Module 3_ Mobilisation and demobilisation of collateral

July 2023

DeNederlandscheBank

EUROSYSTEEM

Agenda

1. **Introduction ECMS and training**
2. **The functioning of ECMS**
3. **Different ways of collateral mobilisation**
4. **As of April 2024: 'T2S-only collateral'**
5. **U2A vs A2A**
6. **Triparty Collateral Management**
7. **Autocollateralisation**

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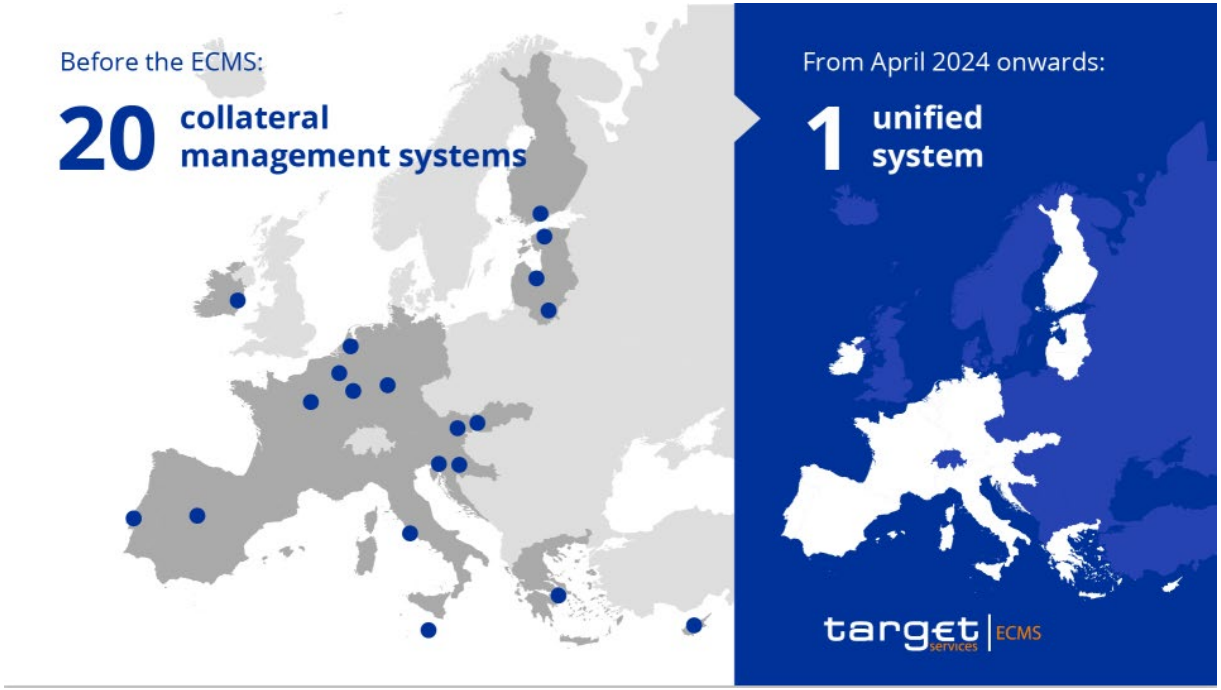
ECMS introduction

ECMS – Eurosystem Collateral Management System



A single, unified collateral management system

The Eurosystem Collateral Management System will replace the 20 local collateral management systems of the NCBs in operation today.

Go-live is planned for **8 April 2024**.

