EUROPEAN CENTRAL BANK

EUROSYSTEM

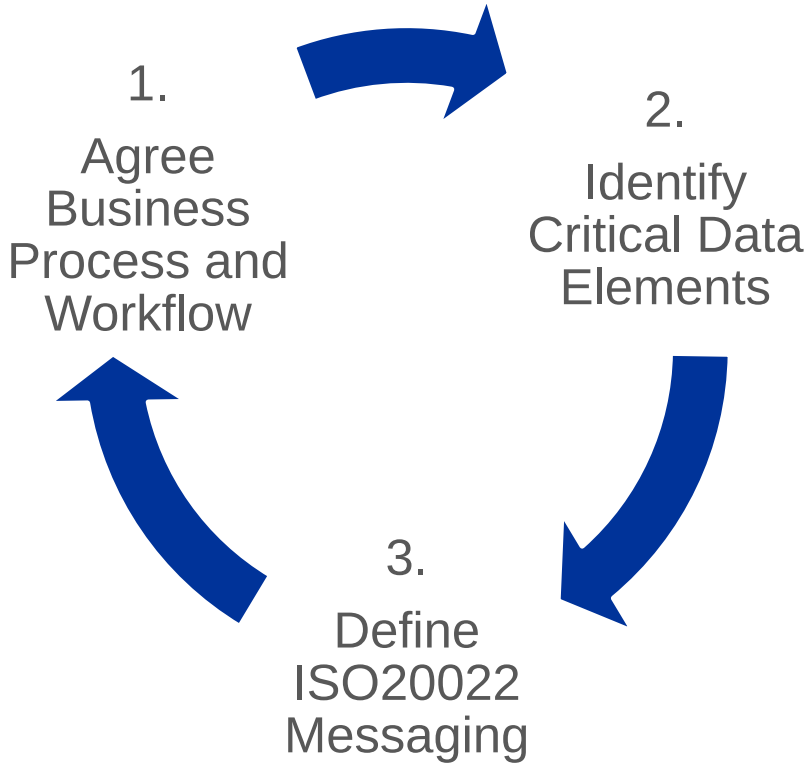
Applying the 3-Step Approach to Phase II Work

CMH-TF

16 January 2018

Background

- **In its first meeting in August 2017, the CMH-TF agreed to take a 3-step approach to its work**



For each functional area a 3-step approach would be followed with the work structured as follows:

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. Define an ISO20022 market standard message by which these data elements should be transmitted

Background

- **The documentation for all CMHAs should be developed in line with this approach**

CMHAX - Title

Introduction

a. High Level Description of Business Process
b. Description of CMHA

1. Business Process and Workflow

a. Identification of Business Processes
b. Definition of Business Process
c. Description of Workflow (including diagram)

2. Data Elements

a. Identification of Key Data Elements (highlighted in message if available)

3. ISO 20022 Messaging

a. ISO 20022 Message

Annex 1: Terminology

Annex 2: Harmonisation Needs

Example

a. High Level Description of Business Process

Triparty collateral management services (TCMS) are provided by triparty agents (TPAs) and allow counterparties to optimise the use of their portfolios of securities when collateralising credit and other exposures across different products and instruments (e.g. repo, securities lending, central bank credit, secured loans, and exposures arising from over-the-counter transactions). As part of their daily operations, TPAs provide services such as collateral (auto)selection, valuation and substitution, optimisation of the composition of the triparty pool ("allocation cycles") and corporate actions processing. A TPA providing TCMS acts on behalf of the collateral giver and collateral taker.

b. Description of CMHA

The AMI-SeCo HSG CMH-TF agreed on the need to harmonise several business processes in the area of triparty collateral management. In particular 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 interoperability. A series of priority 1 harmonisation needs have been identified related to the business processes, workflows and messaging. Priority 2 harmonisation needs were also identified with regard to business processes including (but not limited to) the initiation and termination of a triparty collateral transaction

