Welcome to Clearstream's Information Session

Implementation of AMI-SeCo SCoRE and ECB's ECMS

Triparty Collateral Management

25th May 2023

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Agenda

1   Background

2   Revised project planning

3   Functional specifications – Triparty Collateral Management

4   Xemac to CmaX migration

5   Client readiness activities

6   Q&A

Revisions since the client information session held on 25/05 indicated in ==yellow.==

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Background

SCoRE and ECMS
Introduction

- **What is SCoRE and why do we need it?**

  - The Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) set up the Harmonisation Subgroup (HSG) as part of the Eurosystem Single Market in Europe mandate, to foster harmonisation and integrated financial market infrastructures within the EU

  - The HSG established the Collateral Management Harmonisation Task Force (CMH-TF) to produce the Single Collateral Management Rulebook for Europe (SCoRE), initially focussing on 3 of 10 identified collateral management harmonisation areas[*]: Triparty Collateral Management, Corporate Actions and Billing
    SCoRE Standards can be found here: https://www.ecb.europa.eu/paym//intro/publications/html/index.en.html

- **What is ECMS?**

  - For Eurosystem Central Banks, ECB's Eurosystem Collateral Management System (ECMS) will manage eligible assets as collateral in Eurosystem credit operations, thereby establishing harmonised functions and services for the Eurosystem and its counterparties

  - Full details can be found here: https://www.ecb.europa.eu/paym/target/ecms/html/index.en.html

- **Both initiatives will be implemented on 8 April 2024[**]**

Note that SCoRE Standards apply also for non-NCB collateral positions (i.e., outside of ECMS)

** Note that AMI-SeCo agreed that SCoRE and ECMS should remain aligned, thereby delaying the implementation of SCoRE also to 8 April 2024

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SCoRE and ECMS

The story so far

- **SCoRE Standards**

  - Drafting started in 2017

  - First publications in December 2019 for Triparty Collateral Management, Corporate Actions and Billing

  - Updates published in June 2021 for Triparty Collateral Management and Billing, and December 2021 for Corporate Actions

  - A further update to Corporate Actions standards is planned to be published in H1 2023

- **ECMS**

  - Originally implementation date November 2022

  - Revised to November 2023 in October 2020

  - Revised to 8 April 2024 in December 2022. Revised test schedule releases end January 2023

- **Impacts for Clearstream and LuxCSD clients**

  - SCoRE is not regulation, directive nor law. However, it does provide market practice guidelines for TCM, CA and Billing, which Clearstream and LuxCSD will comply with as far as possible

  - ECMS will provide a centralized platform for Eurosystem collateral management and as such, will impact banks pledging collateral to NCBs

