ECMS | The ECMS in the TARGET Contingency Case

Deutsche Bundesbank

Frankfurt am Main, 15 and 18 March 2024

Eurosystem Collateral Management System (ECMS)
Agenda

Principles

Provision of liquidity
- Current generation options
- Changes with go-live
- Future generation options in ECMS

Credit Freezing in ECMS

Eurosystem Collateral Management System (ECMS)
Principles

− If the **normal operation of CLM and/or RTGS is disrupted**, **the emergency solution ECONS II (Enhanced Contingency Solution II)** can be activated for the limited maintenance of payment transactions.

− In contrast to normal operation, the **contingency accounts of the counterparties** can only be managed **on a credit basis**.

− This makes it necessary for the participating counterparties to hold **"starting liquidity"** for the contingency case during normal operations or to generate new liquidity during **the use of ECONS II** for reinforcement.

− With the start of operations of the Eurosystem Collateral Management System (ECMS), the migration of monetary policy collateral accounts **for critical T2 participants will be accompanied by changes in the provision of liquidity in the contingency case (ECONS II)**.

Eurosystem Collateral Management System (ECMS)
Current generation options of liquidity

- **All monetary policy counterparties** currently have the option of providing collateral to collateral account 3 as precautionary collateral for the TARGET contingency case:

  - In **the contingency case**, the collateral value of the collateral is **automatically** transferred to the contingency account of the counterparties.

  - With this option, **liquidity can be increased** at any time by strengthening the collateral, but cannot be reduced.

- **Critical T2 participants currently** have the option of automatically transferring the not used free lending value from collateral account 1 to collateral account 3:

  - The prerequisites for this are: an **existing fixed credit line** in the monetary policy collateral pool before the contingency occurs and a binding **booking authorisation.**

Eurosystem Collateral Management System (ECMS)
Future generation options of liquidity in ECMS

- Pool design **in the ECMS**

- Pool designation: ECON[RIADCODE] - known collateral account number   -> ECONDEXXXXX-XXXXXXXXXXXX

- Marketable Asset Account: [RIADCODE]MA- known securities account number -> DEXXXXXMA-2XXXXXXX-XXX

- The desired liquidity for the ECONS transfer is determined with **the credit freezing block (type ECON)** (further explanations on system behaviour on slide 16)

- In ECMS it is still possible to transfer **not used collateral from the monetary policy pool** to the **ECON pool** (analogue additional collateral account or collateral account 3) **to generate additional liquidity in the contingency case** .

  - The prerequisite for this is

    · an **established ECON pool** and

    · an existing **maximum credit line (MaCL)** in the monetary policy collateral pool.

- The counterparties can use the **multipooling function** to transfer individual securities to the segregated **ECON pool**.

Eurosystem Collateral Management System (ECMS)
Future generation options of liquidity in ECMS

- Irrespective of this, counterparties can also **deliver collateral to the separate ECON pool** in ECMS in **advance of a possible contingency case**.

- In addition, collateral can continue to be deposited directly into the ECON pool during an **already activated contingency case**; this leads directly to a corresponding **increase in liquidity in ECONS II**.

- In the contingency case, **all eligible assets of the Eurosystem** can be mobilised via the usual eligible mobilisation channels (domestic, cross-border and triparty).

Eurosystem Collateral Management System (ECMS)
Utilisation of free liquidity EUCO in the ECON pool*

Example: Utilisation of liquidity EUCO (monetary policy pool) in the CLM contingency case

CREDIT LINE DETAILS				
SCL	ECL	RCL		Maximum Credit Line value
101,127,715.31	1,000,000	1,000,000		1,000,000
Insufficient Collateral	Collateral Deficit	Excess ECL		Deficit Econs
No	0	100,127,715.31		0
Credit Line Details				

Suggested CL	**101.127.715,31**	**(SCL; free collateral value)**	
Maximum CL	**1.000.000**	**(= CLM credit line)**	

Difference = Excess ECL 100.127.715,31

- The **Excess ECL** (= Difference Suggested CL - MaCL) - is generally available for shifting liquidity from the EUCO pool (monetary policy) to the ECON pool (CLM contingency) because CLM communication is not required.

