

Eurosystem deliberations on taking collateral in Eurosystem credit operations – outcome of AMI-SeCo workshop and questionnaire

1. Background

In the meeting of the AMI-SeCo on 6-7 March 2017, the ECB presented the Eurosystem deliberations on taking collateral for Eurosystem credit operations and, in particular, on the potential policy to settle collateral mobilisations in T2S. AMI-SeCo members welcomed the information and appreciated the fact that the Eurosystem also intends to seek input from the relevant industry stakeholders. As a follow up, it was agreed to organise a workshop devoted to this topic to allow for a more in-depth discussion with market stakeholders.¹

2. Outcome of AMI-SeCo workshop

The ECB held the dedicated workshop at Banco de España in Madrid on 11 May 2017. A wide range of AMI-SeCo members and Eurosystem NCBs participated in the workshop.²

Overall, workshop participants broadly supported the Eurosystem's deliberations to make collateral management procedures more efficient, especially with regards to better integration between cash (liquidity) management, securities settlement and collateral management. They stressed that the ability of having a single pool of collateral is important for most market participants and that a forced split of such pools should be avoided. It was noted that for market participants also active outside Europe (around the globe) it is very important to have access to services with flexible / long settlement windows. Furthermore they emphasized that an eventual new Eurosystem policy should not lead to more complexity in Eurosystem arrangements (e.g., no different settlement routes or mobilisation channels should be defined for different asset classes). They expressed their expectations that, with a Eurosystem Collateral Management System (ECMS) which is under investigation, the future Eurosystem collateral management procedures would be more harmonised and efficient especially for cross-border use of collateral. Workshop participants asked the ECB to develop a questionnaire to AMI-SeCo members and seek input also in writing. The ECB (AMI-SeCo Secretariat) circulated this questionnaire to AMI-SeCo members on 22 May 2017.

¹ The outcome of the 6-7 March AMI-SeCo meeting can be found [here](#)

² A full summary of the 11 May AMI-SeCo workshop (including the list of participants) can be found [here](#)

3. AMI-SeCo responses to the questionnaire

The questionnaire aimed at exploring the views of market stakeholders on the potential impact of a T2S settlement policy for Eurosystem credit operations. As of 23 June 2017, 12 AMI-SeCo members have replied to the consultation.³

Overall, the majority of respondents show agreement with the preliminary considerations of the Eurosystem (as explained during the AMI-SeCo workshop in Madrid⁴) and are generally positive on the longer-term effect of such policy in the field of market integration, harmonisation and level playing field. Some of the respondents also highlight the possible positive effect on market participants' ability to use auto-collateralisation. The need for an appropriate network of settlement links between ICSDs and T2S-participating CSDs, an efficient solution to the realignment issue for settling "Eurobonds" in T2S and the availability of efficient tri-party collateral management services and asset servicing are mentioned as caveats. In all, respondents do not identify any new challenges in addition to what the initial Eurosystem considerations already covered.

A more detailed summary of the replies is given below:

- **General benefits and challenges:** Respondents mention as benefits less securities movements, easier inventory management, seamless link between securities and liquidity, reduction in intraday cash requirement (indirectly lower capital requirements in relation to liquidity risk), same and harmonised framework for general securities settlement and collateral mobilisations, less reliance on commercial bank money and unsecured credit lines, easing procedures for T2S auto-collateralisation, generally lower costs for Eurosystem and higher efficiency of T2S (higher volumes, better T2S CSD services) and more competitive CSD landscape. Furthermore some of them mention the policy as a trigger to bring / enable international securities settlement in T2S and safer functioning of the post trade landscape due to higher level of safety (compared to today's situation) provided by T2S. Several respondents also highlight a more level playing field among market participants and a better familiarity with T2S services.

As for challenges they mention mostly already identified challenges and risks: solving the issue of realignment for external (issued in non-participating (I)CSDs) securities), need for appropriate network of links, same level of asset servicing and seamless tri-party services regardless of place of settlement. Costs and the need for adaptation by market participants are also mentioned as potential challenges. Finally frictions related to different settlement windows / operating hours across T2S and non-T2S (I)CSDs is also a potential issue.

- **Potential impact on third parties (clients, other stakeholders):** Most respondents do not see a direct impact on third parties. Among potential indirect effects over the longer term the benefit from more efficiency and more links between CSDs as well as potentially a more competitive European post trade landscape were mentioned. In the short term, clients might face similar challenges to those faced by Eurosystem counterparties and infrastructures, e.g. split of inventories, access to tri-party services or frictions related to settlement windows.

