

EUROSYSTEM COLLATERAL MANAGEMENT SERVICES AND ACTIVITIES

Eurosystem collateral management services refer to the central bank services/framework via which collateral can be mobilised by eligible counterparties for use in Eurosystem credit operations.

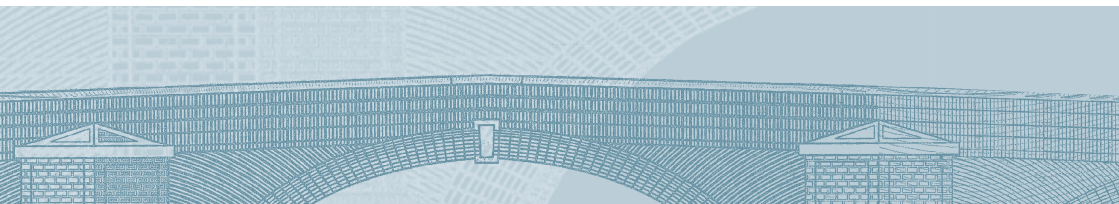
Eligible SSSs and links

When transferring eligible collateral issued in a central securities depository (CSD) or international central securities depository (ICSD), Eurosystem counterparties make use of securities settlement systems (SSSs), which are regularly assessed under the Eurosystem user assessment framework to determine whether they are eligible for use in Eurosystem credit operations (referred to as “user assessments”).

User assessment framework

User assessments are carried out in order to ensure that Eurosystem credit operations are conducted according to procedures which: i) prevent Eurosystem central banks from assuming inappropriate risks; and ii) ensure the same level of safety for all Eurosystem central bank operations, regardless of the settlement method. The Eurosystem has applied standards for the assessment of SSSs and links between SSSs (the user standards) since 1998. The user standards cover transfer, settlement and custody of eligible assets as well as the legal and technical environment in which SSSs operate.

With the development of international and European regulatory and oversight standards for market infrastructures, the Eurosystem identified opportunities to streamline the user assessment framework. The new user assessment framework is based on a two-layer approach which relies on oversight assessments against standards which are common from an oversight and user perspective as the first layer, and user assessments against standards which are specific to the Eurosystem user perspective as the second layer.



Eligible links

A link between two SSSs consists of a set of procedures and arrangements for the cross-border transfer of securities through book-entry process. A link takes the form of an omnibus account opened by an SSS (the investor SSS) in another SSS (the issuer SSS).

The link between two SSSs is unilateral when it is used only for the transfer of securities registered in one system to another and not vice versa. A bilateral link between two SSSs means that a single agreement regulates the transfer of securities from either of the systems.

A direct link implies that no intermediary exists between the two SSSs, and the operation of the omnibus account opened by the investor SSS is managed either by the investor SSS or the issuer SSS. In an operated direct link, a third party, typically a custodian bank, operates the account in the issuer SSS on behalf of the investor SSS. The responsibility for the obligations and liabilities in connection with the registration, transfer and custody of securities remains legally enforceable only between the two SSSs. "Relayed links" are contractual and technical arrangements for the transfer of securities involving at least three SSSs: the investor SSS, the issuer SSS and the intermediary SSS. In order to be eligible for assessment, a relayed link must be composed of two direct links that have already been assessed separately against the standards and found to be compliant. The methodology for assessing relayed links is therefore based on the methodology used for assessing direct links and deals only with the specific conditions associated with relayed links.

CCBM – correspondent central banking model

One of the guiding principles of Economic and Monetary Union is to treat all counterparties in central bank operations equally. To apply this principle to the use of collateral, the Eurosystem has implemented the correspondent central banking model (CCBM). The CCBM ensures that all assets eligible for use either in monetary policy operations or to obtain intraday liquidity in TARGET2 are available to all its counterparties – regardless of where in the euro area the assets or the counterparty are situated.

