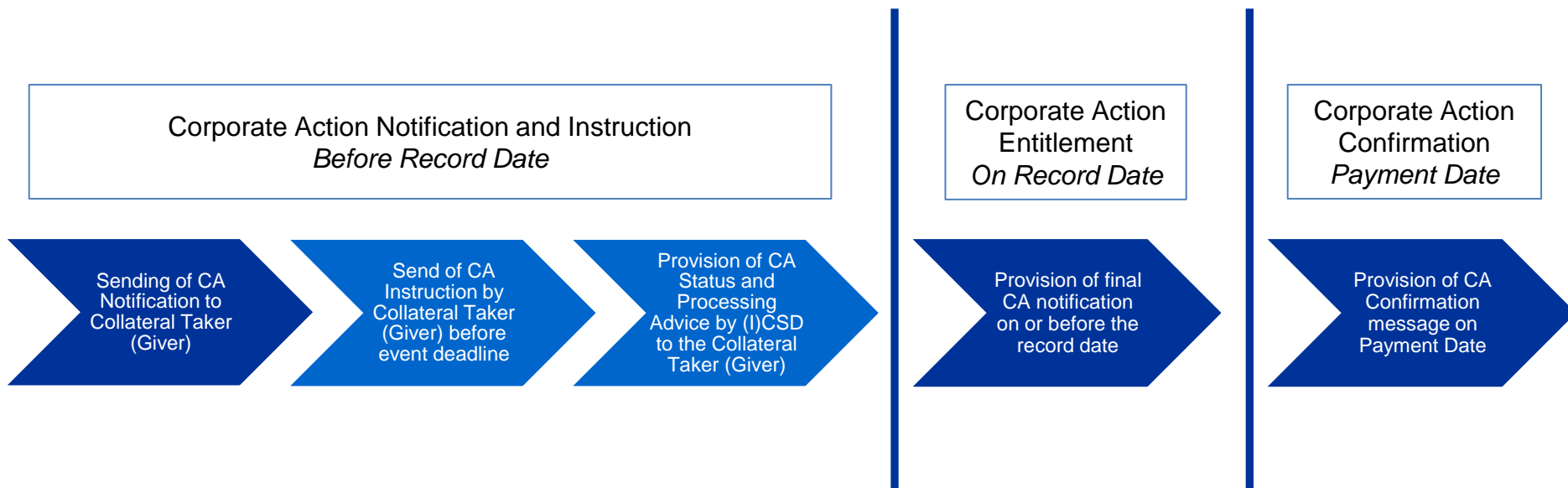
### (2) CMH-TF – Work on corporate actions

#### Identified harmonisation needs

- 16 priority 1 activities
- 5 priority 2 activities
- Harmonised business processes and workflows per CA event:
  - Further review and detail business processes and workflows (to meet the harmonisation needs) is needed by ECSDA, CASG.
  - ECSDA was asked to review the existing market standards (CAJWG and SMPG standards) for each CA collateral management harmonisation activity.
  - Information on the key attributes of each CA event has been prepared for review by ECSDA.
- Messaging for CA events:
  - SWIFT have confirmed the existence of the relevant ISO 20022 CA messages to support the full lifecycle of each CA event.
  - Identification of minimum set to be contained in the CA notification (per CA event the relevant fields, e.g. in the CA notification which are used for the calculation of the entitlement amount)

### (2) CMH-TF – Work on corporate actions

- The CMH-TF have identified a need for a common workflow, using common messaging, for both mandatory and elective CA events which should be handled by all (I)CSDs.



### (3) CMH-TF – Work on bilateral collateral management

- Work is continuing on **describing bilateral business processes and workflows**. Further details in the descriptions will be added (e.g., on central counterparty clearing processes).
- **The involvement in the substream will be widened with experts from industry associations (ISDA)** to further review on the initial findings and contribute to the workstream analysis.