Applying the 3-Step Approach to Phase II Work

1. Identification of business process

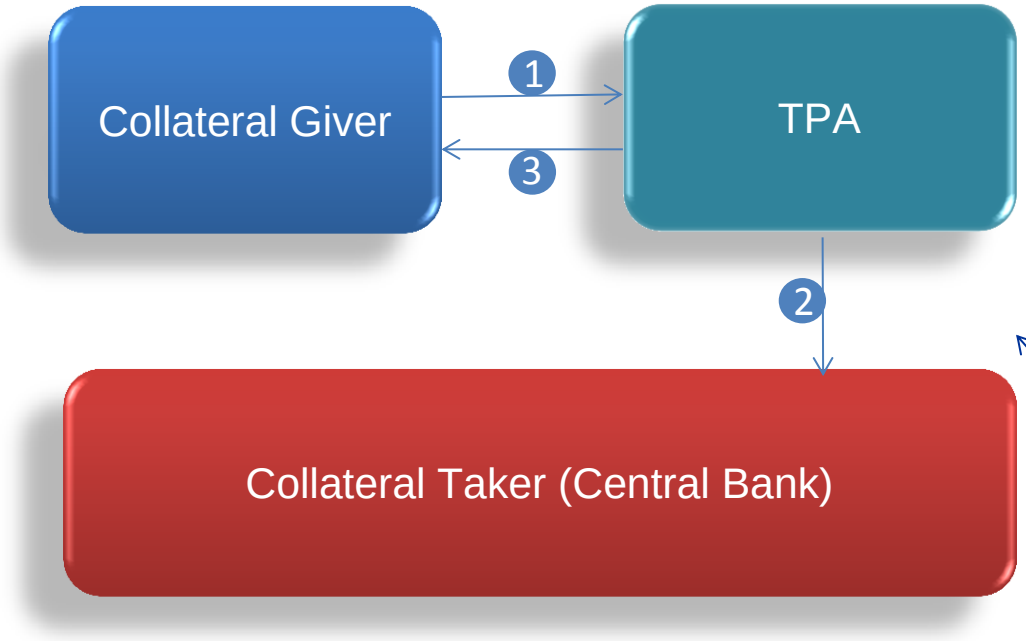
Increase of Triparty Collateral Exposure

CMHA Reference

A request from the collateral taker to the TPA to increase the triparty collateral exposure amount. The TPA allocates the securities to collateralise the new triparty collateral exposure amount and informs the collateral taker (central bank) who updates the triparty collateral exposure amount accordingly.

2. Description of business process

Workflow



Description of Steps

1. The collateral giver sends a triparty instruction (ISO 20222 XYZ message) to the triparty agent to request the increase of the triparty collateral exposure.
2. The TPA sends a (ISO 20022 XYZ message) to the collateral taker confirming the increase following the allocation of securities to cover the requested amount.
3. The TPA sends a (ISO 20022 XYZ message) to the counterparty confirming the increase of the triparty exposure amount

3. Workflow and description

Example: Data Elements

Data Element	Definition	Represented in ISO Message Field*
Client's Collateral Instruction Reference	Reference assigned to the instruction by the collateral giver	:20C::CLCI//16x
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal/Exposure Adjustment	Indicates that the instruction is related to a change of principal/exposure adjustment.	:22H::CINT//PADJ
Transaction Amount	New Intended Transaction Amount	:19A::TRAA//3!a15d
Safekeeping Account	Account where financial instruments are maintained	:97a::
Party A	Securities account number of the collateral taker	:95R::PTYA//[8c]/5!n
Party B	Securities account number of the collateral giver	:95R::PTYB//[8c]/5!n

*ISO 15022 data fields used for illustrative purposes only

Example: Terminology

Terminology: Triparty Collateral Management	
Name	**Description**
Triparty Agent (TPA)	The triparty service provider (referred to as “triparty agent” or “TPA”) responsible for the processing of instructions on behalf of both collateral giver and the collateral taker
Triparty Collateral Management Services (TCMS)	Triparty collateral management services (TCMS) provided by triparty agents (TPAs) allow counterparties to optimise the use of their portfolios of securities when collateralising credit and other exposures across different products and instruments (e.g. repo, securities lending, central bank credit, secured loans, and exposures arising from over-the-counter transactions). As part of their daily operations, TPAs provide services such as collateral (auto)selection, valuation and substitution, optimisation of the composition of the triparty pool (“allocation cycles”) and corporate actions processing
Triparty Securities Lending Services (TSLS)	Triparty collateral management and settlement services for bilaterally-agreed loans of securities
Triparty Transaction	A transaction created by the triparty agent upon receipt of the deal information from the two trading parties. A transaction is created, can be changed and is terminated.
Lifecycle of Triparty Transaction	When a transaction is initiated, agreed on by both parties, accepted and declared valid by the triparty agent, the lifecycle of the transaction starts. The transaction will normally last as long as the underlying deal. At the end of its lifecycle a transaction is closed.
Triparty Instruction	The trading parties will request the triparty agent to perform certain instructions on the collateral management transaction. An instruction can be to initiate a transaction, modify the terms of a transaction, or close a transaction (non-exhaustive list of instructions). The triparty agent will send feedback on the requested instruction.
Lifecycle of Triparty Instruction	The lifecycle of a triparty instruction starts when the user of the triparty service sends an instruction message. At receipt of the instruction message, the triparty agent will process the instruction and assign a status (that is, valid or rejected). At each step in the lifecycle of an instruction a different status will be assigned. For example, an instruction can be valid for processing or rejected because it is incorrect. If an instruction needs to be matched (for example, two initiation- instructions from party A and B need to match) it can have a status matched or unmatched. Other statuses describe the sufficiency or eligibility of the collateral.
Initiation	Creation of a Triparty Transaction.
Termination	Closing of the Triparty Transaction.
Principal/Exposure Adjustment	Change of principal/exposure adjustment.
Transaction Amount	The intended amount of the triparty transaction.
Value of Collateral Held	The total value (after haircuts) of posted collateral for the transaction.
Total Exposure Amount	The total exposure amount to be covered by collateral.