

AMI-SeCo HSG

Collateral Management Harmonisation

Task Force

Substream 3: Bilateral & Margin call

Version 3

25 October 2017

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STATEMENT OF WORK

Stream 3 - August 2017





Collateral agents Custodians (I)CSDs







Bilateral process

Bilateral collateral management has been developed as a mitigation technique to reduce counterparty risks between market participants entering into Over-The-Counter transactions



WHO?

Market participants entering into bilateral collateral agreements:

- Sell-side (Banks, Brokers)
- **Buy-side** (Asset Owners, Asset Managers, Corporates, Sovereign entities, etc.)



Bilateral process

COLLATERAL AGREEMENTS

Master agreements (GMRA, GMSLA, ISDA, etc.) + Eligibility matrices are signed between both parties of

a collateralised transaction (Repo, Securities lending, OTC derivatives, etc.)

	МТА	Minimum Transfer Amount				
	THRESHOLD	Level of unsecured exposure each party will allow the other before any call for collateral is made				
	NOTIFICATION TIME Means the cut-off to send/receive margin calls					
	ELIGIBLE CURRENCY	Agreed currency to exchange margins				
	ELIGIBILITY MATRIX	Specifies the type of collateral permitted: cash, government bonds, haircuts, etc.				
	INTEREST RATE	The interest rate in relation to the eligible currency				



Global Workflow (1)



Global Workflow - non cleared - variation margin



Note: reporting to be added

#	Description							
Trade	process (Trade date T) & valuation							
1	Client sends open trade population to BNP Paribas							
2	OTC prices are distributed to BNP Paribas Collateral Management							
Collat	Collateral Management process (T+1)							
3	 BNP Paribas Collateral Management team controls incoming positions (data checks) BNP Paribas Collateral Management platform calculates the net exposure at a portfolio / counterparty level Margin call notices are sent / received 							
4	 BNP Paribas Collateral Management team manages the daily margining process at a portfolio / counterparty level Margin call agreement with the counterparty 							
5	Cash & securities movements are instructed to the custodian							
Dispu	te process & reconciliation							
6	BNP Paribas Collateral Management team accesses to TriResolve for Reconciliation purposes (in case of dispute, and on a reactive basis)							
7	 BNP Paribas Collateral Management team performs a reconciliation of collateral movements between the collateral management systems and the custodian statements 							

Exposure and margin call calculation



Margin call



#	Case of Deliver / Return to Client
1	BNP Paribas sends a margin call notice to the counterparty before CSA notification time
2	Counterparty agrees / disputes the margin call
3	Counterparty advises to BNP Paribas the nature of collateral to be posted
4	BNP Paribas checks the eligibility of collateral to be received, then books the movement into its platform and generates the settlement instruction (see "collateral settlement")

#	Case of Deliver / Return to Counterparty
1	BNP Paribas receives a margin call from counterparty before CSA notification time
2	BNP Paribas checks with its own calculation and agrees / disputes the margin call
3	For deliveries to Counterparty, BNP Paribas either posts cash to the counterparty, or if securities need to be delivered, selects the appropriate securities.
4	BNP Paribas books the movement into the collateral management platform and generates the settlement instruction (see "collateral settlement")

Settlement



Dispute



#	Description
1	 BNP Paribas collateral management team agrees on the undisputed amount with the counterparty. The dispute amount will be subject to further investigation
2	 Dispute identification The collateral management team looks if there are differences between: Client and counterparty CSA terms (threshold, MTA) Collateral balances Exposure differences In case of issues with the CSA terms and collateral balances, the collateral management team re-validate the data (in analysing the CSA and the price feed)
3	 Portfolio reconciliation If there is a mismatch in term of exposure, the collateral management team will connect into a Portfolio Reconciliation Platform to prioritize the reconciliation of the OTC trades subject to a dispute (OTC derivatives uncleared) For other activities (SLAB, Repo) the reconciliation takes place via exchange of files by email The reconciliation process aims at reconciling the trade details and the valuation with client's counterparty.
4	Reporting • The collateral management team provides details on the dispute ("dispute report")

Reporting

TO BE DOCUMENTED

Complementary workflows - to be completed

- Between Market participants
 - Uncleared OTC: IM
 - Cleared OTC: IM & VM
- Banks <-> Central Banks
 - Euro Financing
 - CCP exposure coverage

Pre-existing working groups in the Industry

ICMA International Capital Market Association	÷	ISLA International Securities Lending Association		ISDA International Swaps and Derivatives Association	ISSA International Securities Services Association	
Repo		Securities Lending		OTC Derivatives	Securities Services	
Adam Bate / Pierre Lebel				Michael Payne	Helene Virello	
Collateral TF			Blue Print issued	2 reports issues 2014 &		
EPTF (see appendix)				Oct 18 2017 (see Appendix)	2016(available to members)	

Some issues which may fall outside the mandate of Group3, however important for the market participants

- Harmonisation of
 - Data
 - CCP margin mechanisms
 - Settlement sequencing
 - "Transatlantic" treatment of firms => promote alignment across jurisdictions
- Legal
 - Promote standardized documentation as much as possible
 - Collateral matrixes