  ➢ Either use of the multipooling (rebooking) function or
  ➢ Delivery from the EUCO pool and direct (re-)delivery to the ECON pool

* not part of the test on 03/04/2024

Eurosystem Collateral Management System (ECMS)
Future generation options of liquidity in ECMS

- In ECMS, collateral for contingency cases can already be blocked during normal operation using the **"Credit Freezing"** function.

- ECMS will automatically transfer the resulting collateral value to the **ECONS II module** as a liquidity injection **when the emergency solution is activated**.

- For legal reasons, the Bundesbank will **separate the pools and securities accounts** for the collateral held in the monetary policy collateral account and those for the TARGET contingency case in the operational organisation of the collateral accounts in the ECMS.

- The creation of credit freezing is therefore **only possible** in the separate **ECON pool**:

Collateral account number	Name	Function
1	Counterparty Pool for monetary policy	Collateralisation of monetary policy operations and intraday credit on the primary MCA account
3	Counterparty Pool for ECONS II Module (ECON-Pool)	Provision for the TARGET contingency case

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

- Module Collateral and Credit ("MegaLend")
  - **Menu items „Credit Freezing"** (Main menus „Exposure" & „Notification")
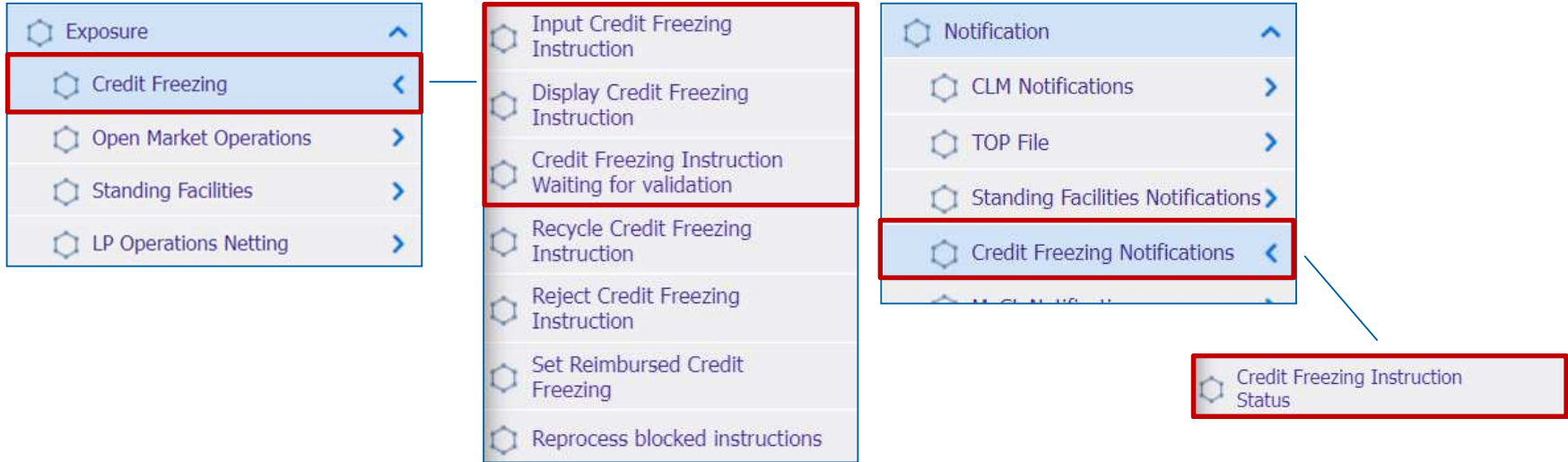
Relevant ECMS user roles:

- ECMS Entity U2A Credit Freezing (Execution)
- Super Validator

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

Menu item	Submenu items	Descriptions
Credit Freezing	Input Credit Freezing Instruction	▪ Creation of Credit Freezing Instructions
	Display Credit Freezing Instruction	▪ View on Credit Freezing Instructions
	Credit Freezing Instruction Waiting for Validation	▪ Confirmation / Rejection of Credit Freezing Instructions (4-eyes principle)
Credit Freezing Notifications	Credit Freezing Instruction Status	▪ Viewing (status) information of processed Credit Freezing Instructions (and possibly processing).

