Triparty Business Processes and Workflows - TPA Draft Harmonisation Proposals

CMHA1 – Triparty Collateral Management

CMH-TF, 17 April 2018

Triparty Collateral Management Services

Triparty collateral management services (TCMS) provided by triparty agents (TPAs) **allow counterparties to optimise the use of their portfolios of securities when collateralising credit and other exposures across different products and instruments** (e.g. repo, securities lending, central bank credit, secured loans, and exposures arising from over-the-counter transactions). As part of their daily operations, **TPAs provide services such as automatic selection and allocation of the collateral, valuation and substitution, optimisation of the composition of the triparty pool ("allocation cycles") and corporate actions processing**

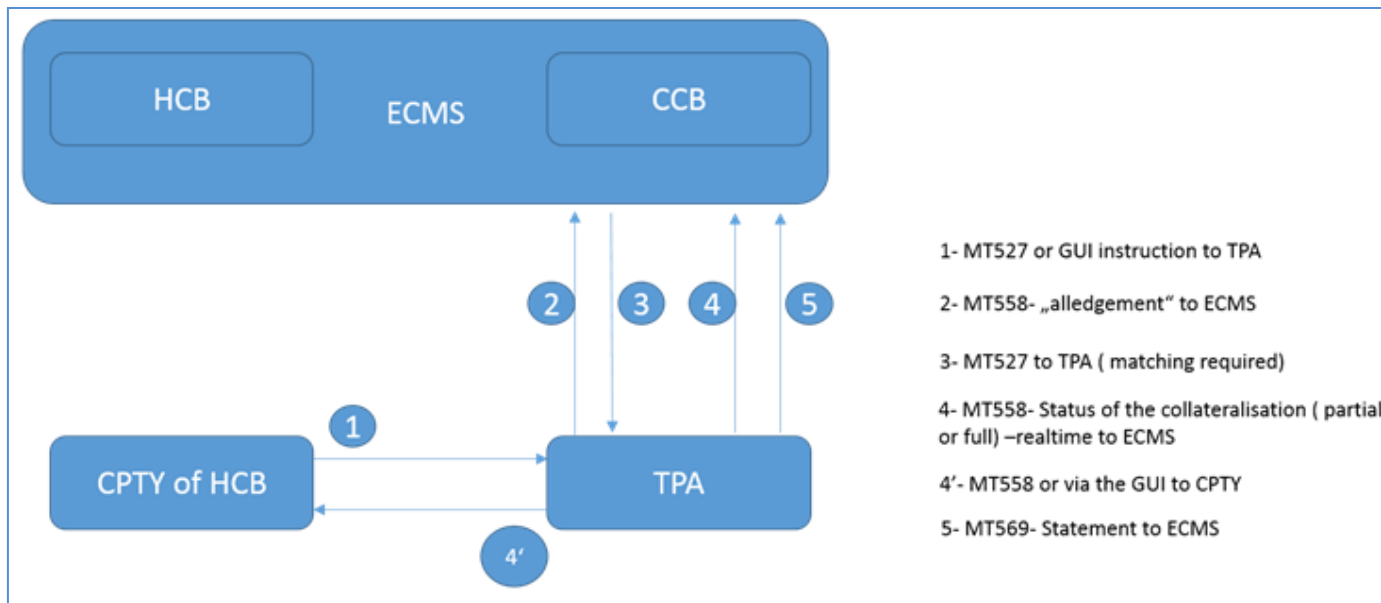|	
Collateral Giver	The party that has an exposure and needs to provide collateral to cover its credit risk.
Triparty Agent	The triparty service provider (referred to as "triparty agent" or "TPA") responsible for the processing of instructions on behalf of both collateral giver and the collateral taker
Collateral Taker	The party that is exposed to its counterparty. Takes collateral to cover its exposure to the counterparty.

Triparty Collateral Management Background to Draft Harmonisation Proposals

In Phase I of the CMH-TF work on collateral management harmonisation the following general business process was discussed and serves as the basis of the harmonisation proposals contained in this document. The general principles are applied to all workflows, for example, communication flows are between (i) the collateral giver and the TPA and then (ii) the TPA and the collateral taker. The messages referenced below are indicative only as communication between the TPA and ECMS (as a minimum) will be performed using ISO 20022 messaging.

Generic Workflow presented in Phase I

1- MT527 or GUI instruction to TPA

2- MT558- „alledgement" to ECMS

3- MT527 to TPA (matching required)

4- MT558- Status of the collateralisation (partial or full) –realtime to ECMS

4'- MT558 or via the GUI to CPTY

5- MT569- Statement to ECMS

The collateral value can be obtained from the latest message received i.e. the confirmation or revaluation message

An initial list of key data elements per business process are also identified in this document. The key data elements identified are indicative only at this point and will be further refined as part of the messaging definition process. For example agreement upon the usage of a standard reference to link all messages related to a triparty transaction may remove the importance of fields such as PTYA and PTYB as the identity of the parties to the transaction can be derived from the unique triparty transaction ID. Similarly terms such as Collateral Value (COVA) and Allocated Amount (ALAM) may refer to the same concept and thus may be reported in a single field in the future ISO 20022 message.