The ECMS – key aspects

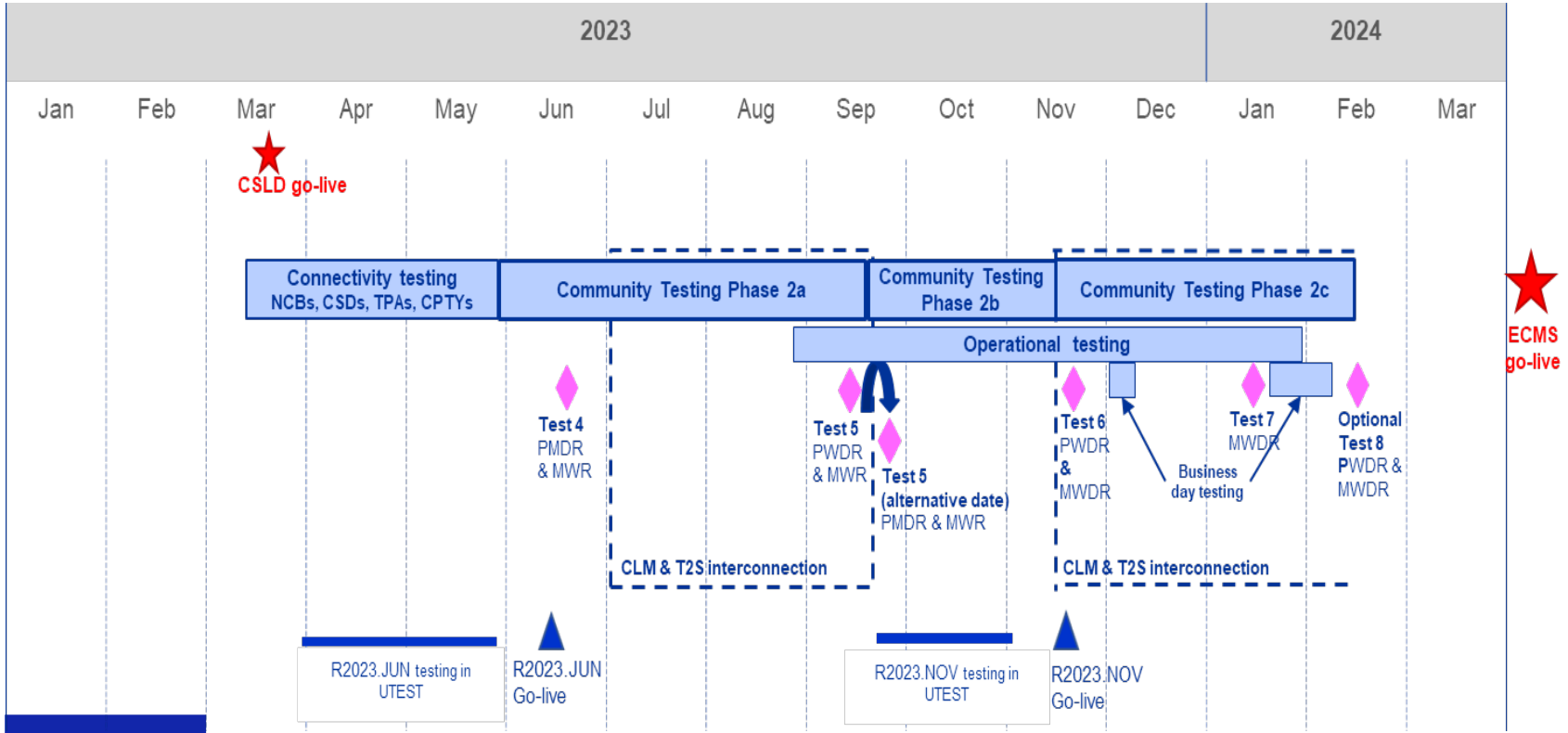
The ECMS will work together with the other TARGET services to ensure that cash, securities and collateral flow freely across Europe.

The ECMS keeps track of the individual collateral and credit positions of counterparties belonging to the Eurosystem national central banks.

The ECMS calculates the credit line available to each counterparty and sends this information to the central liquidity management tool (CLM).

The ECMS converts counterparties' (de-) mobilisation instructions into settlement instructions which are sent to and settled in TARGET2-Securities (T2S).

Planning of €-ECMS project (as of 27 January 2023)