³ The questionnaire can be found in the Annex

⁴ The presentations given by the ECB and the ICSDs can be found on the AMI-SeCo section of the ECB website: [item 1](#), [item 2](#) and [item 3](#)

- **Potential impact on collateral availability:** The majority of respondents confirm that they see no negative effects on collateral availability provided that an efficient mechanism is found for cross-CSD settlement of assets issued in non-T2S participating (I)CSDs and an appropriate network of links will be in place. It was noted that there might be challenges in relation to how asset servicing will be provided for externally issued assets and some uncertainties were highlighted regarding the future operation of the CCBM.
- **Potential impact on related internal procedures at market participants:** Mixed replies were received with regards to the effects on internal procedures. Some respondents see no or minimal direct changes while others stressed that internal changes would follow cost considerations and depend on how in practice the CSD market will work. Some respondents noted that internal procedures may be streamlined leading to higher efficiency at market participants. Higher impact was attributed to the go-live of the ECMS and the migration to ISO20022 messaging in CSD services and in particular in tri-party collateral management services.
- **Reallocation of holdings / change in account relationships:** The majority of respondents would not expect a reallocation of holdings by market participants as a result of a Eurosystem T2S settlement policy. However, some of the respondents note that such a decision will primarily depend on costs (i.e. pricing decision of (I)CSDs) and in particular the cost of cross-CSD settlement.
- **Settlement windows / business hours:** Some of the respondents note that they expect a harmonisation of business hours / settlement windows of settlement venues (aligning with the business hours of T2S). Others note that it might be a challenge for global players to manage the differing T2S and ICSD business hours (with the ICSD hours being longer).
- **Costs at market participants' level:** Respondents have diverging views on the potential impact of a T2S settlement policy on market participants' costs. Some of the respondents do not see a significant cost implication while others note that those firms which will keep their holdings in ICSDs will need to rely on cross-CSD settlement which is expected to remain more expensive (than intra-CSD settlement). One respondent highlights that the cost of settlement is in general at least an order of magnitude lower than the fees paid for asset servicing and tri-party services and hence does not attribute a significance to higher cross-CSD settlement fees.
- **Use of asset servicing (corporate actions, tax, etc.):** Most respondents do not see a direct impact on market participants use of asset servicing provided by agents or (I)CSDs. This seems to be in line with the replies to the question on reallocation of holdings above (i.e. no reallocation of holdings are expected by the majority). However, it is noted that indirectly via potentially lower costs for such services over the longer term as a result of harmonisation market participants might rethink how and where they want to make use of such services.
- **Use of tri-party collateral management services:** Those respondents which today rely on tri-party collateral management services in Eurosystem operations almost unanimously call for seamless and harmonised use of tri-party services and allowing TPAs to provide the respective services based on objective criteria also with a T2S settlement policy. Some respondents note that the go-live of the ECMS could allow the Eurosystem to ensure more streamlined procedures and create a better level playing field among its counterparties in the use of tri-party collateral management services.

- **Impact on the use of T2S auto-collateralisation:** The majority of respondents do not see a direct effect of the T2S settlement policy on the use of T2S auto-collateralisation by market participants. However, some of the respondents highlight that indirectly through the establishment of more links between T2S participating CSDs and links between ICSDs and T2S participating CSDs the benefits of T2S auto-collateralisation could be more evident to market participants.

AMI-SeCo members are invited to take note of the outcome of the dedicated AMI-SeCo workshop and the subsequent survey on the Eurosystem deliberations on taking collateral for credit operations.

Annex: Questionnaire circulated to AMI-SeCo members

Eurosystem deliberations on receiving securities as collateral for credit operations in T2S – background and questions to market stakeholders

1. Background and context

The Eurosystem takes marketable assets (securities) for use in its credit operations in currently 22 eligible securities settlement systems (SSSs). Monetary policy counterparties mostly transfer eligible securities to NCB accounts Free-of-Payment (FoP)⁵ in accordance with the repo agreements or the pledge agreements in place with the relevant NCBs.

For the mobilisation of assets, the Eurosystem allows the use of eligible links between eligible SSSs and also provides the Correspondent Central Banking Model (CCBM) to ensure that monetary counterparties can access all eligible assets. Furthermore, monetary policy counterparties may use tri-party collateral management services provided by eligible Tri-Party Agents (TPAs) for the mobilisation of eligible collateral with the Eurosystem. With the go-live of T2S, the Eurosystem also offers T2S auto-collateralisation.

The two ICSDs announced in 2014 and 2015 that they will make their services available also on the basis of T2S services.⁶ T2S went live in June 2015. It is expected that 18 of the 22 eligible SSSs will have migrated to T2S by the end of 2017. Taking due account of these important developments in the European post-trade landscape⁷, the Eurosystem considers potential changes to its collateral management procedures. In particular, the Eurosystem contemplates establishing a policy to consolidate the settlement of all marketable assets which monetary counterparties use for Eurosystem credit operations in T2S. This means that the Eurosystem would, subject to Governing Council approval of this policy, take / receive securities for use as collateral in Eurosystem credit operations exclusively in NCB securities/collateral accounts which are held in T2S-participating CSDs. No requirements would be applied / imposed on the location of monetary policy counterparties' (source) accounts.

The key objectives of the envisaged Eurosystem policy is to enable monetary policy counterparties and the Eurosystem to realise potential efficiency gains in collateral management procedures and keep them at least as safe as today, to further harmonise related procedures and to decrease the existing difference between domestic and cross-border mobilisation of collateral. The new policy is not expected to change the set and availability of eligible assets accepted today as collateral in Eurosystem credit operations. TPA services should continue to be available to monetary policy counterparties. The policy would become effective with the go-live of the ECMS⁸.

