



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Potential benefits and challenges of taking collateral for Eurosystem credit operations in T2S

AMI-SeCo Workshop on Eurosystem
deliberations on taking collateral

11 May 2017, Madrid

Overview

- 1 How are Eurosystem credit operations settled today?
- 2 The impact of T2S
- 3 Opportunity to improve efficiency
- 4 Potential benefits for counterparties and the Eurosystem
- 5 Potential (adaptation) costs and other challenges
- 6 Next steps

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How are Eurosystem credit operations settled today?

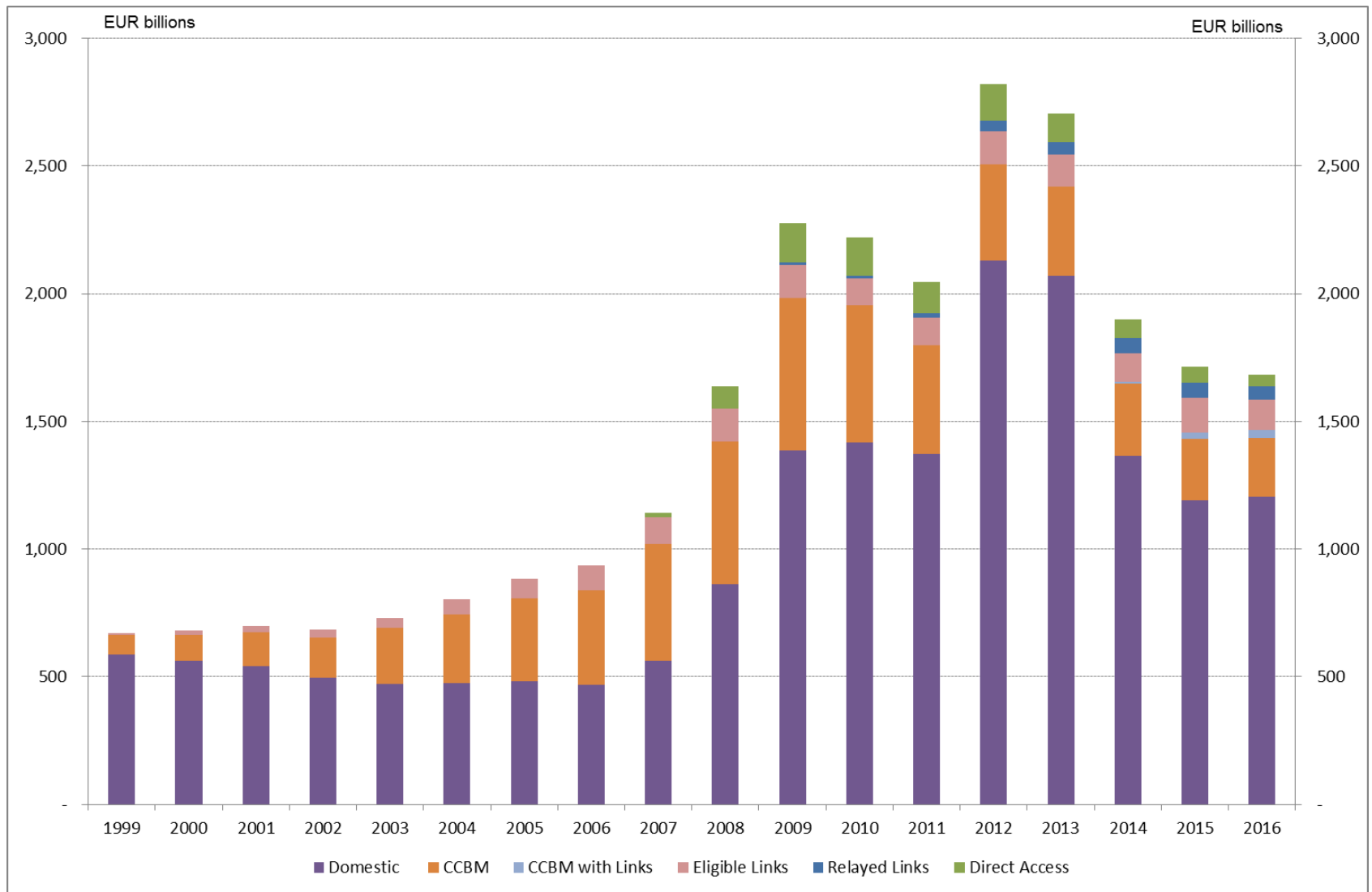
Eurosystem credit operations						
Type and category of credit operations	Type of transactions	Maturity	Frequency	Procedure	Settlement of cash leg	Settlement of collateral
Open market credit operations						
Main refinancing operations	Reverse transactions (repo or collateralised loan)	One week	Weekly	Standard tenders	T2	<u>Marketable assets:</u> - Pooling with pledge or repo: pre-depositing of collateral into the pool by FOP transfer of securities to the HCB directly, or via a CCB or TPA - Earmarking repo: DvP settlement of cash and securities leg of individual operations <u>Non-marketable assets:</u> - Pre-depositing of collateral into the pool or earmarking to the operation (not using securities infrastructures)
Longer-term refinancing operations	Reverse transactions (repo or collateralised loan)	Three months (General Framework) to 4 years (Temporary Framework)	Monthly	Standard tenders	T2	
Fine-tuning operations	Reverse transactions (repo or collateralised loan)	Non-standardised	Non-regular	Quick tenders	T2	
Structural operations	Reverse transactions (repo or collateralised loan)	Standardised/ non-standardised	Regular and non-regular	Standard tenders	T2	
Standing facilities						
Marginal lending facility	Reverse transactions (repo or collateralised loan)	Overnight	Access at the discretion of counterparties		T2 / NCB PHA	<u>Marketable assets:</u> - Pooling with pledge or repo: pre-depositing of collateral into the pool by FOP transfer of securities to the HCB directly, or via a CCB or TPA - Earmarking repo: DvP settlement of cash and securities leg of individual operations <u>Non-marketable assets:</u> - Pre-depositing of collateral into the pool or earmarking to the operation (not using securities infrastructures)
Intraday credit						
General intraday credit	Reverse transactions (repo or collateralised loan)	Intraday	Access at the discretion of counterparties		T2 / NCB PHA	<u>Marketable assets:</u> - Pooling with pledge or repo: pre-depositing of collateral into the pool by FOP transfer of securities to the HCB directly, or via a CCB or TPA - Earmarking repo: DvP settlement of cash and securities leg of individual operations <u>Non-marketable assets:</u> - Pre-depositing of collateral into the pool or earmarking to the operation (not using securities infrastructures)
T2S auto-collateralisation	Reverse transactions (repo or collateralised loan)	Intraday	Access at the discretion of counterparties		T2 (DCA)	DvP settlement on T2S securities accounts by one of the following procedures: - transfer of securities to HCB account - transfer of securities to dedicated counterparty account - reserving securities on regular counterparty account

