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## How Can Collateral Management Benefit from DLT?

applied, additional eligibility criteria will be needed at least regarding the TTP to also ensure safety and efficiency for this potential new mobilization channel. These criteria are likely to be closely aligned with existing standards for TPAs such as:

- insolvency-proof claim to securities held with TTPs and pledged to central banks, obligations of TTPs vis-à-vis central banks, liability regime, etc.;
- settlement of corporate actions, substitution of collateral and retention of funds from corporate actions;
- compliance with the Eurosystem eligibility criteria for collateral and their mobilization channels;
- realization of collateral;
- risk management;
- confidentiality of data.

In addition, there might be requirements for the custodians of the TTP with regard to access rights required in the event of a TTP failure to the accounts on which the deposited securities are held. Specific requirements on the DLT Layer for availability and corresponding contingency methods for redeeming the tokens in the event of non-availability might also be of importance.

To conclude, there is still the need for further legal analysis and assessment prior to the acceptance of DLT collateral assets as eligible collateral for Eurosystem credit operations.

## 6 Conclusions

Several financial institutions and market infrastructure providers have already investigated distributed ledger technologies. Prototype systems have been built and tested in various proof-of-concept studies; first use cases are in the process of being implemented. Over time, the underlying protocols have become more and more mature and suitable for the processing of financial transactions. It is expected that distributed ledger systems will become more common in the financial industry due to their potential for delivering efficiency gains and new business opportunities.

The intention of the paper at hand was to analyze in more detail the appropriateness of distributed ledger technology in the context of collateral management. Since the financial crisis, the importance of collateral management arrangements has grown due to regulatory requirements and increased risk aversion of market participants. Consequently, collateral has become a concern of financial markets focusing on the aspect to put the right collateral at the right time at the right place. This is why we as a central bank and an infrastructure provider are working on this subject.

Collateral mobility has already begun to derive benefits from several Eurosystem projects and initiatives such as T2S or the usage of triparty collateral management services. Other gaps have been addressed by the Collateral Management Harmonization Standards of the Eurosystem's AMI-SeCo. However, the associated adaptations made by market participants in order to harness these opportunities will need time for their impact to fully unfold. In addition, it remains to be seen whether the necessary business policy decisions will actually be made by relevant parties or whether persistent forces predominate, and no corresponding adjustments are made.

A complementary option enabling more efficient mobilization of collateral is the use of distributed ledger technology. With the introduction of tokens representing underlying securities and specific