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Eurosystem Collateral Management System

A new European Collateral Management framework

MAKING AN
IMPACT THAT
MATTERS
since 1845

"With the ongoing consolidation of #TARGET2 and #T2S and the development of a Eurosystem Collateral Management System, we try to address market demands in terms of liquidity and collateral management"

Mehdi Manaa,
Deputy Director General-Market Infrastructures and
Payments – European Central Bank 2019

Contents

Main Features

Eurosystem Collateral Management System (ECMS)

The Eurosystem Collateral Management System (ECMS) is an European Central Bank project which establishes the creation of an harmonized Collateral Management technical platform shared between the 19 National Central Banks for Eurosystem credit operations:
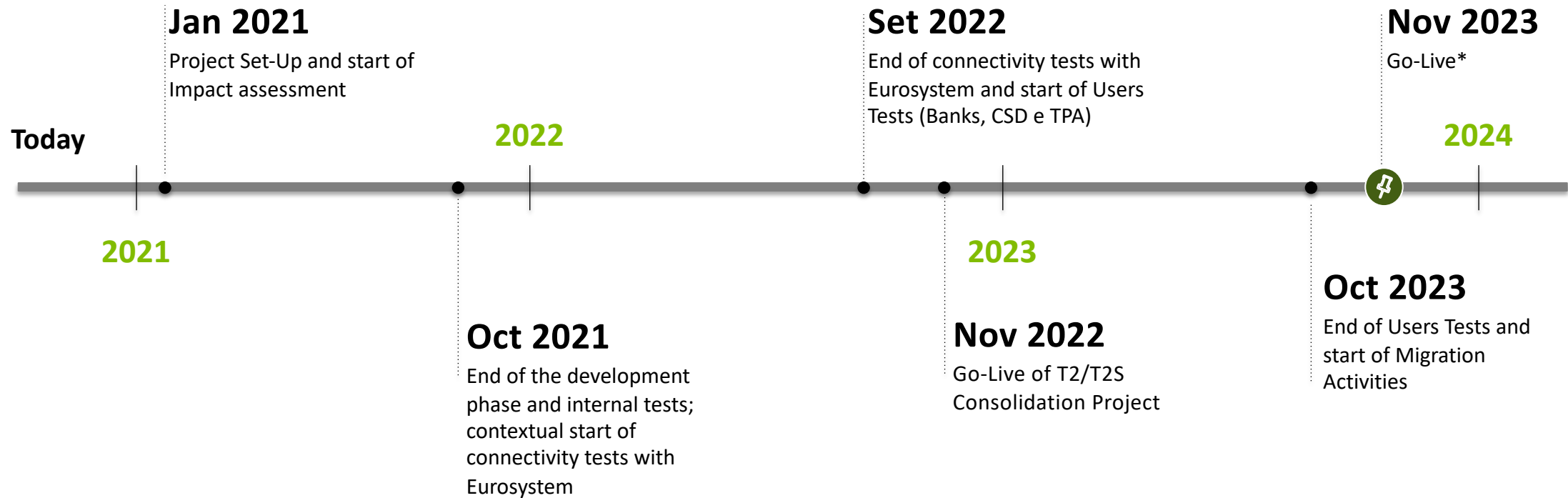
- **Monetary Policy Operations**

- **Intraday credit operations** on Target2 (T2) / Target2Securities (T2S)

The initiative is included in **the Vision 2020 program**, the Eurosystem's evolutionary strategy for the development of market infrastructures, aimed to achieve the full integration of the European financial market.

The consolidation of the technical, application and infrastructural components aims to improve the usability of the services offered to counterparties, to ensure **high security levels** in line with **best practices and international standards**.

Road-Map

Jan 2021
Project Set-Up and start of Impact assessment

Set 2022
End of connectivity tests with Eurosystem and start of Users Tests (Banks, CSD e TPA)

Nov 2023
Go-Live*

Today

2021

2022

2023

2024

Oct 2021
End of the development phase and internal tests; contextual start of connectivity tests with Eurosystem

Nov 2022
Go-Live of T2/T2S Consolidation Project

Oct 2023
End of Users Tests and start of Migration Activities

ECMS Objectives

A technical platform shared between the 19 National Central Banks for an harmonized Collateral Management

Increase of **operational and economic efficiency** through the creation of a single system for Collateral Management

Contribution to the **financial** integration and the promotion of **Capital Markets Union**

Single and simultaneous **Collateral Management framework** implementation **for all National Central Banks**

Single System for **managing asset** pools used as collateral in Eurosystem credit operations

Before the ECMS:

19 collateral management systems

From November 2023:

1 Unified system
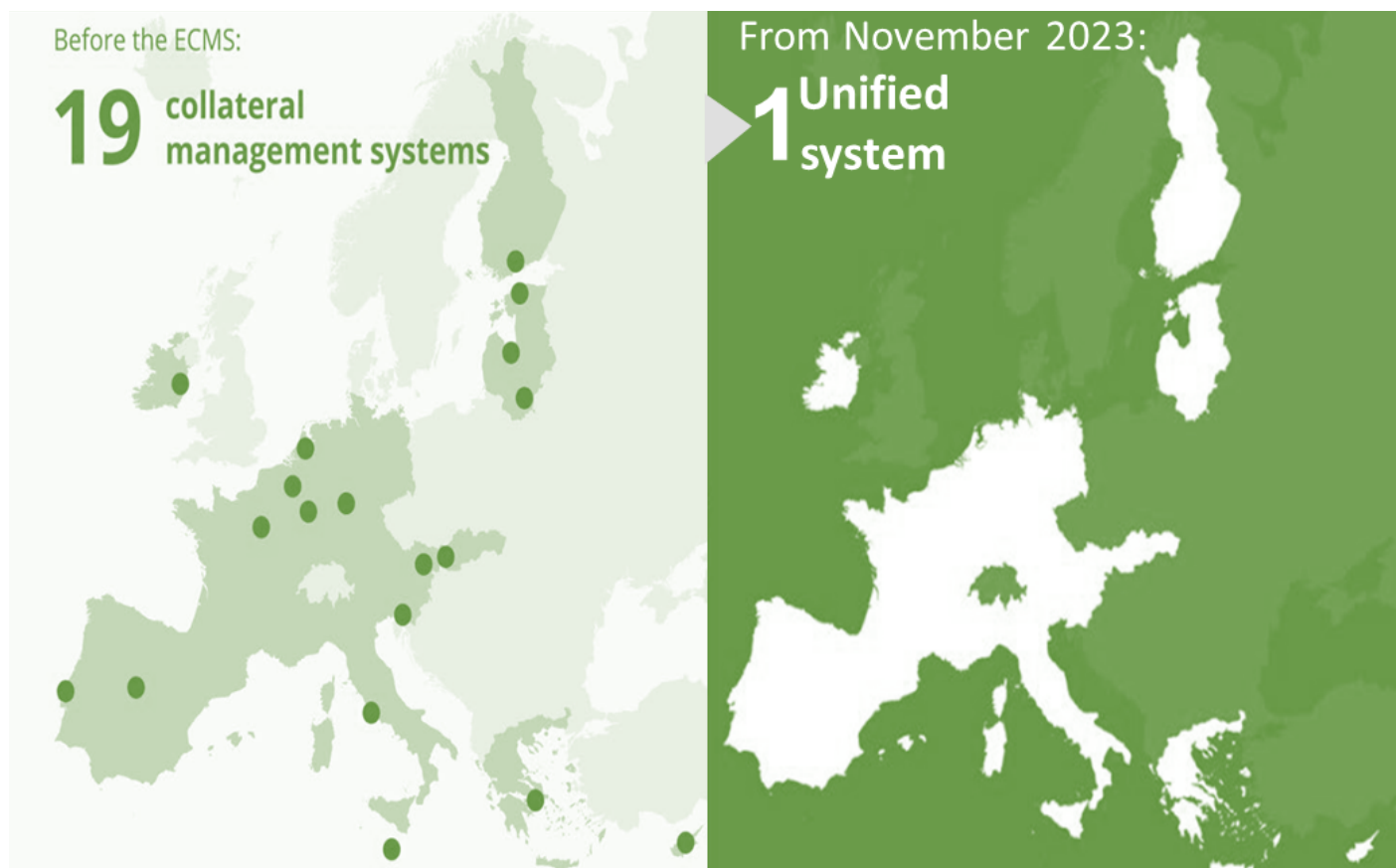
ECMS Functionalities

Technical features

The **Collateral Pool Management** for Eurosystem credit operations carried out by the National Central Banks **will be centralized on the ECMS platform**.

The new process is based on the use of the ESMIG Single Gateway for connection with T2 / T2S, Counterparties, CSD and Triparty Agent through the Network Service Providers SIA / COLT and SWIFT with **standard ISO 20022 protocol**.

Account Structure

National Central Banks **create and configure**, within the ECMS, for each counterpart:

- Different **Asset Accounts** for negotiable assets and credit claims used as collateral.

- Col**lateral Pools*** which provide a complete overview of the Collateral Position, Credit Position and Credit Line of the Counterparty.

Collateral & Credit Management

The counterparties will be able to buy back any excess collateral in the pools directly on the ECMS platform and automatically **increase the credit line in the intra-day credit market on T2 / T2S**.