Mapping of prioritisa	atio	Criticity 1 very critic	Criticity Implementation 1 very critical 2 highly 3 medium 1 very difficult 2 medium 3 eas			
Type issue (operational, legal, documentation, technical,)	Criticity	Harmonisation pro	oposal	Implement ation		Barrier to implement
Email exchanges for margin calls	1	Promote wider use of e platforms. As a general the working group will r a particular utility but w the interoperability betw various initiatives launc particular points of the chain	statement, not promote ill promote veen the hed at		(Acadiasoft, B industry needs players espec harmonization	s already active in this space loomberg/CloudMargin), but the s to address the cost issue for some ially buy-side, for complete the is mentioned this point is being some market participants
Email exchanges for substitutions implying operational risks and settlement issues	1	Promote wider use of e platforms. As a general the working group will r a particular utility but w the interoperability betw various initiatives launc particular points of the chain	statement, not promote ill promote veen the hed at		space. The co	owing interest from vendors in this ollateral group should liaise with the ions group which is tackling this
Cleared Derivatives : Connectivity between Clearers and Clients / Asset Servicers - no common framework implying substantial development requirements to integrate the reports (for reconciliation, payments) - Every onboarding is cumbersome as every clearer appears to have its own operational market standards as well. Upcoming EMIR deadlines for category 3 and 4 will imply a growing industry concern in this space.	1	Promote a "Minimum m standards" framework a Clearers and CCPs to I the information availabl users and its format	across narmonize	3		

Mapping of prioritisations 2-3

Criticity 1 very critical 2 highly 3 medium Implementation

1 very difficult 2 medium 3 easy

Type issue (operational, legal, documentation, technical,)	Criticity		Implement ation	Barrier to implement
Lack of convergence and harmonisation in information messaging standards This concerns all fields from Legal documentation to trade lifecycle management. See "Mappin MSG" for details	1	digitisation (in order to improve STP), harmonisation (or interoperability when full harmonisation is not possible) and standardisation (common identifiers should be a common basis) should be the guiding principles.	1	Proprietary standards: best is to push inter operability as suggested in the rest of this table
Regulatory reporting demand very large data flows that demand stringent data standardisation. Post-Trade reporting structure is too complex	1	digitisation (in order to improve STP), harmonisation (or interoperability when full harmonisation is not possible) and standardisation (common identifiers should be a common basis) should be the guiding principles.	1	

Mapping of prioritisa	atior	ns 3-3	Criticity Implementation 1 very critical 2 highly 3 medium 1 very difficult 2 medium 3 easy			
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Lack of standardization of documentation	2	Promote standardizatic documentation	on of	1	Difficult to achie needs to respo terms, dependi Point tackled at the impact of co to reach. Work go forward wou wide central H0 central party (s	eve 100% standardization as a CSA nd to some privately negociated ng on legal and risk/credit views. t ISDA (probably). EFAMA explains ollateral matrixes will make it difficult group agrees that a possible way to uld be to recommend an industry- QLA matrix administered by a till to be determined) - that the A could negociation parties would

PRIORITIES – PROPOSAL FOR DISCUSSION

Key principles for harmonisation

- Standardisation
- Interoperability
- Leverage existing infrastructures where relevant
- No barrier to entry for market participants
- Promote common standards across
 - Collateral operations
 - Underlying transactions
 - Actors

A pre requisite to the above is a common set of messaging:

Whatever the model, Bilateral or Triparty, whatever the underlying trade CB policy related or not, securities related or not, Messaging will relate to the same 8 types of messages



0-Legal documentation – 1-Trade execution – 2-Trade Affirmation – 3-Trade confirmation – 4 Trade reporting – 5 Settlement instructions – 6 Matching & Settlement status – 7 Lifecycle Management

COMPLEMENTARY ANALYSIS TO BE MADE

- SWIFT Presentation on Corporate Actions / Substitution
- Document other bilateral processes between market participants
- Form a sub-sub groups on Central Bank Bilateral Movements with / without CCP
- Glossary complement if needed the proposal made by Stream 1

- Planning and methodology
- Members of the stream
- Preexisting works
 - EPTF
 - ISDA
 - ISLA-ICMA
- Interactions with other streams

Planning and methodology



Participants to the Stream

BNPP (lead)	Hélène Virello
Bundesbank (secretariat)	Steffen Bruns
BNY Mellon	Peter Wijns
Deutsche Bank	Marko Niederheide
Citi	Michael Payne
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Eurex Clearing	Oliver Bartel
Société Générale	Pierre Lebel
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Clearstream	Marc Poisignon
Monte Titoli	Fernando Gilardi
Danske Bank	Mar Dennis Borella
ECB	Benjamin Hanssens, Michael Schroter, Gary McNamara, Joao Tiago Amaro
LCH	Caroline Collette-Jones
SWIFT	Cecile DESSAMBRE, Charles-Raymond BONIVER, Matthew COOK, Karine TAQUET
UBS	Sally Shackleton
DZ Bank	Frank Guenzel, Kristian Hartmann
LSEG	F. Gilardi
Bundesbank	Cantje Heikamp, Norman Isermann
Morgan Stanley	Adam Bate
Northern Trust	TBC
JP Morgan	Mikal Lovett

EPTF barriers



ISDA – "A Blueprint for the Optimal Future State of Collateral Processing" Oct 2017

TO BE DOCUMENTED SUBJECT TO ISDA PERMISSION

Interactions with other groups



TO BE DOCUMENTED

Interactions with other groups – stream 1 - similarities & differences with triparty _____



TO BE DOCUMENTED