ECONS II

Here you can find relevant information on how ECMS supports the use of ECONS II (Enhanced Contingency Solution).

Introduction

ECONS II, or **Enhanced Contingency Solution II**, is a contingency component aimed at addressing the situation where the T2 service, i.e. the CLM and/or the RTGS component is not available. It offers limited services (in comparison with T2) and allows central banks and participants to submit and settle (critical) payment orders in euro, using a simplified and harmonised user interface. Each TARGET-NL participant has an ECONS II / contingency account.

Contingency accounts in ECONS II start with a zero balance. Hence, when ECONS II is activated, liquidity must first be injected to

create new payment capacity for TARGET-NL participants wishing to make contingency payments. The liquidity used for the processing in the contingency component may be obtained from other available sources or be based either on already available collateral and/or newly provided collateral. Once liquidity is available, contingency payments can be made.

What's new?

The Eurosystem Collateral Management System (ECMS) offers counterparties the possibility to reserve upfront a certain amount of collateral value in the counterparty's monetary pool for ECONS II. The specific **credit freezing type 'ECON'** is used and is available for all counterparties with a monetary pool in ECMS. If ECONS II is activated, these credit freezing positions in the ECMS are used to **automatically** provide initial liquidity in ECONS II. When ECONS II is active, additional new collateral can be mobilised and will be used to **automatically** increase the liquidity available to the counterparty in the contingency solution.

With the ECMS, there are two possible situations that can apply to an NL counterparty when ECONS II is activated:

1. A counterparty holds a collateral account at DNB (linked to its monetary pool) and has **not** blocked part of their collateral value permanently for ECONS II. In this case the counterparty has to provide new collateral in order to inject liquidity in ECONS II.
2. A counterparty holds a collateral account at DNB (linked to its monetary pool) and has blocked part of their collateral value permanently for ECONS II. The counterparty's ECONS II account will be immediately credited for

the value of this freezing. A counterparty can decide to provide additional new collateral in order to increase their liquidity and, therefore, payment capacity in ECONS II.

Counterparties can't reduce the credit freezing position to be used in ECONS II while ECONS II is still active. Only when the contingency is solved and the counterparty has reimbursed the liquidity granted, the credit freezing position in the counterparty pool can be decreased.

How does it work & ECMS supporting functionalities (non-exhaustive overview)

ECONS II activated

When CLM is unavailable and ECONS II is activated, ECMS will switch to CLM contingency mode which handles the ECMS behaviour for the counterparties, having or not a credit line in CLM and have a credit freezing type 'ECON' (note: this specific credit freezing type is configured for NL counterparties in the ECMS).
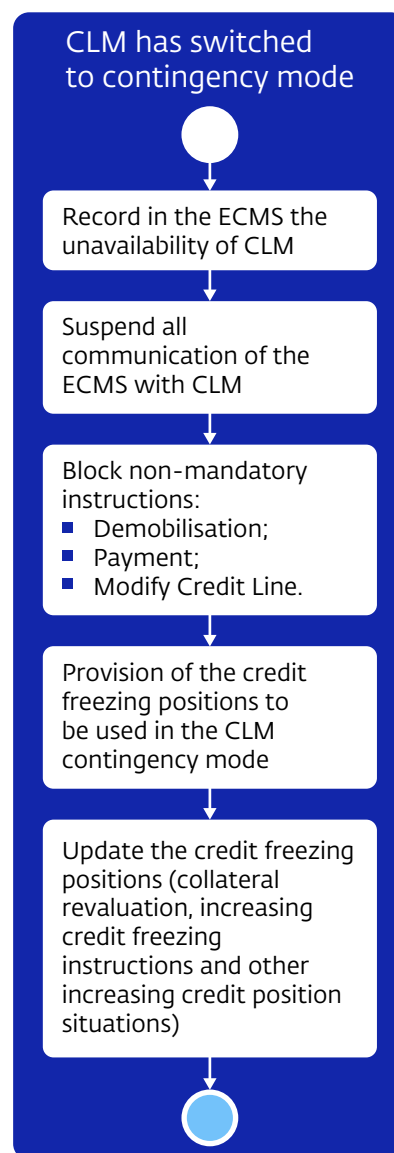
The different supporting processes (see also figure 1) are under the supervision of the ECMS Service Desk and manage:
- Recording of the unavailability of CLM in the ECMS and communication to the relevant users.
- Suspension of all communication with CLM.
- Blocking of non-mandatory demobilisation instructions, payment instructions and Modify Credit Line instructions, which do not have a final status (i.e. instructions which have already been sent to CLM and that are still

not settled/cancelled/rejected, and also new instructions since the CLM unavailability, which have not yet been sent).
- Provision of the counterparty credit freezing positions (with type "For CLM contingency") to be used in ECONS II. The ECMS generates liquidity transfer messages (camt.050) to ECONS II to provide liquidity to the counterparties contingency account in ECONS II, which is based on their dedicated credit freezing positions recorded in the ECMS.
- Update the counterparty's liquidity position in ECONS II (either deriving from the confirmations on mobilisation settlement instructions, revaluation of collateral, increasing credit freezing instructions or other increasing credit position situations). Only update instructions to increase the credit freezing position (& consequently increase liquidity capacity) can be sent and are processed as long as there is enough available collateral.

Figure 1 Switch to contingency

CLM has switched to contingency mode

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Record in the ECMS the unavailability of CLM

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Suspend all communication of the ECMS with CLM

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Block non-mandatory instructions:
- Demobilisation;
- Payment;
- Modify Credit Line.

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Provision of the credit freezing positions to be used in the CLM contingency mode

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Update the credit freezing positions (collateral revaluation, increasing credit freezing instructions and other increasing credit position situations)

ECONS II terminated and switching from Contingency mode to Normal mode

- When CLM and ECMS switch back from the contingency mode to the regular mode, the connection between CLM and the ECMS is restored, users are informed of the CLM availability and the ECMS communicates the counterparties credit line value to CLM.
- Once the reimbursement of the liquidity, which was transferred to ECONS II, is performed, a counterparty can instruct its decrease if it wishes (if not, the position remains in the pool).
- All communications with CLM are restored and the ECMS will release and process the blocked instructions.

Where to find more information?

Relevant information can be found on the DNB dedicated ECMS website and on the ECB dedicated ECMS website.

Contact details

General project related questions:
ECMS@dnb.nl

Questions for operational team:
collateral_management@dnb.nl

De Nederlandsche Bank N.V.
Payments and Collateral Services Department