SCoRE

Triparty Collateral

Management

Rulebook

2021 update

Single Collateral Management Rulebook for Europe
common rules for managing collateral

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Agenda

Topics:

- Overview of updates: SCoRE Triparty Collateral Management Rulebook

- Specific topics:
  - Reporting of Common Transaction ID
  - Cancellation of future matched instructions
  - Modification handling
  - Modifiable attributes

- SCoRE update (Written consultation: 8 March 2021 until 9 April 2021)

Overview of updates

1. Update of list of ISO 20022 messages.

2. Update of key data elements to align with latest versions of ISO 20022 messages.

3. Inclusion of message path in key data elements tables to provide further clarity on the exact placement of the data element in the relevant ISO 20022 message.

4. Update of section 1.1 to include additional details on Modification and Reporting processes.

5. Update of the background text in section 2 to reflect Expert Group clarifications.

6. Update of Section 4 to include the updated list of messages and the message registration timeline.

7. Addition of new annexes to include details on code usage (Annex 4) and use cases illustrating how to handle various scenarios which may occur during the lifecycle of a transaction (Annex 5).

Common Transaction ID

- <u>Market practice for the usage of the Common Transaction ID (CTI).</u>
  - If not provided: match the instruction
  - If provided: by both must match
  - If one party provides the common identification and the other party does not: match the instructions

  The CTI should only be reported to the party who has sent it, or to both if both have sent it.

Cancellation of future matched instructions

- A series of cancellation scenarios have been identified by the BVG. The scenarios currently foresee that a cancellation is put on hold for a future matched instructions until a cancellation request is received from the counterparty. This process must be reviewed.

TPA view: TBC

1. Allow unilateral cancellation

- For future dated matched instructions a party A is free to cancel its instruction at any time so even if matched it can be unilaterally cancelled. If cancelled by mistake then they just reinstruct. The notification through the colr.020 is just for information only. If it is considered as a valid trade then trade desks will sort it out. In this context then the scenario of the cancellation of a cancellation does not stand. Impact on the client is important if cancellation must be bilaterally agreed. Keeping unilateral makes the process simpler.

2. Require bilateral agreement to cancel

- As per the above scenario the cancellation is on hold and therefore the original cancellation could have been cancelled.

Modification handling

- Discussion on whether single vs. multiple modifications should be allowed, (a related question has been raised in the SWIFT BVG) for which guidance is required.

- The question is whether receipt of a new instruction should be treated (i) as an implicit cancellation of an earlier instruction which remains pending or (ii) whether all instructions should be processed as received. [In general TPAs who allow modifications of multiple attributes in a single instruction tend to follow approach (i) while TPAs allowing only one modification per instruction follow approach (ii).]

  ➢ Fact-finding on current TPA practices has been collected and will be analysed by the Expert Group

Modifiable attributes (1/3)

- It is possible to modify certain attributes of the triparty transaction during its lifecycle. A set of modification types have been defined for this purpose as listed in the table below.

Purpose	Description	Identifier
Rate Adjustment	Change to the rate used in the underlying transaction	RATA
Margin Adjustment	Change to margin. Used in DVP securities lending transactions in order to perform a free of payment principal adjustment.	MADJ
Closing Date Adjustment	Change of the closing date. Must be sent in advance of the closing date.	CDTA
Collateral Adjustment	Change to collateral. Used when collateral giver manually allocates the securities to the transaction (never sent or received by the Collateral Taker)	CADJ
Automatic Allocation Adjustment	Automatic / manual settlement adjustment to change the collateral allocation mode from manual to automatic or vice versa.	AADJ
Data Adjustment	Change of other data not listed above. This covers changes to the following attributes: TBD: A 'POSITIVE LIST' OF ATTRIBUTES WHICH MAY BE MODIFIED USING THE DADJ	DADJ

Objective: Define the common minimum positive list of attributes that can be modified whatever the product (positive list) and the ones that cannot be modified (negative list). If an attribute is on the negative list, then the changes are considered so fundamental that you would have to cancel/terminate the transaction and rebook.

