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## How Can Collateral Management Benefit from DLT?

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Harmonization Standards in the area of collateral management, which are currently under development.

However, all these projects and initiatives need time to take full effect. Financial market actors need to adapt their business models; this will require not only changes in technology but also considerations regarding the legal implications and not least business policy decisions.

Using DLT for collateral management purposes may – depending on the individual assessment – provide significant additional opportunities to improve collateral mobility and overcome existing process deficiencies. Those could possibly be implemented quite quickly but should be seen as complementing ongoing activities and could run in parallel.

Section 3 below sets out the current operating model of safe custody, settlement and the use of securities as collateral. In Section 4, a possible future model for the use of DLT in the area of collateral management is designed. Legal and regulatory aspects are examined in Section 5. In addition, considerations regarding custody for digital securities as well as cash in collateral management and also possible Eurosystem requirements governing the mobilization of DLT collateral assets are presented in separate boxes. This paper concludes with an outlook on how the usage of DLT for collateral management could evolve and raises questions for further analysis.

### 3 What Does the Current Operating Model Look Like?

Currently the delivery of marketable assets as collateral generally requires an actual transfer of the securities from the collateral giver to the collateral taker, involving all intermediaries in their respective custody chains from the issuing CSD downwards. The relatively cumbersome mobilization and reconciliation processes associated with this make it difficult for business partners to manage collateral efficiently and effectively. As a result, the related collateral management processes are complex, time-consuming, require broad liquidity margins and are therefore in need of optimization.

To optimize collateral usage within the current operating model, triparty collateral management services can be used. In this case, the triparty agent offering these services assumes the task of selecting, moving and valuing collateral based on pre-agreed parameters and criteria, thus enabling participants to optimize the use of their securities portfolios held with one custodian across different products and instruments when collateralizing credit and other exposures.

Current AMI-SeCo collateral management harmonization activities being coordinated by the ECB will lead to a reduction or even elimination of existing differences and complexity in collateral management processing, thus enabling improved mobilization processes across different (I)CSDs and markets. However, restrictions will remain until all parties have fully implemented the standards and adapted their business models accordingly.

### 4 What Could a Future Operating Model Look Like?

A complementary way to overcome existing inefficiencies is the implementation of an operating model which renders obsolete the movement of securities between custodians. In the model analyzed here, a

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