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International Capital Market Association

The interconnectivity of central and commercial bank money in the European repo market

Richard Comotto
ICMA Centre
University of Reading
United Kingdom



THE BUSINESS SCHOOL
FOR FINANCIAL MARKETS

central and commercial bank money in the European repo market

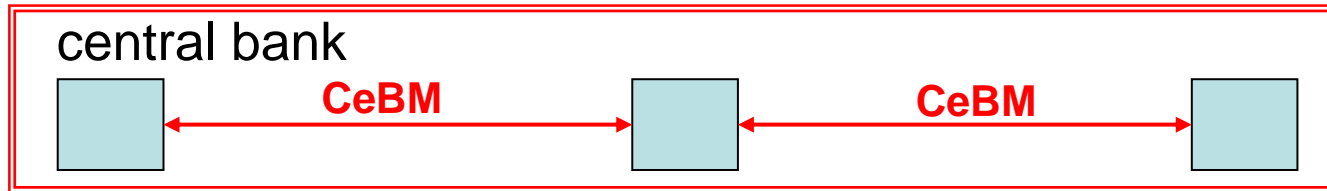
- purpose of the ERC study
 - briefing to inform market response to regulatory debate on financial market infrastructures
 - briefing to support ERC project to promote interoperability of tri-party repo services
- objectives
 - what are central & commercial bank moneys?
 - why are both types of money used?
 - map flows of central & commercial bank money in fixed-income clearing and settlement in Europe



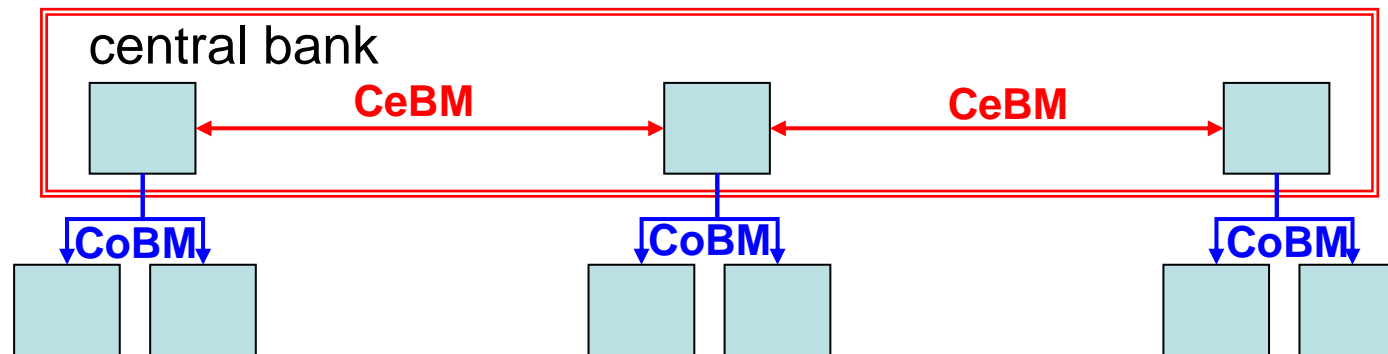
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central and commercial bank money in the European repo market



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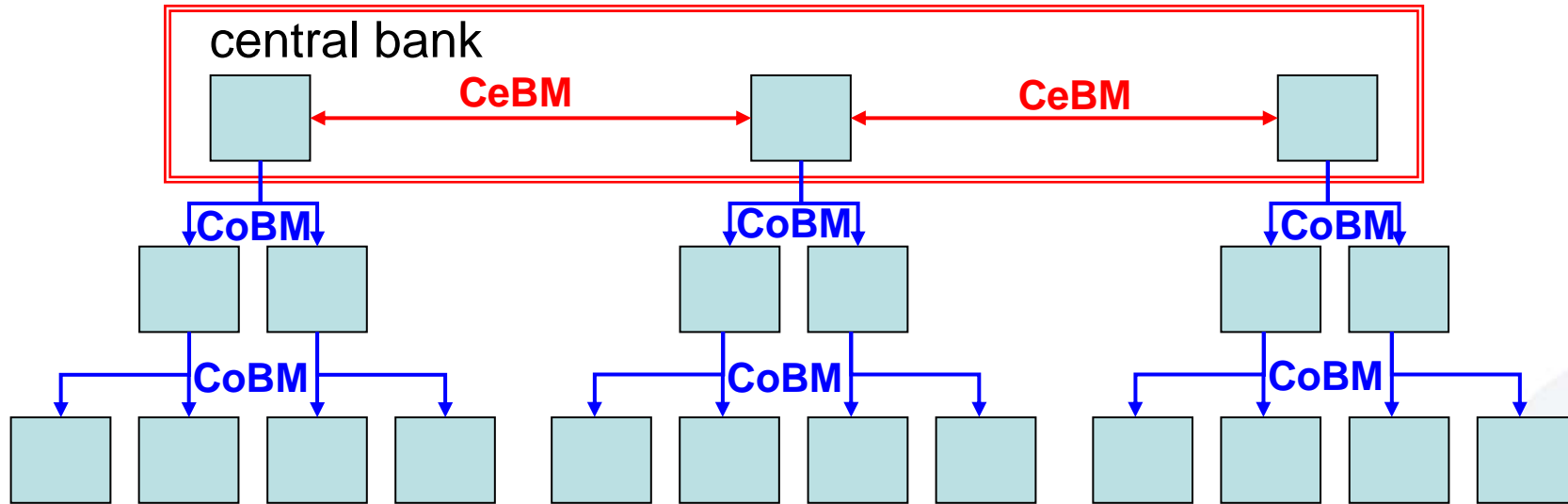




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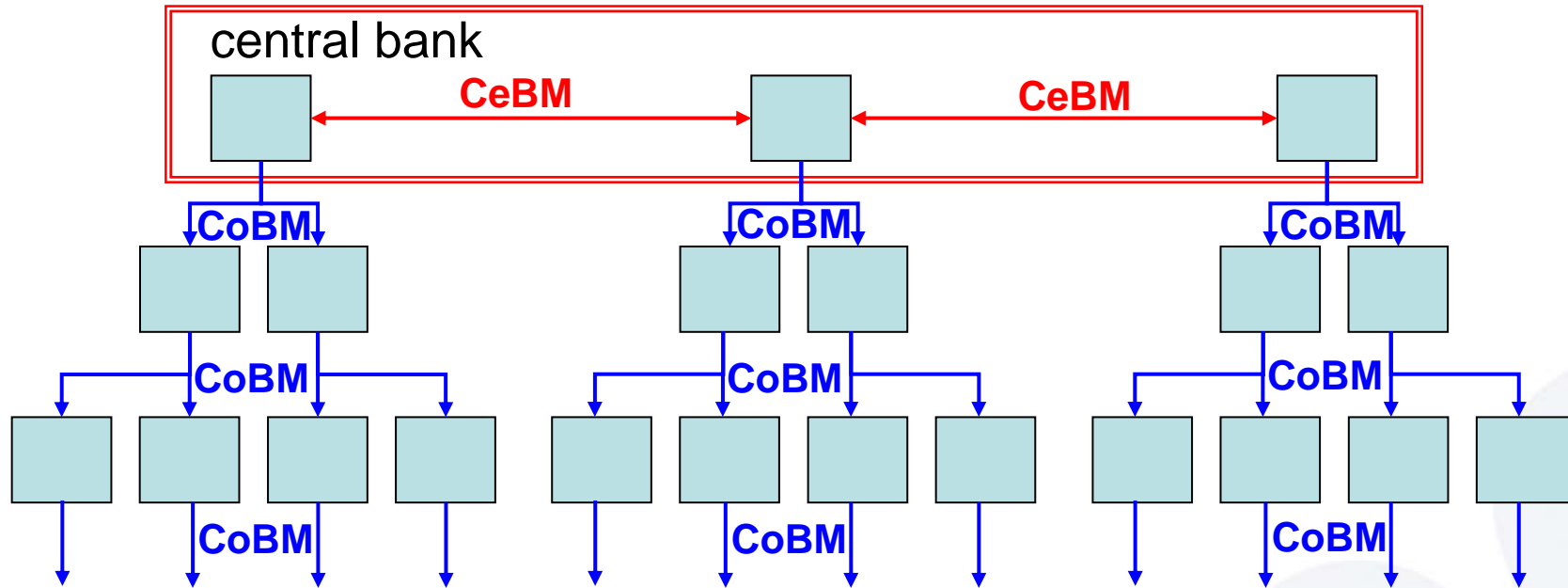




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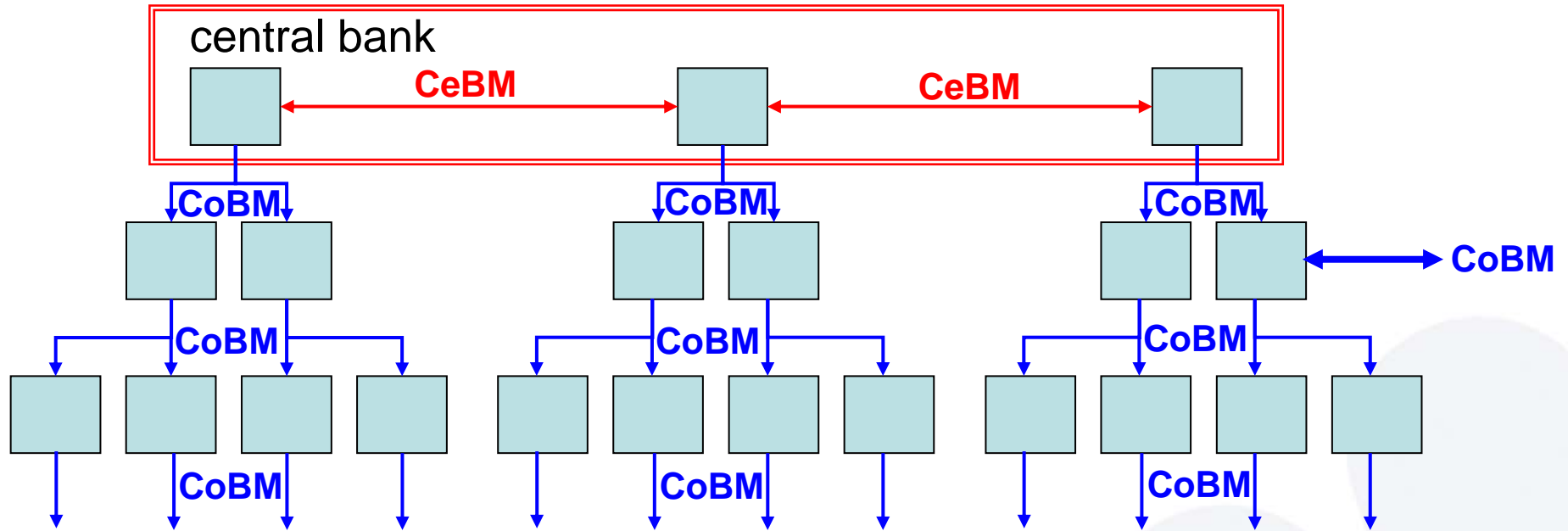