Triparty Collateral Management Key Terminology

In addition to the key terminology contained in the Annex of this document this page provides a summary of the key concepts referred to in this document:

1. Triparty Agent – the entity that provides triparty services, the agent performs the automated functions used within their triparty service. Triparty agents ensure that triparty transactions remain collateralised.

2. Transaction Amount / Triparty Exposure – the amount agreed between the collateral giver and the collateral taker (central bank) and reflects the post haircut value of securities to be transferred or earmarked.

3. Collateral Value – This is the actual post haircut value of securities transferred to the collateral taker – this is normally equal to or greater than the Transaction Amount.

4. Execution Date – This is the date on which the triparty agent will attempt to initiate, amend or close a triparty transaction.

5. Triparty Instruction – this is the instruction to the triparty agent to undertake an action on a triparty transaction i.e. initiate, amend, close, cancel.

6. Collateral Schedule – the schedule specifies the securities that the collateral taker is willing to accept.

7. Triparty Allocation – this is an automated process undertaken by the triparty agent throughout the day (either in scheduled batches or continuously), the process allocates securities to the collateral taker based upon the triparty schedule's parameters and collateral operations i.e. changes to the transaction from new instructions.

8. Optimisation Run – this process ensures that the collateral provided to the collateral taker is optimised according to rules set by the collateral giver.

9. Automatic Substitution – the collateral giver may want to remove securities that have been provided to the collateral taker and provide alternative securities. This process ensures that alternative securities to at a least the value of the securities being removed are automatically selected and provided simultaneously.

Triparty Collateral Management Business Processes

This document focuses on the following business processes*:

Initiation of Transaction (P2.1)
- Workflow covering the initiation of a triparty collateral transaction
- Key data elements

Increase of Transaction Amount (P1.1 & P1.7)
- Workflow covering the increase of a triparty collateral transaction
- Key data elements

Decrease of Transaction Amount (P1.2 & P1.11)
- Workflow covering the decrease of a triparty collateral transaction
- Key data elements

Revaluation (P1.3)
- Workflow covering the revaluation of a triparty collateral exposure
- Key data elements

Unilateral Removal (P1.6)
- Workflow covering the request to remove specific asset(s) from the triparty pool
- Key data elements

Reporting on Stocks (P1.5)
- Workflow covering the reporting of details of securities in the triparty pool
- Key data elements

Reporting on Flows (P1.8)
- Workflow covering the reporting of intraday movements of securities in the triparty pool
- Key data elements

Closure of Transaction (P2.2)
- Workflow covering the termination of a triparty collateral transaction
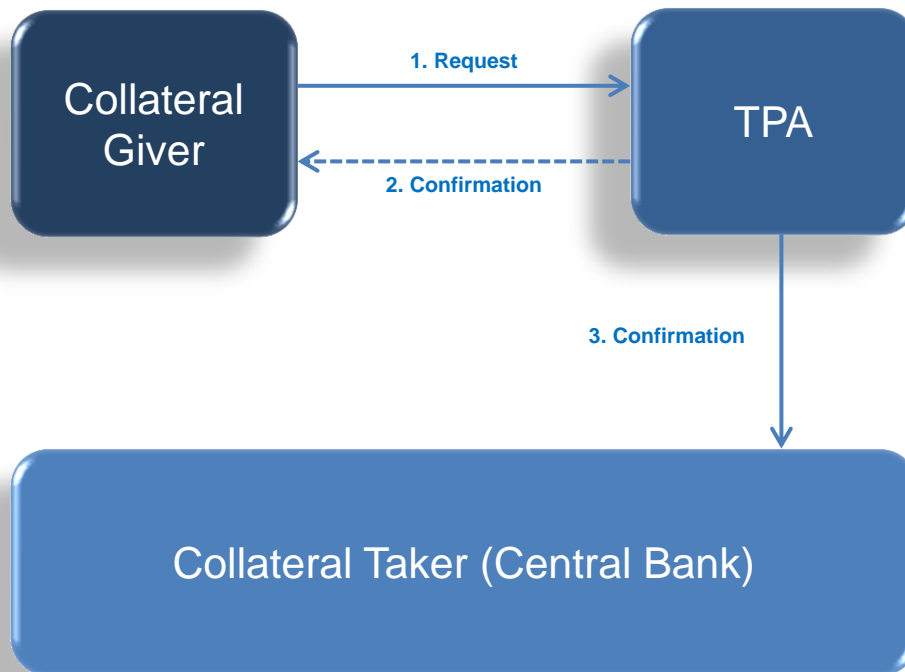- Key data elements

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Numbers in parenthesis correspond to the relevant harmonisation need identified in CMHA1 e.g. P1.1 corresponds to Priority 1, item no. 1

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* The remaining business processes e.g. cancellation process will be covered in a later version

Initiation of Triparty Collateral Transaction

CMHA1 (P2.1)

The counterparty sends a message to the TPA to initiate a triparty transaction. The TPA forwards the message to the collateral taker who initiates the transaction in their collateral management system.

Workflow

Description of Steps

It is considered that in the case of initiation and increase, an alledgement message from the collateral taker (central bank) to the TPA may not be needed as increases are always accepted by the central bank.

