

Collateral management harmonisation activities: HSG status update to AMI-SeCo and envisaged next steps

In its March 2017 meeting, the AMI-SeCo agreed to foster integration and efficient functioning of collateral management and had a first high-level discussion on the possible scope/methodology for the work on collateral management harmonisation. AMI-SeCo invited the Harmonisation Steering Group (HSG) to establish a list of key activities that could merit harmonisation (similar to the T2S harmonisation approach).

In their June 2017 meeting, HSG members had a first discussion on a preliminary list of collateral management harmonisation activities (CMHAs) and on how to organise future work on this topic. Based on a draft ECB note (which derived from earlier COGESI discussions and which aimed to facilitate the discussion)¹, the HSG had an initial exchange of views and felt that, before being able to draw firm conclusions, there is the need to deepen the analysis, in particular on what are the problem areas, how to prioritise them, what stakeholders would need to be involved, what could be the solutions (such as standards or market best practices). HSG members also pointed out that relevant expertise from existing working groups and existing initiatives/standards should be taken into account in the collateral management harmonisation work. Given the assumed complexity of the matter, HSG members agreed to set up a dedicated HSG Task Force on Collateral Management Harmonisation.

The CMHAs in the draft ECB note are related to impediments to an efficient use of collateral across financial markets and are related to operational barriers/problems in the messaging of collateral management activities and collateral mobility. There are, however, other barriers/problems to post-trade arrangements of financial markets in Europe that also play a role, such as legal/regulatory barriers; they are covered by other initiatives (i.e. in the context of the Commission's Capital Markets Union and European Post Trade Forum).

The AMI-SeCo is invited to take note of the HSG's status update, in particular on the envisaged key areas of work and envisaged next steps, as outlined in this note.

¹ The note established a draft preliminary list of 20 CMHAs subdivided into four areas for potential harmonisation

1. Envisaged key areas of work and potential harmonisation activities

HSG members agree that, before reaching any conclusions on the activities, stakeholders, actors and priorities, the focus of the upcoming work should be on further analysing and explaining the preliminary list of harmonisation areas and activities with a view to ascertain what are the critical problem areas and what might be the less critical problem areas. Work could be organised around:

- key areas to foster integration/harmonisation in collateral management (see section 1.1).
- a draft list of activities, which address concrete barriers/problems in collateral management (see section 1.2).

1.1 Key areas to foster integration

The HSG envisages the following key collateral management harmonisation areas to foster integration:

- Messaging (Collateral messaging)
- Data (Collateral dynamic and static data)
- Collateral operating framework (business processes)
- Non-euro collateral (Procedures for non-euro collateral)

This list of key areas does not imply a priority in the sequence/order of the key areas (and subsequently related harmonisation activities – see sub-section 1.2), but the order could be changed in light of further analysis to enhance readability.

The key areas may impact collateral management service providers (CMSP) and/or the users of these services (UCMS). The consequences may also depend on collateral management scenarios. There could be four different scenarios of collateral management: (1) bilateral between collateral givers and takers; (2) outsourcing to service providers of collateral givers and takers; (3) outsourcing to a common triparty agent; and (4) hybrid (e.g. outsourcing to one party such as a CCP).

1.2 Potential list of activities (based on identified barriers)

HSG members agree that the envisaged list of harmonisation activities should be derived from identified problems/barriers, which are (i) problems deemed important for collateral management arrangements; and (ii) problems that can be advised on by AMI-SeCo. Envisaged further analysis on the problems/barriers may therefore result in adding or deleting some activities to the preliminary list of CMHAs (because some of the barriers might not be critical at all and/or cannot be advised on by AMI-SeCo).

Activities and underlying barriers/problems are related to one of the following categories: i.e. (i) Standard settlement and custody processes; (ii) Collateral management modification of standard settlement and custody processes; or (iii) Specific collateral management processes. This categorisation would allow a better description of the problem (by indicating whether there is an equivalent problem in standard

settlement and custody processing). This categorisation may also facilitate the analysis whether the problem can be addressed by AMI-SeCo.

Finally, activities (and related problems) could be associated to actual and upcoming (regulatory) requirements. For example, TPAs may currently perform collateral valuation only once in a day, while CCPs are required by regulation (e.g. EMIR) to value near real time or demonstrate that the CCP can manage the associated risks. The frequency in collateral valuation is therefore an issue that may be considered as a collateral harmonisation activity. However, certain requirements may only be applicable for certain stakeholders. In principle, harmonisation activities should focus only on barriers that are relevant to the wider community of stakeholders (and not focus on requirements of certain stakeholders), unless there is a strong and commonly agreed business justification.

With respect to the harmonisation of messaging, HSG members suggest that the list of activities should cover two aspects: (i) the messaging standard and (2) the related business process. For example, harmonised messaging should involve the use a unique messaging standard (e.g., ISO 20022) and application of business processes in a harmonised fashion. As result, for each activity on messaging, there should be a related activity on business processes.

The HSG aims to agree on a first list of concrete harmonisation activities in the second half of 2017.

2. Envisaged next steps

Given the complexities and variety of stakeholders involved in collateral management, the HSG has agreed that there is the need for a dedicated HSG task force on collateral management harmonisation. The HSG will ensure that the task force will have the necessary technical and business expertise, possibly also involving experts from non-HSG constituencies. This dedicated task force will be chaired by an HSG member and is expected to be formally launched by the HSG after the July 2017 AMI-SeCo meeting. The HSG will ensure that existing HSG substructures and any other relevant existing efforts and initiatives will be appropriately associated to the work of the task force, in particular, the Sub Group on Message Standardisation (SGMS), which defines market practices for business processes, and the Corporate Actions Subgroup (CASG).

Collateral management arrangements are often complex and may be related to a wide range of processes. Therefore, the national user groups will likely be addressed as well to reach out to the local market practice experts (e.g. National Market Practice Groups (NMPGs), which involve ISO 20022 experts and local market practice experts). Other external stakeholders would be involved if and when needed.

The HSG will issue a call for expression of interest in view of its envisaged establishment of a dedicated HSG Task Force on Collateral Management Harmonisation.