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

- Screen "Input Credit Freezing Instruction" for creating a Credit Freezing Instruction
- Collateral and Credit >> Exposure >> Credit Freezing >> **Input Credit Freezing Instruction**

* Credit Freezing Type available for KW 13

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

Attributes Credit Freezing Instruction in ECMS	
Attribute name	**Description**
Transaction Reference Number	▪ Identifier (assigned by ECMS) for the identification of the Credit Freezing Instruction.
Party´s Instruction Reference	▪ Identifier (assigned by the instructing party) for the identification of the Credit Freezing Instruction.
Pool Identifier	▪ Identifier of the counterparty pool for which the Credit Freezing is being instructed.
Counterparty	▪ RIAD code of the counterparty (automatically set according to the Pool Identifier).
Credit Freezing Type	▪ Credit Freezing Type (predefined by the Eurosystem and previously assigned by the NCB user for each counterparty or counterparty pool).
Amount	▪ Amount of the Credit Freezing Instruction in Euro.
Intended Settlement Date	▪ Current ECMS business day (automatically set by ECMS).
Currency	▪ Currency of the Credit Freezing Instruction (Default: EUR).
Update Mode	▪ DELTA or CANCEL AND REPLACE (regarding the previous Credit Freezing Position).
Compulsory Event	▪ Yes / No (= Mandatory reduction of the Credit Line, automatically set by ECMS based on the Credit Freezing Type).
Last Update Reason	▪ Optional: Reason for the last update (free text).

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

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- Screen "Search Result: Credit Freezing" for displaying the search results for Credit Freezing Instructions

- Collateral and Credit >> Exposure >> Credit Freezing >> **Display Credit Freezing Instruction** >> Click on Search Button (after entering search criteria, if necessary)

Search Result : Credit Freezing

	Transaction R	Party's Instruc	Pool Identifier	Counterparty	Credit Freezin	Amount	Currency	Intended Settl	Update mode	Compulsory E	U2A	Instruction St	Update Date	Update User I
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	0	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	80,000,000	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	0	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	20,000,000	EUR	16/06/2022	DELTA	No	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	20,000,000	EUR	16/06/2022	CANCEL AND R...	Yes	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	0	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	0	EUR	16/06/2022	CANCEL AND R...	No	Yes	Rejected	16/06/2022 15:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	25,000,000	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 14:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	0	EUR	17/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 12:...	ECMS OPERAT...
☐	CF2022061600...	CF2022061600...	POOL00000000...	FR18129	CPTY	20,000,000	EUR	16/06/2022	CANCEL AND R...	No	Yes	Settled	16/06/2022 12:...	ECMS OPERAT...

History View

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Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

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- Screen "View: Credit Freezing" for the detailed view of a Credit Freezing Instruction

- Collateral and Credit >> Exposure >> Credit Freezing >> **Display Credit Freezing Instruction** >> Click on Search Button (after entering search criteria, if necessary) >> Select Credit Freezing Instruction >> Click on View Button.