Pre-conditions
- All parties to the transaction have signed the relevant documentation and performed the necessary account setup

1. The collateral giver sends a request to the TPA to initiate a triparty collateral transaction with the collateral taker.

2. The TPA sends a message to the collateral taker* confirming that a triparty transaction has been initiated following the allocation of the securities to the collateral giver.

3. The TPA sends a message to the collateral giver confirming the initiation of the triparty transaction.

* If the execution request date is in the future the TPA could forward the request to the collateral taker on the execution date.

Key Data Elements

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Initiation	Indicates that the instruction is related to an initiation of a triparty collateral transaction.	:22H::CINT//INIT
Termination Date	Indicates that the transaction is open-ended (relevant for transactions involving Eurosystem NCBs)	:98B::TERM//OPEN
Transaction Amount	Intended Transaction Amount	:19A::TRAA//3!a15d
Allocated Amount	Amount allocated to triparty transaction	:19A::ALAM
Party A	Identifier of the message sender	:95R::PTYA//[8c]/5!n
Party B	Identifier of the message receiver	:95R::PTYB//[8c]/5!n

It could be discussed at a later stage under the new ISO20022 if ALAM and COVA means the same and only one could be used going forward in the ISO20022 definition

Business process covering the increase of a transaction amount between the collateral giver and collateral taker. The collateral giver sends a message to the TPA seeking an increase in the transaction amount held with the collateral taker. The TPA seeks to allocate securities to the extent that collateral is available. Accordingly the request to increase the transaction amount may be (i) fully settled (ii) partially settled or (iii) not settled. If insufficient collateral is available the request will remain open and the TPA will seek to increase the transaction amount as and when additional eligible securities become available.

Workflow	Description of Steps
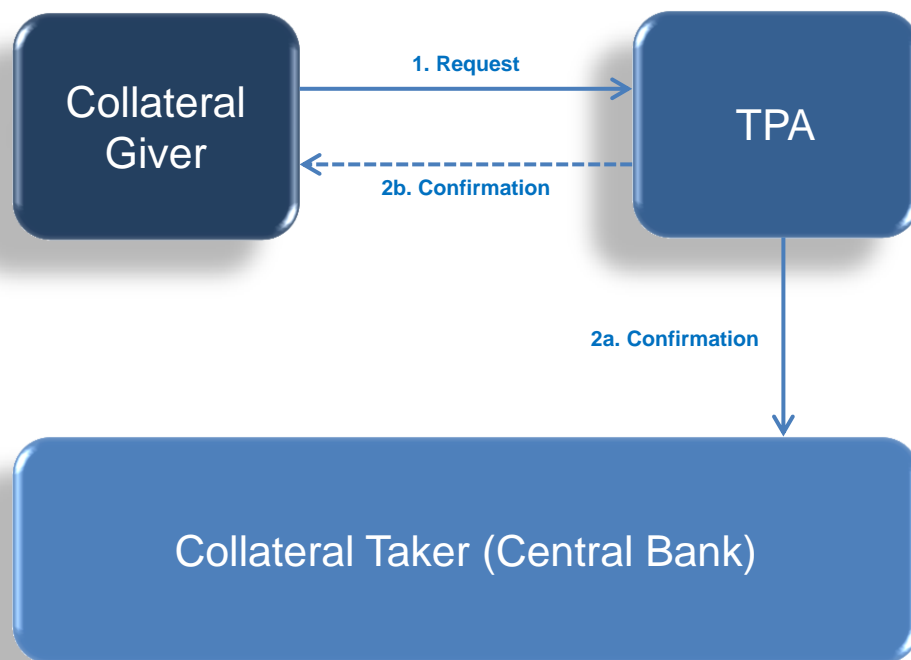
It is considered that in the case of increase (and initiation), an alledgement message from the collateral taker (central bank) to the TPA may not be needed as increases are always accepted by the central bank. Furthermore if the function of the message is not taken into consideration, the treatment of Initiation or Increase should be the same and therefore these scenarios would also be valid for Initiation

1. The collateral giver sends a triparty instruction to the triparty agent to request an increase of the transaction amount.

2. The TPA automatically allocates eligible securities to the extent collateral is available. Three outcomes are possible:

   Scenario 1: the requested increased transaction amount is immediately fully covered; in this case the TPA will send a message to the collateral taker (2a) and, on an optional basis, the collateral giver (2b) confirming the full amount allocated.

   Scenario 2: the requested transaction amount cannot be covered (i.e. no (partial) collateral is available). In such case, no message will be sent.

   Scenario 3: the requested increased transaction amount is not immediately fully covered, i.e., is first partially covered. In this case, the TPA will send a message to the collateral taker (2a) and, on an optional basis, collateral giver (2b) stipulating the partial amount allocated. If and when the requested transaction amount becomes fully collateralised, a message will be sent to the collateral taker (2a) and, on an optional basis, collateral giver (2b).