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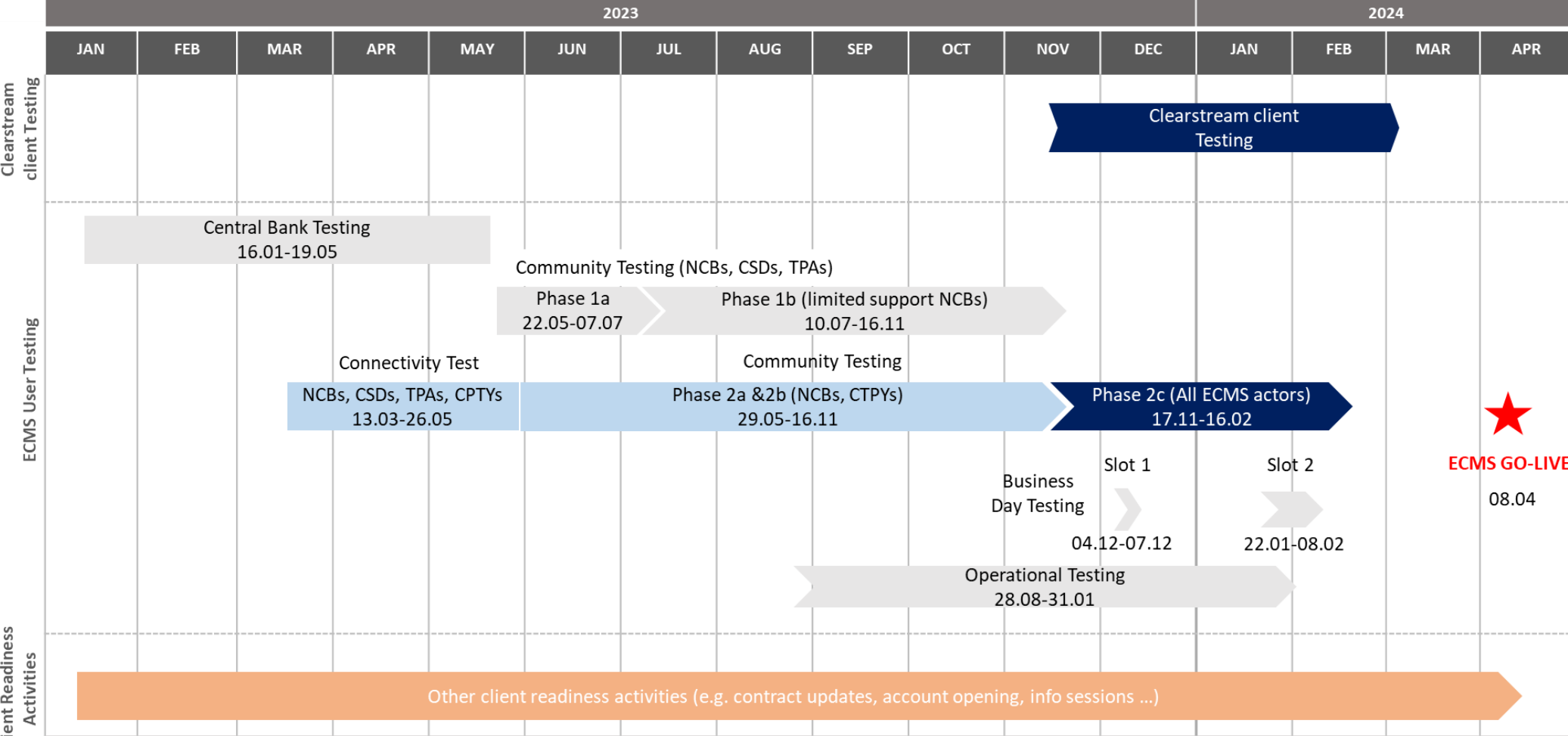
SCoRE and ECMS
The story so far

- **Clearstream and LuxCSD**

  - Members of TCM and AS Expert Groups

  - Functional Specifications for SCoRE and ECMS originally published August 2022, now updated
    https://www.clearstream.com/clearstream-en/strategy-and-initiatives/integrating-with-ecms/ecms-and-score-implementation

  - Mandatory change kept to a minimum

  - We are on track for the start of full community testing in November 2023, and for the go live in April 2024
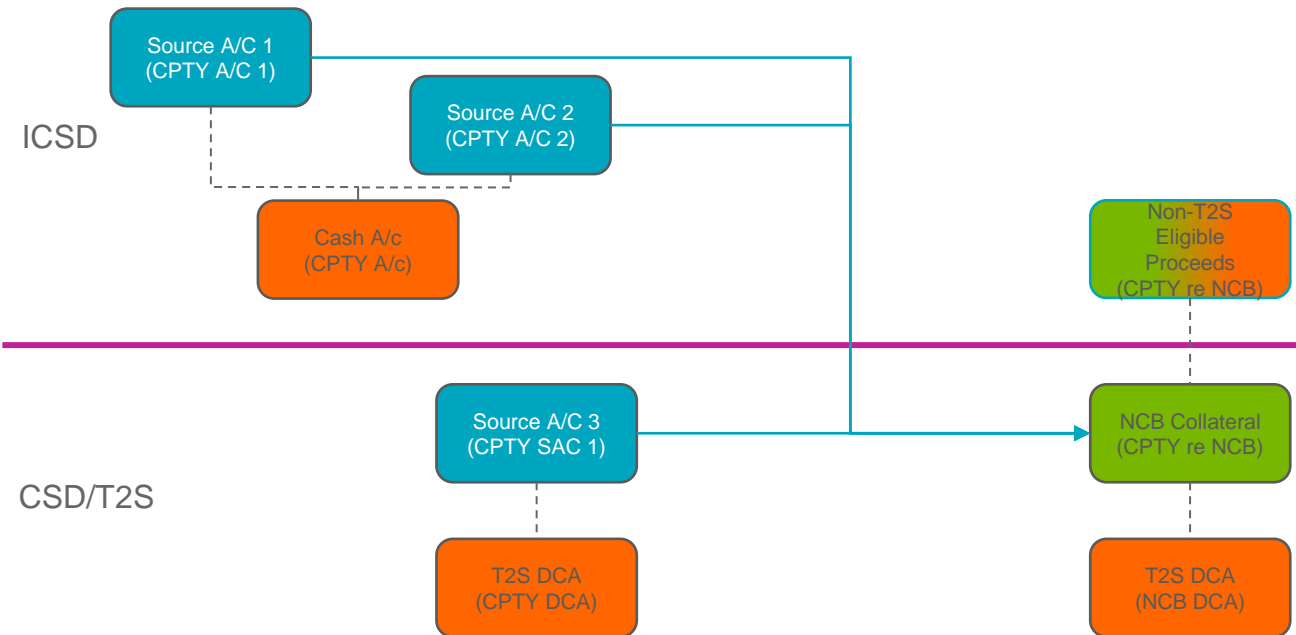
SCoRE and ECMS
Revised project planning