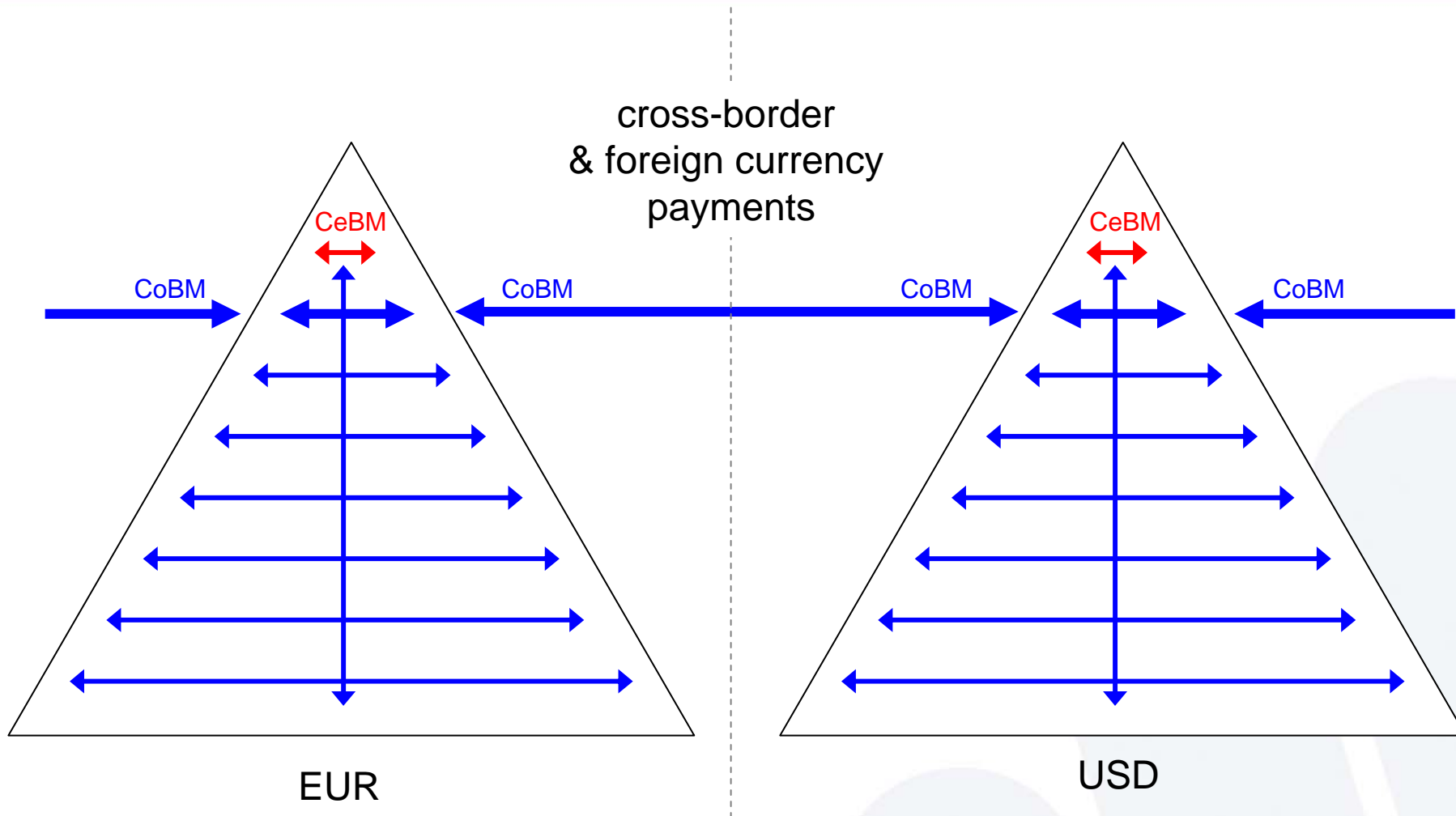
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central and commercial bank money in the European repo market

- role of commercial bank money
- vertical extension of payments --- tiering of domestic payments
- horizontal extension of payments --- foreign currency & cross-border payments

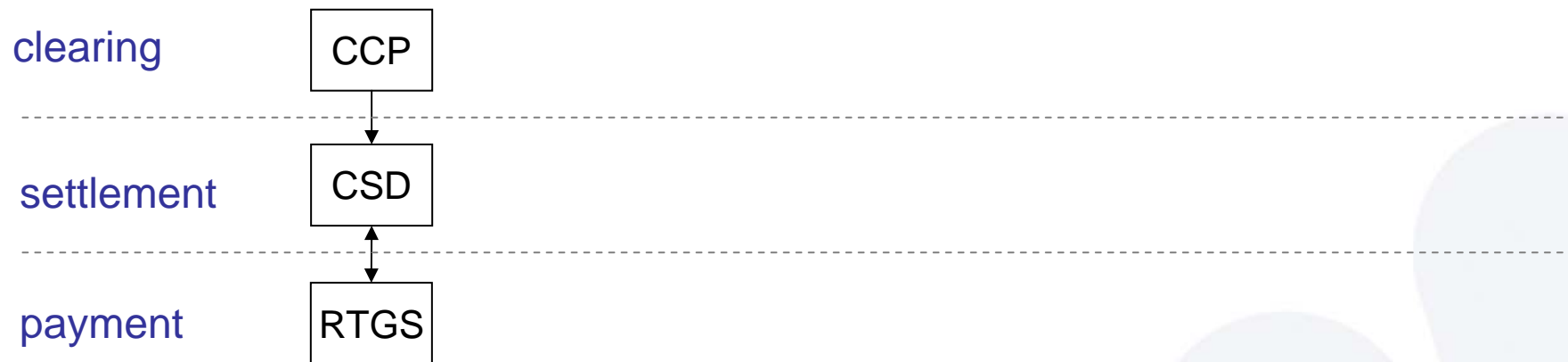
central and commercial bank money in the European repo market

- incentives to use commercial bank money
 - payment agency services
 - foreign currency, cross-border payments
 - competition
 - diversification
 - cost of service
 - functionality of service
 - terms of access to credit
- safeguards
 - internal risk management
 - prudential supervision
 - FMI functional specialisation

central and commercial bank money in the European repo market

- mapping money flows in clearing and settlement
- full ERC report on www.icmagroup.org

