



EUROPEAN CENTRAL BANK

EUROSYSTEM

Eurosystem Collateral Management System

Information pack

ECMS credit line management

January 2020

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

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

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

Expected credit line

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

Real credit line

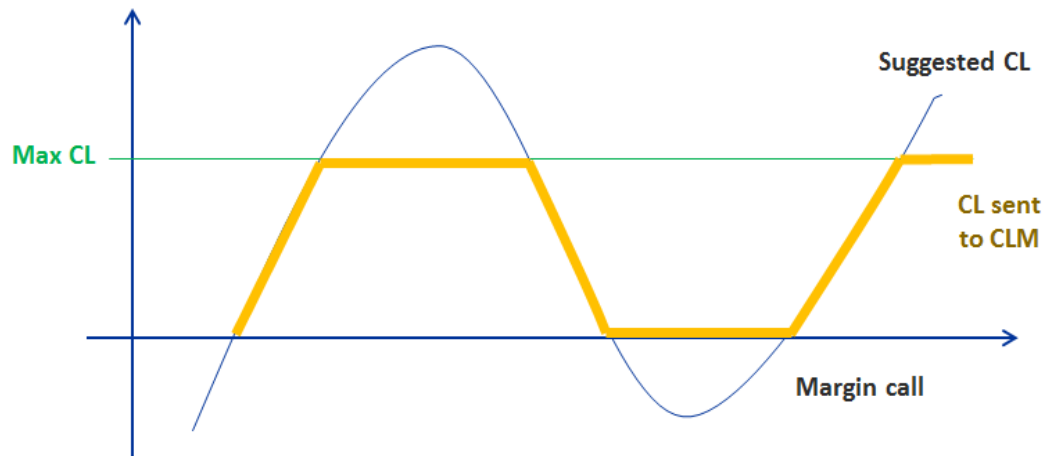
The value of the credit line confirmed by CLM

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.

Management of the credit line (1)

	Initial state: no credit line has been set up
Suggested Credit Line	1,000,000
Maximum Credit Line	N
Pool credit line configuration	N
Real Credit Line	N/A
Expected Credit Line	N/A
Instruction to modify the credit line	
Credit Line in CLM	N/A
Real Credit Line	N/A

- No credit line has been configured
- There is no interaction with CLM
- Expected and real credit credit line concepts do not apply

Management of the credit line (2)

	Initial state: no credit line has been set up	A credit line link is configured
Suggested Credit Line	1,000,000	1,000,000
Maximum Credit Line	N	N
Pool credit line configuration	N	Y
Real Credit Line	N/A	0
Expected Credit Line	N/A	1,000,000
Instruction to modify the credit line		Y
Credit Line in CLM	N/A	1,000,000
Real Credit Line	N/A	1,000,000

- The NCB configures a credit line in the pool
- Unused collateral is now available for intraday credit
- The expected credit line is updated and the ECMS sends CLM an instruction to update the credit line with the value to be processed by CLM
- The real credit line value is updated once CLM confirms that the instruction has been settled

Management of the credit line (3)

	A credit line link is configured	Maximum credit line is added
Suggested Credit Line	1,000,000	1,000,000
Maximum Credit Line	N	800,000
Pool credit line configuration	Y	Y
Real Credit Line	0	1,000,000
Expected Credit Line	1,000,000	800,000
Instruction to modify the credit line	Y	Y
Credit Line in CLM	1,000,000	800,000
Real Credit Line	1,000,000	800,000

- The NCB or the counterparty set up a maximum credit line
- The value is lower than the suggested credit line so the ECMS updates the expected credit line value
- The ECMS sends a corresponding instruction to CLM to decrease the credit line

Management of the credit line (4)

	Maximum credit line is added	Collateral decreases	
Suggested Credit Line	1,000,000	900,000	<ul style="list-style-type: none">The suggested credit line decreases but the value is still greater than the maximum credit line
Maximum Credit Line	800,000	800,000	
Pool credit line configuration	Y	Y	
Real Credit Line	1,000,000	800,000	
Expected Credit Line	800,000	800,000	<ul style="list-style-type: none">There is no need to update the expected credit line, so no instruction is sent by the ECMS to CLM
Instruction to modify the credit line	Y	N	
Credit Line in CLM	800,000	800,000	
Real Credit Line	800,000	800,000	

Management of the credit line (5)

	Collateral decreases	Further collateral decrease
Suggested Credit Line	900,000	700,000
Maximum Credit Line	800,000	800,000
Pool credit line configuration	Y	Y
Real Credit Line	800,000	800,000
Expected Credit Line	800,000	700,000
Instruction to modify the credit line	N	Y
Credit Line in CLM	800,000	700,000
Real Credit Line	800,000	700,000

- The suggested credit line decreases again and falls below the maximum credit line
- The ECMS updates the expected credit line and sends a corresponding instruction to CLM

Management of the credit line (6)

	Further collateral decrease	Collateral demobilisation instruction
Suggested Credit Line	700,000	600,000
Maximum Credit Line	800,000	800,000
Pool credit line configuration	Y	Y
Real Credit Line	800,000	700,000
Expected Credit Line	700,000	600,000
Instruction to modify the credit line		Y
Credit Line in CLM	700,000	700,000
Real Credit Line	700,000	700,000

- The suggested credit line decreases to bring the value under the maximum credit line
- The expected credit line is updated and ECMS instructs CLM
- However, insufficient liquidity is available in CLM to process the instruction (CLM will also pull liquidity from the RTGS)
- The instruction remains pending in CLM. In the meantime the value of the expected credit line (as instructed by the ECMS) differs from the value of the real credit line (the latest one settled by CLM)
- The demobilisation instruction remains pending in the ECMS. The demobilisation instruction will be rejected by the ECMS if nothing has changed by End of Day.

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

Used when only the credit line is affected.

Modify Credit Line messages can be queued in CLM if they are not immediately processed.

Connected payments

If the credit line and cash need to be settled at the same time.

e.g. the reimbursement of an open market operation both debits 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.

Events that trigger Modify Credit Line messages

Events (non-exhaustive list)	Update of position	Update of the Credit Line
Mobilisation of asset/credit claim Asset rejection/cancellation Credit claim demobilisation Accrued interest on FTD used as collateral Triparty collateral increase/initiation	Collateral position	Increase
Demobilisation of asset/credit claim Triparty collateral decrease/closure Ineligible asset		Decrease
Accrued interest on cash collateral Pool revaluation process (De-)mobilisation of externally managed collateral Triparty revaluation Corporate actions triggering the change of collateral value		Increase / decrease
Credit freezing decrease position	Credit Position	Increase
Credit freezing increase position		Decrease
Non-euro liquidity providing operation (depending on the event type: settlement, maturity, netting, revaluation, exchange rates, initial margin) Accrued interest on credit operation		Increase / decrease
Update in the Maximum Credit Line value	n.a	Increase / decrease

Events that trigger connected payments

Events (non-exhaustive list)	Update of position	Update of the Credit Line and impact on the Counterparty's MCA
Credit operation settlement Credit operation maturity (including interest at maturity) Early repayment of credit position (both principle and accrued interest)	Credit position	Increase / decrease of credit line, and debit / credit on the counterparty's MCA
Cash Demobilisation	Collateral position	Decrease of credit line / credit in the counterparty's MCA
Mobilisation of FTD used as collateral Maturity of FTD used as collateral	Collateral position	Increase / decrease of credit line, and debit / credit on the counterparty's MCA