Convergence taking place over recent years in NCB and counterparty practices:

- **Almost universal settlement of cash leg in T2 – with very few exceptions (some NCBs still granting marginal lending and intraday credit in home accounting systems)**
- **Almost universal settlement of collateral leg by FOP transfer into/from counterparty collateral pool**

In addition in recent years the introduction of tri-party collateral management services and T2S auto-collateralisation have created “externally” managed collateral

Use of collateral mobilisation channels by counterparties for Eurosystem credit operations



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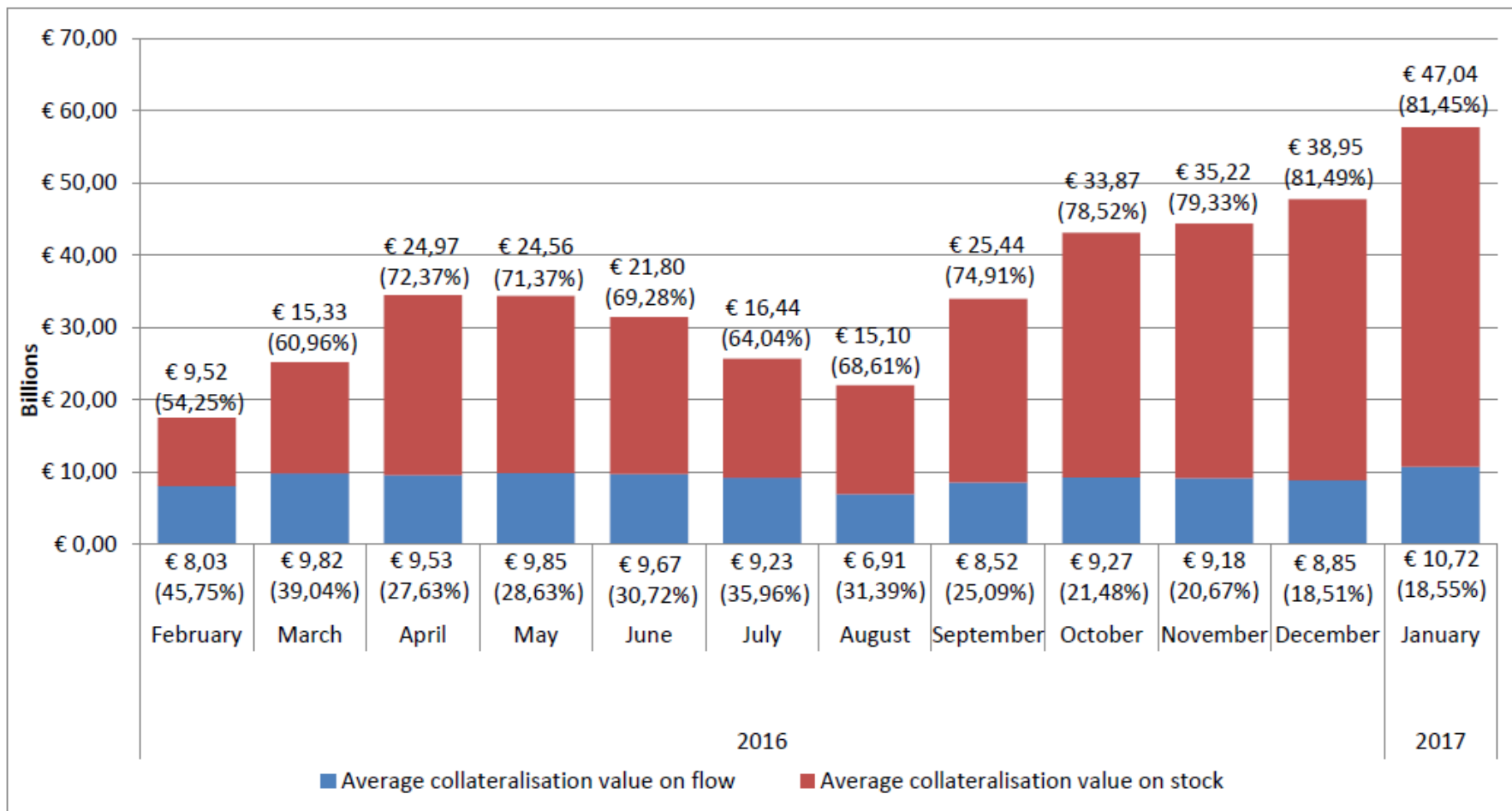
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- **The Eurosystem uses 22 SSSs today to take marketable collateral in its credit operations**
- **4 of these 22 SSSs will not migrate to T2S:**
 - **The SSSs operated by the two ICSDs**
 - **CBF's Creation Platform**
 - **CDCR, the Cypriot SSS**
- **The go-live of T2S in itself does not change the existing models of collateral mobilisation channels (domestic, CCBM, tri-party, links, remote access)**
- **T2S has introduced harmonised auto-collateralisation in central bank money (intraday credit for securities settlement provided by the Eurosystem)**

