



Cover note

Collateral Management Harmonisation Task Force on (CMH-TF) of the AMI-SeCo Harmonisation Steering Group (HSG)

15 June 2018

Harmonisation of Collateral Management Processes and Workflows for triparty collateral management and corporate actions

Significant progress has been made towards harmonisation for collateral management practices in Europe's post-trade landscape. On the basis of priorities and needs approved by AMI-SeCo in December 2017 ([CMH-TF harmonisation report](#)), and taking due account of the Eurosystem considerations and planning of a Eurosystem Collateral Management System (ECMS)¹, the work of a wide range of stakeholders in collateral management resulted in the definition of harmonised business processes and workflows. Two harmonisation reports have been prepared by the CMH-TF for AMI-SeCo, which are important milestones towards market harmonisation, and thus European integration in the post-trade area, and provide critical input to the ECMS project work:

- *Triparty Collateral Management harmonisation report;*
- *Corporate Actions (CA) harmonisation report.*

The HSG approved both reports on 13 June 2018 and agreed with their submission to the AMI-SeCo.

The reports define a harmonised 'rulebook' for triparty collateral management and CA (as a baseline for interaction between market stakeholders and the Eurosystem). The reports contain a single set of harmonised procedures and workflows based on ISO20022 messaging, which will be used for interaction between the Eurosystem, market participants and financial market infrastructures. Priority is given in a first phase to harmonisation of interactions by the triparty agents (TPA) with Eurosystem central banks; and harmonisation of CA events and processes deemed relevant for Eurosystem eligible collateral. This should be considered as the 'baseline' for future interactions of the Eurosystem with market stakeholders in the context of triparty collateral management and CAs, and possibly beyond.

By involving a wide range of stakeholders that manage collateral and with their strong commitment working under very tight time lines, it was possible to make these harmonisation proposals. Expertise has been provided by SWIFT, ECSDA, National Stakeholder Groups, and other stakeholders (ISLA, ICMA ERCC) and suggestions have been taken into account through written consultations of relevant stakeholders. These industry contributions allowed covering a wide range of areas, including (Priority 2) topics which were considered less critical initially but which are now also explained in the reports.

Follow-up actions have been identified to further improve post-trade integration. In order not to lose momentum, immediate follow-up items have been identified for further analysis in the coming weeks and will be included in the next update of the reports. In addition, further medium-term work is planned in the coming months for triparty and CA to cover the development of messaging, proposals on some remaining harmonisation needs and items that extend the current scope. This further work will be

¹ The ECMS will provide a harmonised platform for the Eurosystem central banks to manage collateral in Eurosystem credit operations across the euro area. It will replace the existing systems of the 19 national central banks for those assets as collateral in Eurosystem monetary policy operations and functions which can be harmonised until the launch.

conducted together with work on other harmonisation needs which AMI-SeCo agreed to in December 2017, notably bilateral collateral management, billing processes and data for collateral management. Finally, a monitoring and compliance framework should be considered.

The CMH-TF and HSG identified that some of current market standards/ practices are influenced by current legal and regulatory requirements. Differences in legal/regulatory requirements are clearly relevant and AMI-SeCo should continue to discuss and foster harmonisation in this domain together with the respective authorities. The CMH-TF is committed to continue the work from an operational perspective on follow-up actions, mid-term work and the compliance framework.

The following key points are highlighted from the reports:

(1) The adoption of ISO 20022 message standards is an opportunity for the further harmonisation of post-trade activities (for triparty and CA). As agreed by AMI-SeCo in end-2017, a holistic approach on collateral management is needed based on ISO 20022 messaging, in order to support an improved level playing-field and a more effective and efficient use of collateral. Harmonisation based on latest international standards also fosters the creation of a capital markets union. The roll-out of ISO 20022 messaging standards has already taken place in payments, as well as in securities settlement and clearing. The next step is a migration in other business areas, i.e. triparty collateral management and CA. TPAs, CSDs and Eurosystem central banks will use the new ISO 20022 triparty messages and the ISO 20022 messages for CA. There will be general incentives for users to adopt the ISO 20022 standard, as the fully-fledged adoption of ISO-compliant 20022 messages for processing of triparty and CA by all stakeholders will also reduce complexity, enhance STP processing and reporting capabilities through the usage of standardised data fields not available in existing ISO 15022 messages.

(2) With triparty collateral management harmonisation, there will be a single, harmonised triparty model for Europe based on the ISO 20022 standard. The triparty model covers the full range of existing triparty processes. In addition, a new harmonised triparty process has been developed for the unilateral removal of specific assets allocated to a triparty transaction, which do not meet the collateral taker's risk control criteria (e.g., concentration limit breach). In a next phase, an additional process will be considered for unilateral removals based on (a wider set of) the collateral taker's eligibility requirements. There will also be a new process for the provision of real-time/intraday reporting on securities allocated to a triparty transaction via an ISO 20022 message (for triparty models eligible for Eurosystem operations).

(3) CA harmonisation has been agreed for all CA events which are deemed relevant to Eurosystem eligible debt instruments. A list of around 40 relevant CA events was identified based on a verification exercise conducted with ECSDA, SWIFT and relevant stakeholders. The (more detailed) CA standards for collateral management are consistent with existing (high level) CA standards, such as Corporate Action Joint Working Group (CAJWG) and the Joint Working Group on General Meetings (JWGGM). Some additional aspects will be analysed in the coming weeks/months as planned in the follow-up work-plan and TPAs will validate the CA workflows and business processes from the triparty perspective.

(4) Follow-up work will be carried out for CA on the identification of the collateral taker and collateral giver. The identification of the collateral taker/giver is automatically possible for triparty CA transactions and transactions involving a dedicated collateral account. Further analysis is ongoing on the identification of the collateral giver and collateral taker in the CA processing chain beyond the current focus on the interaction of National Central Banks and CSDs.

(5) Following the approval by the ECB's Governing Council to commence the development of a Eurosystem Collateral Management System (ECMS) in December 2017, harmonised communication for future interactions between the Eurosystem and all market participants will be established based on ISO20022 messaging. The launch of ECMS is planned for November 2022, and will adopt the harmonised business processes and workflows described in the Triparty Collateral Management and CA reports for its interaction with market participants.