⁵ In some technical details there are some differences across NCBs related to the account structures they maintain in their respective (I)CSDs and other local market practices. Please see the [ECB website](#) for more details on local market practices.

⁶ See related [Euroclear](#) and [Clearstream](#) communication for further reference

⁷ Further pertinent developments are: the Capital Markets Union initiative of the EU Commission, the securities and collateral harmonisation initiatives launched by the AMI-SeCo, the Eurosystem's deliberations on developing a single Eurosystem Collateral Management System (ECMS).

⁸ Information on the ECMS initiative can be found on the ECB's [website](#)

The Eurosystem presented the high-level policy deliberations to the March 2017 AMI-SeCo meeting. A dedicated workshop⁹, hosted by Banco de España in Madrid on 11 May 2017, allowed the Eurosystem and AMI-SeCo representatives to have a more in-depth discussion of the Eurosystem's policy deliberations.

As a follow up to this workshop, the Eurosystem has prepared a set of questions related to the envisaged T2S settlement policy for collateral mobilisations. The aim of this questionnaire is to gather further views from market stakeholders on the potential policy change in mobilising collateral. The questionnaire is addressed to AMI-SeCo members and their constituents. The responses will be consolidated and a summary will be presented to the AMI-SeCo in its July 2017 meeting. The ECB will treat all individual replies as confidential and in accordance with the relevant data protection requirements¹⁰.

Respondents are kindly requested to send their replies to the AMI-SeCo Secretariat (AMI-SeCo@ecb.europa.eu) by 15 June 2017 cob.

2. Questions to market stakeholders

I. General benefits and challenges

Q1 *Which concrete benefits and challenges of the Eurosystem consolidating its taking of securities as collateral (i.e. settling collateral mobilisations) in T2S do you perceive?*

Q2 *Do you see any effects on other stakeholders, in particular your clients? (Y / N, if Y please describe such effects)*

II. Potential impact on collateral availability

Eligible assets that are issued in non-participating (I)CSDs would continue to be eligible and would be mobilised and held by Eurosystem NCBs as collateral through / via links between T2S participating CSDs and the issuer (I)CSDs.

Q3 *Do you agree that the policy would not affect the availability of collateral from a counterparty point of view? (Y/N, if N, please explain)*

III. Management of counterparty collateral holdings and mobilisations

The policy would imply that all Eurosystem NCBs would use securities accounts held with T2S participating CSDs to take (receive) marketable collateral in Eurosystem credit operations. Existing NCB accounts and related procedures already in T2S participating CSDs would not be affected. The policy would not affect or imply any requirements on the location of counterparty holdings or source accounts (i.e. securities accounts from which monetary policy counterparties transfer their securities to Eurosystem NCBs to mobilise such securities as collateral for credit operations).

Q4 *Would the introduction of the T2S settlement policy and moving the Eurosystem accounts to take collateral from non-participating (I)CSDs to T2S-participating CSDs change your internal procedures / business processes to mobilise collateral to the Eurosystem? (Y / N,*

⁹ See summary of the AMI-SeCo workshop on Eurosystem deliberations on taking collateral in T2S held on 11 May in Madrid (09.03.02.01/2017/000329)

¹⁰ EU Data Protection Law ([Regulation EC No. 45/2001](#))

if Y, please explain how the steps you take in the process of mobilising collateral for Eurosystem credit operations would change and what could be the potential cost implications / efficiency gains in the short and medium to long term)

Q5 *Would you expect such a policy to possibly motivate you to re-allocate your general securities holdings / account relationship? (Y / N, if Y please explain)*

Q6 *Would you expect such a policy to possibly change the settlement window / business hours available to you to (de)mobilise collateral with the Eurosystem or with other collateral takers? (Y / N, if Y, please explain)*

IV. Impact on costs

Some monetary policy counterparties might choose to rely more frequently on cross-CSD settlement to mobilise collateral. Most (I)CSDs currently price cross-CSD settlement differently from intra-CSD settlement.

Q7 *Would you expect such a policy to affect your costs (e.g. service fees, settlement fees, etc.) of mobilising collateral to the Eurosystem? (Y/N, if Y please explain how)*

V. Availability of additional (I)CSD services (other than settlement)

Monetary policy counterparties and NCBs are expected to remain in a position to continue making use of all related services provided by non-participating (I)CSDs on the basis of T2S settlement (e.g. tri-party collateral management services)

Q8 *Would you expect such a policy to affect the way you would use custody and asset services (i.e. including processing of corporate actions, fiscal services, etc.) provided by your (I)CSD on your securities holdings? (Y/N, if Y please explain how)*

Q9 *Would you expect such a policy to affect your use of tri-party collateral management services in relation to the Eurosystem as collateral taker? (Y/N, if Y please explain how)*

Q10 *Would you expect such a policy to affect the way you make use of T2S auto-collateralisation? (Y/N, if Y please explain how)*

VI. Other

Q11 *Please let us know any other considerations you may have in relation to the potential Eurosystem policy to take collateral in T2S.*