	2023											2024			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR

Clearstream client Testing

Clearstream client Testing

ECMS User Testing

Central Bank Testing
16.01-19.05

Community Testing (NCBs, CSDs, TPAs)

Phase 1a
22.05-07.07

Phase 1b (limited support NCBs)
10.07-16.11

Connectivity Test

Community Testing

NCBs, CSDs, TPAs, CPTYs
13.03-26.05

Phase 2a &2b (NCBs, CTPYs)
29.05-16.11

Phase 2c (All ECMS actors)
17.11-16.02

⭐ **ECMS GO-LIVE**
08.04

Slot 1

Slot 2

Business
Day Testing

04.12-07.12

22.01-08.02

Operational Testing
28.08-31.01

client Readiness Activities

Other client readiness activities (e.g. contract updates, account opening, info sessions …)

Legend:
- ECMS testing, clients not involved
- ECMS testing, between NCBs and CTPYs
- Clearstream client testing
- Other client readiness activities, clients involved

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Functional Specifications – Triparty Collateral Management

Functional Specifications – Triparty Collateral Management
Account set-up

ICSD

Source A/C 1 (CPTY A/C 1)	
Source A/C 2 (CPTY A/C 2)	Non-T2S Eligible Proceeds (CPTY re NCB)
Cash A/c (CPTY A/c)	

CSD/T2S

Source A/C 3 (CPTY SAC 1)	NCB Collateral (CPTY re NCB)
T2S DCA (CPTY DCA)	T2S DCA (NCB DCA)

■ Securities account   ■ Cash account   ■ New securities account (example accounts shown in brackets)

Key Characteristics

- The account structure after the implementation of the ECMS will change insofar as Central Bank model **collateral accounts will have to be held in T2S**.

- For the Triparty Collateral Management activity, **segregated accounts will be used:** a Pledge Account will need to be opened in T2S for each CBF client pair (client/Bundesbank) and for each LuxCSD client pair (client/Banque Centrale du Luxembourg).

- Securities being pledged will be transferred **from source accounts to the pledge account**. The legal owner of the pledge account is the Collateral Giver, despite its linked cash account being that of the NCB.

- The **current substitution processes will continue** (that is, for all events except tax-free income payments).

- Additional **accounts will also exist in CBL and CBF-i, outside of T2S, for the crediting of non-T2S eligible proceeds**. These accounts will also be legally owned by the Collateral Giver (note: the process and account structure for handling non-T2S eligible proceeds is still under discussion with the NCBs).

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Functional Specifications – Triparty Collateral Management
Message format (1/2)

Clearstream Banking / LuxCSD will offer ISO 20022 messaging capability, as part of this implementation:

- Clearstream Banking / LuxCSD will **continue to support ISO 15022 message standards, whilst developing ISO 20022 concurrently**, in order to comply with SCoRE.

- Clearstream Banking / LuxCSD intends to minimise impact to market participants as far as possible, and therefore **coexistence of ISO 15022 format will be ensured**.

- Clients will therefore not be immediately required to communicate with Clearstream Banking / LuxCSD using ISO 20022. However, **some new ISO 20022 messages may not be available in other formats, or ISO 15022 equivalents may have reduced content in comparison**.