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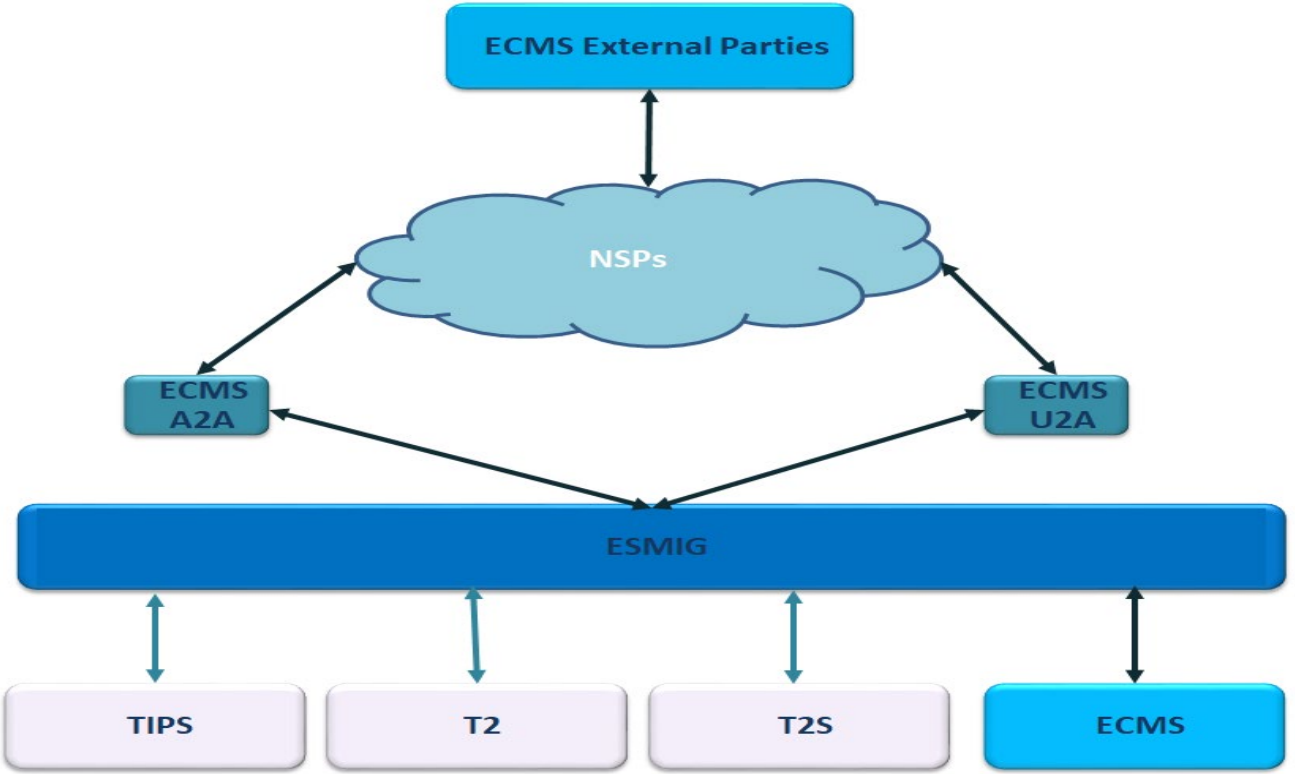
Connectivity : Eurosystem Single Market Infrastructure Gateway (ESMIG)

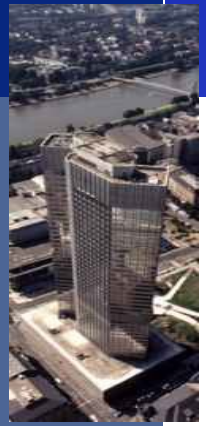


ECMS Training

Training module #3 – Mobilisation and demobilisation of collateral

Introduction training

- With this training, we will provide insight in the way counterparties can mobilise assets to DNB, to be used as collateral and how these assets can be demobilised making use of the ECMS-functionalities.
- We will explain the parties involved and which (policy) rules apply for this collateral (de)mobilisation.
- However, this is not an explanation how to use ECMS for (de-)mobilising assets as collateral. This is done in dedicated workshops and in so-called ‘open calls’.



