Eurosystem Collateral Management System

Eurosystem
Collateral
Management
System

Information pack

EUROPEAN CENTRAL BANK
EUROSYSTEM

Credit line
Credit Freezing
Triparty

target | ECMS
services

Credit line management - fundamentals

- Access to intraday credit in CLM is provided only against adequate collateral.

- The ECMS is responsible for providing CLM with the value of the credit line in CLM, based on the free collateral available in the pool.

- Only one pool per counterparty can be used to collateralise Eurosystem credit operations, including the credit line.

- The NCB of the counterparty authorises the credit line functionality in the pool.

- Counterparties may define a **maximum credit line** value, to avoid all free collateral being available for intraday credit. NCBs can also set a maximum credit line value in the pool of the counterparty.

> If the value of the maximum credit line defined by the NCB is **lower** than that defined by the counterparty, the ECMS takes the value defined by the NCB.

Management of the credit line

The ECMS makes use of three related concepts. The values of all three are displayed in the counterparty's pool

| Suggested credit line | Expected credit line | Real credit line |

The difference between the total collateral available and the outstanding Eurosystem monetary policy operations

i.e. the over/under-collateralisation of the pool

The most recent credit line value sent to CLM.

Of temporary relevance while the ECMS is waiting for confirmation of the change of the credit line in CLM

The value of the credit line confirmed by CLM

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Management of the credit line

The ECMS implements a **floating credit line** approach.

When the suggested credit line increases in ECMS, this triggers an automatic increase of the credit line in CLM (up to any maximum credit line which has been defined).

When the suggested credit line in the ECMS decreases, the credit line in CLM is automatically decreased.
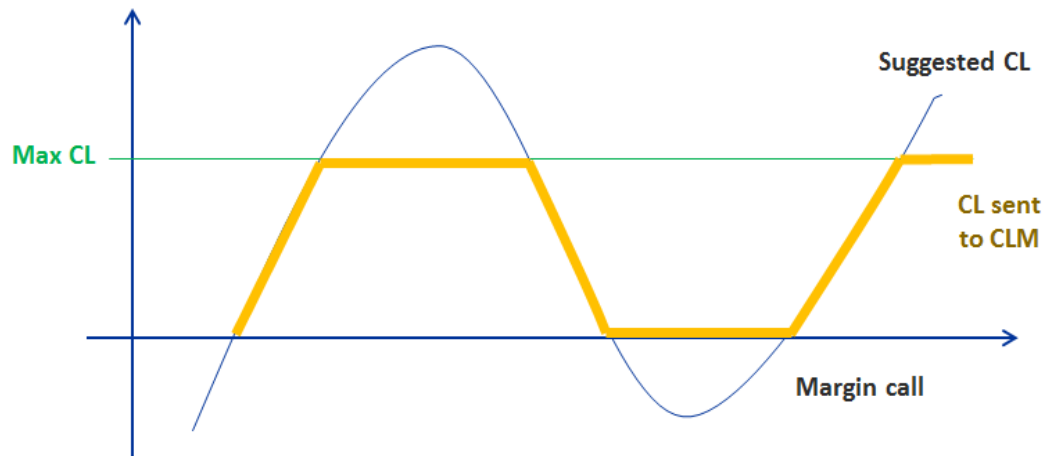
A negative suggested credit line triggers a margin call, irrespective of whether the pool has been configured with a credit line.

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Updates of the credit line in CLM – two types

There are two types of instruction which will update the credit line in CLM.

Modify credit lines	Connected payments
Used when only the credit line is affected. Modify Credit Line messages can be queued in CLM if they are not immediately processed.	If the credit line and cash need to be settled at the same time. e.g. the reimbursement of an open market operation both credits the cash account of the counterparty and increases the collateral available Connected payments are never queued in CLM, but are immediately settled or rejected. Processing connected payments also affects the expected and real credit line values.

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Credit freezing functionality

- Offered by the ECMS to counterparties to enable the reservation of collateral in the counterparty pool for a specific purpose.

- NCBs are responsible for configuration in the ECMS.

NCBs define the credit freezing types which apply to their community

NCBs may authorise individual counterparties to use some or all of these types

NCBs adjust the reference data of the counterparty's pool to reflect the types they have authorised

