
How Can Collateral Management Benefit from DLT?

designing DLT solutions which fit seamlessly in the current regulatory, process and system landscape and provide instant benefits for market participants. Building such solutions would represent the first steps in the process of utilizing DLT. By developing this process step by step, the potential of the technology could be harnessed in order to continually improve the existing infrastructures over time.

2 Introduction

As regards innovation in technology and business, blockchain and DLT continue to be in the focus of financial market players as well as central banks. Even though the general euphoria has cooled somewhat, the technology continues to be intensively explored in various areas due to potential advantages and cost savings. Numerous financial market infrastructure providers, including central banks (e.g. Bank of Canada, Monetary Authority of Singapore, Australian Stock Exchange), are testing DLT technology, e.g. for processing interbank payments and securities transactions in central bank money and other post-trade services.

Deutsche Bundesbank and Deutsche Börse have already successfully completed two joint research projects on securities settlement based on blockchain technology (project “BLOCKBASTER”)². The two prototypes support the settlement of securities transactions, payments, interest payments and redemptions. The technology used in the two prototypes appears, in principle, to be suitable for the productive operation of a financial market infrastructure.

It is now intended to continue this cooperation in order to gain a better understanding of the suitability and potential of blockchain-based or more general DLT-based processes in the area of collateral management. From a central bank perspective, collateral management is of fundamental importance for the operational management of monetary policy. As a provider of large financial market infrastructures and of triparty collateral management solutions, Deutsche Börse is intensively engaged with the possibilities offered by DLT and possesses a wealth of expertise in this area.

On the one hand, regulatory requirements following the financial crisis, e.g. the new Basel liquidity regulations and uncleared margin rules of EMIR, are regarded as major drivers of the substantial increase in collateral demand. On the other hand, the Eurosystem’s Asset Purchase Programmes have influenced the markets for certain high-quality assets. Due to these developments, the issue of collateral scarcity has been discussed intensively. Initiatives fostering the mobility and velocity of collateral have become ever more relevant.

In this regard, several Eurosystem services are already in place. The T2S securities settlement service provides functionality to enhance the speed of collateral movements and to increase liquidity savings due to its centralized pool of cash and securities. Collateral mobility already benefits from the fact that the Eurosystem allows the usage of triparty collateral management services for the purpose of collateralizing refinancing operations. Future milestones in this regard will be achieved with the go-live of the Eurosystem Collateral Management System (ECMS) and with the implementation of the Eurosystem’s AMI-SeCo (Advisory Group on Market Infrastructure for Securities and Collateral)

² See BLOCKBASTER Final Report
(<https://www.bundesbank.de/resource/blob/766672/29feab3f9079540441e3abda1ed2d2c1/mL/2018-10-25-blockbuster-final-report-data.pdf>)