Key Data Elements

Increase Request (Step 1)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal / Exposure Adjustment	Indicates that the instruction is related to a change of principal / exposure adjustment.	:22H::CINT//PADJ
Termination Date	Indicates that the transaction is open-ended (relevant for transactions involving Eurosystem NCBs)	:98B::TERM//OPEN
Transaction Amount	New Intended Transaction Amount	:19A::TRAA//3!a15d
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

Increase Confirmation (Step 2)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal/Exposure Adjustment	Indicates that the instruction is related to a change of principal/exposure adjustment.	:22H::CINT//PADJ
Collateral Value	Value of collateral held	:19A::COVA//3!a15d
Allocated Amount	Amount allocated to triparty transaction	:19A::ALAM
Transaction Amount	Intended Transaction Amount	:19A::TRAA//3!a15d
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

It could be discussed at a later stage under the new ISO20022 if ALAM and COVA means the same and only one could be used going forward in the ISO20022 definition

Initiation of Transaction	Increase of Transaction	Decrease of Transaction	Revaluation	Cancellation	Unilateral Removal	Reporting on Stocks	Reporting on Flows	Data Exchange	Handling of Cash Proceeds	Closure of Transaction

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This process describes a request from the collateral giver to the TPA to decrease the triparty collateral transaction amount. The TPA sends the collateral giver's request to the collateral taker to check if the collateral giver may reduce the transaction amount. After the check of collateral sufficiency, the collateral taker sends a message to the TPA either approving or rejecting the request.

Workflow

If the execution request date is in the future the TPA could forward the request to the collateral taker on the execution date [To be further analysed by TPAs].

Description of Steps
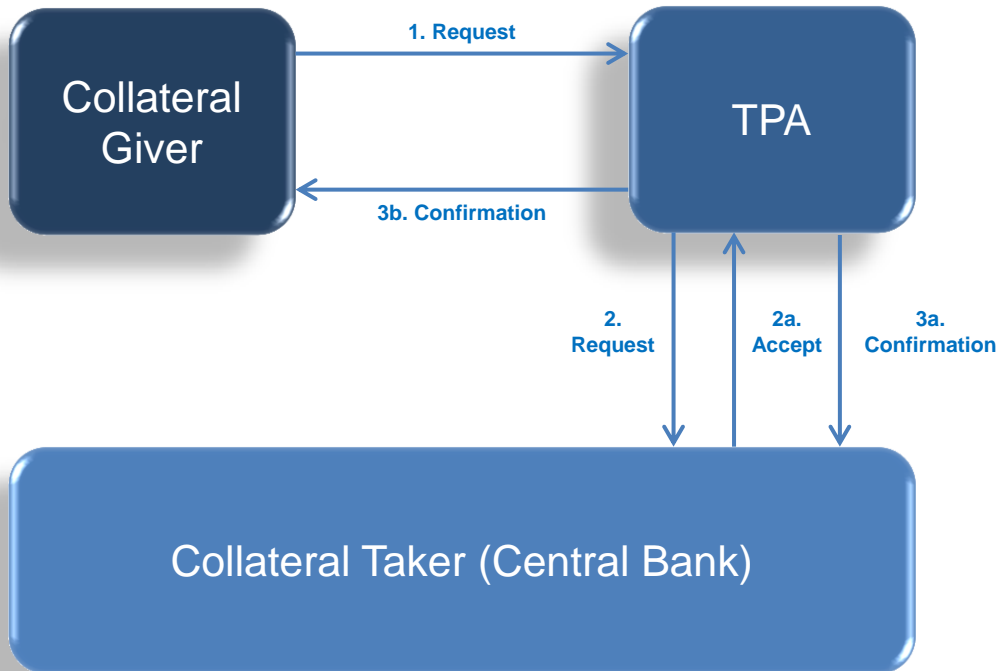
1. The collateral giver sends a triparty instruction to the triparty agent to request the decrease of the transaction amount. For future dated transactions the TPA could queue the instruction and forward to the central bank on the requested execution date.

2. The triparty agent forwards the request of a decrease of the transaction amount to the collateral giver. Two outcomes are possible:
   - 2a: The collateral taker informs the TPA that there is sufficient collateral available to proceed with the decrease of transaction amount
   - 2b: The collateral taker queues the request as there is insufficient collateral available to proceed with the decrease of transaction amount.

3. The TPA automatically releases collateral up to the amount still necessary and confirms to the collateral taker (step 3a) and the collateral giver (step 3b) that the transaction amount has been updated.

Key Data Elements	Description of Steps

Decrease Request (Step 1)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal/Exposure Adjustment	Indicates that the instruction is related to a change of principal/exposure adjustment.	:22H::CINT//PADJ
Termination Date	Indicates that the transaction is open-ended (relevant for transactions involving Eurosystem NCBs)	:98B::TERM//OPEN
Transaction Amount	New Intended Transaction Amount	:19A::TRAA//3!a15d
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

Decrease Acceptance (Step 2)

Data Element	Definition	Represented in ISO Message Field*
TBD	TBD	TBD

Decrease Confirmation (Step 3)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal/Exposure Adjustment	Indicates that the instruction is related to a change of principal/exposure adjustment.	:22H::CINT//PADJ
Collateral Value	Value of collateral held	:19A::COVA//3!a15d
Transaction Amount	Intended Transaction Amount	:19A::TRAA//3!a15d
Transaction Status	Indicates if the transaction is fully covered (AOLF) or partially covered (AOLP)	:25D::TRAN//4!c
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

| Initiation of Transaction | Increase of Transaction | **Decrease of Transaction** | Revaluation | Cancellation | Unilateral Removal | Reporting on Stocks | Reporting on Flows | Data Exchange | Handling of Cash Proceeds | Closure of Transaction |

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Revaluation	CMHA1 (P1.3)

Workflow by which the TPA informs the Collateral Taker (and optionally the Collateral Giver) of the new exposure amount following a revaluation of triparty positions. The collateral value may change as a result of (i) price / eligibility changes, (ii) custody events or (iii) unilateral removal of specific asset(s).