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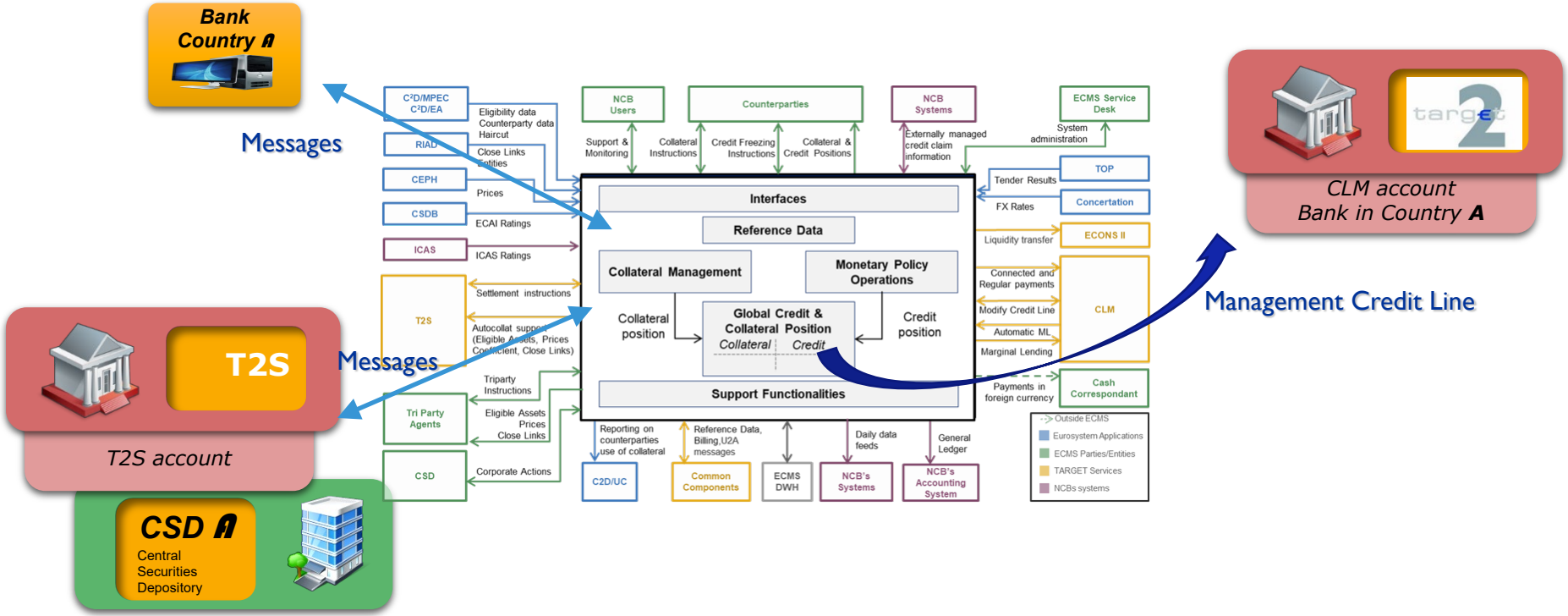
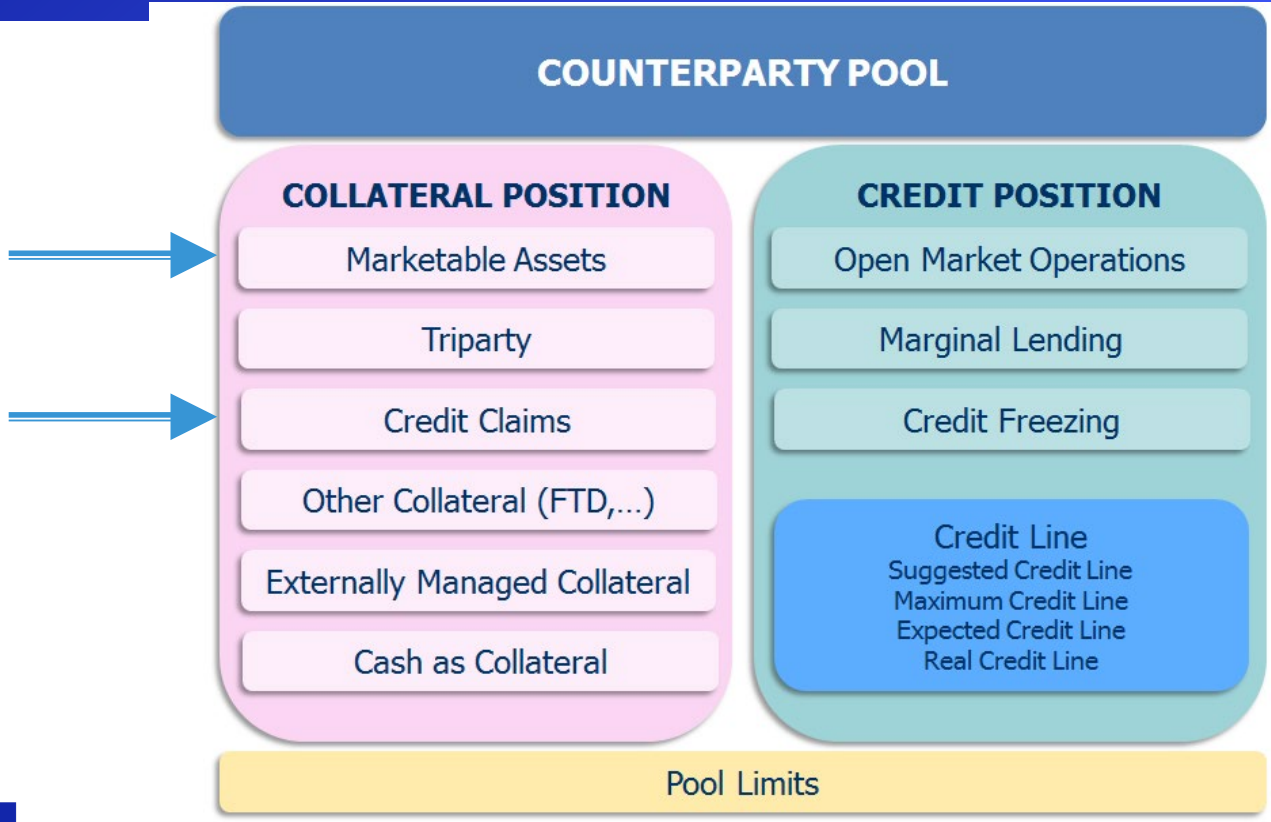
The functioning of ECMS