1. CSD internal

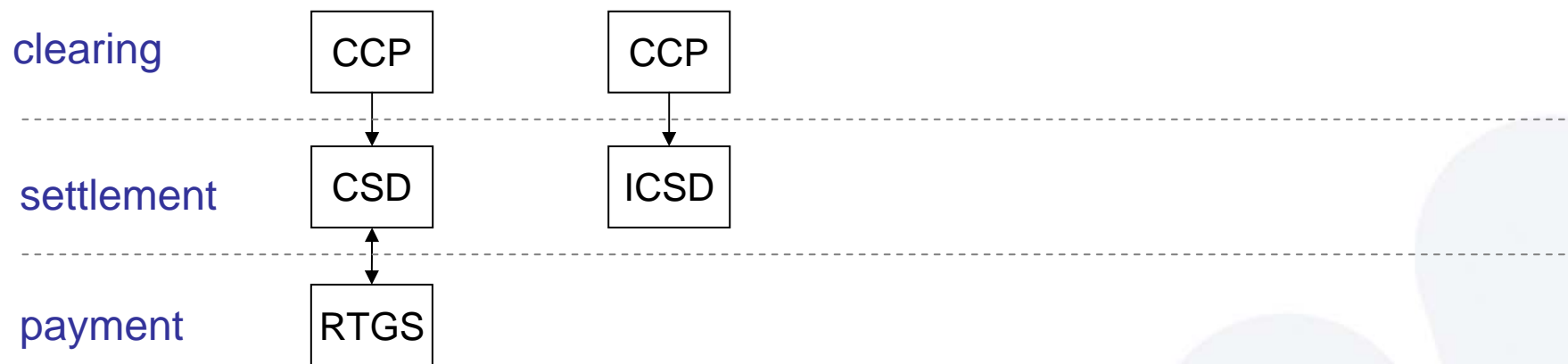


CCP-(I)CSD-payment configurations

central and commercial bank money in the European repo market

1. CSD internal

2. ICSD internal



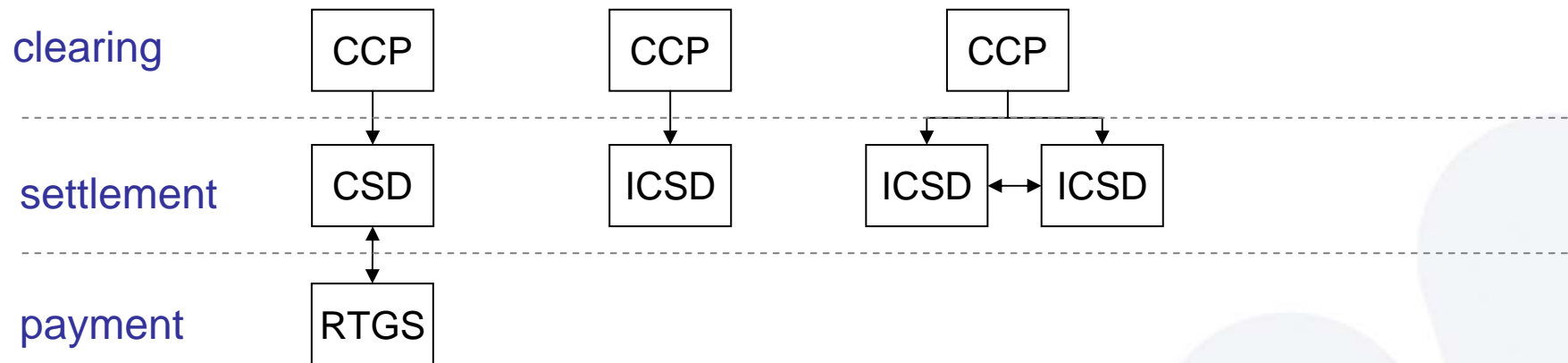
CCP-(I)CSD-payment configurations

central and commercial bank money in the European repo market

1. CSD internal

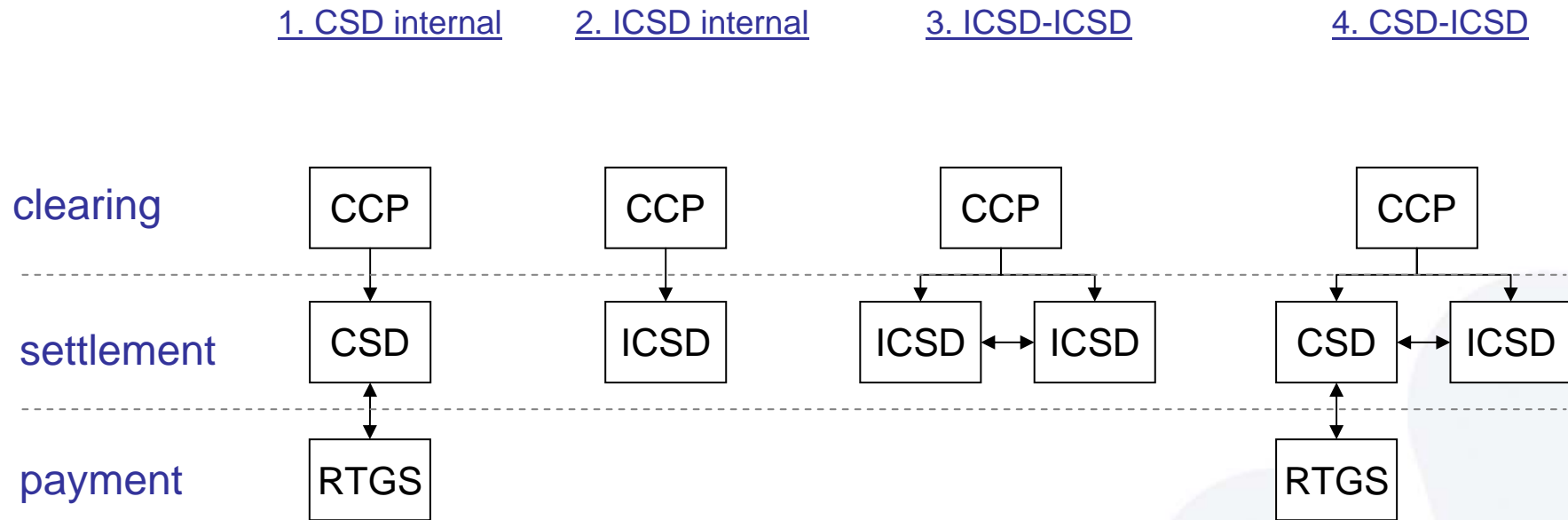
2. ICSD internal

3. ICSD-ICSD



CCP-(I)CSD-payment configurations

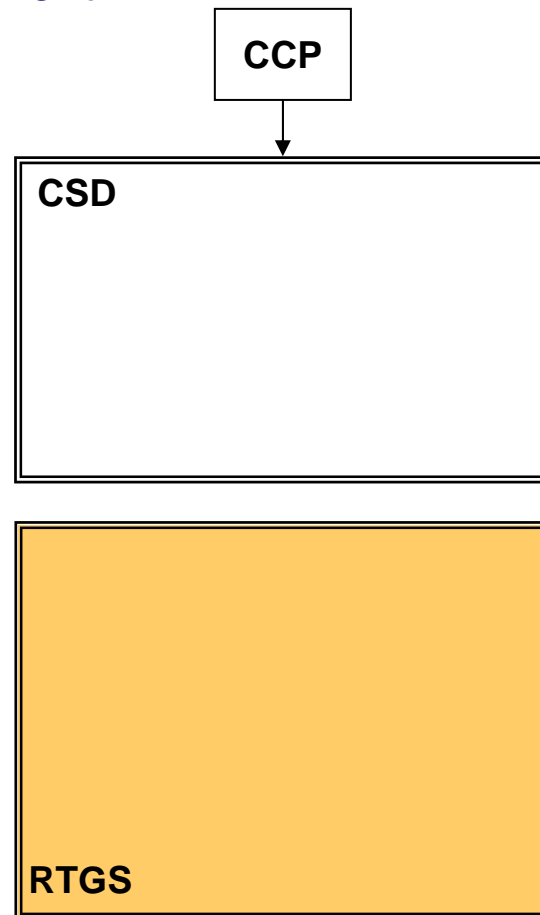
central and commercial bank money in the European repo market



CCP-(I)CSD-payment configurations

1.1 CSD internal clearing & settlement (interfaced payment mechanism)

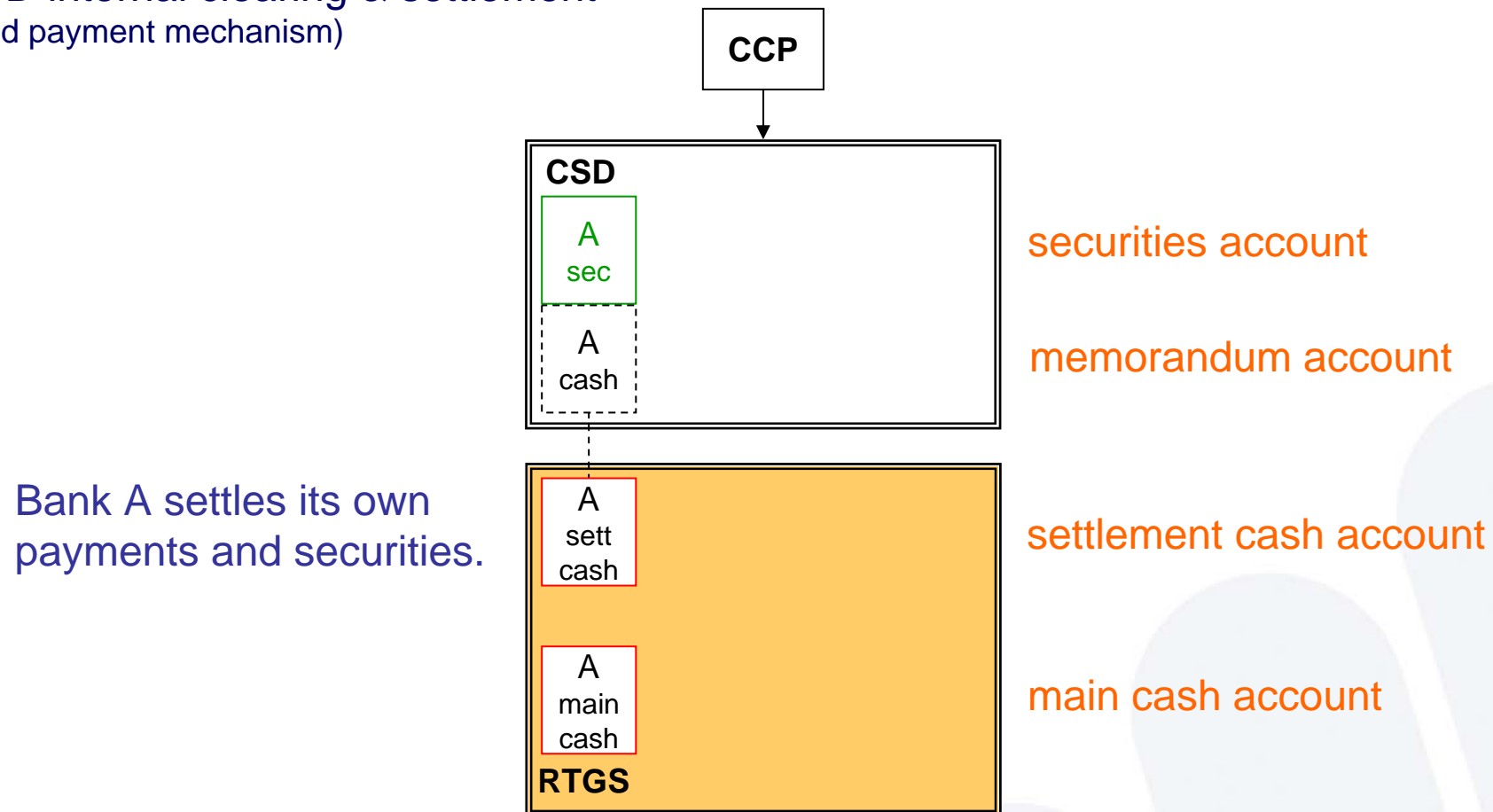
Independent CSD & RTGS
co-ordinated across a
communications interface.



communications interface

central and commercial bank money in the European repo market

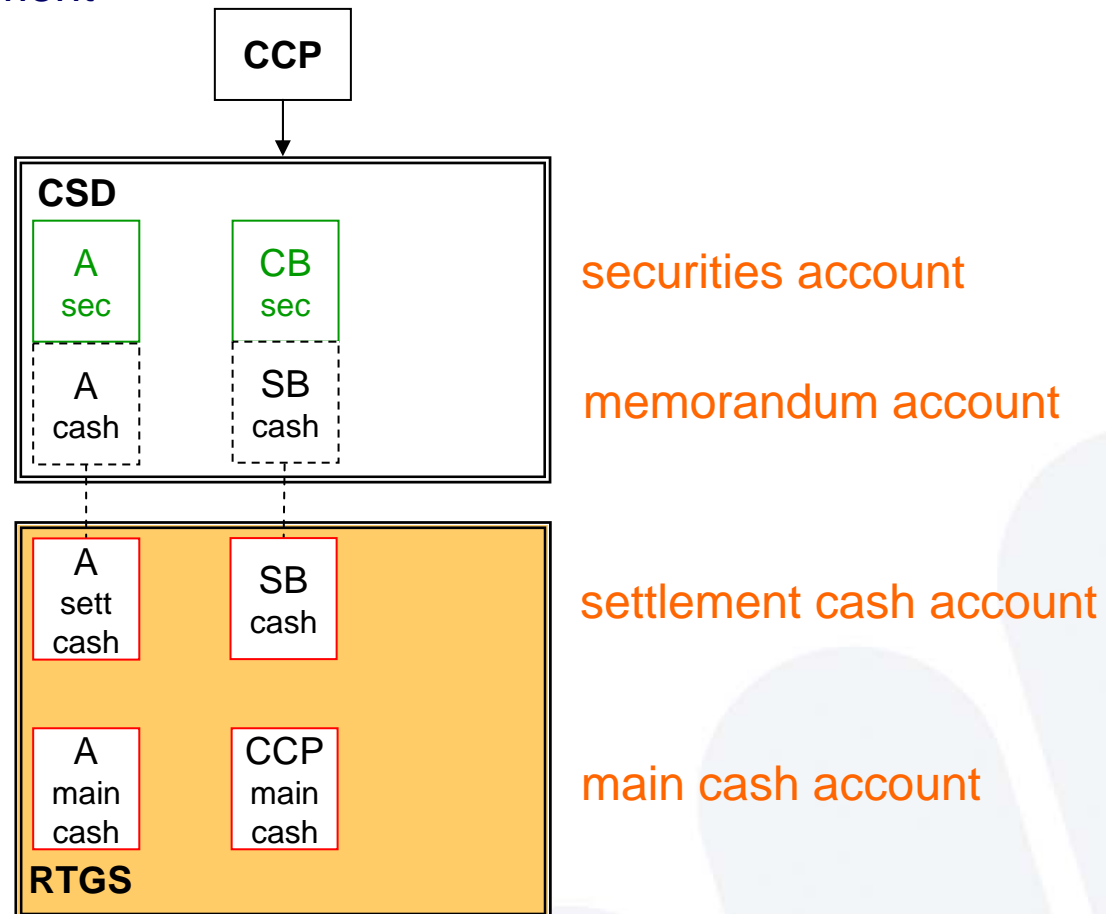
1.1 CSD internal clearing & settlement (interfaced payment mechanism)