Workflow	Description of Steps
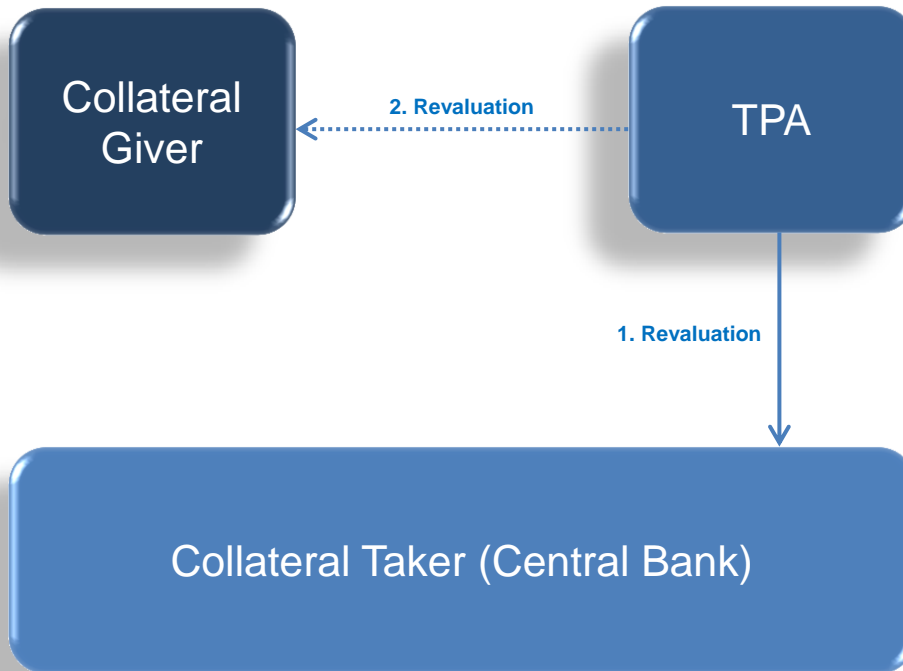
1. The triparty agent sends intraday reports for revaluation of triparty positions to the collateral taker and the collateral taker updates the credit line of the collateral giver accordingly. The intraday reports also serve the purpose of confirming collateral allocations in case an increase instruction was partially covered / not covered; in the same manner, the collateral taker cancels and replaces the previous collateral amount.

2. The triparty agent may optionally send the revaluation statement to the collateral giver.

Key Data Elements		Description of Steps

## Revaluation (Step 1 & Optionally 2)

Data Element	Definition	Represented in ISO Message Field*
Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Collateral Value	Value of collateral held	:19A::COVA//3!a15d
Transaction Amount	Intended Transaction Amount	:19A::TRAA//3!a15d
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

On reception of the revaluation, the collateral taker updates the exposure amount with the minimum of the Collateral Value or Transaction Amount {COVA,TRAA}

| Initiation of Transaction | Increase of Transaction | Decrease of Transaction | Revaluation | Cancellation | Unilateral Removal | Reporting on Stocks | Reporting on Flows | Data Exchange | Handling of Cash Proceeds | Closure of Transaction |

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Workflow covering a request from the collateral taker to the TPA seeking the removal of specific asset(s) allocated to the triparty transaction which do not meet the collateral taker's risk control criteria (e.g. concentration limit breach).