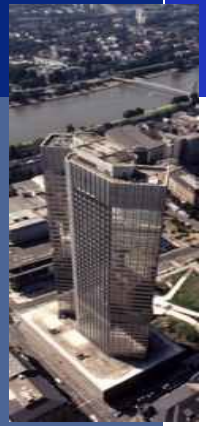
- ECMS, Eurosystem Collateral Management System, is the harmonised system used by the National Central Banks of the Eurozone to:
  - Receive messages for delivering assets to NCB (Mob) and returning assets back to CP (Demob)
  - Instruct T2S to settle these transactions
  - Register the delivered collateral in CP's Collateral Pool
  - Update collateral and credit positions
  - Amend CLM Credit line (if applicable)
  - Process corporate actions (mostly interest and redemptions)
  - Monitoring and reporting

The functioning of ECMS



The functioning of ECMS





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Different ways of collateral mobilisation

Mobilisation refers to:

- the process by which assets are transferred from the counterparty to
- an account designated by the national central bank of the country in which it is based (i.e. home central bank).

- To ensure accessibility to all Eurosystem eligible assets –regardless of the location of the counterparty or of the collateral- a series of mobilisation channels have been established.

Different ways of collateral mobilisation

- Different channels of collateral mobilisation (Marketable assets)
  - Domestic: assets issued and held in SSS in same country (ENL)
  - Direct Access: other country, but NCB-account (Euroclear Bank (EB))
  - Use of links: participant of investor SSS holds assets in issuer SSS
  - CCBM: using another NCB as custodian
  - Triparty
  - Auto-Collateralisation

  (Non-Marketables or Credit claims)
  - Domestic
  - Cross Border (CCBM)

Different ways of collateral mobilisation

- **Until go-live ECMS:**
  - **NCB's can only have (collateral) account with local CSD, i.e., 'remote access prohibition'.**
- **See also relevant part of this training (from slide #23).**

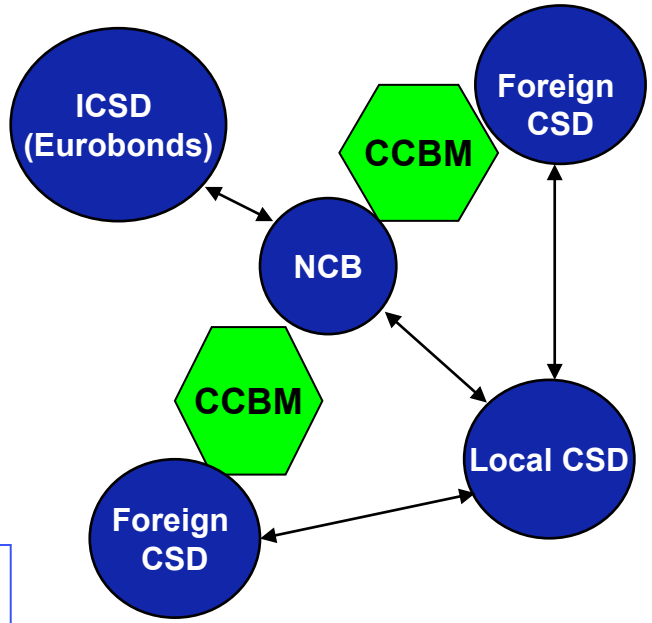
Different ways of collateral mobilisation

