



EUROPEAN CENTRAL BANK

EUROSYSTEM

# **Collateral Management Harmonisation**

**Collateral Management  
Harmonisation Task Force  
(CMH-TF)**

Achievements & next steps

**AMI-SeCo**

Frankfurt, 20 November 2018

# Overview

- *Background:* In the June 2018 meeting of the AMI-SeCo, the **CMH-TF delivered harmonised processes and workflows for triparty collateral management and corporate actions** and identified immediate follow-up work..
- *Current work:* **CMH-TF analysed several harmonisation proposals** (as announced in the follow-up work)
  - Harmonisation of triparty collateral management and handling of corporate action proceeds.
  - Harmonisation for Corporate Actions processes.
  - Harmonisation on billing processes for collateral management.
- **Next steps:** **CMH-TF** will continue to work on the remaining areas and will develop a monitoring framework.



# Triparty Collateral Management Harmonisation

- The handling of cash proceeds related to CA events in triparty transactions: ***Harmonisation achieved!***
- The harmonisation proposal was **prepared by TPAs together with Eurosystem central banks and agreed in the CMH-TF.** The harmonised workflow is presented on the next slide.
- The business process is **fully aligned** between commercial and central bank **processes.**



# Triparty Collateral Management

## Handling of Corporate Action Proceeds

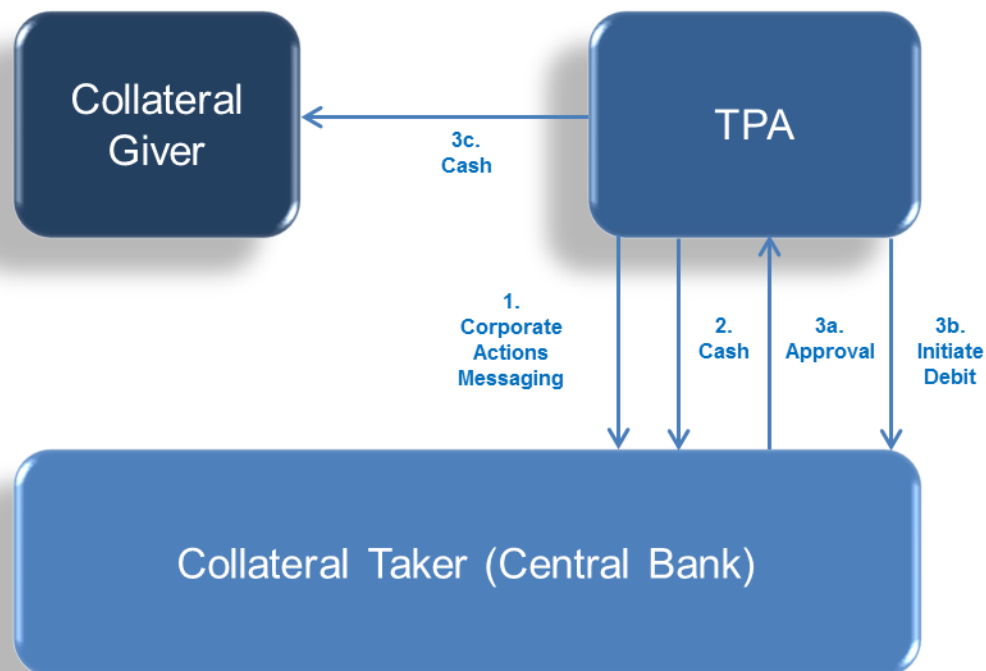
## CMHA1 (P1.4 & P1.10)

For central bank triparty transactions, two choices are available to the collateral giver in advance of the corporate action event:

- 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);
- 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.

### Workflow

### Description of Steps



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:
  - 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.

## CA processes

- In June 2018, a series of **follow-up items were identified** (in the CMH-TF Report on Corporate Actions).
- **Draft harmonisation proposals were prepared** and feedback was collected (to ECSDA, CMH-TF and stakeholder groups). This presentation provides a high-level **overview** of the issues and **harmonisation proposals**.
- It is proposed to **consult market participants**.

## CA harmonisation (for consultation)

Topic	Issue Description	Harmonisation Status
<b>CA events</b>	A list of approx. 40 CA events were identified which all markets agreed were relevant to Eurosystem eligible collateral, but for around 7 CA events no consensus was reached (which are used only in selected markets).	<b>Harmonisation proposal on the usage of the remaining CA events</b>
<b>Rounding</b>	The market where securities are held determine the usage of different decimal places and the subsequent need to handle rounding differences causes friction in the CA handling process. There is support by several (I)CSDs for a general rule across Europe concerning rounding differences	<b>Harmonisation proposal on handling of Rounding Differences</b>
<b>Blocking</b>	There is a need to identify those CA events where participation in the CA event requires the blocking of securities. Further fact-finding confirms that practices differ per market	<b>Harmonisation proposal for CA Events Requiring Blocking of Securities.</b>



## CA harmonisation (for consultation)

Topic	Issue Description	Harmonisation Status
<b>Negative Cash Flows</b>	The current process for handling negative cash flows is heterogeneous and may involve a number of complex processes. In some markets (I)CSDs do not accept to issue assets with a negative cash flow and / or announce the negative cash flow at zero	<b>Harmonisation proposal prepared for CA Events with negative cash flow</b>
<b>Non Euro CA Payments</b>	The process is heterogeneous across CSDs. Some (I)CSDs convert the cash proceeds of a CA event related to non-euro denominated collateral into the euro equivalent before crediting the collateral taker, whilst other CSDs always remit the FX proceeds.	<b>Harmonisation proposal prepared that cash notification messages for foreign currency payments should be sent by (I)CSDs in ISO 20022.</b>
<b>Modified following business day convention</b>	The CMH-TF identified that the MFBDC practice appears to be applied differently.	<b>Harmonisation proposal for MFBDC to move to a common approach of moving both days (i.e. record date and payment date) where relevant.</b>



# Harmonisation of billing processes (agreed by CMH-TF)

- **Harmonised messaging for the transmission of billing information**
  - ISO 20022 message to be used for the communication of billing information from (I)CSDs to its clients
- **Harmonised billing frequency and dates**
  - Billing information should be provided at a monthly frequency
  - Invoice of (I)CSD should be sent by the 8th of the month with payment date on the 15th (or next business day) business day of the month
- Next steps: (I)CSDs and market participants should propose the relevant information to be included in the agreed ISO 20022 message



### Next steps

- Harmonisation of Triparty Collateral Management: ISO20022 messaging is being defined in conjunction with SWIFT and TPAs.
- Harmonisation of Corporate Actions: The additional harmonisation proposals could be sent for consultation to market participants.
- Remaining activities: Analysis will continue in parallel.
- Monitoring framework: CMH-TF is developing a framework to monitor implementation of collateral management harmonisation.