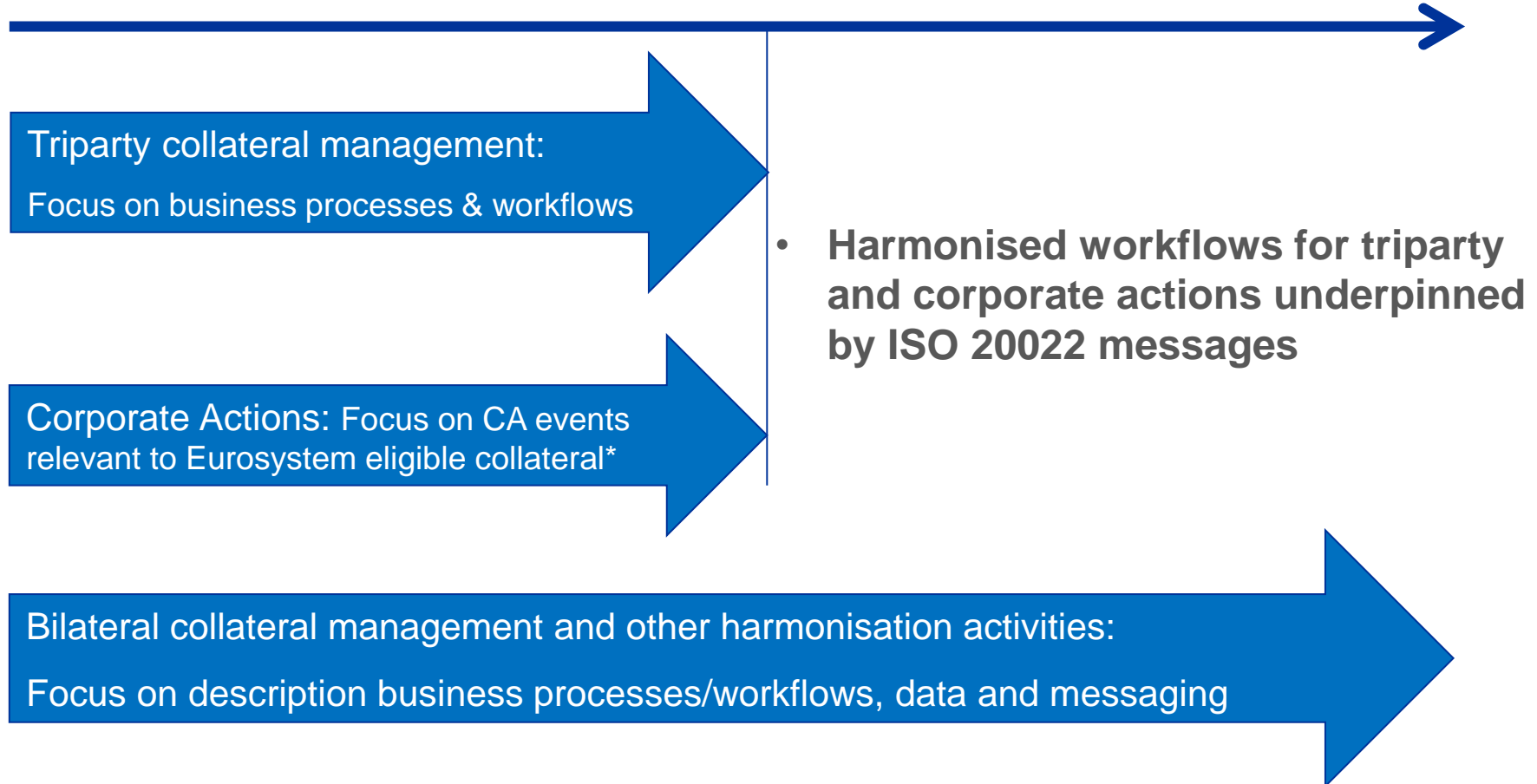
### CMH-TF – Key considerations for next steps

- As of the go-live of ECMS in November 2022, **the Eurosystem will rely exclusively on the usage of ISO 20022 for all communications with market stakeholders** (including usage of ISO 20022 messaging for triparty collateral management and corporate actions).
- *In the field of triparty collateral management*
  - Focus on **harmonisation of workflow / messaging** between TPA and user (including Eurosystem).
- *In the field of corporate actions*
  - **Elaboration of harmonised business processes, workflows and key data elements.**
  - **All (I)CSDs should format messages in line with SMPG guidelines.**
  - **A follow the Issuer CSD principle is needed** to ensure that all CA events are managed in the same way regardless of where the underlying security is held.
  - **All CA notification messages should contain the minimum amount of data** required to calculate the expected payment amount.

## 3. Next steps

### Planned activities

June 2018



\* Harmonisation proposals for CA events applicable to debt instruments. For harmonisation needs identified by the CMH-TF which are applicable to both debt and equities harmonisation proposals should also be agreed by end June (e.g. payment procedures, consistent use of Issuer CSD information, etc. )

**There is a unique opportunity for market stakeholders to contribute to the shaping of future harmonised collateral management processes (in particular as regards triparty and Corporate Actions)**

**Based on the direction given by AMI-SeCo in December 2017, input from the industry should come now, so that harmonised collateral management procedures (also for Eurosystem/ECMS) would take a direction that is optimal for market participants and infrastructures.**