Domestic:

- **Local CSD: ENL (ESES)**
- **Euroclear Bank**
- **Credit Claims: NCB registration**

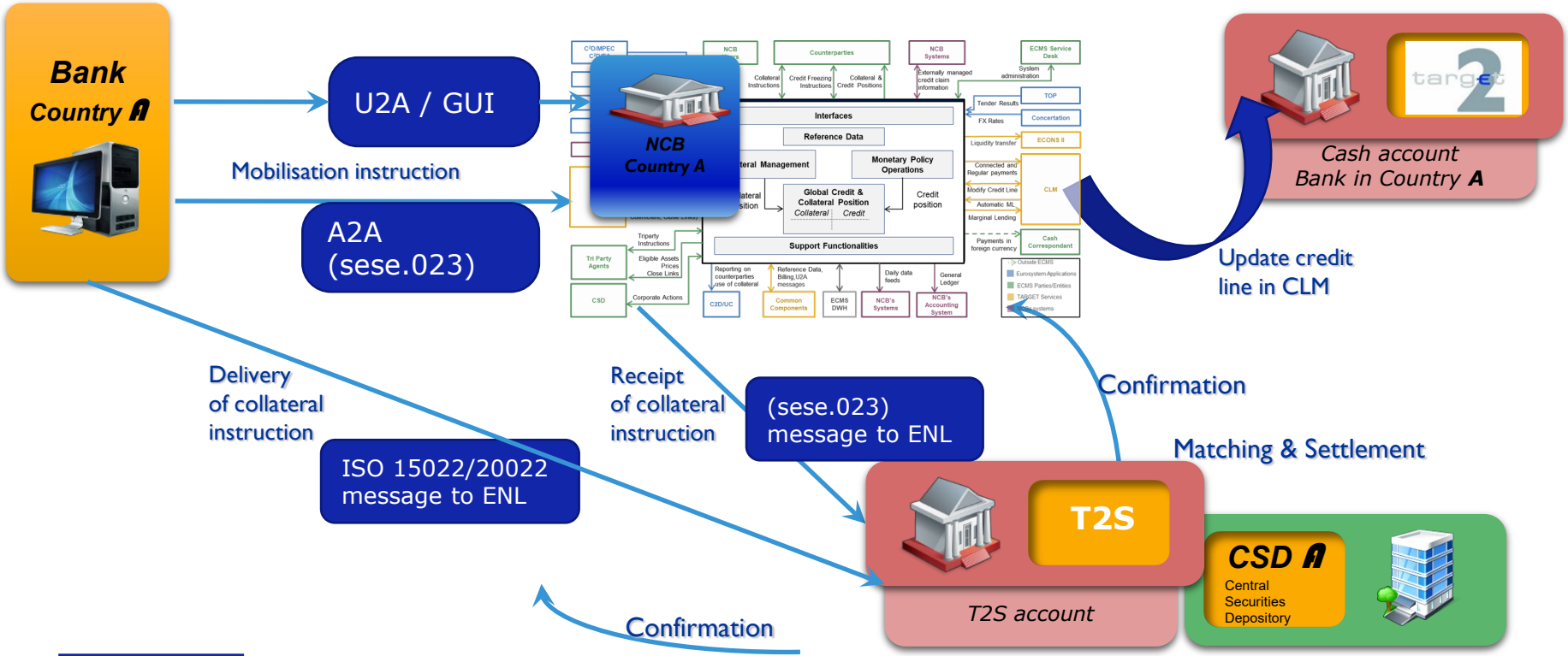
Cross border:

- **Direct link between CSD's**
- **Foreign CSD via CCBM network of central banks**
- **Credit claims: CCBM**

