

European Central Securities Depositories Association

8 March 2019

Attn: AMI-SeCo, CMH-TF secretariats

European Central Bank

Re: Input to the consultation on the CMH-TF harmonisation standards

Dear AMI-SeCo and CMH-TF secretariats,

The European Central Securities Depositories association (ECSDA) appreciates to possibility to contribute to further improvement of the AMI-SeCo on the Collateral Management Harmonisation Task Force (CMH-TF) draft standards.

ECSDA welcomes and supports the harmonisation efforts undertaken by the CMH-TF and we note that many of our detailed comments have been taken on board in the draft standards.

Although some of the issues that are fundamental in view of CSDs have not been incorporated in the standards yet. We would like hence to reiterate those issues that we deem most important and complement them with additional points that we deem would be useful in order to advance the work on the standards.

General remarks

1. Clarification of the scope

- We understand that the intention is to aim at a broad adherence to the future standards going beyond the needs of the ECMS project. The rulebook (new standards) are not only focusing on collateral instruments but also non-collateral assets. On the other hand, it states that it currently focuses on Eurosystem eligible debt instruments. In our view, it would be beneficial to clarify the scope of the instruments, markets and stakeholders that are expected to be covered and comply with the future standards. This clarification would be useful to provide views on that particularities that would need to be considered, including where the standards may need to include a notice of a possible deviation (e.g. with regard to events, timing of roll out etc.)
- In the CSD system, many of the elements needed in the processing of CA events are common for all securities, not only for debt instruments. Moreover, all processes for collateral eligible debt instruments are valid for all debt instruments. Hence, changes to existing CA processes must be analysed from a wider perspective both content and timewise. In the implementation phase, the resources available in depository participants' organisations must be taken into account. It is not realistic to assume that all harmonised processes will be in place in November 2022.

2. Substitution of collateral

- Instead of trying to solve all exceptions in a very short time frame (before November 2022), the right trade off should be found between substituting assets before occurrence of exceptional process (e.g. negative interest, non-EUR payment) and complex developments to handle exceptions. The relevant bodies (such as CAJWG, SMPG) with support of the ECB should work in parallel in defining standards process for those cases to progressively reduce the needs for substitution. This would keep those standards out of the critical path of ECMS. The substitution will in any case be required in some cases like for instance, taxable payments.

3. Timeline of compliance to consider different levels of priority

- We highly appreciated that the Standards include the information on the expected timing of compliance and who would need to take action to get in compliance. Although we would also much appreciate the clarification of the level of criticality of compliance for the purposes of ECMS and further guidance on the sense of urgency and priority for the rollout and compliance with different standards.

Specifically, we would encourage:

- first, ECB to advise on the classification of standards with regard to what is strictly needed in preparation of the timely rollout of ECMS;
- second, ECB to advise with regard to the second priority items - needed for the enhanced functioning of ECMS, although less critical to be delivered by the time of ECMS launch and whereby outstanding issues could be tackled through substitution of collateral, where relevant; and
- third, industry to agree on the timeline for ensuring compliance with relevant standards for the instruments/transactions beyond the needs of ECMS.

4. Legal enforceability and coherence with legislation

- As per our previous comments, we would highly appreciate having more clarity on the process of enforcement and validation of the standards.
- In addition, we would strongly advise to get buy-in from the issuer's community and lawyer firms in charge of writing Terms & Conditions (T&C). Examples where this would be relevant include decimals, Modified Following Business Days Convention (MFBDC), UNIT vs FAMT, as these will impacts T&C. This means that holders' consent might be requested. As this could not be achievable, the standards should be defined with enough flexibility to support existing securities T&C. Some of the new standards could then be limited to newly issued securities.
- Finally, we would like to stress that the proposed standards should be aligned with the relevant European and national legislation. For instance, pre-advice of reversal appears to be in breach of CSD Regulation (Regulation (EU) 909/2014), the payment at 6:00 will not let enough time to make required reconciliation, and MFBDC will change the security holder entitlement.

5. Need for co-existence of messaging standards

- We fully subscribe to the objective of having a single harmonised communication standard across European as the end state for European financial market infrastructure and we understand the rationale for the ECB to use the ISO 20022 standard in its own IT projects.

We will take efforts in order to get prepared to support it. At the same time, we note that the market participants (and here we primarily think about smaller market participants) are not ready to use the standards and would need a co-existence of the standards for a certain period of time (which shall have a clear and known sufficiently in advance end deadline).

- ECB is kindly asked to note that ECSDA has not validated the content of the message and expects that (i) the Standards would refer to the relevant SMPG documentation or (ii) the complete message specifications would be validated by the relevant stakeholders separately.

