



securitiesfinancetimes

**Collateral
2023**

EASY COLLATERAL

by VERMEG

As the provider of the Eurosystem Collateral Management System (ECMS) platform that will be used by National Central Banks of the Eurozone, VERMEG is happy to introduce EASY Collateral, an end-to-end solution that helps market participants of all sizes meet deadlines, automate their processes and reduce credit and operational risks.

Are you ready for ECMS?

With the ECMS deadlines approaching fast (November 2023), you need to report on your market readiness for the introduction of the new European collateral management system.

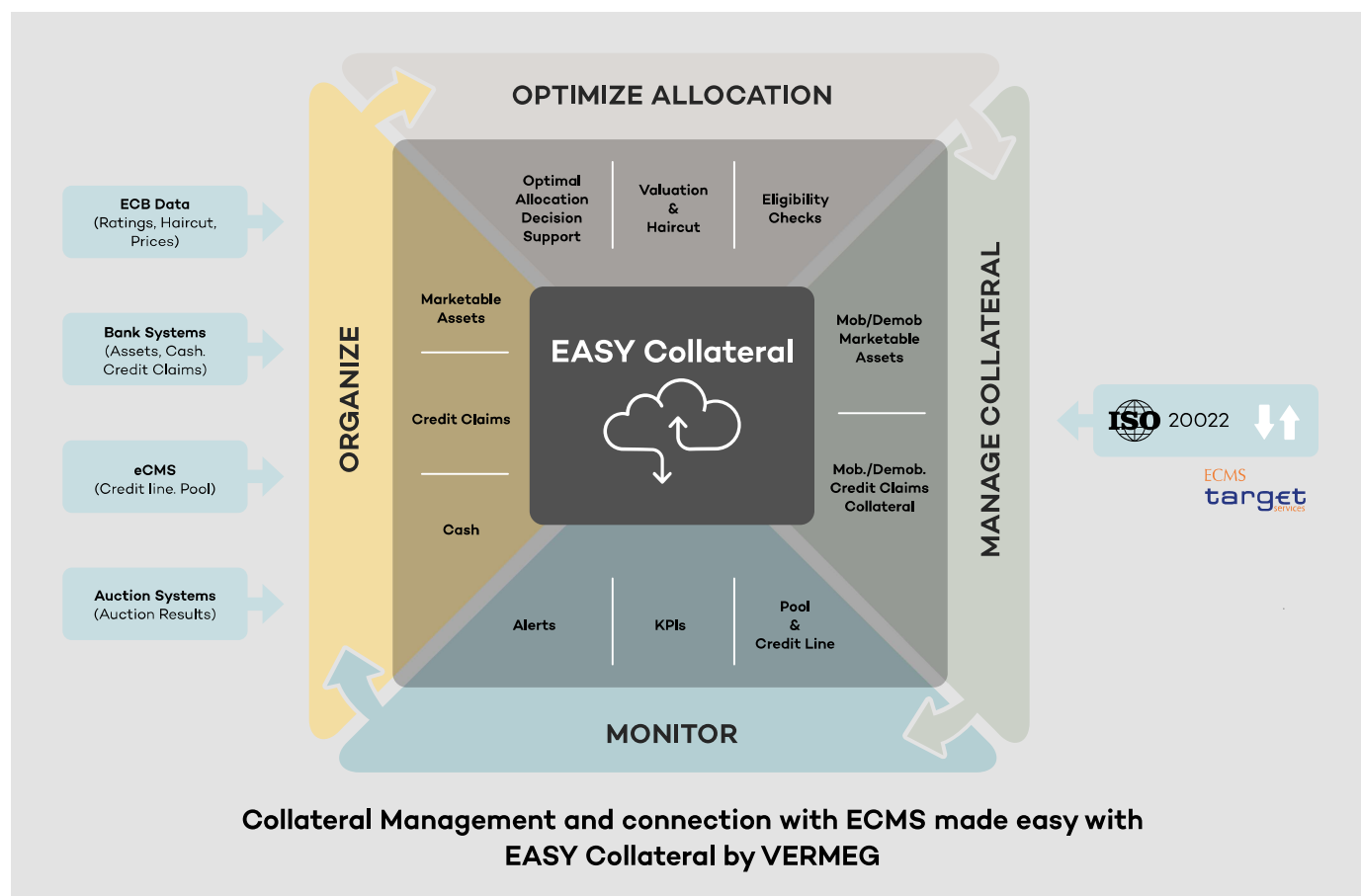
It's not too late!

Regardless of where your organization is in terms of ECMS-readiness, **VERMEG** can help.

Designed for bank treasurers

EASY Collateral is specifically designed for bank treasurers to seamlessly integrate with ECMS and make your life easy :

- / Get permanent access to a comprehensive **digital dashboard**
- / See in real time your **inventory** of available assets, and your position in ECMS
- / Allocate and (de)mobilise **credit claims** and other **marketable collateral** with one click
- / Reduce your operational risk and increase your operational efficiency





Collateral management: leverage technology to comply with new market infrastructure

VERMEG's director of collateral management product Wassel Dammak analyses how the ECB's Eurosystem Collateral Management System initiative will impact the collateral space upon its arrival in November 2023

Central banks play an important role in ensuring sufficient liquidity is available to financial markets.