| Workflow | Description of Steps |
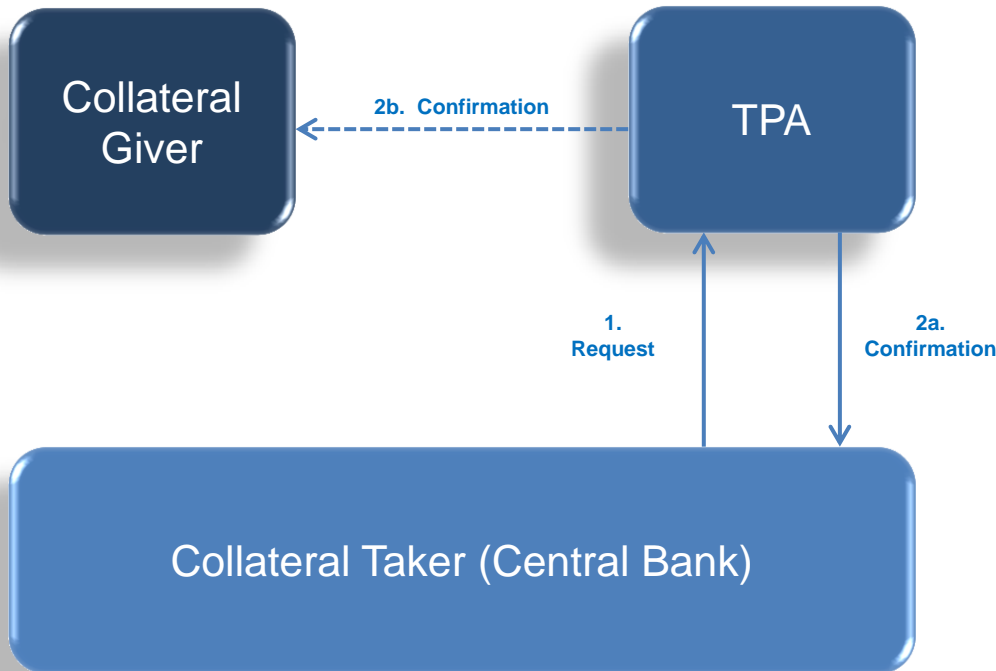
1. The collateral taker sends an instruction for the unilateral removal/exclusion of specific assets to the TPA.

2. The triparty agent automatically allocates additional assets and withdraws the specific assets(s) and confirms the removal to the collateral taker (2a) and optionally the collateral giver (2b).

Key Data Elements		Description of Steps

Removal Request (Step 1)

Data Element	Definition	Represented in ISO Message Field*
Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	NEW
Removal of Securities	Indicates that the instruction is related to a request to remove specific assets(s) from the collateral pool.	NEW
ISIN	List of securities which should be excluded from the collateral pool	NEW
Reason Code	Reason for removal of assets	NEW
Safekeeping Account	Account where financial instruments are maintained	NEW
Ineligibility Start Date	Start date from which the asset should be excluded from the collateral pool	NEW
Ineligibility End Date	End date from which the asset should be excluded from the collateral pool	NEW

Confirmation of Removal Request (Step 2)

TBD – message should confirm the processing of the removal request

Report containing the global collateral status of all transactions, in the reporting currency, that is, the total of the exposure amount, of the posted collateral, of the margin amounts, of the accrued interest, of the fees or commissions and of the principals. In addition, it provides collateral-specific information.

| Workflow | Description of Steps |
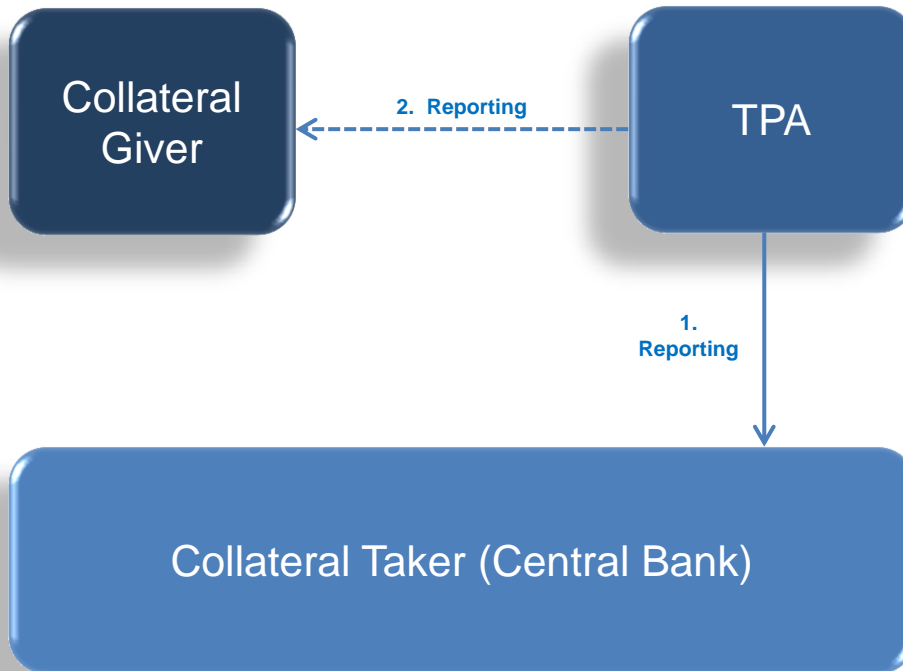
1. The triparty agent sends an message containing the details of the collateral allocated at the ISIN level to the collateral taker. The reports are sent at end of day.