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Functional Specifications – Triparty Collateral Management
Message format (2/2)

This section provides details in line with SCoRE Triparty Standard 1: ISO 20022 messages for triparty collateral management

SCoRE Triparty Collateral Management Message	ISO 20022 Message	ISO 15022 Message Equivalent
Instruction cancellation request	Colr.005	MT527
Transaction instruction	Colr.019	MT527
Transaction instruction processing advice	Colr.020	MT558
Allegement	Colr.021	MT558
Collateral and exposure report	Colr.022*	MT569
Status advice	Colr.023**	MT558
Cancellation of allegement	Colr.024	N/A
Unilateral removal request	Reda.074	N/A
Collateral data status advice	Reda.028	N/A

Clients wishing to communicate with Clearstream Banking / LuxCSD in ISO 20022 for Triparty Collateral Management will need to sign up to the ECMS Triparty Collateral Management CUG until the ECMS aligns their message versioning to the registered messages.

* Colr.022: will be available in full or delta mode (delta mode will include positions reduced to zero, post settlement, even for closed exposures) and frequency of subscription will be higher than the MT569, with reports every 15 minutes.

** Colr.023: clients will have the option to get more frequent updates. With this option, between the first allocation and full allocation, clients will get an update at every change in the settled collateral amount.

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Functional Specifications – Triparty Collateral Management
Initiation, increase and decrease of a triparty transaction

This section provides details in line with SCoRE Triparty Standard 2: initiation of a triparty transaction; SCoRE Triparty Standard 3: increase of a triparty transaction; SCoRE Triparty Standard 4: decrease of a triparty transaction

Impact type	Description
NEW	Clients may create, increase or decrease triparty collateral management transactions using the following ISO 20022 messages: ▪ **Transaction initiation using colr.019 with instruction type INIT.**[*] ▪ **Transaction increase or decrease using colr.019 with instruction type PADJ.**
NEW	In case of rejection, the sender receives **rejection feedback via colr.020 with instruction status RJCTD**.
NEW	If the sender's original instruction is unmatched: ▪ The counterparty receives an **allegement request for initiation using colr.021**. ▪ The sender receives an **unmatched instruction feedback via colr.020 with matching status UMTCHD**.
NEW	If the instruction is matched, the sender receives a **matched instruction feedback via colr.020 with matching status MTCHD**.
NEW	Once the value date is reached, the sender receives an **instruction status advice via colr.020 with processing status PRCD**.
NEW	Once the value date is reached, the sender will receive an allocation and settlement status message via **colr.023.** This applies when the transaction is both partially and fully collateralised. If the counterparty has registered for unilateral instruction set-up, the counterparty also receives an **allocation and settlement status message via colr.023**.

* Triparty transactions are set up in the ECMS by the National Central Bank user, using the agreed Common Transaction ID. The same Common Transaction ID must be used in any instruction sent by the counterparty to the TPA and in the reporting sent to ECMS.

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Functional Specifications – Triparty Collateral Management
Cancellation of a triparty instruction and closure of a triparty transaction (1/3)

This section provides details in line with SCoRE Triparty Standard 6: Cancellation of a triparty transaction; Standard 10: Closure of a triparty transaction

A request for cancellation of a triparty instruction must be communicated as below:

Use case	ISO 20022	New ISO 15022	Former ISO 15022
For unmatched participants	Colr.005	MT527CANC	MT527CANC
For matched participants for future value date	Colr.005	MT527CANC	N/A

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Functional Specifications – Triparty Collateral Management
Cancellation of a triparty instruction and closure of a triparty transaction (2/3)

This section provides details in line with SCoRE Triparty Standard 6: Cancellation of a triparty transaction; Standard 10: Closure of a triparty transaction

A request for a closure of a triparty instruction must be communicated as below:

Use case	ISO 20022	New ISO 15022	Former ISO 15022
Open exposure for current value date	Colr.019TERM	MT527TERM	MT527CDTA
Open exposure for future value date	Colr.019CDTA	MT527CDTA	MT527CDTA

Impact type	Description
CHANGE	Action "**Cancel Unmatched" will be renamed "Cancel Instruction"** and it will be allowed on **unmatched instructions (no change) and on matched instructions, provided the value date of said instruction is in the future**.
CHANGE	All Decrease of Transaction Instructions that remain unmatched at end of day will be automatically cancelled.