central and commercial bank money in the European repo market

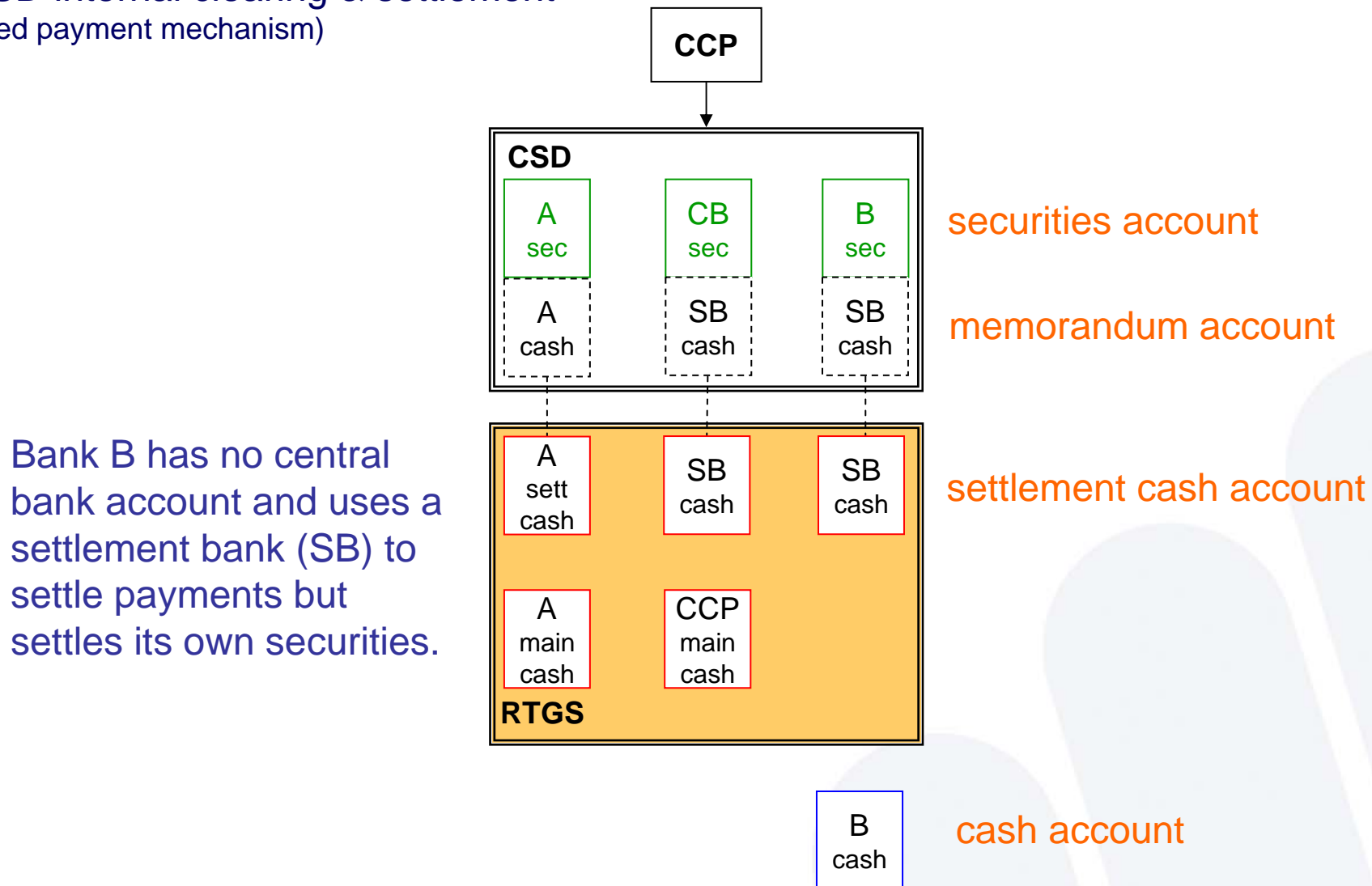
1.1 CSD internal clearing & settlement (interfaced payment mechanism)

CCP uses a settlement bank (SB) to settle payments and a custodian bank (CB) to settle securities.



central and commercial bank money in the European repo market

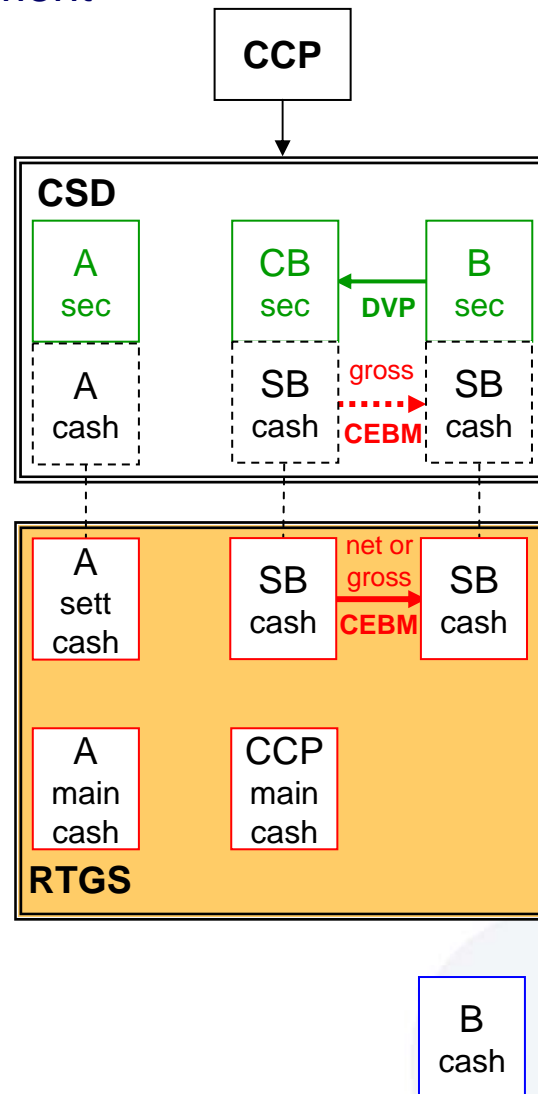
1.1 CSD internal clearing & settlement (interfaced payment mechanism)



central and commercial bank money in the European repo market

1.1 CSD internal clearing & settlement (interfaced payment mechanism)

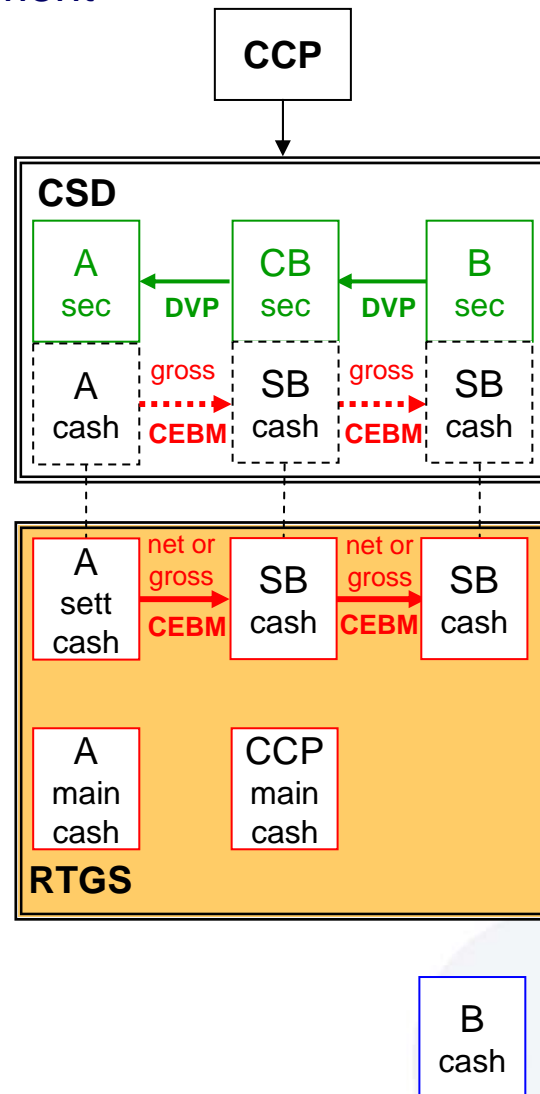
B delivers to CCP
DVP against CeBM



central and commercial bank money in the European repo market

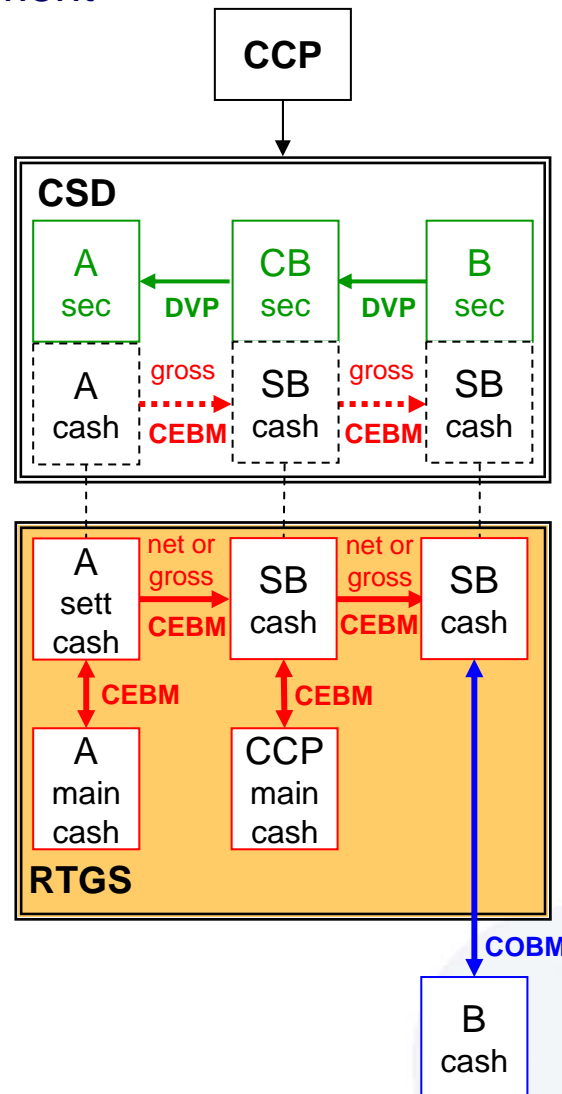
1.1 CSD internal clearing & settlement (interfaced payment mechanism)

