



EUROPEAN CENTRAL BANK

EUROSYSTEM

Collateral Management Harmonisation

CMH-TF activities

AMI-SeCo, Frankfurt
05/12/2019

Single Collateral Management Rulebook for Europe
common rules for managing collateral



Gesa Benda
Chair of the CMH-TF

1 Proposal for Wave 2 Timeline

2 Preparation of Adaptation Plans

3 Organisation of upcoming work by the CMH-TF



1.

Proposal for Wave 2 Timeline

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20022

- AMI-SeCo agreed that adoption of the ISO 20022 messaging should take place in 2 waves for activities related to **Corporate Actions and Billing Processes**.
 - Wave 1: November 2022 (for wave 1 actors)
 - Wave 2: tbd (for all remaining actors).
- The timing of the second wave for remaining implementing actors for CA and billing processes has now been discussed and agreed by the CMH-TF and HSG.

Wave 2 Considerations

- Remaining actors should adopt ISO 20022 in a second wave.
- The CMH-TF provided its considerations on the timing of Wave 2 in its June, September and November meetings.
- The proposal for the timeline for Wave 2 has been approved by HSG.

Momentum

Today, ISO 20022 adoption for CAs has already started in several countries across the globe (including major markets such as the US)

The regulatory context > all new messages are being developed in ISO 20022 e.g. proxy voting capability to support SRD2: **September 2020** Deadline for implementation of Shareholder Identif. & Voting & Transmission of Info

Other initiatives e.g. payments migration completed as of **Nov. 2021** etc.

Eurosystem announced **Nov. 2022** as implementation of ISO 20022 messaging for all Eurosystem collateral management activities

Co-existence

Best practice for market migration > SWIFT recommendation of *5 year lead time* from agreement until full market migration > Nov. 2024 implementation/support ISO20022 by remaining actors

There is a *need to limit the co-existence period* > impact on maintenance, costs, complexity and other STP implications

ISO20022

SWIFT: ISO 20022 is established, continues to grow and will cover all business processes

SWIFT: focus is on developing ISO 20022 capabilities / functionalities and have ISO 20022 as the future main standard

Wave 2 Timeline

HSG RECOMMENDATION TO AMI-SECo ON THE TIMELINE FOR WAVE 2 :

AMI-SeCo members are invited to endorse that the Wave 2 implementation deadline for ISO 20022 messaging would be November 2025: AMI-SeCo Standards for Corporate Actions and Billing Processes on ISO 20022 messaging would become applicable for actors in Wave 2 as of November 2025, i.e. at the latest by then account servicers should offer / support ISO20022 messaging (to clients that have the capability to use the ISO20022 protocol).

AMI-SeCo members are invited to support that the AMI-SeCo chair (on behalf of the AMI-SeCo) would send a recommendation letter to SWIFT with regards to the end of the co-existence of ISO15022 and ISO20022 messaging standards which should be November 2028. HSG members take the view that discontinuing one-to-one equivalency would be an important driver to motivate organisations to move from one (legacy) standard to another richer standard and thus it could be recommended to SWIFT that the MT standard should no longer be maintained as from November 2025.

AMI-SeCo is invited to endorse the HSG recommendation.



2.

Adaptation Plans

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Adaptation plans

Plans are requested for AMI-SeCo Standards in the fields of Triparty Collateral Management, Corporate Actions and Billing Processes.



1. Triparty Collateral Management

Harmonisation of triparty collateral management workflows and messaging in order to facilitate interoperable processes allowing collateral mobility across triparty agents.



6. Billing Processes

Harmonisation of billing procedures, workflows and messaging.



2. Corporate Actions

Harmonisation of Corporate Actions processes, workflows and messaging by reinforcing existing harmonisation standards or adding new harmonisation standards (taking into account specific considerations from a collateral management perspective).



7. Cut-Off Times

Minimum requirements for end-of-day cut off times to avoid possible different value dates in cross-infrastructure transactions in different markets, which may create frictions for market participants active in different markets.



3. Taxation Processes

Harmonisation of tax processing in the context of collateral management (taking into account identification of parties in collateralised transactions).



8. Collateral Dynamic and Static Data

Harmonisation of data exchanges to ensure that information / data is available where necessary. Market practices needed for use of data.



4. Bilateral Collateral Management

Harmonisation of workflows for bilateral collateral management (covering non-cleared OTC derivatives and securities financing). Interoperability and leverage of existing infrastructures and market platforms.



9. Sourcing of Collateral

Minimum requirements for sourcing/movement of collateral across Europe



5. Margin Calls

Interoperability and leverage of existing infrastructures and market platforms for margin processes.



10. Non-Euro Collateral

Market practices for the handling of non-euro denominated collateral (including related corporate action processes).