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Functional Specifications – Triparty Collateral Management
Cancellation of a triparty instruction and closure of a triparty transaction (3/3)

Feedback process following a colr.005 for ISO 20022 users

Impact type	Description
NEW	If the message is rejected, the sender receives **rejection feedback via colr.020 with instruction status RJCTD**.
NEW	If the message is validated, the sender receives a **cancellation status advice via colr.020** and the counterparty receives an **unmatched status advice via colr.020.** Where this is a pending allegement, the counterparty also receives **a cancellation of an allegement instruction via colr.024**.

Feedback process following a colr.019 for ISO 20022 users

Impact type	Description
NEW	If the message is rejected, the sender receives **rejection feedback via colr.020 with instruction status RJCTD**.
NEW	If (1) the sender's original instruction is unmatched and (2) the sender does not register for unilateral instruction set-up: ▪ The counterparty receives an **allegement request for change of closing date via colr.021**. ▪ The sender receives an **unmatched instruction feedback via colr.020 with matching status UMTCHD**.
NEW	If the instruction is matched, the sender receives a **matched instruction feedback colr.020 with matching status MTCHD**.
NEW	Once the exposure is closed, the sender receives an **instruction status advice via colr.020 with processing status PRCD**.

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Functional Specifications – Triparty Collateral Management
Unilateral removal of a triparty transaction

This section provides details in line with SCoRE Triparty Standard 7: Unilateral removal process (only available in ISO 20022)

Impact type	Description
NEW	Either party to a transaction may initiate **unilateral removals by sending a reda.074 message** for specified assets and transactions.
NEW	If the message is rejected, the sender receives **rejection feedback via reda.028**.
NEW	If the message is validated and after the removal process is complete, both the sender and the counterparty will receive an **acknowledgement of removal request confirmation via reda.028**.

Functional Specifications – Triparty Collateral Management
Operating schedule

This section provides information regarding the operating schedule of the TPA in relation to the ECMS activities

Impact type	Description
NEW	**Any triparty instructions related to an ECMS activity to be processed the same day must be received by the TPA by 17:00 at the latest**. ▪ Instructions received by the TPA up to 17:00 in the intended day of settlement will be processed. ▪ Instructions received after this time for same day settlement will be rejected.

Xemac to CmaX migration

Xemac to CmaX migration
Overview

Phase 1	Phase 2	Phase 3
Bilateral discussions	**Readiness**	**Migration**

Initiation

Clearstream will contact current Xemac users bilaterally to discuss migration details and documentation needs. Clients will then receive subscription pack tailored for their needs (pre-filled where possible) .

Xact set up and staff training

Clients' Xact administrator provides the impactes staff with access rights to the Collateral management module. Staff training will take place via Clearstream. Clients finalise reporting subscriptions with the support of Clearstream.

Positions transfer

All pledged positions earmarked in favour of Deutsche Bundesbank will be migrated to the new account structure in T2S, as part of the cut-over.

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Xemac to CmaX migration
Readiness for TPA NCB Pledges

The following steps will need to be followed to ensure readiness for TPA NCB Pledges in the context of ECMS; clients will be contacted individually

1   **CBF / LuxCSD onboarding (CSD)**[*]

2   **CBL onboarding (TPA)**[*]

3   **CmaX onboarding**

4   **Sign-up for BundesBank/BCL Pledge, incl. Pledge account opening and CmaX setup**

5   **Pledge accounts tax exemption**

6   **Xact Web Portal Organisational Units setup**

7   **Reporting setup**

* If applicable

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Client Readiness Activities

Client Readiness Activities
Overview

ECMS - SCoRE Business Readiness Planning					2023								2024				
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Fev	Mar	Apr	May

Project Timeline 2023-2024

Overall project																	
Specification phase																	
Client testing																	
Implementation															8.04		

Client Readiness

Client Information Sessions				Introduction/Funct. Specs.			Testing							Migration		
Client Bilateral Workshops																
Triparty Collateral Management (Xemac users)																
Client Functional Documentation																
Detailed functional specifications (CBL/CBF/LuxCSD)																
Issuer impacts																
Client Testing																
Detailed test guide																
Testing registration and set up																
Migration and Launch Preparation																
Migration guide																
Post Migration																
Client handbooks and other documentation																
Client queries handling via ECMS.Programme@clearstream.com															Post-migration support	

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Misc and Q&As

Thank you for your attention!

Questions can be always raised via email:

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