6. Additional validation through other bodies may be needed

- If the result of the AMI-SeCo/CMH-TF work is expected to set standards applying beyond T2S-in markets, in our view it would be prudent to validate and adopt the standards through a body representing equally T2S and non-T2S markets. Hence, an additional step may be needed in the process.
- This validation is also important to ensure that standards remain aligned with CAJWG, ISO, SMPG standards.

7. Decimals

- We support the 6 decimals on the interest rate applicable to a payment and similar rates announced in the CA notification. We, however, need more clarity on the ECB proposal: as it seems to mix different concepts (e.g. INTR vs PCAL and where is rounding applied).

More detailed feedback to Corporate Actions Harmonisation Standards

Standards

CA STANDARD 1

AMI-SeCo actors shall comply with the harmonised business process and workflows per CA event, as endorsed by AMI-SeCo.

ECSDA feedback

- We agree to support ECMS flows. Although, we should not expect a “big bang” migration to ISO20022 for all Corporate Actions flows. Based on our regular discussions, the market is not ready, and the coexistence is required to mitigate systemic risk resulting from non-readiness of participants.
- ECB should expand on the treatment of debt instruments subject to CA that are not listed in Section 4 of the document (e.g. substitution).
- A commitment to maintain standards according to the SMPG guidelines would be highly appreciated.

- RHDH event is relevant for some markets, even if seldom used yet. It usually applies to the issuers who have issued both shares and bonds and want to allow even bond holders to participate in EXRI for shares. Rights can be distributed in RHDH to the bond holders based on the holdings. With the rights the bond holders can participate in EXRI event and subscribe for shares. We expect that RHDH will be needed in the future.

CA STANDARD 2

AMI-SeCo actors shall include the necessary data elements in the corporate action notification which are required to calculate the expected payment amount and / or security movement.

ECSDA feedback

We request a commitment to maintain standards according to the SMPG guidelines. Also, implementation actors should include issuers and respective agents

CA STANDARD 3

The Issuer CSD shall ensure that ISO 20022 corporate action messages are sent to Investor CSDs in accordance with the CA Harmonisation Standards endorsed by AMI-SeCo. Investor CSDs shall remit this information in the same format as received from the Issuer CSD. The CA event type announced by the Issuer CSD must be supported by all CSDs/intermediaries who hold / may hold as investor securities accounts with the Issuer CSD.

ECSDA feedback

We agree that content-wise and processing-wise there should be full harmonization between the processes performed by CSDs in their Issuer and Investor- CSD roles. However, the coexistence of ISO standards is necessary and mandatory and sole usage of 20022 would not be sufficient.

CA STANDARD 4

AMI-SeCo actors shall adopt the rounding rules endorsed by AMI-SeCo when calculating cash and security movements. PCAL (Partial redemption by nominal reduction)

ECSDA feedback

ECSDA would appreciate further clarification of the Standards and would be ready to have dedicated discussions with the ECB about it.

PCAL (Partial redemption by nominal reduction)

Based on our experience, the calculation of capital to be redeemed for each single position through the application of a 6 digits rate, cannot ensure proper reconciliation of the amounts.

Actually, depending on the structure of the redemption plan, even if more decimals were used, a misalignment could take place. In order to avoid such issues, the amount to be redeemed should be computed through the reduction of the minimum tradeable amount which is communicated by the Issuer and ensure proper calculation and reconciliation (To be confirmed by SMPG in terms of adherence of reporting standards – using field 92F::Rate expressed as amount and 36A::MILT).

We agree with the description of the standard of the rounding rules. The example in Box 6 is an interest payment with amount per face value. Usually, the interest is announced as a percentage. In such a case, the face value has no importance. We would appreciate if ECB could add an example with a percentage.

INTEREST PAYMENT

For some securities, the calculation of the amount to be paid for interest is based on a rate which contains more than 6 decimals, sometimes even 12 decimals. We agree to apply rounding of the interest rate applicable for the payment (i.e. INTP reported in the CANO message) to 6 decimals, as long as this rounding is consistently applied and reported in the whole payment chain (including the issuers).

Also, it is preferable to align rounding with CAJWG standards (i.e. round-down).

CA STANDARD 5

Issuer CSDs shall announce as a nil coupon CA events where the underlying security has a fixed negative interest rate or floating coupon using the harmonised ISO 20022 message format. If a floor on the coupon is not possible, an automated and harmonised process based on offsetting should be introduced.

ECSDA feedback

In case of floor on the coupon, we see no issue (if this is foreseen in the T&C).

In case no floor coupon is applicable, the solution proposed is not in line with the CA standards endorsed by the CAJWG (e.g. PINK as well as bulking interest and redemption in one payment) and requires further analysis. If no consensus is reached, substitution of these instruments should be considered.

It seems that standard 5 allows to communicate negative cash flows in three different ways, so, in our understanding, there would not be a clear standardisation.

