



EUROPEAN CENTRAL BANK

EUROSYSTEM

Collateral Management Harmonisation Activities

Update

AMI-SeCo, 02 July 2019

Three agenda items

1.1. Harmonisation Standards

1.2. Monitoring Framework

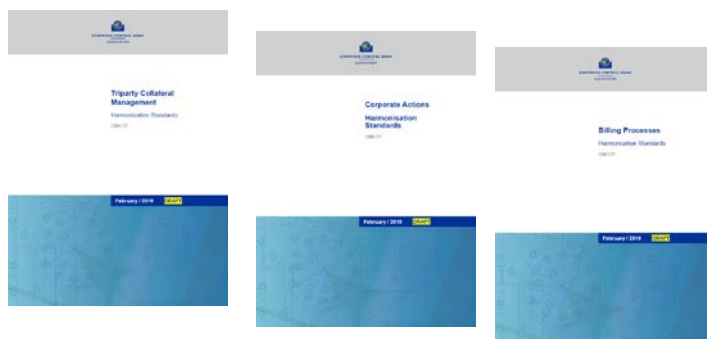
1.3. Next Steps (Ongoing work & communication)

1.1. Harmonisation Standards

Background

In the last AMI-SeCo meeting (on 13 May 2019), AMI-SeCo members had:

- endorsed the proposed *AMI-SeCo standards for Triparty collateral management*.
- endorsed in principle the *AMI-SeCo standards for Billing processes and Corporate actions* subject to further fine-tuning and updates of 3 Standards for Corporate actions.
- took note of the status of work on the collateral management harmonisation monitoring framework methodology.



Overview

AMI-SeCo members are invited to take note of progress of work and:

1. To endorse the **fine-tuning and updates** of the AMI-SeCo Standards on:
 - **Billing processes** i.e. phased implementation approach.
 - **Corporate actions:** i.e. the 3 remaining standards (Negative Cash Flows – standard 5, Blocking of Securities – Standard 10, Processing of non-euro CA events – Standard 14), which were developed in close cooperation with the existing corporate actions groups. In addition, there were updates on Section 1 Introduction and Standard 8 (Payment Time) to facilitate the reading.
2. To endorse the **monitoring framework**.
3. To take note of the **next steps** of the CMH-TF.

Billing Processes

The Rulebook includes 4 Standards (messaging format, billing frequency, cut-off dates and payment dates), which are unchanged. The background has been updated.

For endorsement: Updated background information in Standards

- Phased approach to become compliant with the standards:
 - Wave 1 (by November 2022) : CSDs / TPAs and NCBs.
 - Wave 2 (tbc): CCPs and custodians.



For information: Ongoing work by CMH-TF

- Further technical work is taking place on ISO20022 messaging/formats for billing/invoice processes (e.g. to meet the needs of CSDs and participants and to agree how invoice information shall be sent).
- ISO20022 message format is maintained by SWIFT.

Corporate Actions

3 further Standards have been agreed on the basis of input received from market stakeholders.

For endorsement: 3 Updated Standards



- **Agreement on 3 Standards with further updates on:**
 - Harmonised processes for **negative cash flows (Standard 5)**.
 - Inclusion of indicator in CA messages for **identification of securities subject to blocking (Standard 10)**.
 - Harmonised processes for **non-euro CA payments (Standard 14)**.

- **Clarification on Standard for payment time (Standard 8)**

- **Clarification on Standard on business day rule (Standard 6 - further assessment on the legal feasibility for existing securities will take place until end September 2019, to define the perimeter of implementation)**

Corporate Actions

For endorsement: STANDARD 5 Negative cash flows

Why is the Standard needed?

Securities with a fixed negative interest rate, or with a floating interest rate, may result in a payment from the Investor to the Issuer of the security. Today there is no harmonised process for handling these negative cashflows on securities provided as collateral.

What is the Standard?

- A common process has been agreed whereby Issuer CSDs and Investor CSDs shall support the processing of corporate actions where the underlying security has a fixed negative interest rate or a floating rate coupon. Any negative interest shall result in a cashflow from the Investor to the Issuer which shall be processed using the Interest Payment (INTR) event.
- If a CSD accepts only securities with a positive interest rate, or with a floating rate coupon with a floor of zero or above (fixed in the terms and conditions of the security), so that negative cash payments do not occur, then the CSD is deemed to comply with this standard.