It will be possible to fix the maximum credit line by automating the process of changing the Credit Line in CLM against a change in the Credit Line in ECMS.
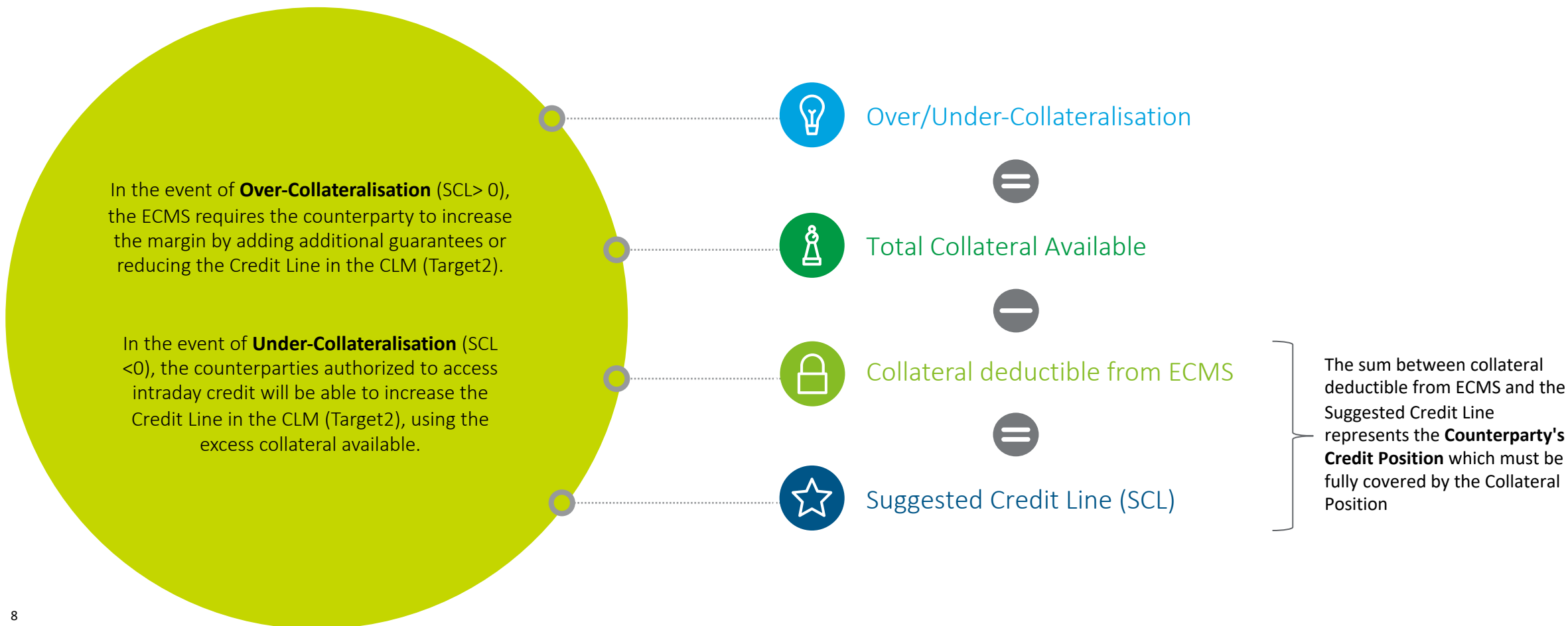
New Functionalities

The **Pool Projections** feature provides a view of the expected evolution of transactions and counterparty collateral to predict liquidity needs and identify potential **over/under-collateralization**.

With the **Credit Freezing** function it will be possible to allocate certain guarantees present in a pool to a specific use.

The management of **Corporate Action**s relating to eligible marketable assets of the Eurosystem is **automated**.

* Pool linked to the Main Cash Account (MCA) in CLM (T2) used for the settlement of monetary policy operations, payments relating to cash given as collateral and corporate actions

Credit Line Management

Available Data in ECMS

In the event of **Over-Collateralisation** (SCL> 0), the ECMS requires the counterparty to increase the margin by adding additional guarantees or reducing the Credit Line in the CLM (Target2).

In the event of **Under-Collateralisation** (SCL <0), the counterparties authorized to access intraday credit will be able to increase the Credit Line in the CLM (Target2), using the excess collateral available.

Over/Under-Collateralisation

=

Total Collateral Available

−

Collateral deductible from ECMS

=

Suggested Credit Line (SCL)

The sum between collateral deductible from ECMS and the Suggested Credit Line represents the **Counterparty's Credit Position** which must be fully covered by the Collateral Position

Credit Line Management

Floating Credit Line Approach

It is possible to **automate the process of changing the Credit Line** in CLM against a change in the Suggested Credit Line in ECMS:

- **By setting a maximum variation** limit, the maximum credit line possible is defined. Once this threshold is exceeded, it will be possible to use the surplus collateral for other purposes.