- The counterparty (or a third party on behalf of the counterparty) can instruct the authorised credit freezing type. NCBs may also send credit freezing instructions.
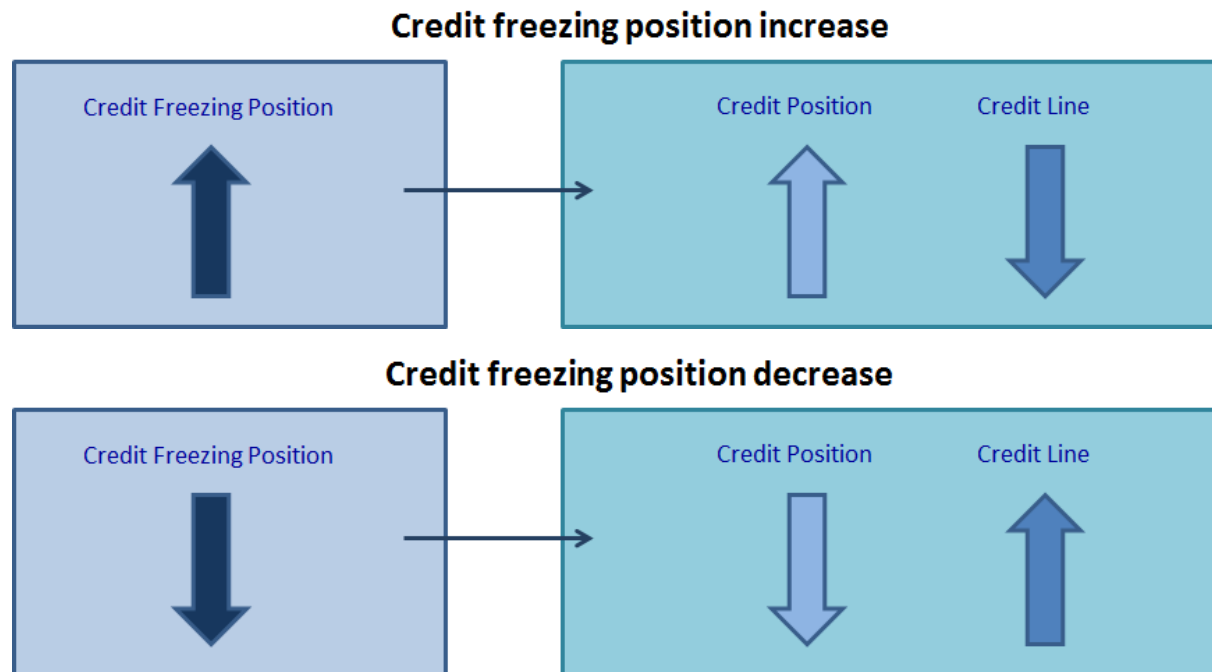
Credit freezing process

- Counterparties (or a third party of their behalf) instruct the ECMS as to the value of the authorised credit freezing type.

- This can be performed in either U2A or A2A mode, up to 17:45 CET.

- Credit freezing consumes collateral. If there is not enough free collateral, the ECMS rejects the instruction.

- If the instructed credit freezing type does not exist or is not authorised for the counterparty, the ECMS rejects the instruction.
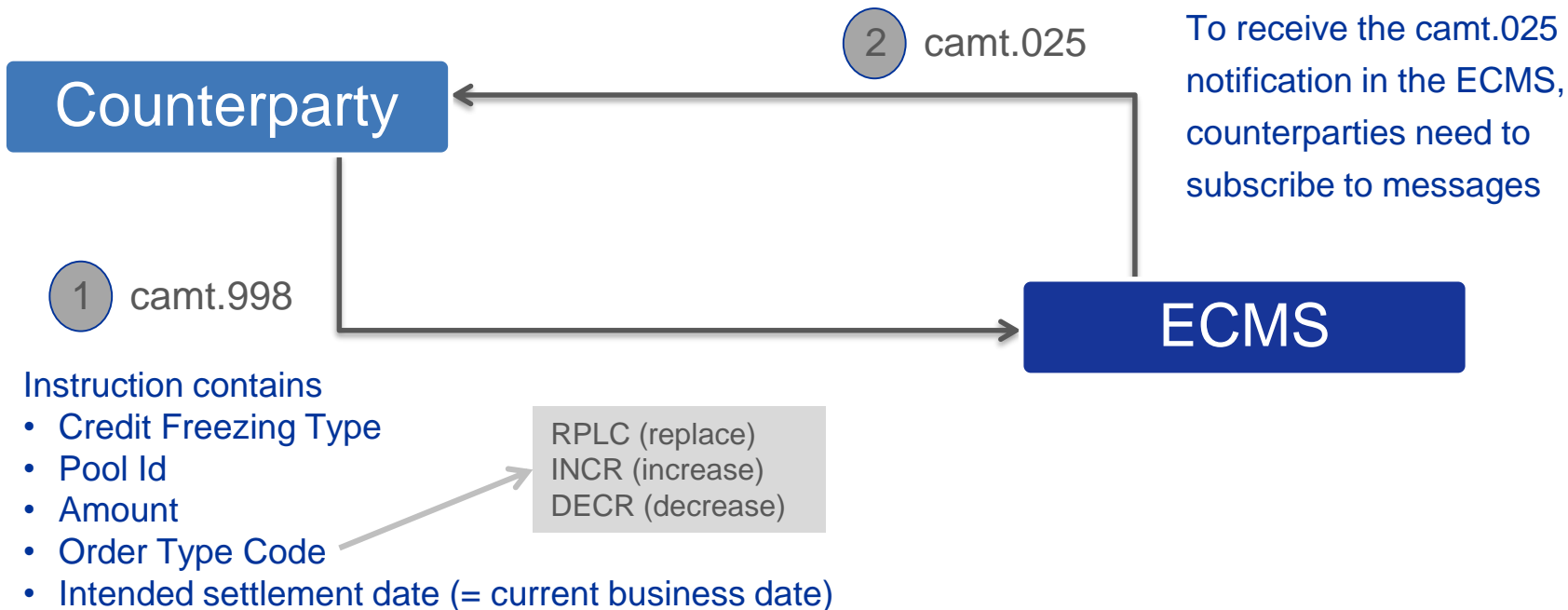
Counter-parties → ECMS