Search Result : Credit Freezing > View : Credit Freezing   History

INSTRUCTION DETAILS

Transaction Reference Number	Party's Instruction Reference	Counterparty
DECF230602000060001	CF20230602000675	DE01400

Pool Identifier	Credit Freezing Type	Amount
POOL000000000435	CFNCB	1,500,000

Currency	Intended Settlement Date	Update mode
EUR	02/06/2023	CANCEL AND REPLACE

Last Update Reason

STATUS DETAILS

Instruction Status	Event Description	Compulsory Event
Settled	Credit Freezing Position increase	Yes

Absolute Credit Limit Breached	Collateral Insufficiency	U2A
Yes	No	Yes

Action To Validate	Is Rejected	
	No	

Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

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- Screen "Search Result: Credit Freezing Instruction Status Notification" for displaying (and potentially processing) information about processed Credit Freezing Instructions.

- Collateral and Credit >> Notification >> Credit Freezing Notifications >> **Credit Freezing Instruction Status** >> Click on Search Button (after entering search criteria, if necessary).

Search Result : Credit Freezing Instruction Status Notification

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	Message Id ⇕	Pool Identifier ⇕	Credit Freezing Type ⇕	Amount ⇕	Value Date ⇕	Mode ⇕	Direction ⇕	Notifications Status ⇕	Update User Id ⇕	Update Date ⇕
☐	139516620	POOL000000000204		50000000	08/07/2022	DELTA	Out	Processed	STP	08/07/2022 16:22:58:4...
☐	139456620	POOL000000000144		100000000	08/07/2022	CANCEL AND REPLACE	Out	Processed	ECMS OPERATOR 1	08/07/2022 15:33:55:0...
☐	139446620	POOL000000000144		-65000000	08/07/2022	DELTA	Out	Processed	ECMS OPERATOR 1	08/07/2022 15:22:48:3...
☐	139426620	POOL000000000204	CPTY	54000000	08/07/2022	Delta	Out	Processed	STP	08/07/2022 14:22:36:1...
☐	139396620	POOL000000000204	CPTY	0	08/07/2022	CancelAndReplace	Out	Processed	STP	08/07/2022 14:17:29:1...
☐	139326620	POOL000000000204	CPTY	54000000	08/07/2022	CancelAndReplace	Out	Processed	STP	08/07/2022 12:37:44:5...
☐	138156620	POOL000000000204	DISC	1000000	08/07/2022	Delta	Out	Processed	STP	07/07/2022 20:24:43:3...
☐	ADDRESSCACHE05	POOL000000000204	DISC	1000000	08/07/2022	INCR	In	Impacted	FRCB-A2A-02	07/07/2022 20:24:24:1...
☐	138126620	POOL000000000204	DISC	1000000	08/07/2022	Delta	Out	Processed	STP	07/07/2022 20:22:33:3...
☐	ADDRESSCACHE01	POOL000000000204	DISC	1000000	08/07/2022	INCR	In	Impacted	FRCB-A2A-02	07/07/2022 20:22:03:9...

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Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS

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- The **credit freezing block** relevant for the **CLM contingency case** (type: **ECON**) is stored in the **ECON pool** of the business partner

- The change of a credit freezing position **via credit freezing instruction** can be requested both in U2A mode and in A2A message format (daily until 17.45 CET).

|	Example with Credit Freezing		Example without Credit Freezing	
	Collateral Value	**Credit Freezing**	**Collateral Value**	**Credit Freezing**
Before ECONS	10.000.000	6.000.000	10.000.000	0
Activation of CLM-Contingency-Mode	→ **Automatic transfer** of liquidity totalling € 6,000,000 to the ECONS II module, Possibility of subsequently blocking the remaining € 4 million **during the active CLM contingency case**		→ **No automatic transfer** of liquidity, possibility of subsequent blocking of the collateral portfolio during the active CLM contingency case	