The possibility to have a single reporting message containing information on stocks and on flows will be further analysed

Key Data Elements			Description of Steps

Reporting on Stocks (Step 1)

| Data Element	Definition	Represented in ISO Message Field*
Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Statement Basis	Indicator of the frequency with which the report is sent	:22F::STBA//
Transaction Amount	This field contains the Intended Transaction Amount	:19A::TRAA//EUR
Collateral Value	This field contains the Aggregate Margined Value of all assets delivered as collateral in all transactions with the given Counterparty in the given Exposure Type, expressed in the Reporting currency.	:19A::COVA//EUR
ISIN	This field contains the identification and description of the financial instrument (ISIN or Common Code).	:35B::ISIN//
Quantity of Securities Valued	This field contains the quantity of collateral or loaned securities, with quantity type code FAMT for debt and UNIT for equities	:36B::SECV//
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

The collateral taker should use the min. value of [TRAA, COVA] fields as the new collateral value. > this value could be added as a dedicated field in the new ISO 20022 message.

| Initiation of Transaction | Increase of Transaction | Decrease of Transaction | Revaluation | Cancellation | Unilateral Removal | Reporting on Stocks | Reporting on Flows | Data Exchange | Handling of Cash Proceeds | Closure of Transaction |

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A report providing the details of increases and decreases of holdings which occurred during a specified period, for all or selected securities in the specified safekeeping account or sub-safekeeping account which the account servicer holds for the account owner.

| Workflow | Description of Steps |
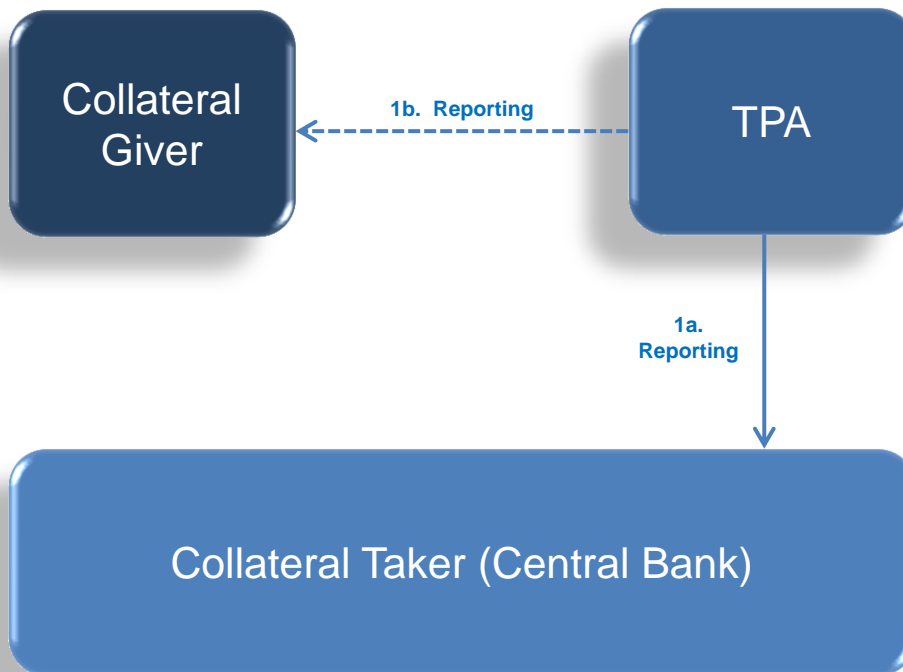
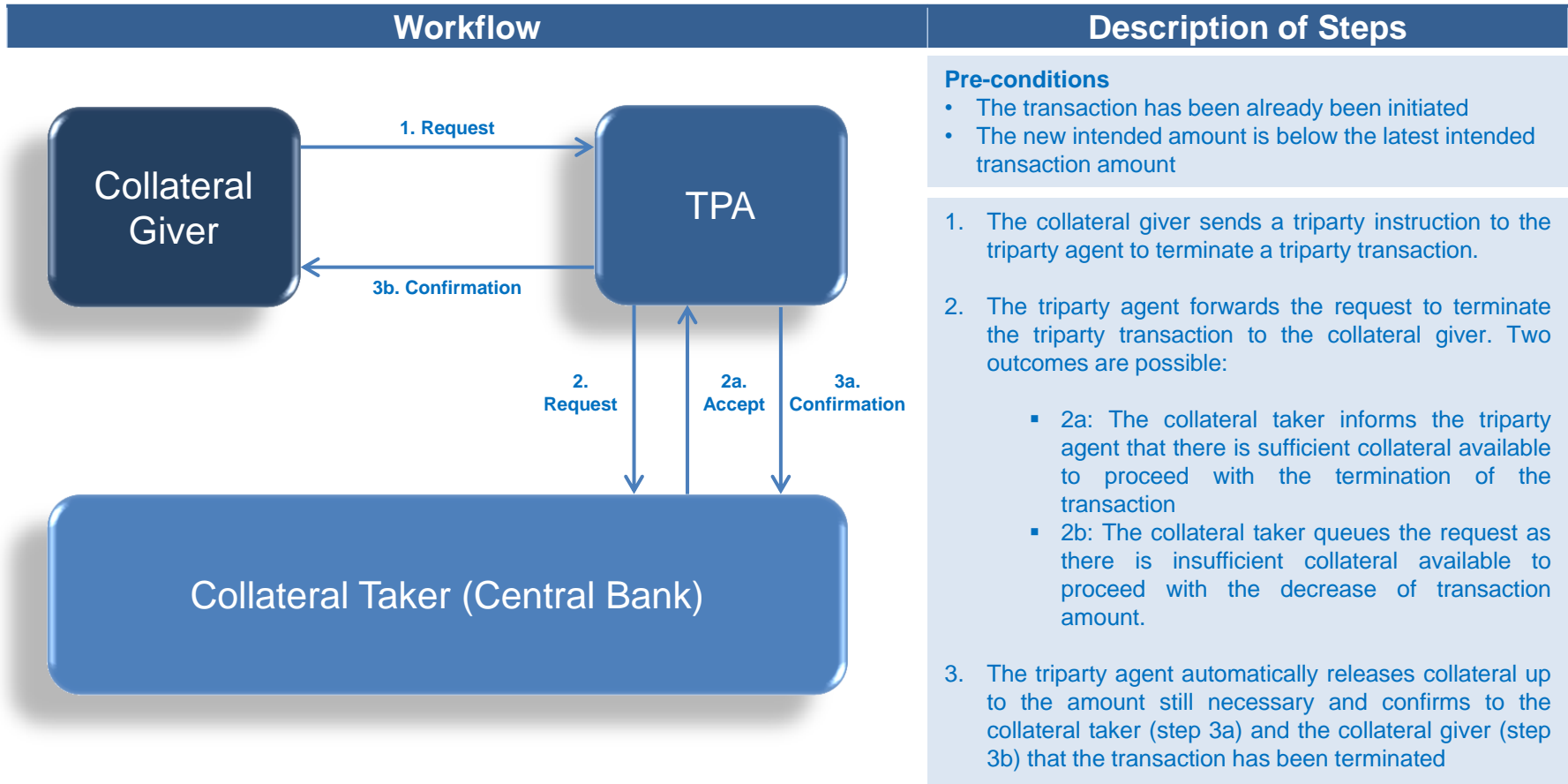1. The triparty agent sends an message containing the details of the collateral allocated at the ISIN level to the collateral taker (1a) and optionally the collateral giver (1b).