Development of T2S auto-collateralisation volumes



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- **ICSDs' intention to provide their services also based on T2S settlement**
- **The Eurosystem is contemplating to consolidate settlement of marketable collateral for its credit operations in T2S**
- **Need to take into account also other developments**
 - relevant Eurosystem initiatives: ECMS, Future RTGS Services, AMI-SeCo harmonisation agenda
 - CSDR implementation, EC Capital Markets Union (CMU) agenda
- **The Eurosystem considers the following key criteria in its deliberations on taking collateral in the new landscape:**
 - ✓ The set and number of marketable assets eligible as collateral for Eurosystem credit operations should not decrease as a result of consolidating settlement of collateral in T2S.
 - ✓ Over the longer term, counterparties' and NCBs' costs should not increase and collateral mobilisation should be more efficient – counterparty adjustment costs to be minimised
 - ✓ Triparty collateral management services should continue to be available to Eurosystem counterparties.

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Potential counterparty benefits:

- **Streamlined and fully harmonised mobilisation of marketable collateral (to be supported also by ECMS!)**
- **Ability to consolidate related securities settlement and cash management activity in T2S and maximise benefits from consolidated Eurosystem ‘trinity’ of services (T2-T2S-ECMS)**
- **Continue to benefit from related ICSD services (on the basis of T2S settlement)**
- **No compulsion or requirement on location of source accounts: true choice (adaptation more on Eurosystem side)**

Potential Eurosystem benefits:

- **Streamlined operations and leaner ECMS procedures**
- **Saving costs over the longer term by consolidated ('trinity') services**
- **Promoting market harmonisation – fully in line with more general Eurosystem objectives (also promoted in AMI-SeCo)**
- **Ensuring even better level playing field and transparency of procedures across NCBs for counterparties**
 - **Decreasing / eliminating differences between cross-border and domestic mobilisation**
 - **Further aligning procedures in different markets and across mobilisation channels (e.g. cut-off times, instructions, etc.)**

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Potential adaptation costs:

- **For counterparties:**

- to be kept limited by not imposing any requirements on source account
- some counterparties might face higher settlement costs for mobilisation transactions due to more frequent cross-CSD settlement (if source account is kept outside of T2S); but this is dependent on the pricing policy of respective (I)CSDs

- **For the Eurosystem:**

- to be kept limited by introducing new policy at the same time as the go-live of the ECMS – which will require significant adaptations in any case
- some NCBs would need to move accounts where collateral is received into T2S

Other challenges:

- efficient settlement of 'Eurobonds' in T2S
- better network of links between T2S CSDs (not necessarily a pre-requisite)
- further harmonisation of custody services (asset servicing) is assumed
- seamless provision of tri-party collateral management services (by ICSDs and other agents) on the basis of T2S services

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- **Receive market feedback – take-aways from this workshop**
- **Continue discussions with (I)CSDs that are currently not in T2S**
- **Continue technical discussions on efficient settlement of Eurobonds in T2S ('realignment')**
- **Continue Eurosystem analysis on potential benefits and remaining challenges (based also on market feedback and ECMS project investigations)**