



Point of View

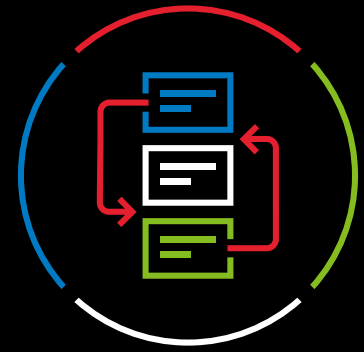
Position your institution for successful Federal Reserve Bank pledging

As the ultimate guarantors of liquidity in capital markets, the Federal Reserve Banks (FRB) provide short-term funding to lending institutions such as consumer and commercial depository institutions. The discount window — the FRB’s lending program — plays a key role in sustaining the liquidity and stability of the banking system.

The Federal Reserve has been encouraging depository institutions to establish a relationship with the organization and be adequately prepared to access the Federal Reserve Discount Window as part of their overall liquidity risk management and operational readiness¹.

With depository institutions increasing their creation of electronic assets (eAsset[®]) to capitalize on digital lending’s process acceleration and improved customer experience — such as digital electronic mortgages, auto loans, commercial loans, and equipment leases — the FRB now permits financial organizations to pledge various eAsset categories as discount window collateral. The FRB’s acceptance of eAssets has been a significant catalyst for digital lending adoption.

The benefits of digital lending and the opportunity to pledge eAssets present depository institutions with new but solvable challenges. If your institution is like most, it is familiar with working on wet-signed paper loans pledged to the discount window under the FRB’s Borrower-in-Custody (BIC) program. eAssets, as pledged collateral, essentially represent a new asset class requiring certification with your FRB. New control methodologies are needed to ensure security interests are protected. Of critical importance when pledging eAssets is the consideration for specific best practice processes and requirements.



“Best-practice digital workflows eliminate significant friction in managing your liquidity options with the Federal Reserve.”

¹ Update on the Economic Outlook, and Perspective on Bank Culture, M&A, and Liquidity, Remarks by Michelle W. Bowman Member Board of Governors of the Federal Reserve System, August 10, 2024. The Importance of Effective Liquidity Risk Management, Remarks by Michael S. Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, December 1, 2023.

Incremental efficiencies in accessing liquidity

Most of the collateral pledged to the FRB is still based on wet-signed paper documents, with pledging members managing the paper-based assets using established systems, processes, and protections. These wet-signed loans can be originated from multiple locations and sent to loan processing for verification, pledge eligibility assessment, and ultimately to be labeled and stored. On a regular monitoring schedule, which can range from daily to weekly to monthly, portfolios are evaluated against FRB pledge criteria. With rigorous oversight and validation procedures, paper-pledged collateral may be shuffled manually in a secured storage area, and updated in loan management systems. Each month, the institution provides the FRB with a report identifying the updated pledged loan list.

Now consider the value of accelerating the close-to-verification and pledge-decisioning time. Consider the value of receiving digital originals within seconds, as opposed to waiting days to verify a wet-signed document. What if procedures to collateralize new eAssets could be updated almost immediately after funding? In addition to providing end-to-end lending process benefits, digital lending can also create incremental efficiencies and leverage in managing liquidity options.

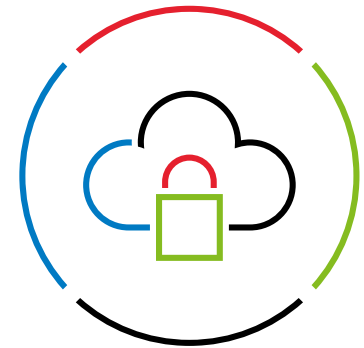
Positioning for success in a digital lending workflow requires best practice adoption. Essential components include a compliant eSignature process with an integrated eDeposit-to-core eVault and a dedicated eBIC pledge eVault, all integrated into a purpose-built and scalable eAsset management system. This fully digital approach provides a clear electronic line of sight to defend the authenticity of your eAssets. While the digitized process relies on some of the same core systems as traditional workflows, the way information flows into your loan decisioning and collateralization is unique and highly beneficial.

To pledge eAssets, a bank must first have its electronic collateral workflow certified with the FRB's BIC program. Because the 12 Federal Reserve Banks operate independently, each has its own requirements for BIC electronic collateral pledge certification. While some districts have published guidelines, the certification documentation can be complex and create uncertainties about what is required in this new eAsset landscape.

Although most depository institutions established BIC processes years ago, re-certification is required for electronic collateral. This includes responding to questions about access, control, compliance, and systems, which may be difficult to research and address.

Advantages of eAssets and electronic collateral

- ✓ Efficient digital processes
- ✓ Increased velocity for monetization of loans in the secondary market
- ✓ Competitive advantage over less-agile rivals



“The right practice for eAsset® Management demands a best-in-class, dedicated eVault for pledged electronic collateral to the FRB.”



An eAsset Management solution to enable liquidity options

The eOriginal® eAsset Management solution offers a best-in-class eVault and control methodology, essential for pledging electronic collateral to the FRB.

With the eOriginal eAsset Management solution, banks can achieve Digital Asset Certainty – the assurance that electronic loans are created, stored, and assigned in full accordance with all industry compliance standards. The solution also ensures banks maintain the highest level of legal enforceability throughout the eAsset’s lifecycle.