Planning by (I)CSDs and TPAs



In each market, adaptation plans are being prepared by **TPAs** and **(I)CSDs**

	AMI-SeCo Standards Triparty Collateral Management	AMI-SeCo Standards Billing Processes	AMI-SeCo Standards Corporate Actions
To provide adaptation plans and be monitored (for relevant Standards)			
TPAs	√	√	√
(I)CSDs		√	√

Note: Market stakeholders in NSGs should review adaptation plans (for relevant Standards/timings as described in the AMI-SeCo Standards): NCBs and their counterparties, CCPs, Custodians, Issuer agents.

Adaptation Plans review by NSGs

- Draft Adaptation Plans are currently being reviewed by NSGs.
- Final plans (after NSG review) must be submitted by 15 December to ECB Secretariat.
- Final plans and the list of implementing actors will be published on the ECB website in January 2020.

NSG XYZ progress on planning of AMI-SeCo Standards for Corporate Actions

- The plan* has been adopted by the NSG
- The draft planning with milestones are defined
- Preparation of the adaptation plan* has started
- No plan* is being prepared

AMI-SeCo Standards: Planning		
No.	Actor	Adaptation Plan
1	CSD	Blue
2	TPA	Green

Note: * In case there is a need for a major review of the adaptation plan the colour codes apply to the preparation and adoption of the new (updated) plan.



3.

Organisation of upcoming CMH-TF work

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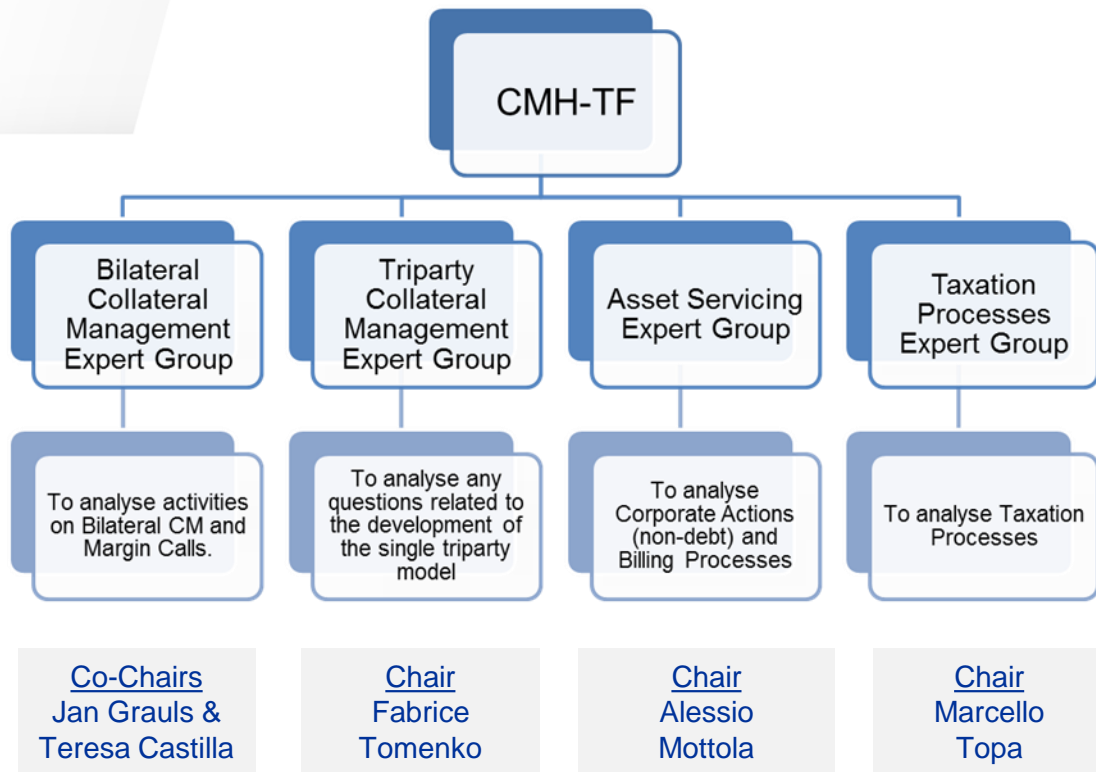
Background

- In its July 2019 meeting, AMI-SeCo agreed the work on the remaining areas relevant to the management of collateral where further harmonisation is needed (with flexible timing to develop/implement standards).

 1. Triparty Collateral Management Harmonisation of triparty collateral management workflows and messaging in order to facilitate interoperable processes allowing collateral mobility across triparty agents.	 6. Billing Processes Harmonisation of billing procedures, workflows and messaging.
 2. Corporate Actions (other instruments) Harmonisation of Corporate Actions processes, workflows and messaging by reinforcing existing harmonisation standards or adding new harmonisation standards (taking into account specific considerations from a collateral management perspective).	 7. Cut-Off Times Minimum requirements for end-of-day cut off times to avoid possible different value dates in cross-infrastructure transactions in different markets, which may create frictions for market participants active in different markets.
 3. Taxation Processes Harmonisation of tax processing in the context of collateral management (taking into account identification of parties in collateralised transactions).	 8. Collateral Dynamic and Static Data Harmonisation of data exchanges to ensure that information / data is available where necessary. Market practices needed for use of data.
 4. Bilateral Collateral Management Harmonisation of workflows for bilateral collateral management (covering non-cleared OTC derivatives and securities financing). Interoperability and leverage of existing infrastructures and market platforms.	 9. Sourcing of Collateral Minimum requirements for sourcing/movement of collateral across Europe
 5. Margin Calls Interoperability and leverage of existing infrastructures and market platforms for margin processes.	 10. Non-Euro Collateral Market practices for the handling of non-euro denominated collateral (including related corporate action processes).