Impact on the credit position and credit line

If the credit freezing instruction has been successfully processed, it has an impact on the **credit position** and the **credit line**

(if a credit line has been defined for the pool)

Credit freezing position increase

| Credit Freezing Position ⬆ | → | Credit Position ⬆   Credit Line ⬇ |

Credit freezing position decrease

| Credit Freezing Position ⬇ | → | Credit Position ⬇   Credit Line ⬆ |

A2A mode – credit freezing messages

Counterparty

2 camt.025

To receive the camt.025 notification in the ECMS, counterparties need to subscribe to messages

1 camt.998

ECMS

Instruction contains
- Credit Freezing Type
- Pool Id
- Amount
- Order Type Code
- Intended settlement date (= current business date)

RPLC (replace)
INCR (increase)
DECR (decrease)

Credit freezing for contingency purposes

- One particular credit freezing type is that used by the Eurosystem for contingency purposes.

- Counterparties may pre-set the value of credit freezing that would apply under contingency mode. This value can also be set after the activation of ECONS II (Enhanced Contingency Solution II) by mobilising additional collateral.

- Upon activation of ECONS II, the ECMS switches to contingency mode and automatically performs a liquidity transfer within ECONS II for the set value from the NCB's account to the counterparty's account.
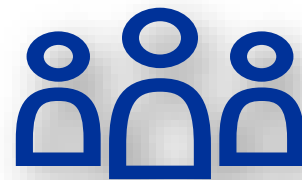
New single Eurosystem triparty model
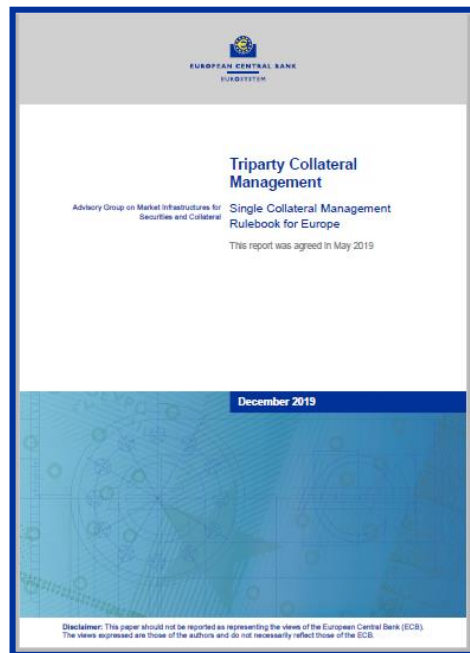
Harmonised business processes and workflows for triparty collateral management

Defined by AMI-SeCo's CMH-TF

Based on ISO 20022 messaging

Triparty Collateral Management

Advisory Group on Market Infrastructures for Securities and Collateral

Single Collateral Management Rulebook for Europe

This report was agreed in May 2019

December 2019

Disclaimer: This paper should not be reported as representing the views of the European Central Bank (ECB). The views expressed are those of the authors and do not necessarily reflect those of the ECB.

Using a common transaction ID

Communication only TPA/ECMS

Detailed intraday information

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Use of a common transaction ID

- All legal aspects of the triparty agreement are managed outside the ECMS.

- Counterparties using triparty services will only interact with the triparty agent, and will not send instructions to the ECMS directly.

- There will no longer be any matching of the INIT instructions. Triparty transactions are set-up in the ECMS by the NCB user, using the agreed common transaction ID.

- The same common transaction ID must be used in the INIT instruction sent by the counterparty to the TPA and in the report sent to the ECMS.

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Communication only between TPA and ECMS

Triparty collateral will be updated via the processing of reports sent by the TPA to the ECMS on stocks and on flows.

- End of day
- Reconciliation
- All asset positions with valuation details

Stocks

- Intraday each time the allocation of assets is changed
- Update of asset positions and triparty collateral value
- Update of the triparty transaction amount

Flows

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Triparty unilateral removal

- Upon reception of a report on flows, the NCB can detect whether assets which are not compliant with risk control criteria have been allocated by the TPA. The NCB can unilaterally request the removal of such assets.

- The unilateral removal of individual assets by the NCB has the effect of making these ineligible. Consequently, the TPA will substitute out these assets, replacing them with other (eligible) assets.

- Unless replacement assets cannot be found, there is no impact on the triparty transaction amount.

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