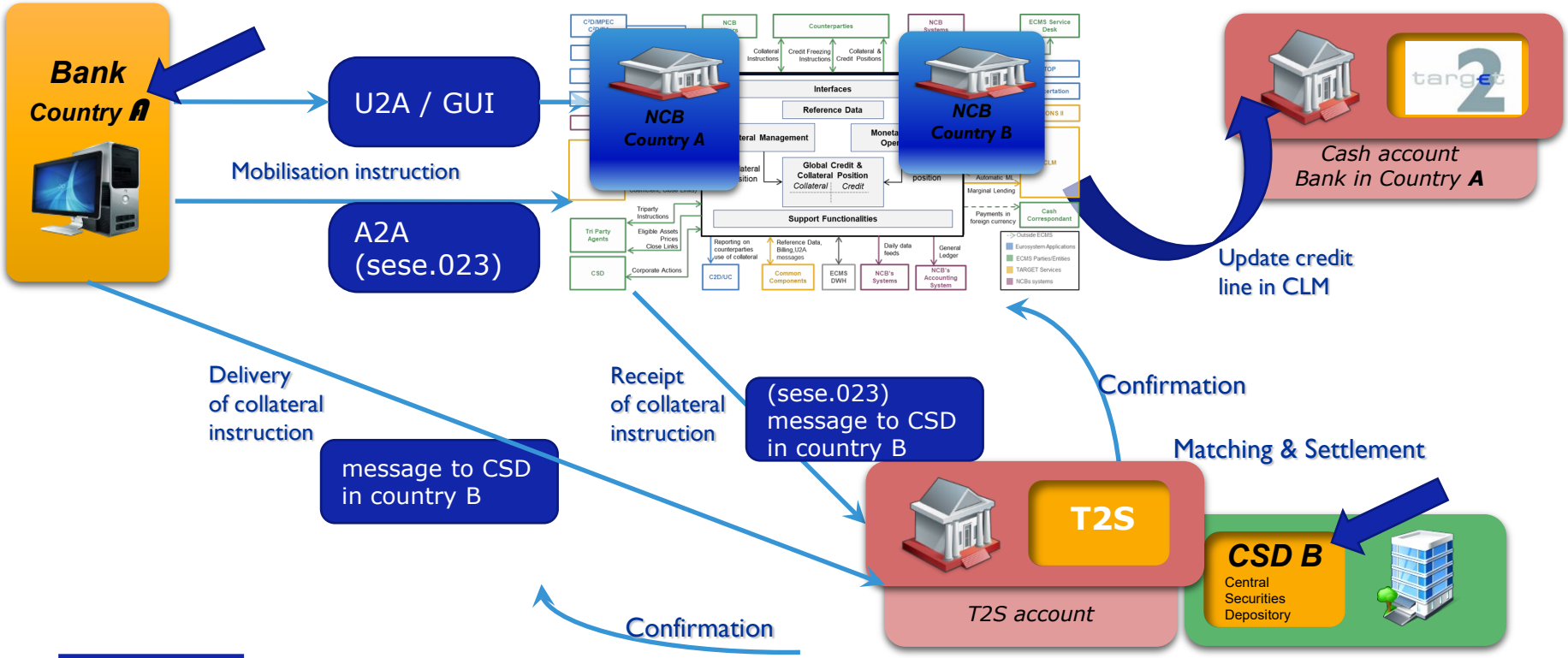


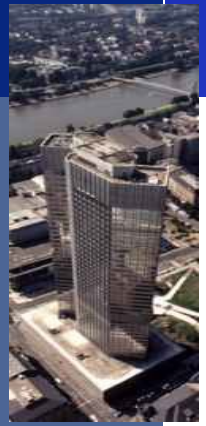
NCB = National Central Bank
CSD = Central Securities Depository
ICSD = International CSD

Different ways of collateral mobilisation: domestic flow



Different ways of collateral mobilisation: CCBM flow





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Eurosystem rules on mobilisation

Eurosystem rule as of April 2024: T2S-only collateral

- Counterparties must arrange with one of the following parties to transfer (mobilise) marketable assets to a collateral account designated by the NCB:
  - the issuer SSS (the SSS in which the securities have been issued) provided that the issuer SSS is a Eurosystem eligible T2S CSD located in the euro area;
  - the investor SSS (the SSS in which the securities are held), provided that a Eurosystem eligible link exists between the issuer SSS and the investor SSS. Through the eligible link, the condition of settlement of Eurosystem collateral in a Eurosystem eligible T2S CSD located in the euro area would be met.

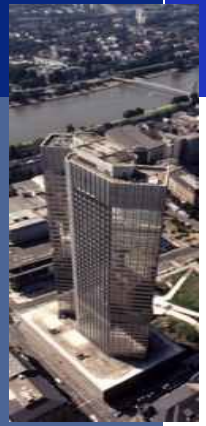
Eurosystem rules on mobilisation

As (eligible) links do not exist between all CSDs, Eurosystem NCBs also act as custodians (correspondents) for each other in order to ensure that all Eurosystem eligible assets can be mobilised by all Eurosystem counterparties regardless of the location of the counterparty or the collateral.