**Given the tight time lines of the work (in view of the ECMS project), strong commitment and engagement is needed.**

## Overview of Collateral Management Harmonisation Activities

Overview of Collateral Management Harmonisation Activities (CMHAs)				
CMHA	Title	Priority 1	Priority 2	Watch list
1	Triparty Collateral Management	11	7	16
2	Corporate Actions	16	5	1
3	Taxation Processes	8	0	0
4	Bilateral Collateral Management	2	1	11
5	Margin Calls	1	0	0
6	Billing Processes	3	2	1
7	Cut-Off Times	0	0	0
8	Collateral Data	6	1	1
9	Sourcing of Collateral	10	0	0
10	Non-Euro Collateral	2	0	0
		<b>59</b>	<b>16</b>	<b>30</b>

105 processes analysed in total, from which 75 harmonisation needs were identified

# Annex: 2018 Planning

## COLLATERAL MANAGEMENT HARMONISATION ACTIVITIES - 2018 PLANNING

CMHA	Step	Description of Activity	January	February	March	April	May	June	July	August	September	October	November	December
1. TRIPARTY COLLATERAL MANAGEMENT	0	Terminology	[Bar]											
	1	Elaboration of harmonised workflows and business processes	[Bar]											
	2	Identification of data elements for each business process		[Bar]										
	3	Development of ISO 20022 messages		[Bar]										
	i	Development of implementation, monitoring and compliance framework		[Bar]										
2. CORPORATE ACTIONS	0	Terminology	[Bar]											
	0	Extend CA Survey to ECSDA	[Bar]											
	0	SWIFT to verify existence / identify gaps in existing ISO 20022 messaging	[Bar]											
	1	Elaboration of harmonised workflows and business processes per CA event	[Bar]											
	2	Identification of data elements needed for each CA event		[Bar]										
	1	Standardisation of business process / data elements		[Bar]										
	3	Potential development of additional ISO 20022 messages		[Bar]										
i	Development of implementation, monitoring and compliance framework		[Bar]											
3. TAXATION PROCESSES	0	Terminology				[Bar]								
	0	Development of Questionnaire				[Bar]								
	0	Filling-In of Questionnaire					[Bar]							
	0	Compilation/analysis of responses							[Bar]					
	1	Development of harmonisation proposals								[Bar]				
	2	Identification of data elements									[Bar]			
	3	Identification / development of ISO 20022 message										[Bar]		
	i	Development of implementation, monitoring and compliance framework										[Bar]		
4. BILATERAL COLLATERAL MANAGEMENT	0	Terminology				[Bar]								
	0	Fact-finding				[Bar]								
	1	Elaboration of business process and workflow for substitutions				[Bar]								
	2	Identification of data elements				[Bar]								
	3	Identification / development of ISO 20022 message				[Bar]								
i	Development of implementation, monitoring and compliance framework								[Bar]					
5. MARGIN CALLS	0	Terminology				[Bar]								
	0	Fact-finding				[Bar]								
	1	Elaboration of business process and workflow for margin calls				[Bar]								
	2	Identification of data elements				[Bar]								
	3	Identification / development of ISO 20022 message				[Bar]								
i	Development of implementation, monitoring and compliance framework								[Bar]					
6. BILLING PROCESSES	0	Terminology				[Bar]								
	2	Identification of minimum set of information required in fees invoice				[Bar]								
	3	Update / development of ISO 20022 message				[Bar]								
	i	Development of implementation, monitoring and compliance framework								[Bar]				
7. CUT-OFF TIMES	0	ICMA survey							[Bar]					
	0	Analysis of results									[Bar]			
8. COLLATERAL DATA	0	Terminology		[Bar]										
	0	Identification of collateral data elements for which data exchange should be enhanced		[Bar]										
	1	Identification of solutions to ensure that most up-to-date data is available				[Bar]								
i	Development of implementation, monitoring and compliance framework								[Bar]					
9. SOURCING OF COLLATERAL	0	Survey to identify markets not in line with recommendations re: sourcing of collateral					[Bar]							
	0	Compilation/analysis of responses								[Bar]				
	i	Development of implementation, monitoring and compliance framework									[Bar]			
10. NON-EURO COLLATERAL	1	Analyse potential harmonised workflow for the handling of non-euro CAs					[Bar]							
	0	Survey to identify markets not in line with recommendations re: sourcing of non-euro collateral					[Bar]							
	i	Development of implementation, monitoring and compliance framework								[Bar]				
Meetings		CMH-TF	16	20		17		5			25	25	27	
		HSG			5 & 6		23 & 24					18 & 19		
		AMI-SeCo			20 & 21			21 & 22					20 & 21	
Explanation of Steps	0	Fact-finding (including terminology)												
	1	Elaboration of harmonised workflows and business processes												
	2	Identification of data elements												
	3	Identification / development of ISO 20022 Message												
	i	Development of implementation, monitoring and compliance framework												