Corporate Actions

For endorsement: **STANDARD 10 Blocking of securities**

Why is the Standard needed?

Underlying Securities on which an election is made should be separated accounting-wise from non-elected Underlying Securities by the (I)CSD and all Intermediaries. Accordingly there shall be a harmonised set of CA events where participation requires the blocking of securities (blocking refers to a period of time in which an investor's securities are prevented from being accessed).

What is the Standard?

- A common process has been agreed whereby all Mandatory with Choice and Voluntary CA events involving a debit of securities, the Issuer CSD and all relevant intermediaries shall ensure that the elected security position is subject to blocking. Account Servicers shall include an indicator in the CA notification message to identify if a security position will be blocked. A “Follow-the-Issuer CSD” principle shall be applied.

Corporate Actions

For endorsement:

STANDARD 14: Processing of foreign currency payments

Why is the Standard needed?

There is a need for CSDs to have a common process to handle payments in a currency not eligible in the settlement system.

What is the Standard?

In order to process payment in currencies not eligible in the settlement system, the CSD must instruct the cash correspondent to debit the account of the paying agent and to pay the funds to an account of the security holder. The CSD must send the corporate action confirmation to the security holder only upon receipt of the confirmation from the cash correspondent that the cash has been transferred successfully.

Corporate Actions

For endorsement:

Update of STANDARD 8: Payment Time

Why is the Standard needed?

In the event of redemptions, especially partial redemptions, the redemption may be booked before the cash movement meaning that the securities would no longer be eligible for use as collateral while the collateral giver / taker would also not yet be in receipt of the cash proceeds. The collateral management transaction would thus be considered as under collateralised and would require the collateral giver to provide additional securities. This Standard ensures that the relevant parties are compensated by the CSD in a timely fashion for the partial or full redemption of the securities.

What is the Standard?

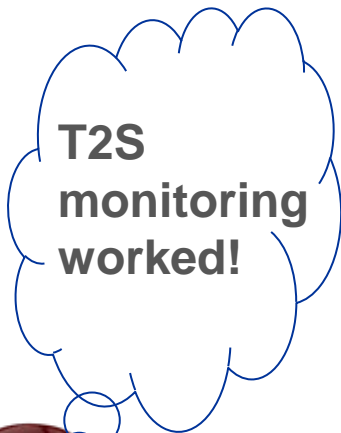
For any corporate action event involving a partial or full redemption, the cash proceeds should be made available to the Issuer CSD at the same time as the processing of the partial or full redemption on the payment date so that relevant parties are compensated/paid in a timely fashion for the partial or full redemption.

1.2. Monitoring Framework for the AMI-SeCo Harmonisation Standards

Monitoring Framework

AMI-SeCo is invited to endorse the monitoring framework to facilitate the timely implementation of the AMI-SeCo Standards. The HSG/CMH-TF and NSGs were closely involved in the preparation of the Monitoring Framework.

- **The Monitoring Framework:**
 - **Covers the monitoring of AMI-SeCo Standards** for efficient and effective management of securities and collateral
 - **Facilitates exchange of information via National Stakeholder Groups (NSGs)**
 - **Builds on existing methodology** (the AMI-SeCo's T2S harmonisation methodology, e.g. assign colour code)



harmonisation



Monitoring Framework

The Monitoring Framework should facilitate structured and consistent monitoring of national markets' progress in implementing the agreed Harmonisation Standards



Harmonisation Phases

The monitoring framework consists of three phases, each of which is comprised of a series of milestones against which progress shall be monitored with a view to fostering compliance of all relevant actors with the AMI-SeCo Standards by the timelines agreed by AMI-SeCo

1. Definition

- **Defining the AMI-SeCo Standards**
 - What are the AMI-SeCo standards.
 - Who is responsible for implementing them.
 - By when.



2. Planning

- **Planning and setting up arrangement to monitor progress**
 - What is the adaptation plan.