(See figure 1)

“The eOriginal eAsset Management solution delivers a secure environment and control methodology, ensuring certainty in eAssets.”

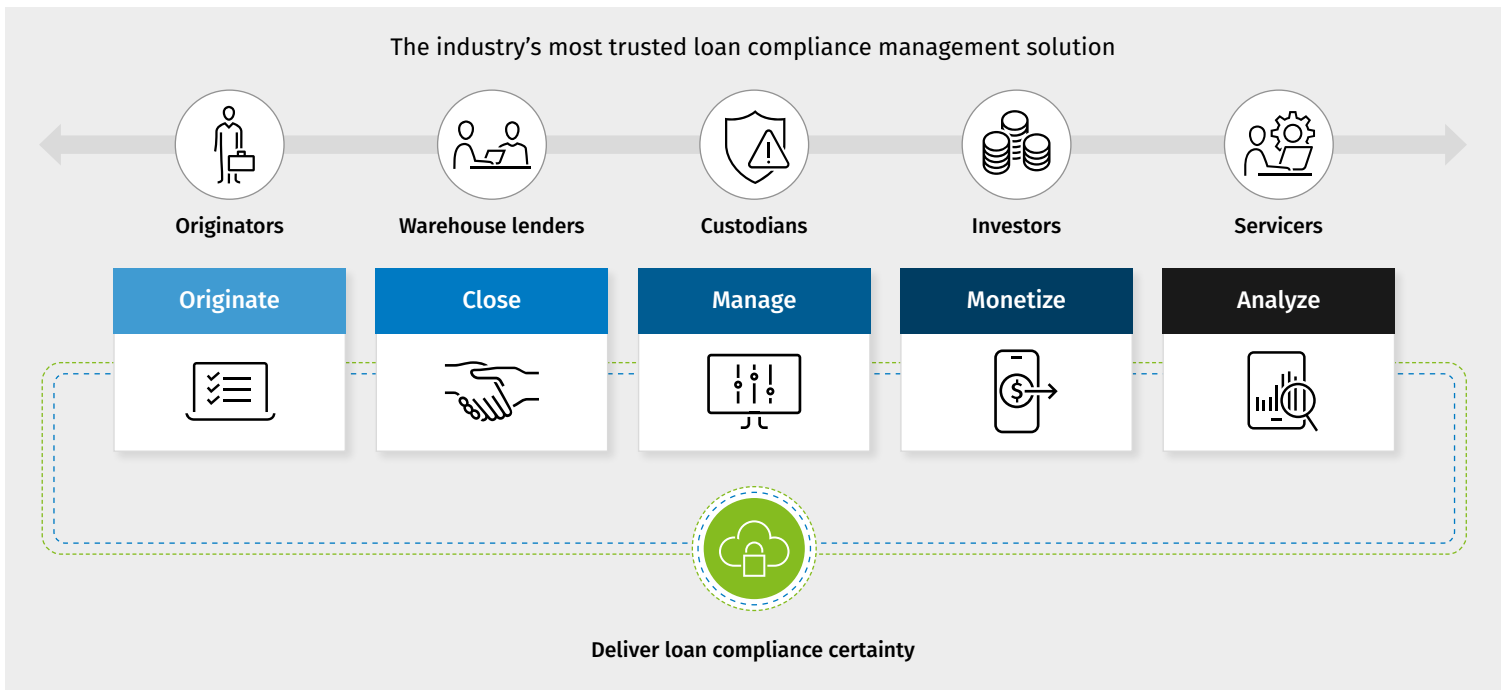


Figure 1: eOriginal eAsset Management for liquidity

The eOriginal eAsset Management solution provides eAsset Certainty® with tamper sealing, encryption, and end-to-end audit trails. Supported by an evidentiary trail of ownership captured with each participant's involvement, a control record of the loan's history and an immutable chain of custody is established. Robust change-of-control and watermarking protocols, along with the use of a dedicated pledge eVault, ensure a compliant solution for gaining FRB certification.

The eOriginal solution offers the best-practice architecture for maintaining eAsset Certainty and pledging electronic collateral to the FRB, while providing the flexibility to monetize these assets in other ways in the future. Complemented by a Federal Reserve Pledge certification support advisory service, the solution helps tackle the complexities of FRB electronic collateral certification.

With the FRB now accepting electronic collateral for discount window pledging, banks have a strategic opportunity to benefit from this new method of monetizing loans. From the enhanced agility to manage liquidity options to outperforming competitors, an end-to-end solution for eAsset management, that includes a best-in-class, purpose-built eVault, delivers the technology and process foundation necessary to fully capitalize on pledging electronic collateral.



Ready to benefit from pledging electronic collateral to the FRB?

Explore how Wolters Kluwer can help you [optimize your collateral management and liquidity](#) →

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Wolters Kluwer (EURONEXT: WKL) is a global leader in information, software solutions and services for professionals in healthcare; tax and accounting; financial and corporate compliance; legal and regulatory; corporate performance and ESG. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with technology and services.

Wolters Kluwer reported 2023 annual revenues of €5.6 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 21,400 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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