CCP delivers to A
DVP against CeBM



central and commercial bank money in the European repo market

1.1 CSD internal clearing & settlement (interfaced payment mechanism)



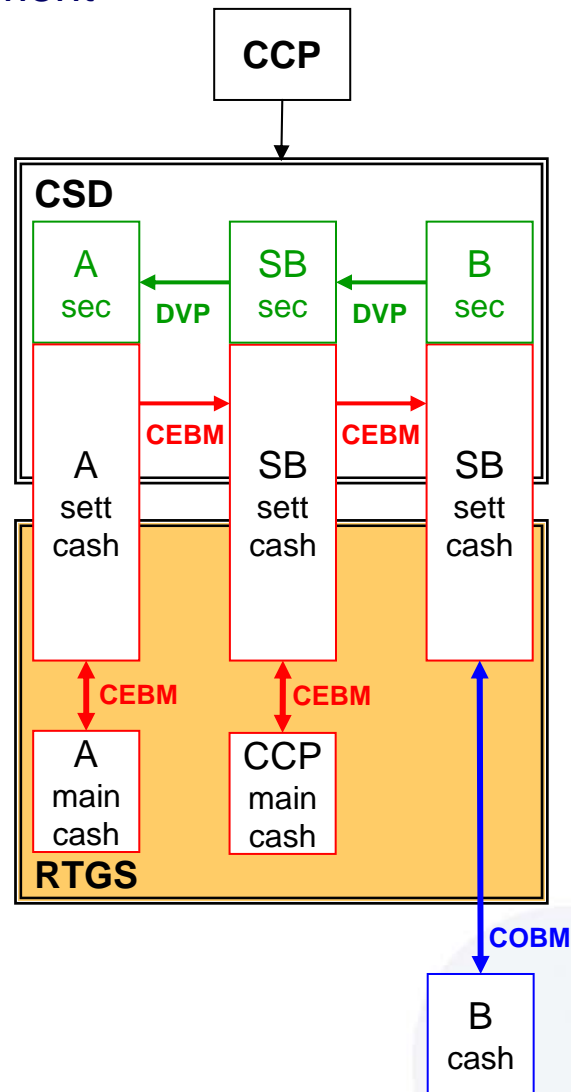
funding/defunding from/to
main cash accounts in
CeBM

funding/defunding
between agent and own
cash account in CoBM

central and commercial bank money in the European repo market

1.2 CSD internal clearing & settlement (integrated payment mechanism)

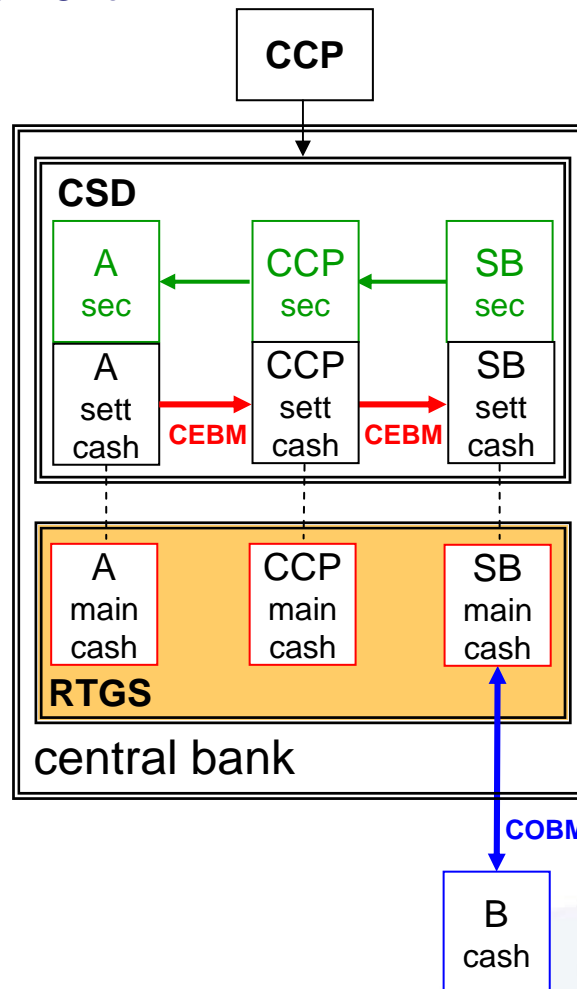
Central bank outsources payments in CeBM to an independent CSD.



central and commercial bank money in the European repo market

1.3 CSD internal clearing & settlement (embedded payment mechanism)

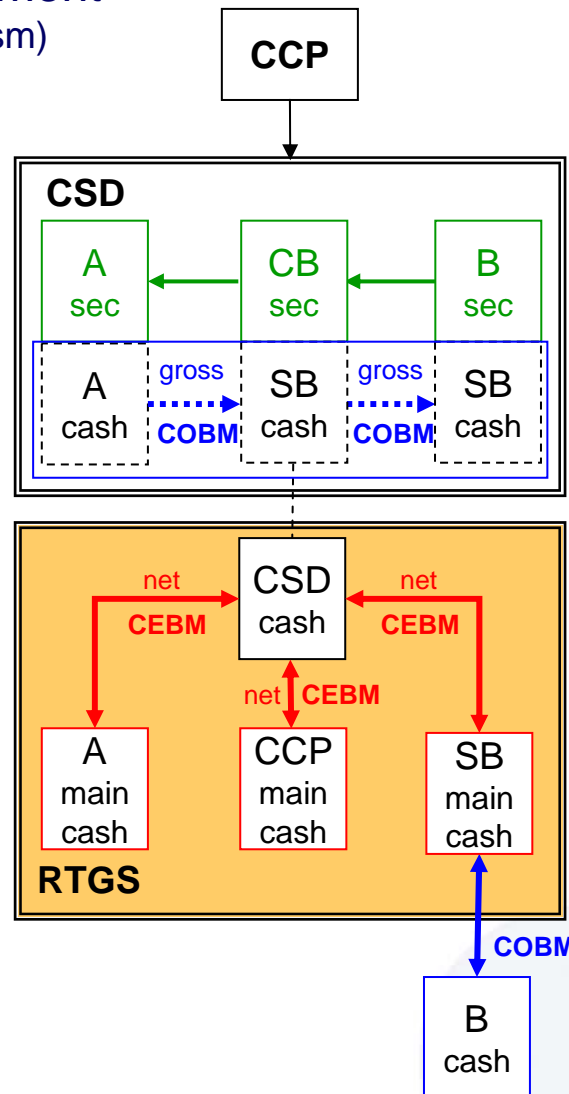
Central bank operates CSD with embedded payment mechanism, but final settlement is in CeBM.



funding/defunding
between agent and own
cash account in CoBM

1.5 CSD internal clearing & settlement (autonomous pre-funded payment mechanism)

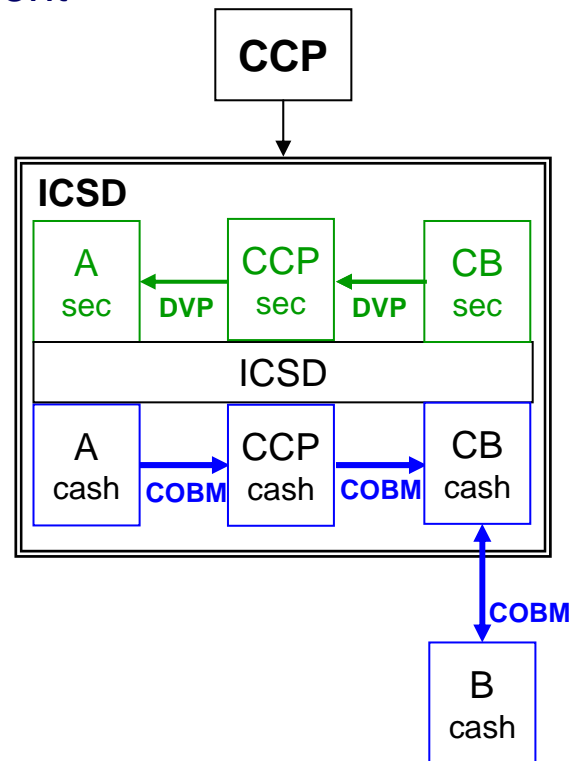
Independent CSD operates payments across its own books in CoBM but payments in the CSD are guaranteed by the funding in CeBM. At the end of the day, balances are paid in CeBM.



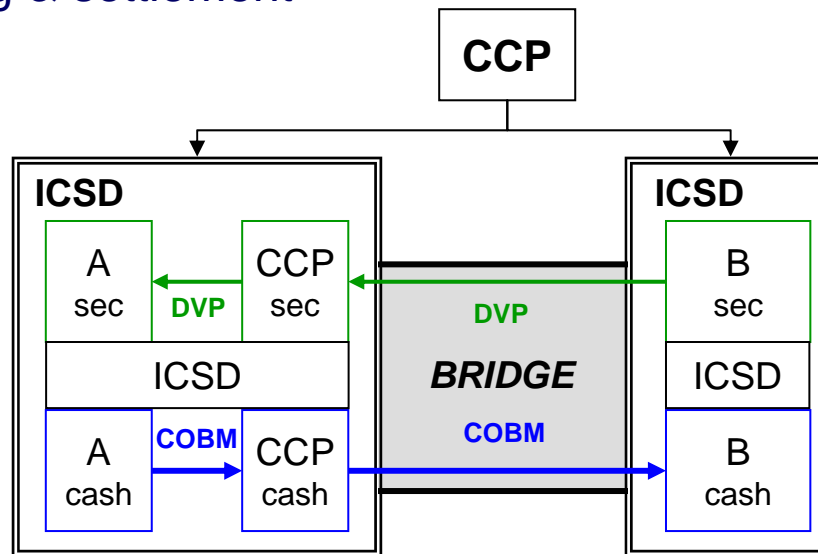
funding/defunding
between agent and own
cash account in CoBM

2 ICSD internal clearing & settlement

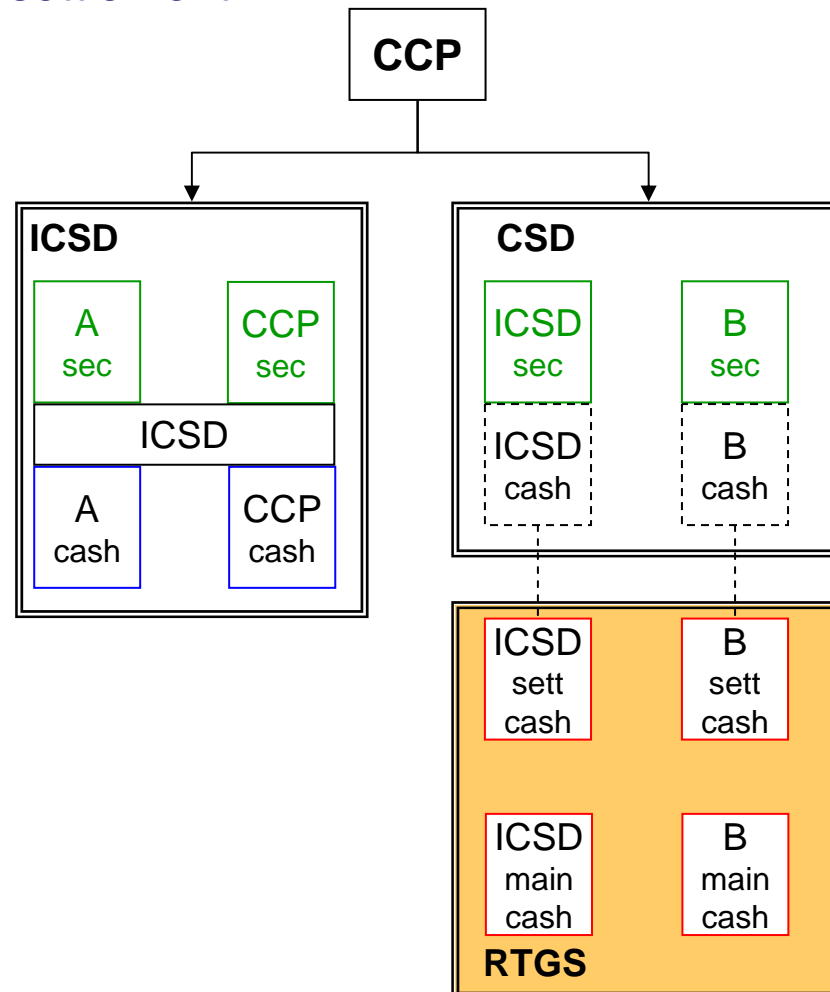
ICSD operates SSS with embedded payment mechanism in CoBM.