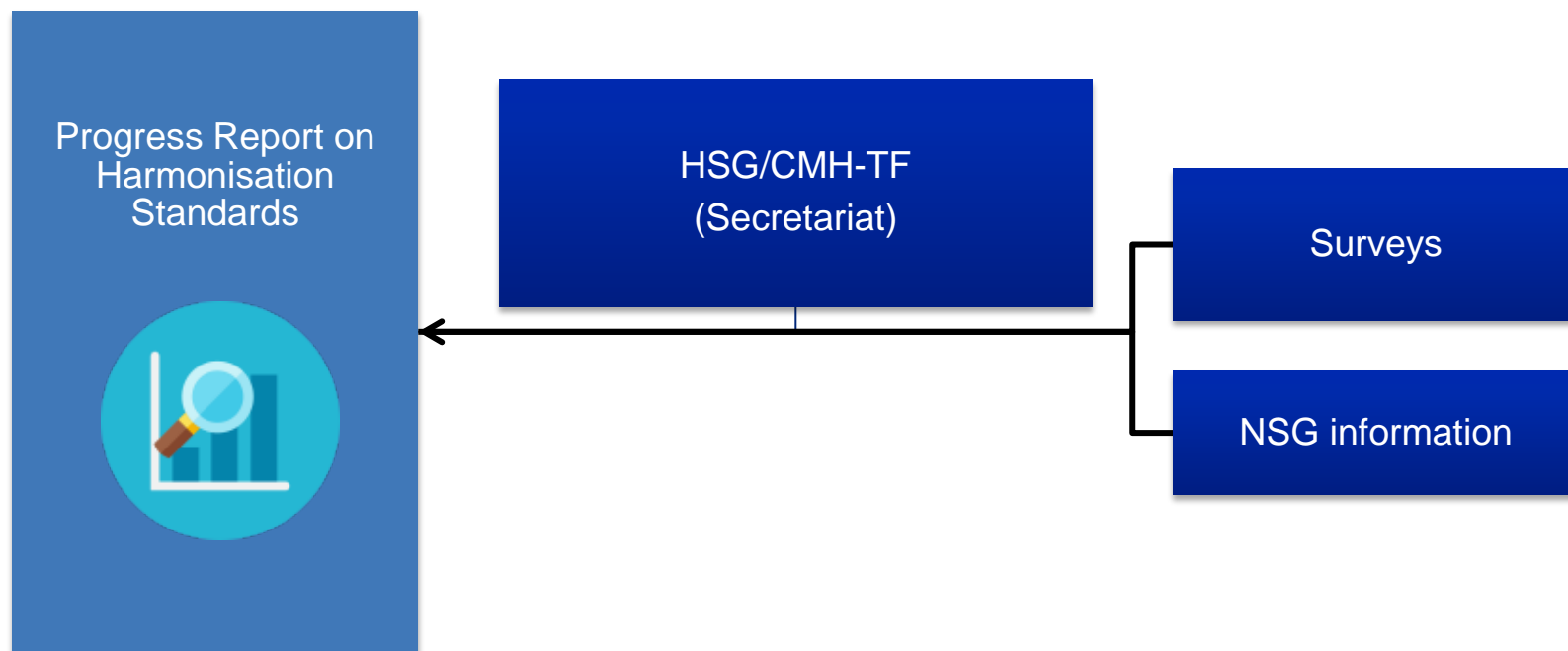
3. Implementation

- **Evaluate progress of implementation and readiness to comply in accordance with the timelines agreed by AMI-SeCo**
 - What is the implementation status.



Reporting on Progress

The reporting of progress should be based on the input of relevant actors against agreed timelines



Timeline for Monitoring



Preparation of Adaptation Plans by relevant actors (CSDs and TPAs) for submission to AMI-SeCo NSGs by 26 September 2019.

1.3. Next Steps

Next Steps

To facilitate the next steps on the other CMH-TF harmonisation activities, three Expert Groups will be established focusing on the following topics:

- Bilateral Collateral Management
- Triparty Collateral Management
- Asset Servicing

A large number of nominations to join this work have been received via the CMH-TF.

AMI-SeCo is invited to endorse that:

- **The call for Experts could be extended to the whole AMI-SeCo community to ensure all relevant experts can contribute to the CMH-TF work.**
- **The timing next steps of the CMH-TF should be flexible.**
- **The assessment of the issues should be done to identify most relevant topics.**