The pre-payment model: PINK is an interest payment in any kind except cash. So, the pre-payment model raises a redeemed in the securities which is not in accordance with the meaning of a distribution for the PINK CA.

The liquidity model: A pool factor should be necessary in the REDM in order to make the offsetting at the maturity date. This field is not included in REDM CAEV Key Data Elements.

PINK is not a correct event to be used in debiting negative interest. Other events PCAL, REDM and PRED could be TECHNICALLY used for debiting negative interest. However, information on the payment would be challenging via messages.

CA STANDARD 6

If the payment date of a corporate action falls on a non-business day (as defined in the ECB TARGET calendar), the payment shall be made on the next business day. If the next business day falls in the

following month and the terms and conditions of the issue require the payment to be made in the same month, then the payment date and the record date shall move back one day.

ECSDA feedback

We believe that the issue should be looked with a broader range of markets in mind (beyond Italy). Hence, ECSDA is consulting the members to understand the current market practices. Furthermore, if the Record Date (RD) is anticipated by one day, we see potential breaches with the T&C, hence implementation actors should also include issuers and respective agents. Additionally, the standard contradicts the international market claims standards (possibly resulting in a sizeable increase of bilateral market claims).

CA STANDARD 7

Securities amount data should be defined using nominal value for debt instruments (FAMT) and units for non-debt instruments (UNIT).

ECSDA feedback

We identified a potential impact on T&C for existing securities and would kindly advise to analyse it further. Hence, we recommend that implementing actors also include Issuers and respective agents.

CA STANDARD 8

For any corporate actions involving both cash and security movements, there should be a commonly agreed payment time. Euro cash proceeds should be sent at open for business of TARGET2 on the corporate action payment date.

ECSDA feedback

This standard is more restrictive than CA Standards of CAJWG that suppose that issuers should make payments as early as possible after opening of the payment system and no later than 12:00 p.m. (Issuer local time).

In terms of processing, we have concerns about the sufficient time to reconcile funds.

Following CAJWG cash settlement Standards, cash payments can be done no later than 12:00 p.m. So, in light of the above, we are not clear if this standard would be in line with the CAJWG standards.

CA STANDARD 9

In case the payment of a CA cannot be processed on the previously announced payment date, then all CSDs should inform the relevant parties of a delay in the processing of the CA payment.

ECSDA feedback

Implementing actors should also include issuers and respective agents, as the rationale for delay must be provided by them.

CA STANDARD 10

Actors in AMI-SeCo markets shall include a flag/indicator in the Corporate Action Announcement message to show that securities will be blocked if the relevant party instructs on the nominated CA option.

ECSDA feedback

We are unclear on whether the proposal is in line with CAJWG standards. In case they are not aligned, it may be difficult for ECSDA to subscribe to the proposed harmonisation agenda for this standard.

Otherwise, we recommend that blocked positions stemming from CA instructions are segregated accounting-wise through sub-balances or alternatively through a movement to another securities account. Blocking flag will be used at the discretion of the account servicer, as defined by events or internal / market rules.

We also note that the annex is not in line with the proposed standards (e.g. remove blocking at event level).

CA STANDARD 11

AMI-SeCo actors shall ensure that a default option is present in all CA events.

ECSDA feedback

There are some corporate actions for information purposes which do not have neither option number (CAON) nor CAOP. Are they compliant with CMH CA Standard 11?

CA STANDARD 12

Solicitation fees and consent fees to be credited / debited as a result of participation in an elective CA event shall be confirmed via a harmonised CA confirmation message, as endorsed by AMI-SeCo.

ECSDA feedback

There is no data included at the end of the following sentence (page 28): “The following data elements shall be included in the CA confirmation messages.” Should it be linked with key data elements of table 23 on page 58?

CA STANDARD 13

Reversal announcement should always be sent in due time and as minimum 2 days before the reversal is processed.

ECSDA feedback

The pre-advise time is not compliant with CSDR, for which same day reversal pre-advise and processing may apply.

Implementing actors should also include issuers and respective agents.

We believe that setting a minimum of 2 days from the notification to the processing of reversal could encourage issuers to correct the wrong settlement outside the CSD system. Therefore, in our understanding, a shorter period of time should be implemented in order to avoid the situation above.

CA STANDARD 14

Issuer CSDs shall notify and confirm the non-euro CA event in ISO 20022 containing the relevant information on the cash movements, i.e. the participant's cash account to which a payment will be/has been made, the amount, the payment date and currency (as mandatory field). The non-euro cash confirmation messages (to confirm cash movements) should be in ISO20022 (issued by the CSD/paying agent)

ECSDA feedback

For non-EUR payments, we see it difficult to enforce adoption of ISO 20022, as foreign Cash Correspondent Banks are involved. (And we wonder what would be expected volumes of ECMS eligible securities paying non-Euro proceeds?)