3.1 ICSD-ICSD clearing & settlement

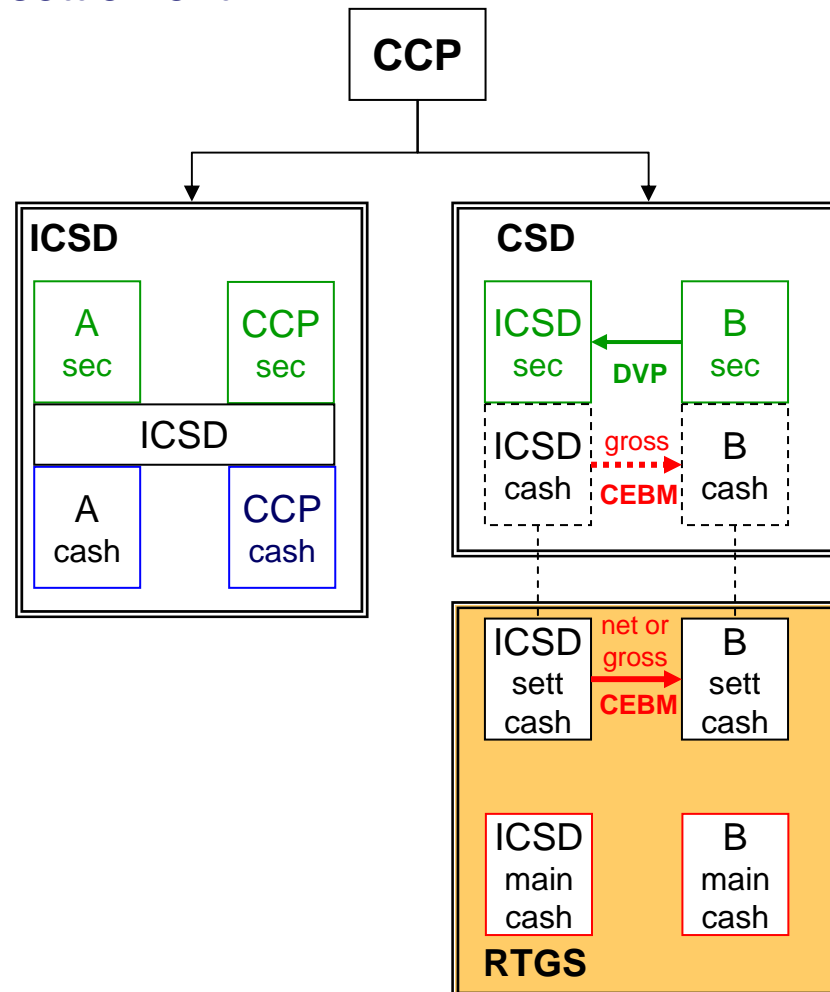


4.1.1 ICSD-CSD clearing & settlement



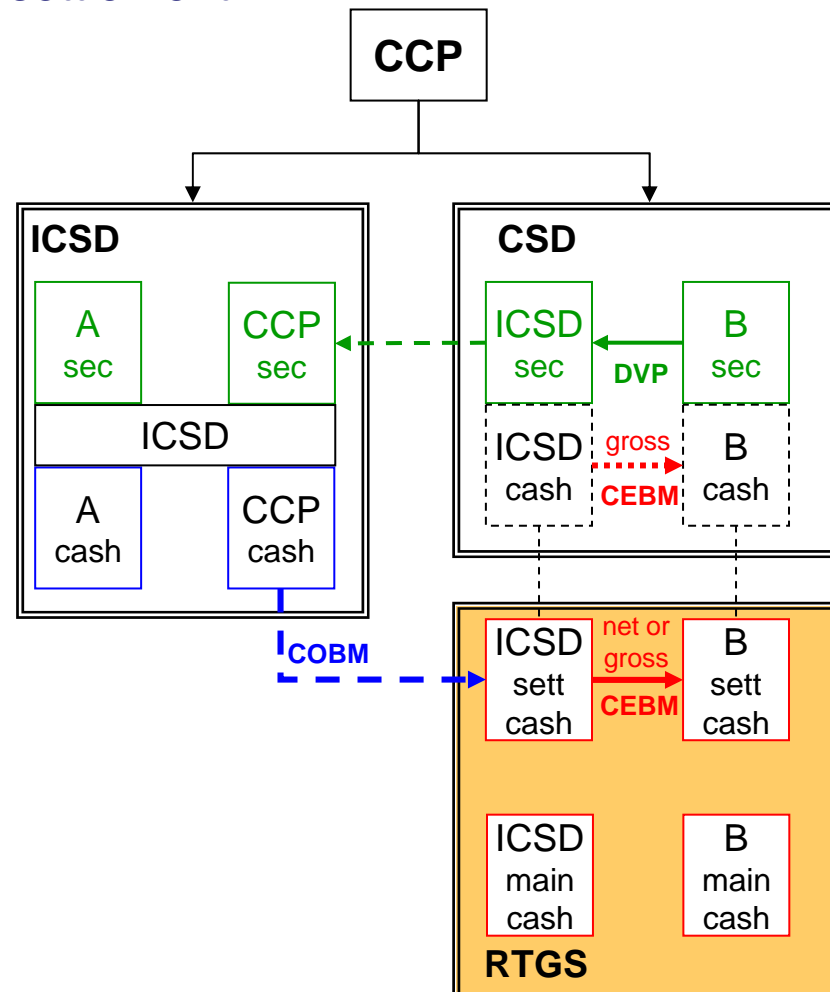
4.1.1 ICSD-CSD clearing & settlement

B delivers to ICSD
omnibus account
DVP across CSD



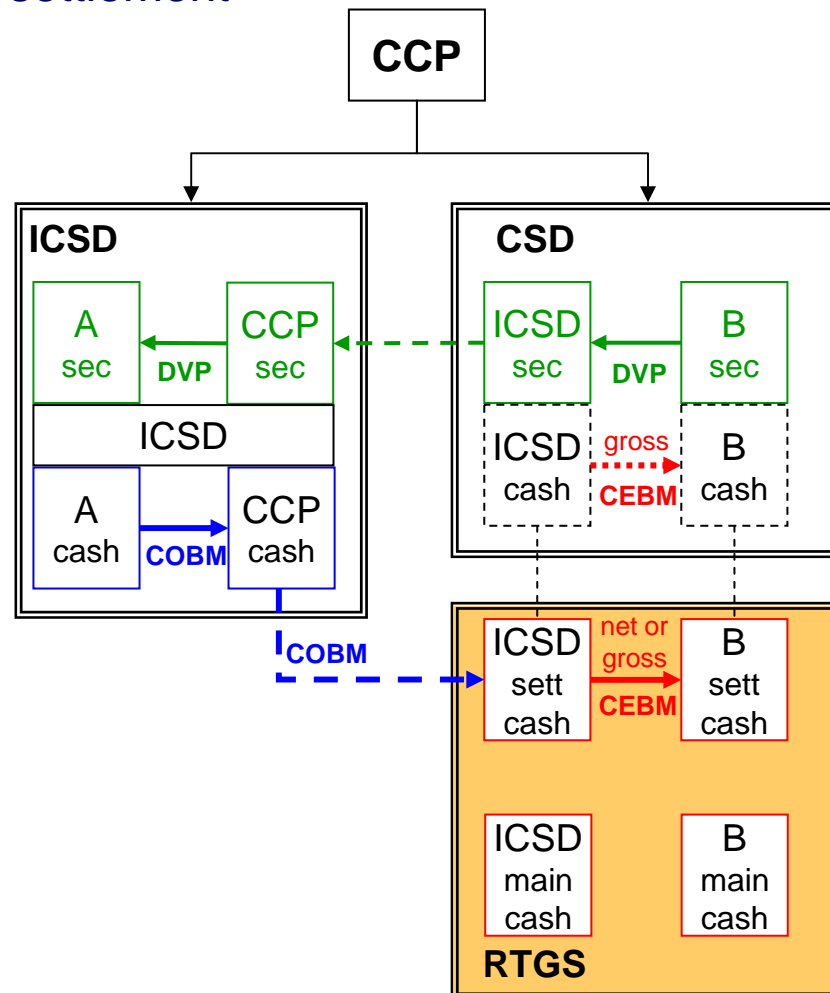
4.1.1 ICSD-CSD clearing & settlement

ICSD reflects delivery in its own books by crediting securities to CCP at ICSD and simultaneously debiting cash account of CCP at ICSD.

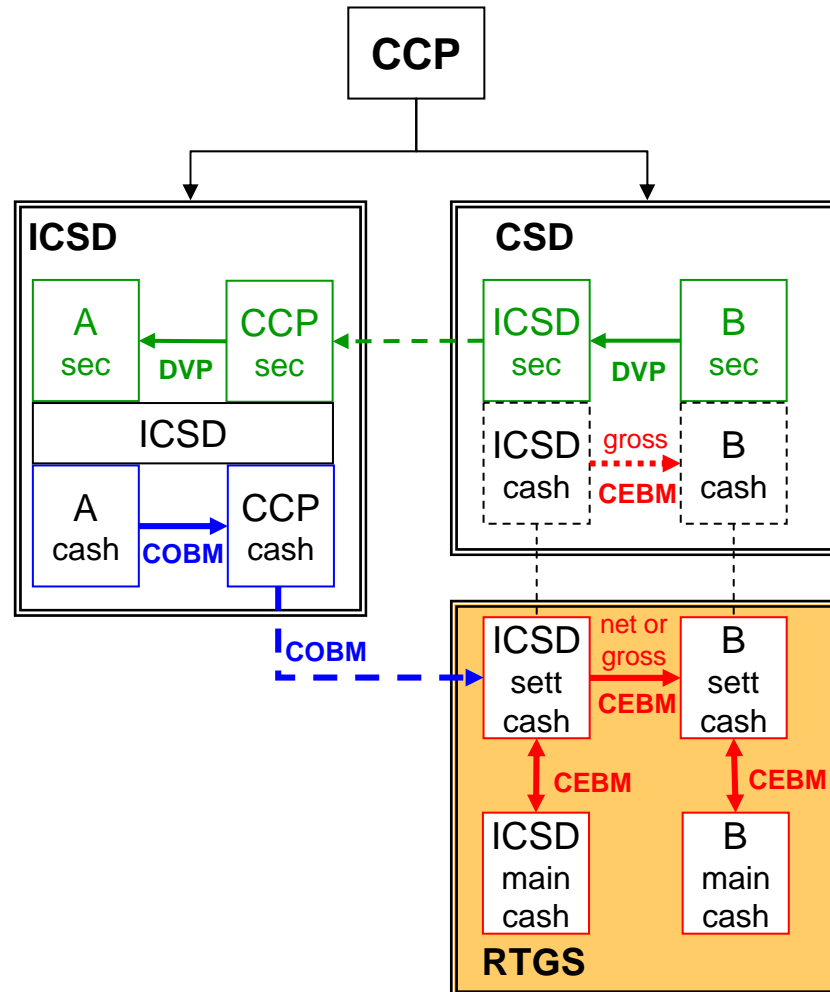


4.1.1 ICSD-CSD clearing & settlement

CCP delivers to A
DVP across ICSD
in CoBM.