The CCBM enables Eurosystem counterparties to use eligible marketable assets issued (i.e. registered or deposited) in other euro area countries as collateral. To do so, they must transfer the eligible assets to an account maintained by the local national central bank (NCB) in the issuer SSS, i.e. the SSS in which the securities have been issued and deposited.



The local NCB is, in general, the central bank of the country where the SSS is located. The local NCB will then hold the collateral on behalf of the central bank granting the credit and thus act as a correspondent central bank (CCB). The transfer in the issuer SSS is generally effected on behalf of the counterparty by a local custodian participating in the system. The CCBM may also be used for the cross-border mobilisation of eligible non-marketable assets.

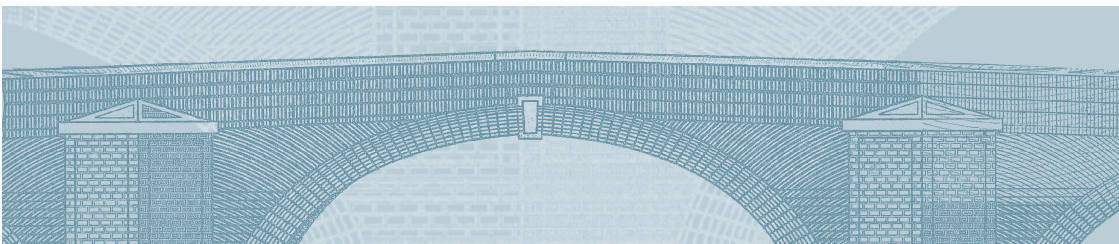
Future enhancements to Eurosystem collateral management services

Removal of repatriation requirement

The repatriation requirement has been part of the CCBM since its establishment in 1999 and requires Eurosystem counterparties to transfer assets to the respective issuer CSD before they are used as collateral for Eurosystem credit operations. The repatriation requirement will be abolished in the course of 2014, thus eliminating the need to move assets from the investor SSS to the issuer SSS in CCBM operations. The removal of the repatriation requirement will bring increased operational and cost efficiency. It will facilitate the use of (i) a combination of CCBM and links and (ii) triparty collateral management services on a cross-border basis via the CCBM and will also enable the use of euro-denominated collateral issued in non-euro area EEA countries provided that the collateral meets Eurosystem eligibility requirements and certain settlement conditions are met.

Cross-border triparty collateral management services

Triparty collateral management services allow counterparties to manage collateral assets in an efficient manner via a triparty service provider. These services are supported by a small number of Eurosystem NCBs, in some cases for many years, with their domestic counterparties in the context of Eurosystem credit operations. The Eurosystem is working on the introduction of a framework that also supports the use of such triparty services on a cross-border basis via



the CCBM. This enhancement to Eurosystem collateral management services is scheduled to go live in the course of 2014.

Support of collateral management activities at market level

The ECB continues to monitor and support collateral-related initiatives at market level via its Contact Group on Euro Securities Infrastructures (COGESI). COGESI was established to address issues and developments which are relevant for the euro securities settlement industry and which are of common interest to the Eurosystem, market infrastructures and market participants. The group comprises representatives of the Eurosystem, commercial banks, securities settlement systems, clearing houses (CCPs) and the European Commission.

Among the topics addressed by COGESI in the field of collateral are transparency of collateral eligibility requirements as well as the optimal use and efficient mobilisation of collateral assets. In July 2013, the ECB published a report on collateral eligibility requirements prepared by COGESI, in cooperation with the ECB's Money Market Contact Group. The report aims to improve transparency by comparing the different collateral requirements faced by the financial industry. COGESI also supports progress on initiatives aiming to improve the functioning of the repo market, including the triparty settlement interoperability (TSI) initiative between repo participants, ICSDs, CSDs and CCPs. The TSI initiative has the ultimate goal of bringing together borrowers and lenders in a more efficient manner, regardless of where their underlying liquidity or collateral is held, thereby contributing to further market integration.

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More information on the Eurosystem collateral management services and activities can be found on the ECB's website:
<http://www.ecb.europa.eu/paym/html/index.en.html>