Modifiable attributes (2/3)

- Broad consensus on the set of attributes for which modification should <u>not</u> be possible.

Purpose	Description
Exposure Type	Specifies the underlying business area/type of trade causing the exposure.
Collateral Side	Specifies whether the client is the collateral taker or giver.
Collateral Transaction Type	Specifies the type of collateral instruction.
Eligibility Set Profile*	Number identifying the collateral eligibility set profile of the counterparty.
Collateral Parties	Identifies the chain of collateral parties.
Triparty Agent*	Party that handles tri-party transactions.
Transaction Currency	Amount of the principal.
Termination Currency	Amount of principal plus interests at termination.
Day Count Basis	Specifies the computation method of (accrued) interest of the financial instrument.
Requested Execution Date	Date/time at which the instructing party requests the instruction to be executed.
Transfer Title	Change of title for the collateral. If N then collateral is pledged.
Compound Simple Accrual Calculation	Specifies whether the interest calculation method is simple or compounding.
Interest Payment Delay	Number of days after the accrual payment is due.
Look Back Days	Number of days prior to the current day to source the rate.
Crystallisation Date – Day	Fix of the penultimate accrual date of the transaction to the final (repurchase) date. Crystalizing the penultimate fixing into a fixed rate for the final business day. This will allow for parties to send timely settlement instructions for the repurchase leg of the transaction. Default value is 1 day. If not 1 then crystallisation period must be used.
Crystallisation Date – Period	Number of days prior to the accrual date of the transaction to the final (repurchase) date.
Overnight Frequency Rate Fixing	Indicates for a floating rate transaction if an overnight frequency rate fixing should be applied. If not present, a periodic fixing frequency will be applied (default is N).

Modifiable attributes (3/3)

TBC!!!: A common list of attributes which can be modified (also taking into account new data elements added in the ISO 20022 messages)?

	BNY Mellon	Clearstream	Euroclear
ClientCollateralTransactionIdentification	Y	Y (via UI only)	Y*
CommonTransactionIdentification (NEW)	Y	Y (via UI only)	
PreferentialBasketIdentificationNumber	Y*		Y*
FallbackStartingBasketIdentification			Y*
ExclusionBasketIdentification			Y*
Priority			Y*
AutomaticAllocation			Y*
EligibilitySetProfile	Y (subject to indiv TPA guidelines)		
MinimumNoticePeriod	Y		
ClosingDate	Y (subject to indiv TPA guidelines)	Y	Y
TransactionAmount (not currency)	Y	Y	Y
Termination Amount (not currency)	Y		Y
PaymentFrequency	Y	Y (via UI only)	Y
TransactionAmountBreakdown	Y*		
PricingRate	Y	Y	Y
Spread	Y	Y	Y
OptionType	Y		
TerminationOption	Y		
TradeDate	Y		
InterestPaymentDelay (NEW)	N	TBD***	N
LookBackDays (NEW)	N	TBD***	N
CrystallisationDate - Day (NEW)	N	TBD***	N
CrystallisationDate - Period (NEW)	N	TBD***	N
OvernightFrequencyRateFixing (NEW)	N	TBD***	N
RateIndexCurrency (NEW)	N	TBD***	N
Tenor (NEW)	N	TBD***	N

BNYM - If we aren't allowing the rate index currency or tenor to be modified then we shouldn't allow the rate index to be modified either? If pricing rate is a fixed rate then modification is allowed.

Euroclear: Our view is that a client should be able to change the level of the interest rate by changing the pricing rate or spread fields, but that all other modalities for the calculation of the rate should be fixed for the duration of the trade.

BNYM: We agree with Euroclear that if a clients wants to modify these fields they should terminate and reinstruct

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SCoRE update

- The SCoRE Triparty Rulebook has been updated to reflect the outcome of the discussions in the SWIFT weekly calls together with any guidance issued by the Expert Group since the first version of the Rulebook was published in December 2019.

- The Rulebook updates will be finalised on the basis of written feedback.
  - Review cycle from Monday 8 March to Friday 9 April.

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