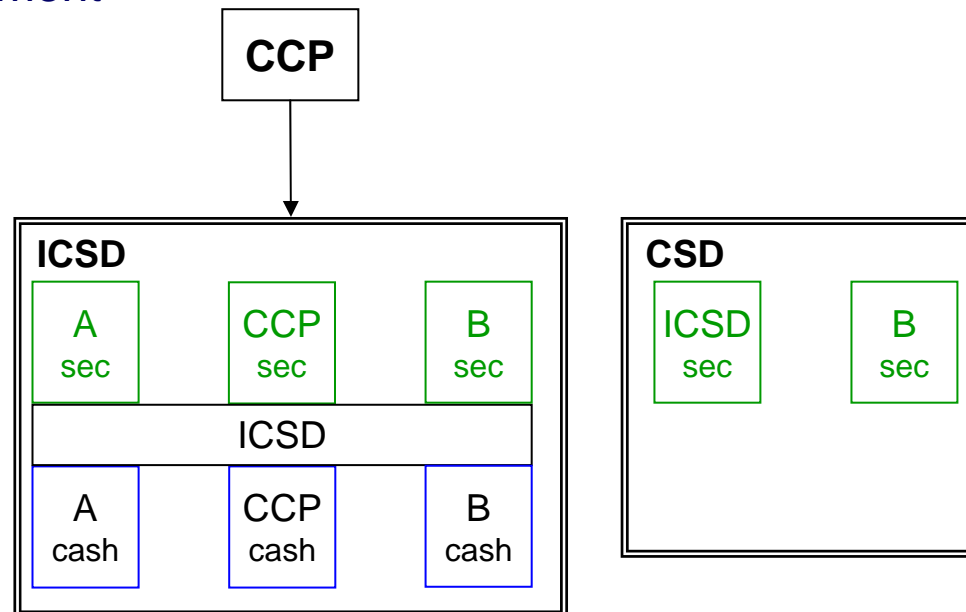
4.1.1 ICSD-CSD clearing & settlement



funding/defunding
from/to main cash
accounts

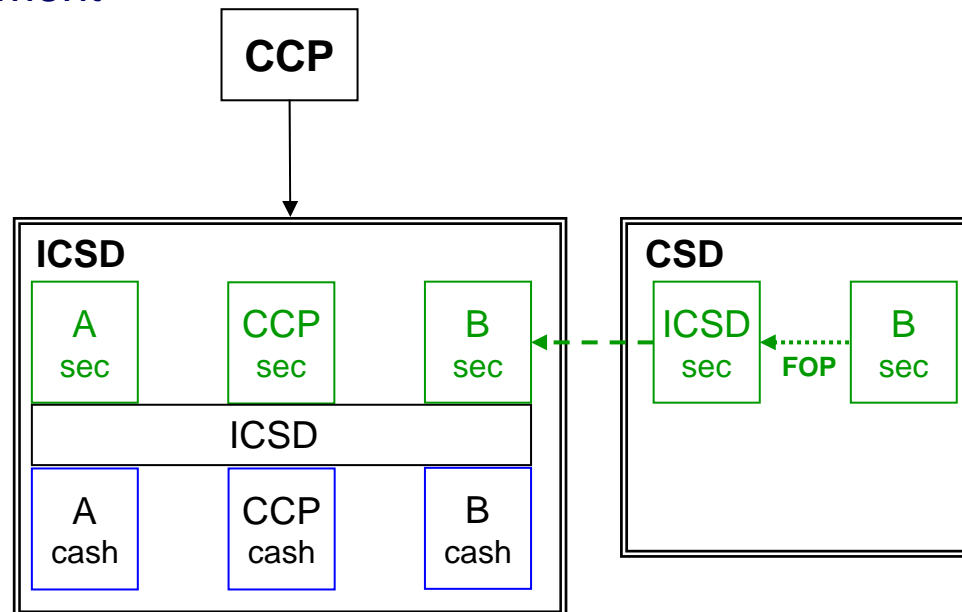
4.1.3 ICSD-CSD clearing & settlement

CCP is a member of only
of the ICSD.



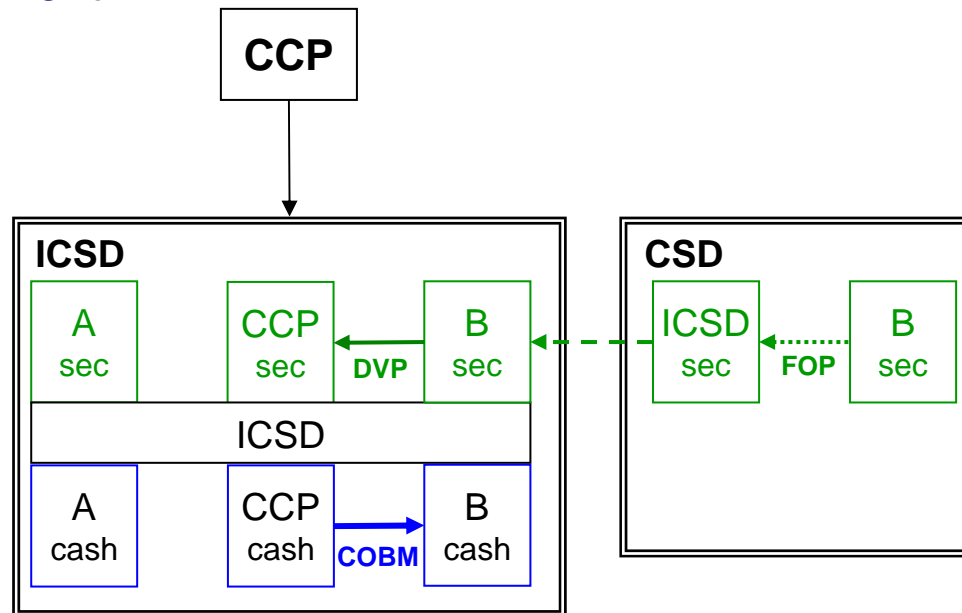
4.1.3 ICSD-CSD clearing & settlement

Securities 're-aligned' from CSD to ICSD by transfer FOP into ICSD omnibus account at CSD and crediting of B account at ICSD.



4.1.3 ICSD-CSD clearing & settlement

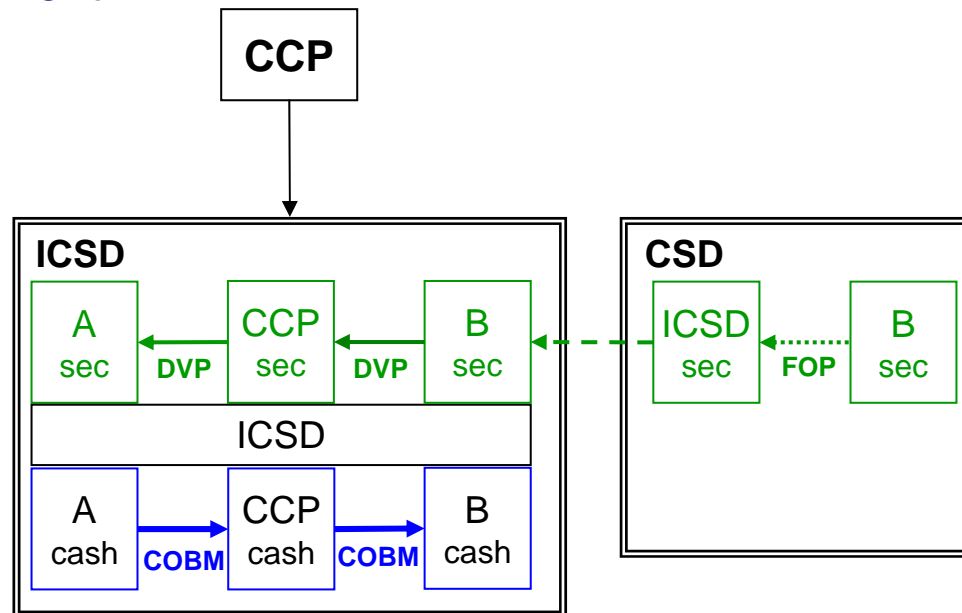
B delivers to CCP
DVP across ICSD
against CoBM.



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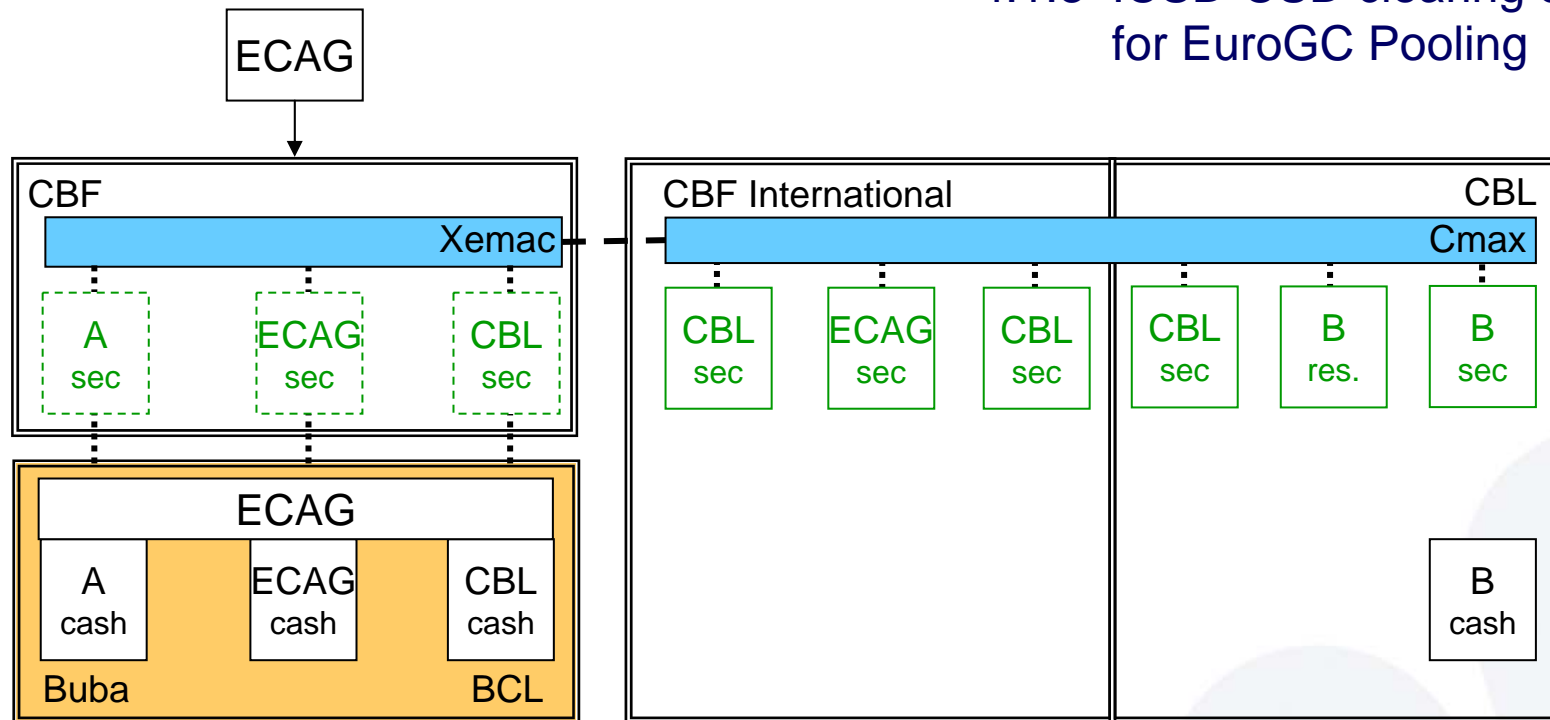
4.1.3 ICSD-CSD clearing & settlement

CCP delivers to A
DVP across ICSD
against CoBM.