- **Without setting any limit**, in the event of a negative suggested credit line, the credit line in the CLM will be automatically reduced.
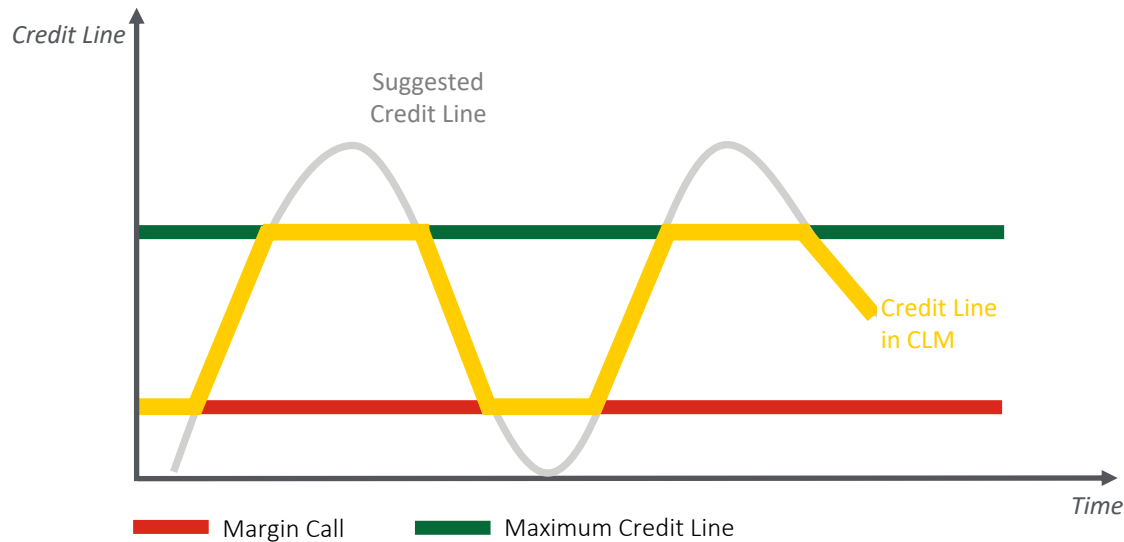
Counterparty Pool

Counterparty Collateral and Credit Position Composition

Collateral Position

- **Marketable Asset:** ECMS accounts can only be fed with marketable assets defined as "eligible" by the ECB.

- **Credit Claims:** in order to be able to include credit claim positions in the ECMS accounts, the respective NCBs must declare such credit claims "eligible".

- **Cash as Collateral:** it is possible to use counterparties cash in the MCA accounts in CLM (Target2), as collateral in the ECMS accounts.

- **Fixed-term Deposit:** term deposits can be managed as collateral. Upon expiry of the deposit, the position is released from the counterparty's pool.

- **Triparty Collateral:** counterparties can take advantage of triparty collateral management services from TPAs positively evaluated by the Eurosystem to provide collateral.

- **Externally Managed Collateral:** counterparties may also include in the ECMS Asset Accounts, in agreement with the NCBs, the types of collateral relating to Eurosystem credit operations managed in the local systems of the NCBs themselves.

Credit Position

- **Open Market Operations:** the ECMS provides functionality for the settlement of monetary policy operations relating to liquidity injection and collection of term deposits. With them, the assets guaranteeing monetary policy operations can be deducted from the calculation of the excess collateral available in the ECMS

- **Marginal Lending:** it is possible to request access to marginal lending operations directly in the ECMS. In this way, the assets guaranteeing these transactions will be deducted from the calculation of the excess collateral available in the ECMS

- **Credit Freezing:** with the ECSM it will be possible to allocate certain guarantees in a pool to a specific use, which will then be deducted from the calculation of the excess collateral available in the ECMS

- **Credit Line**: represents the counterparty's refinancing capacity

ECMS Architecture

Representation of the target infrastructure, internal and external, of the ECMS

Legend

Stakeholders

Flows detail

ECMS Components

ECMS Service Desk

NCB Operations

System administration

Support & Monitoring

RTGS

Credit Line updates

Payments

Standing facilities

Interfaces

Reference Data

Collateral Management

Monetary Policy Operations

Collateral e Credit Position

Collateral position

Credit position

Support Functionalities

Counterparties

Collateral Instructions, position details

Triparty Instructions

Triparty Agents

Foreign CBs/other NCBs

FX Payments

Emergency foreign collateral

Corporate actions

Settlement instructions

Autocollateral support

CSDs/T2S

Reporting

Reference Data

ESCB Applications

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"The future Eurosystem Collateral Management System (ECMS) will facilitate the mobility of collateral around Europe and will contribute to addressing the collateral scarcity we face today"

Edwin De Pauw
Head of Data Services and Innovation - Euroclear

Contacts

Deloitte has the relevant in-house experience to support financial institutions on collateral initiatives: our experts are part of the Business Operations team with a focus on the Investment Banking and Market Infrastructure.

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