One typical example of how technology can support

innovation in collateral management is the Eurosystem Collateral Management System (ECMS) initiative led by the European Central Bank (ECB). The Eurosystem's 19 individual National Central Bank (NCB) collateral

systems will be replaced by a single harmonised system, the ECMS, in November 2023 and an orderly transition is vital to maintaining access to central bank liquidity facilities thereafter.

Why is collateral important in the process?

The ECB and the 19 Eurozone NCBs that make up the Eurosystem can only provide credit when it is backed up by adequate collateral. Central bank liquidity lines have been increasingly used to provide efficient and cost-effective everyday liquidity in the last decade, not just in times of crisis. As borrowing has increased over time, the range and volume of eligibility collateral has also increased, more than doubling in over a decade. Mobilising global collateral is an increasingly complex process, but vital to efficient liquidity management.

The ECB provides credit only against eligible collateral. Collateral can be in the form of marketable assets such as financial securities and non-marketable assets such as credit claims. The eligibility of assets is assessed by each NCB according to the criteria specified in the Eurosystem Collateral Framework.

During the past 10 years, the ECB collateral framework has been broadened to increase collateral availability for credit institutions and thereby facilitate the provision of increased credit by the Eurosystem. These modifications included, among others, the acceptance of additional credit claims in some euro area countries.

Liquidity is provided by the central bank on a desynchronized basis, with the delivery of collateral taking place first. As a result, the mobilisation of collateral plays a key role for all credit institutions to ensure they have all the tools in place to mobilise and demobilise assets and credit claims.

Infrastructures play a significant role

As the pools of eligible collateral have expanded, infrastructures developed new tools and technologies to enable efficient global collateral management. Triparty services were introduced and have been adopted by the Eurosystem. Innovative solutions have supported

the market's ability to respond quickly in times of crisis and contributed greatly to market stability.

From November 2023, the 19 Eurosystem NCBs will migrate each of their existing collateral management systems to a new harmonised collateral management system: the ECMS. This new single system for managing pools of assets used as collateral in Eurosystem credit operations aims to reduce European fragmentation and boost operational and cost efficiencies.

A continued access to Eurosystem credit facilities will be dependent on a successful transition to ECMS.

Multi-pooling collateral

The ECMS will support multi-pooling functionality which allows counterparties to hold collateral pools in the ECMS in multiple locations, giving counterparts flexibility in their global collateral management. Some non-marketable assets, such as certain credit claims, will be recorded at the NCB level, with ECMS updated to provide an accurate overall position.

VERMEG has been chosen by the ECB to build the future ECMS platform.

Challenges for banks to comply with ECMS

ECMS will primarily impact counterparts of central banks by changing the procedures to mobilise and demobilise collateral and to request changes in credit lines. It will also result in changes to the required content and format of instructions, impose new operational deadlines and introduce a new User Interface, requiring adaptations to IT systems and operational procedures.

This is especially true for the mobilisation of credit claims. Market practice to mobilise credit claims currently varies greatly across different European markets. While having a single process under ECMS will be a big step forward for counterparts and generate substantial operational efficiencies, it will require a significant adaptation in the short term.

In addition, ECMS has chosen ISO 20022 for STP

communication and will reuse the Eurosystem Single Market Infrastructure Gateway (ESMIG). Counterparts wishing to communicate through SWIFT with ECMS will need to adopt ISO 20022 messaging and develop a connection with ESMIG if they do not already have one.

"At a time where roadmaps are under pressure from a variety of regulatory initiatives, the prospect of adjusting to ECMS can feel especially challenging."

While this is more than a year away, the critical nature of access to the central bank and the forced migration in November 2023 mean that preparations should already be underway. Central banks are organising market working groups which provide a valuable forum to clarify aspects of how ECMS will work and to exchange information with others.

Crucially, users of ECMS will need to implement and master the workflows required to deliver collateral and request a credit line before launch. At a time where roadmaps are under pressure from a variety of regulatory initiatives, the prospect of adjusting to ECMS can feel especially challenging.

This is why there are a variety of options that can be used to lighten the burden. For example, foregoing STP communication and resorting to using the ECMS User Interface can be a temporary solution to remove the need to immediately migrate to ISO 20022 and develop a connection with ESMIG. However, relying on manual processes to mobilise collateral at the ECB seems to be a challenge under stressed market conditions.

Digital to support market readiness

VERMEG has developed a digital application that is easy to implement and is directly connected to ECMS, allowing collateral optimisation of the ECB pool.

EASY Collateral by VERMEG addresses a common need by maintaining a real-time view on both available inventory and collateral deposited in ECMS. It also provides a comprehensive dashboard in which all interactions with ECMS can be monitored. Mobilising and demobilising credit claims and marketable assets can easily be managed through its direct connection to ECMS and its optimisation tool.

With ECMS and EASY Collateral, VERMEG offers a comprehensive infrastructure for collateral management dedicated to central banks, central clearing counterparties (CCPs) and clearing brokers.

With COLLINE, the overall offer is extended to cover financial institutions globally across buy side, sell side and asset servicers. Native connectivity between ECMS, EASY Collateral and COLLINE positions VERMEG's global collateral platform as a comprehensive ecosystem that efficiently manages credit risk and ensures sufficient liquidity is available to financial markets. ■

Wassel Dammak
Director of collateral management product
VERMEG