- **Collateral that is transferred to the ECON pool during the activated contingency case** automatically increases the credit freezing block by the corresponding lending value and generates the transfer to the ECONS II module in parallel; **no** adjustment is necessary.
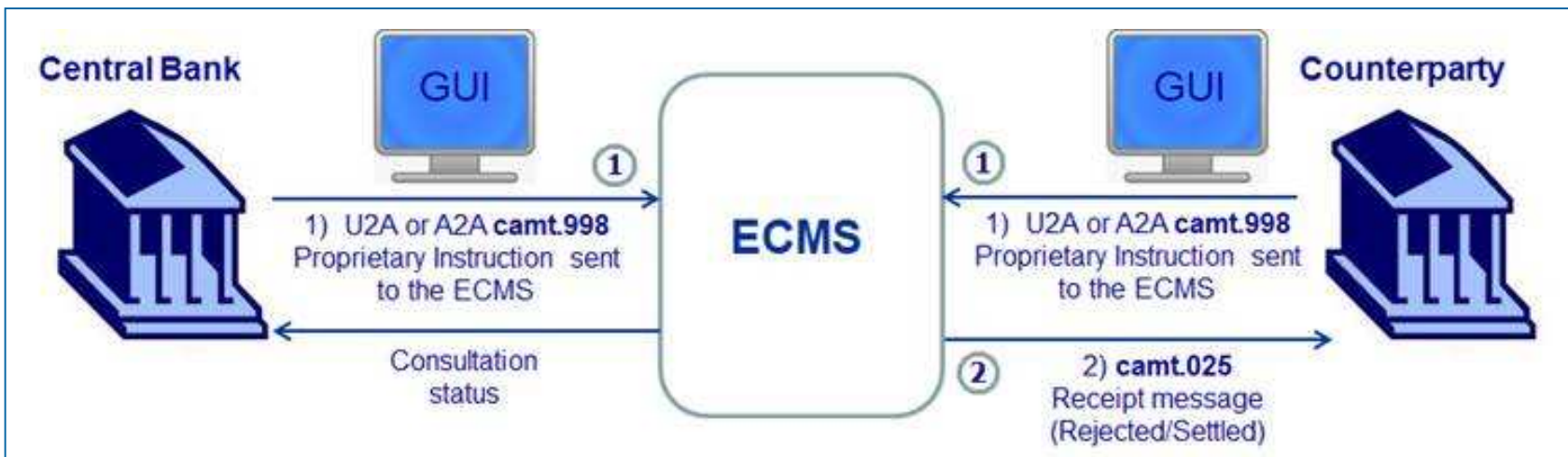
Eurosystem Collateral Management System (ECMS)
Credit Freezing in ECMS – Message Flow

- Updating a Credit Freezing from ECMS perspective:
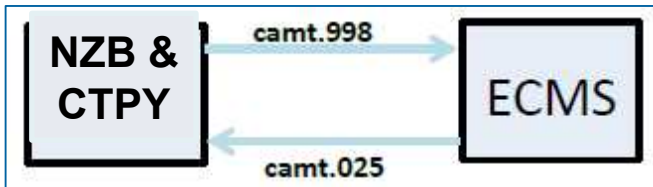
ISO-Nachricht	ISO-Code	from	to
CreditFreezingUpdate (Create / Remove or Update)	camt.998	NZB & CTPY	ECMS
Receipt (Settled / Rejected)	camt.025	ECMS	NZB & CTPY

Eurosystem Collateral Management System (ECMS)
Important Information for Testing on 3rd of April (ECMS UTEST)

The **focus of the test is the handling of the "credit freezing block" and the technical transfer from ECMS to the ECONS II module**

➢ Liquidity is generally available to all counterparties in the ECON pool, so no prior collateral posting is necessary.

➢ Counterparties are requested to implement a corresponding credit freezing block (type ECON) with the desired liquidity in the ECON pool in advance of the test, optionally a block adjustment (increase) can also be tested during the activated contingency case.

➢ At the end of the test, <u>NO derecognition from the **ECONS II module**</u> is required. We will carry out the transfer for you.

Please do not make any (subsequent) bookings (payments) in ECONS during the test.

Eurosystem Collateral Management System (ECMS)
Our contact details

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Thank you very much for your attention.

If you have any questions, please do not hesitate to contact us.

Contact

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