

memo

To: European Central Bank - Secretariat Division
ecb.secretariat@ecb.int

From: LCH.Clearnet

Date: 5 May 2008

Subject: **Consultation on CCBM2 Users requirements** – reply of LCH.Clearnet

LCH.Clearnet renews its support to the ECB project which aims to develop an efficient and centralised system of collateral management for the Eurosystem credit operations (intraday credit) to NCBs and SSSs. LCH.Clearnet welcomes this second CCBM2 consultation on the future collateral facility management tool.

LCH.Clearnet is looking forward to receive the detailed functional and commercial offer of CCBM2. To anticipate and define its project road map, LCH.Clearnet would need more information as regards CCBM2 project plan and the interactions with the T2Securities project.

LCH.Clearnet would recommend the creation of a group of experts to finalise Users Requirements. LCH.Clearnet is candidate to contribute to this group. As Central CounterParty in Europe, LCH.Clearnet confirms its intention to have a direct access to the CCBM2 tool.

Main comments on the consultation & CCBM2 principles

The real benefit of CCBM2 would be reached once the larger number of CSDs and their respective NCB will have migrated to Target2 Securities. A launch date close to T2S implementation would have our preference allowing the CCP to:

- Amortise all our IT and operational effort resulting from the French Central bank "3G" project (as LCH.Clearnet is not a direct user of the existing CCBM tool),
- Optimise synergies, avoid development redundancies and extra costs.

LCH.Clearnet would be interested to have more information on the potential interim period between CCBM2 and T2Securities deployments.

Timing harmonisation between SSSs is a prerequisite as far as collateral management is concerned. Similarly, coherence is required in the operating process and timing between T2, T2S and CCBM2 (and compatible with the ESCB tools). Connected SSSs and NCBs should align with the CCBM2 defined rules and procedure.

Ideally for users, all participating NCBs should offer a common set of services and modules in CCBM2 facilities. LCH.Clearnet assumes that each NCB joining the CCBM2 project will define its subscription to optional modules with its own community.

LCH.CLEARNET welcomes auto collateralisation facility. LCH.Clearnet understands that this service is either offered in the CCM module or in other external SSS (such as ICSDs) via external Collateral Management Systems connected to CCBM2.

LCH.Clearnet understands that collateral deposited in ICSDs or commercial banks of the Euro-zone is in the scope of CCBM2. It means that NCBs should access on a STP basis collateral deposited in ICSD and Commercial banks via an own account open in their books. It would avoid the CCBM2 participant to request a transfer from the ICSD to the NCB before being able to granted credit facilities by the NCB.

LCH.Clearnet welcomes the STP principle retained to operate collateral management (deliver collateral and release related credit). LCH.Clearnet understands that the CCBM2 tool permit to recall securities in real time if needed.

Intraday credit facility (mobilisation and use) resulting from cross CSDs' movements should be effective and not penalised by some SSSs specificities.

LCH.CLEARNET understands that CCBM2 will use Target2 calendar (i.e. holidays and timings).

In the spirit if the Giovannini Barrier 1 removal, LCH.Clearnet welcomes the use of standardized interfaces & messages (ISO 15022 & 20022 compliant) to dialogue with CCBM2 (including for CMS).

CCBM2 A2A interface should handled information in a "Push" mode.

ECB should provide a single interface accessing to CCBM2, TARGET2 and / or TARGET2 Securities. A single gateway will optimise technical required investments on the three projects & provide the flexibility to access all or part of the services.

LCH.Clearnet would need further information regarding the possibility to access consolidated operational information coming from T2S, T2 and CCBM2. LCH.Clearnet would like to know if the ECB plan to include such tool in the project or if it will be to the participants to build their own monitoring solution. LCH.Clearnet would be in favour of the first alternative.

LCH.Clearnet welcomes reporting tools to pilot liquidity movements. In addition to individual historical data, LCH.Clearnet wonders if the Monitoring & Reporting Support function provides forecasting elements allowing the CCP to monitor in advance decisions on collateral & credit.

LCH.Clearnet validates the tri-party repo services proposed in CCBM2. LCH Clearnet would require some further details on the operating processes flows going through CMS to external tri-party solutions.

LCH.Clearnet would expect to include non-Euro securities as accepted collateral (not only for contingency purposes).

CCBM2 should not imply any regression of existing services provided by National Central Banks.

LCH.Clearnet would need additional information on static data availability & flows as the consultation document mainly focuses on the NCBs users' process.

LCH.Clearnet welcomes the decision to include a module to dialogue on an easy and user friendly way with TARGET2 contingency.

LCH.Clearnet welcomes the freezing credit facility proposed in CCBm2 as the CCP is currently using similar function in the "3G" tool. A dynamic credit freezing management is required in the hand of the CCP treasury.

LCH.Clearnet requires technical documentation including interactions and links with the different CSDs.

Taking the numerous projects for the coming years, LCH.Clearnet requires more information on the CCBM2 deployment and the links with the TARGET2 Securities project (when confirmed by European Governors Council). CCBM2 should offer technical synergies with the T2S project.

LCH.Clearnet would recommend common governance between CCBM2 and T2Securities projects.

LCH.Clearnet is currently using the "Pension Livrée" and "3G" facilities in Banque de France at a very low cost. As CCP, LCH.Clearnet is particularly concerned to maintain a competitive position in the European market infrastructure (Code of Conduct) and is looking forward to receive the detailed commercial offer of CCBM2 (fee structure and pricing).

LCH.Clearnet would need additional information on the auto-collateralisation operating mode between CCBM and SSSs as LCH.Clearnet does not want any regressions compared with existing services. LCH.Clearnet understands that auto-collateralisation on stocks is provided and not on flows. Meanwhile, CCBM2 will support auto-collateralisation in the SSSs by sending information to T2S so that auto-collateralisation can be made by T2S.

Pre-defined times of automatic return of collateral should be available (i.e. optional intraday and a mandatory end of day).

Facilities proposed on Credit claims are not applicable for the CCP.