The collateral will then be made available to the central bank of the country where the respective investor SSS/TPA is located (i.e. the CCB), and it will hold the collateral on behalf of the central bank granting the credit (i.e. the HCB).

This arrangement is known as the Correspondent Central Banking Model (CCBM).

NEW: As an alternative to the use of the CCBM, Eurosystem NCBs may also directly open an account in a non-domestic SSS or TPA for the purposes of receiving collateral from their counterparties.



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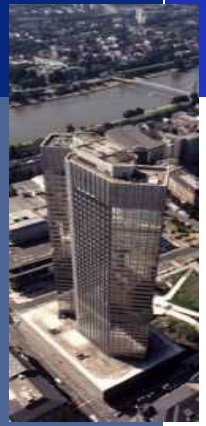
Collateral instructions: via U2A and via A2A

Difference between U2A vs A2A

- U2A: (de)mobilisation instructions via GUI screens
- A2A: (de)mobilisation instructions using ISO20022 messages (see link: ECMS - Professional use (europa.eu) for the ECMS catalogue of messages (*latest version published on 22 June 2023*))
- The U2A-possibility is new and available for all counterparties, also the ISO-version for A2A is new. It does not result in a different way of processing in/via ECMS.



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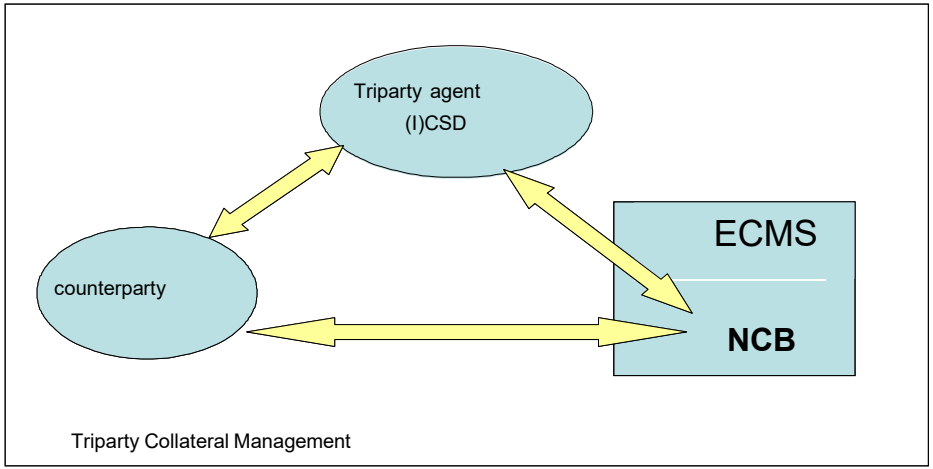
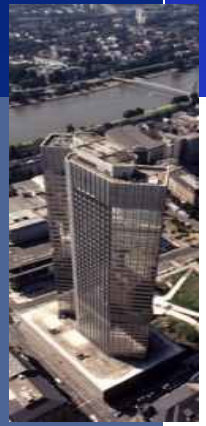
Triparty Collateral Management (TCM)

TCM exists already today, up to now not used by Dutch counterparties. Due to Eurosystem rules, DNB policy and ESES-structure only a limited set of eligible collateral is available via TCM.

Third party (e.g. (I)CSD) acts as an agent for the taker (Eurosystem) and provider (counterparty) of the collateral. Taker and provider enter into an agreement with triparty agent on the level of outsourcing.





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Autocollateralisation

Autocollateralisation and relocation of collateral

Also autocollateralisation exists already today, up to now not used by Dutch counterparties. Due to Eurosystem rules, DNB policy and ESES-structure only a limited set of eligible collateral is available via this feature.

No ECMS impact: T2S parties can use purchased assets and/or assets in existing account to finance the settlement in T2S (on flow versus on stock). These (eligible!) assets are blocked until payment is received.

The ECMS impact starts when payment is not done at cut-off time (16.30h). The assets are then moved to collateral account of counterparty with its NCB to grant overnight credit: relocation of collateral.

- AOB
- Opportunity for questions

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