Collateral Giver

1b. Reporting

TPA

1a. Reporting

Collateral Taker (Central Bank)

The possibility to have a single reporting message containing information on stocks and on flows will be further analysed

Key Data Elements	Description of Steps

Reporting on Flows (Step 1)

Data Element	Definition	Represented in ISO Message Field*
Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Statement Basis	Indicator of the frequency with which the report is sent	:22F::STBA//
Activity	Indicates if there was activity on the account during the reporting period	:17B::ACTI//Y
ISIN	This field contains the identification and description of the financial instrument (ISIN or Common Code).	:35B::ISIN//
Quantity of Securities Valued	This field contains the quantity of collateral or loaned securities, with quantity type code FAMT for debt and UNIT for equities	:36B::SECV//
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

| Initiation of Transaction | Increase of Transaction | Decrease of Transaction | Revaluation | Cancellation | Unilateral Removal | Reporting on Stocks | Reporting on Flows | Data Exchange | Handling of Cash Proceeds | Closure of Transaction |

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This process describes a request from the collateral giver to the TPA requesting a termination of a triparty collateral transaction. The TPA sends the collateral giver's request to the collateral taker to check if the collateral giver may terminate the transaction and thus reduce the exposure amount to zero. After the check of collateral sufficiency the collateral taker sends a message to the TPA either approving or rejecting the request.

Workflow	Description of Steps

Pre-conditions
- The transaction has been already been initiated
- The new intended amount is below the latest intended transaction amount

1. The collateral giver sends a triparty instruction to the triparty agent to terminate a triparty transaction.

2. The triparty agent forwards the request to terminate the triparty transaction to the collateral giver. Two outcomes are possible:

   - 2a: The collateral taker informs the triparty agent that there is sufficient collateral available to proceed with the termination of the transaction
   - 2b: The collateral taker queues the request as there is insufficient collateral available to proceed with the decrease of transaction amount.

3. The triparty agent automatically releases collateral up to the amount still necessary and confirms to the collateral taker (step 3a) and the collateral giver (step 3b) that the transaction has been terminated

Key Data Elements	Description of Steps

Closure Request (Step 1)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Termination	Indicates that the instruction is related to the closure of a triparty transaction	:22H::CINT//TERM*
Termination Date	Indicates that the termination date of the transaction	:98A::TERM//
Transaction Amount	New Intended Transaction Amount (equal to zero)	:19A::TRAA//3!a15d
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

Closure Acceptance (Step 2)

Data Element	Definition	Represented in ISO Message Field*
TBD	TBD	TBD

Closure Confirmation (Step 3)

Data Element	Definition	Represented in ISO Message Field*
Sender's Collateral Transaction Reference	Unique reference identifying the collateral management transaction from the collateral taker's point of view	:20C::STCR//16x
Principal/Exposure Adjustment	Indicates that the instruction is related to a change of principal/exposure adjustment.	:22H::CINT//PADJ
Collateral Value	Value of collateral held	:19A::COVA//3!a15d
Transaction Amount	Intended Transaction Amount	:19A::TRAA//3!a15d
Transaction Status	Indicates if the transaction is fully covered (AOLF) or partially covered (AOLP)	:25D::TRAN//4!c
Party A	Instructing party sending the collateral instruction.	:95R::PTYA//[8c]/5!n
Party B	Counterparty of party A.	:95R::PTYB//[8c]/5!n

*The termination option or exposure set to zero option are available. Both will be supported with the appropriate code. The flows however remain the same