CA STANDARD 15

AMI-SeCo actors shall implement and support the usage of ISO 20022 messages for CA involving all collateral givers and collateral takers

ECSDA feedback

We would confirm that the standard applies within the framework of ECMS participants only and would be monitored for that purpose. We do not think that the standard shall interfere with the usage of ISO 20022 when this is not relevant for the purposes of ECMS.

Business Processes and Workflows

The document includes detailed information on parameters of each CA event. However, in some event descriptions some details are missing. (And, hence, the intention of this document is not clear to us: should it be used as a guide book for implementing events and processes or should several sources be used?)

Key Data Elements of Table 3 on page 39: seev.036 message should be used instead of seev.031 message

Key Data Elements of Table 11 on page 48: camt.054 message should be used instead of seev.054

Corporate action Events

General remark: It would be more practical and readable, if a distinction for mandatory corporate actions and for voluntary/ mandatory with options corporate actions in terms of key dates is added. So, record-date should be required for MAND CAEV and market deadline / response deadline for VOLU/CHOS CAEV.

- **BMET (page 66)**: As NOAC option is available, should BMET be considered as a mandatory corporate action?
- On page 66, BMET is marked as mandatory event but on page 124 as voluntary. It should be voluntary.
- **BMET and EXOF (page 66 and 88)**: Record-date should be included as Key Data Elements for BMET and EXOF.
- **EXOF, PARI and RHDl (page 88, 101 and 114)**: New ISIN should be included as Key data Elements for EXOF and PARI and RHDl.
- **INTR (page 94)**: According with the cash movement formula, INTR CAEV should be calculated with the INTR (Annualised Interest Rate) rather than the Interest Rate Used for Payment (INTP).
- **RHDl**: p. 114 record date is missing.
- **TEND (page 116)**: Market Deadline and Response Deadline should be included as Key Data Elements for TEND.
- p. 117 key dates are for mandatory tender offer. Voluntary and choice versions have more, deviating key dates.
- **WRTH**: p. 120 record date is missing.

Billing

BILLING STANDARD 1

(1)CSDs and TPAs shall provide billing information using a standardised ISO 20022 message.

ECSDA feedback

The collateral activity cannot be segregated from all other activity in the same account. To keep a consistent view, invoice messages would cover the entire activity for each account, with relevant fee details. We suggest segregating the fees linked to collateral activity by using specific service categories for it, rather than separate account.

For active accounts, this could represent a lot of data, and flexibility at the level of the "service items" to be reported would avoid providing unnecessary details.

BILLING STANDARD 2

(I)CSDs and TPAs shall providing billing information on a monthly basis covering the period from the first day of the month to the last day of the month inclusive.

ECSDA feedback

Monthly cycle is the only one that is supported, and it will be difficult to deviate from it. Very strict cut-off time are always possible for transactions that are spread over several days. Invoice data is also collected from various sources (different feeding systems to a consolidating billing system) that do not necessarily share same cut-off timing. Hence, some flexibility is required to cover such cases.

BILLING STANDARD 4

Clients of (I)CSDs shall remit cash payments on the 15th (or next business day of each month).

ECSDA feedback

This standard is not in line with contractual payment terms of some CSDs. The end of the month would be a more realistic deadline.

Triparty

ECSDA subscribes to the responses of individual CSDs to the consultation on draft standards.

The standards are assumed to be valid for any type of Triparty activity, although, in our view, this assumption is not correct.

There are indeed some issues related to the standards, such as the one related to the distinction between central bank and commercial activity: such distinction has disappeared and this is problematic, as some standards cannot be applied to commercial activity (e.g. repo, securities lending, etc.). For example, the standards propose to use unilateral matching for any transaction initiation. Also, following of the proposed standards would not be possible for repo transactions.

A number of items have not yet been discussed with the Triparty agents. This concerns in particular some of the operating conditions of ECMS (such as instruction deadlines, reporting cut-off times etc. - the report is fairly transparent point, noted as to be clarified) and the data exchanges between Triparty agents and ECMS (TPAs that are CSDs expect to have concerns around the messages that are proposed to be used, and it is likely that some data elements are missing).

Open questions

We use the opportunity of this consultation to raise other additional open questions:

- Does ECMS intends to open securities accounts in all CSD in order to manage the collateral?

- What is the relation between SMPG, SWIFT and ECMS as regards the content of CA events details and messages?
- Who decides about the changes to messages and event templates?
- How will the updates be synchronised in order to ensure that all documents are aligned?
- Will the securities not compliant with any of the standards become non-eligible for collateral purposes in the ECMS?
- As DKK is one of the currencies already available on T2S, we wonder if under the Standards, it is expected to follow the processes written for euro or rather for non-euro payments?

We would much appreciate to hear your views on our feedback and exchange with ECB/ CMH-TF/ AMI-SeCo further on the topic.