CMH-TF Structure

- To facilitate the work on the remaining activities four CMH Expert Groups (EG) have been established
- The Chairs of the Expert Groups debriefed the CMH-TF on the progress of the Expert Groups.



(1) Bilateral Collateral Management Expert Group

Scope

- Efficient management of collateral (involving T2S)
- Promote identifiers (transaction codes COLI/COLO)
- Support harmonised messaging (to reduce diverse email exchanges)
- Cut-Off Times
- Sourcing of Collateral

(2) Triparty Collateral Management Expert Group

Scope

- Continue the work on the harmonised triparty model with a particular focus on ISO 20022 messages/messaging guidelines.
 - Identification of collateral parties
 - Usage of the Instruction Status Processing Advice message
- Analysing questions / topics deriving from either the AMI-SeCo Triparty Collateral Management Standards or the harmonisation needs previously identified.
 - TPAs contribution to Corporate Actions handling and Taxation processing, e.g. with keeping collateral allocated over record date.

(3) Asset Servicing Expert Group

Scope

- Assess AMI-SeCo Standards applicability beyond debt instruments.
- Clarifications on the implementation of the AMI-SeCo Standards.
- Assess the need for further harmonisation.

(3) Asset Servicing Expert Group

- Standard 6 Business day rule:
“If the payment date of a corporate action falls on a non-business day (in the country of the currency in which the payment is due), the payment shall be made on the next business day.”
- The CMH-TF Asset Servicing Expert Group reviewed feedback from NSGs on the application of standard 6 to existing securities that follow the Modified Following Business Day Convention (MFBDC).
- The application of Standard 6 to securities issued before November 2022 may require additional guidance for the implementation of the Standard.

(3) Asset Servicing Expert Group

Expert Group is currently assessing the following:

Guidance for implementation of Standard 6 (to be confirmed):

- When the conditions dictated by the MFBDC apply, the record date (RD) shall be taken at the closing of the immediately preceding business day of the anticipated payment date (PD).

Example:

If the scheduled PD falls on a Saturday:

- (i) The effective PD is anticipated to Friday and;
- (ii) RD is anticipated accordingly to Thursday (close of business on PD-1)

Further considerations by Expert Group are needed for the explanation of Standard 6. NSGs to be consulted.

(4) Taxation Processes Expert Group

Direction

- Identification of operational barriers (also from collateral management perspective) and definition of AMI-SeCo Standards covering business processes, workflows and messaging to overcome these barriers.
- Identification of legislative barriers hindering the full harmonisation of taxation processes by the CMH-TF which could serve as concrete input to the relevant authorities on further work in this area.

(4) Taxation Processes Expert Group

Scope

1. Mapping of **High-level WHT Requirements** per market
2. Relevant **Tax Agent(s)** per market
 - (I)CSD, direct custodian or other entity?
 - Responsible for certification?
3. **Beneficial Ownership/entitlement aspects**
 - Ensure unquestionable identification of the BO
 - Certifications for proof of eligibility (wording, formats, duration)
 - Legal BO vs economic BO, collateral giver/taker
 - Transaction types to define legal implications re ownership transfer

(4) Taxation Processes Expert Group

Scope

4. Set of tax **Data Elements** requested by the tax authority and submitted by the BO
5. Mapping of **transactional data**
 - Data elements, formats, timing for detailed transaction history
 - Accrued income, issue discount
 - Actual vs manufactured income, market claims
6. **Transmission process** of tax data
 - Incl. integrity and transparency of the flow of tax information
7. Standardisation of **tax documentation**
 - Incl. life cycle/validity and way of submission

(4) Taxation Processes Expert Group

8. Standardisation of **relief at source and tax reclaim** processes
 - Relief at source as prioritised process
 9. **Reporting function**
 - Chain of communication (common definition of withholding agent, e.g. CSD, custodian, investor, other appointed WHT agent)
 - Unique reference number for each application
 - Common approach to TaxID, CoR reference, etc.
- *To consider **existing CA events CERT WTRC and TREC** in the preparation of harmonisation proposals*

Upcoming changes under AIFMD / UCITS Regulation that will come into force in April 2020

Focus on relevant requirements for Depositaries that shall support the Tri-Party Collateral Administration Model for their underlying AIF/UCITS clients. The specific discussion focused on:

- o requirements to maintain independent books and records for the collateral assets.
- o Reporting from TPCA to Depositary
- o Reconciliation requirements and frequency



Questions?

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