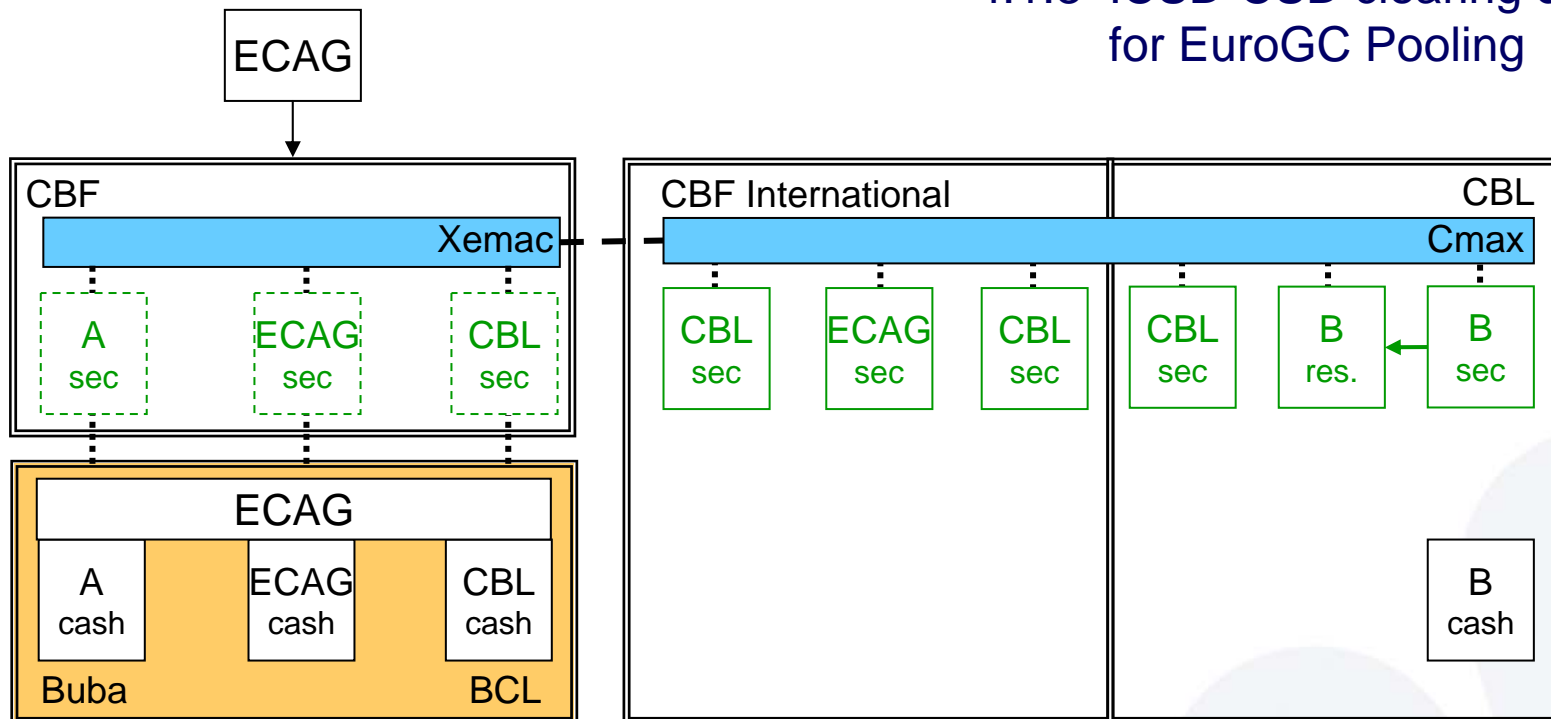
central and commercial bank money in the European repo market

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



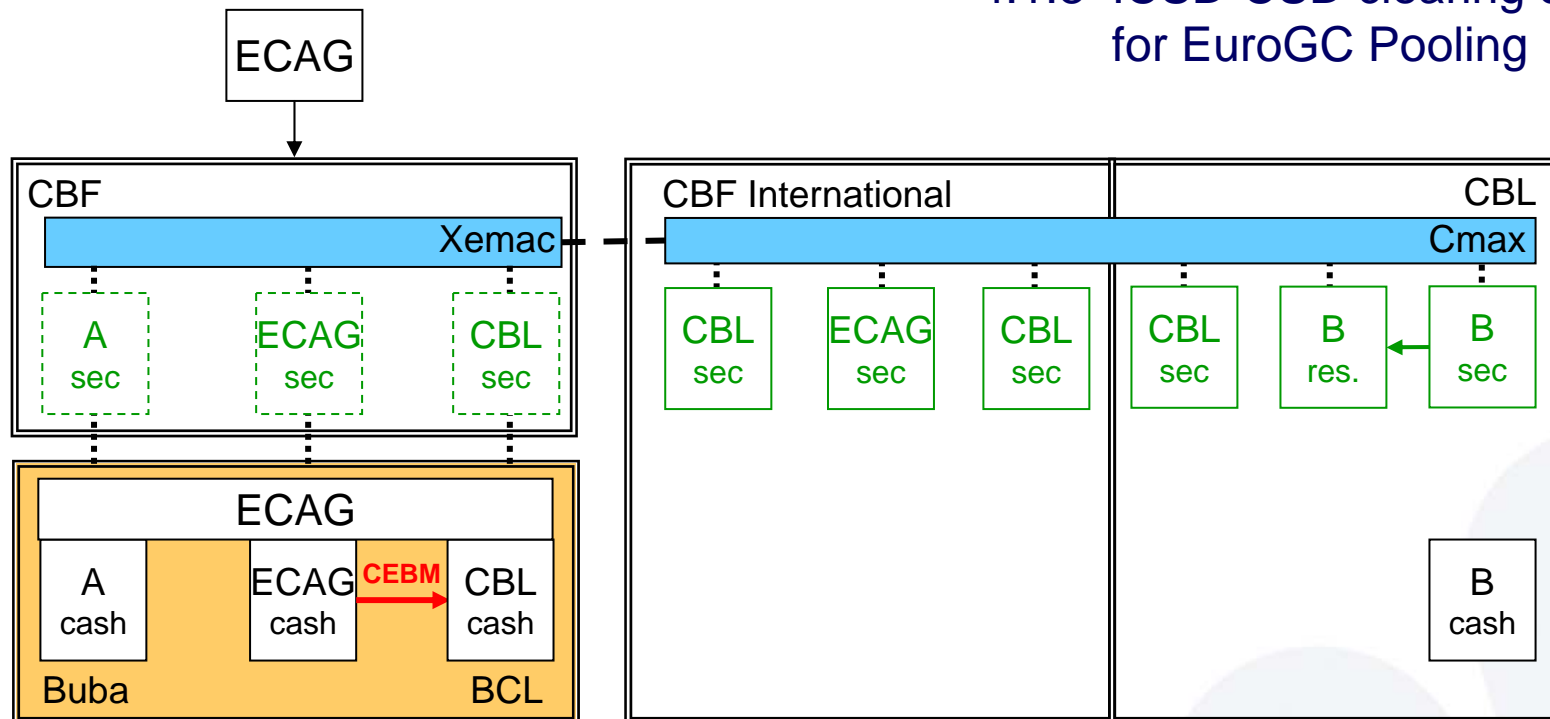
central and commercial bank money in the European repo market

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



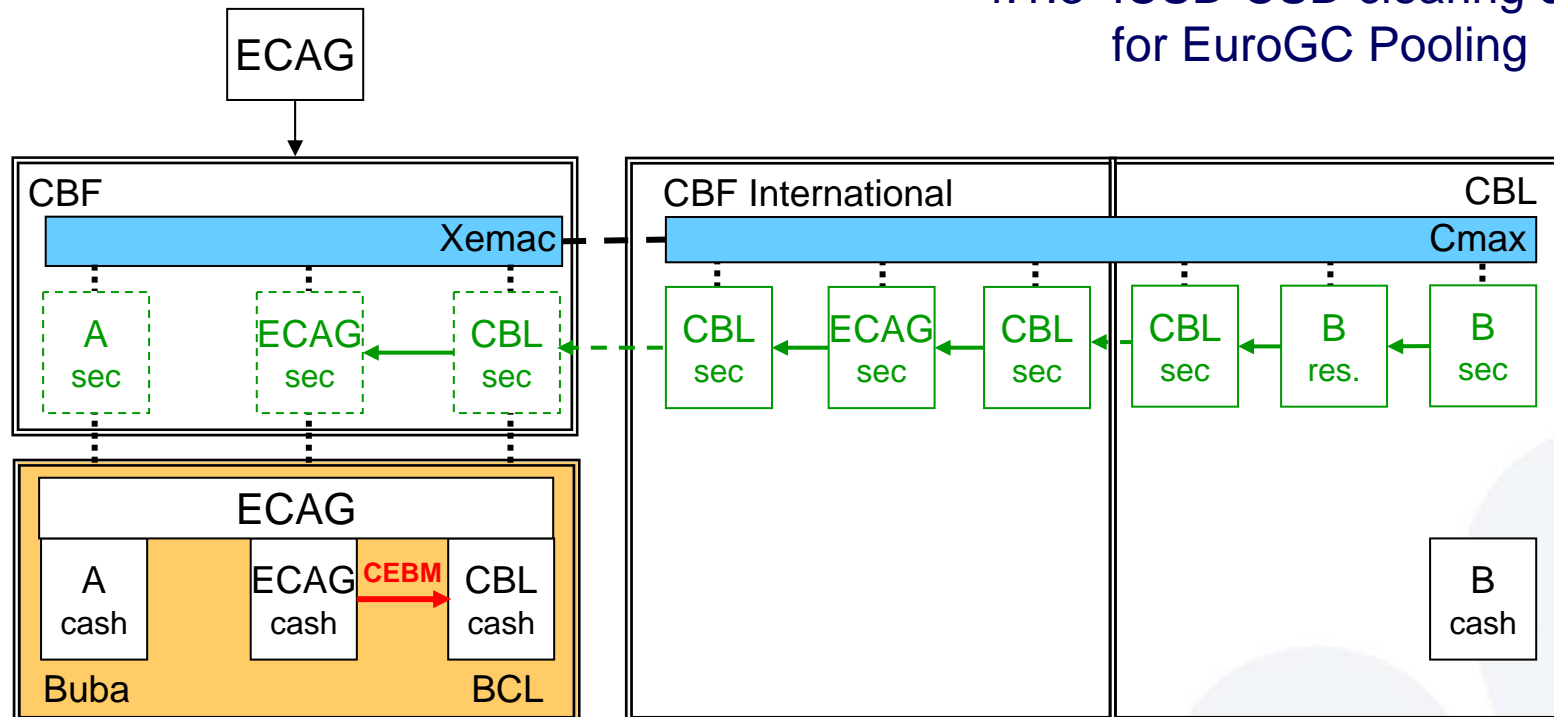
Xemac checks sufficiency of eligible collateral held by B in CBL.
If sufficient, collateral is reserved in CBL.

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



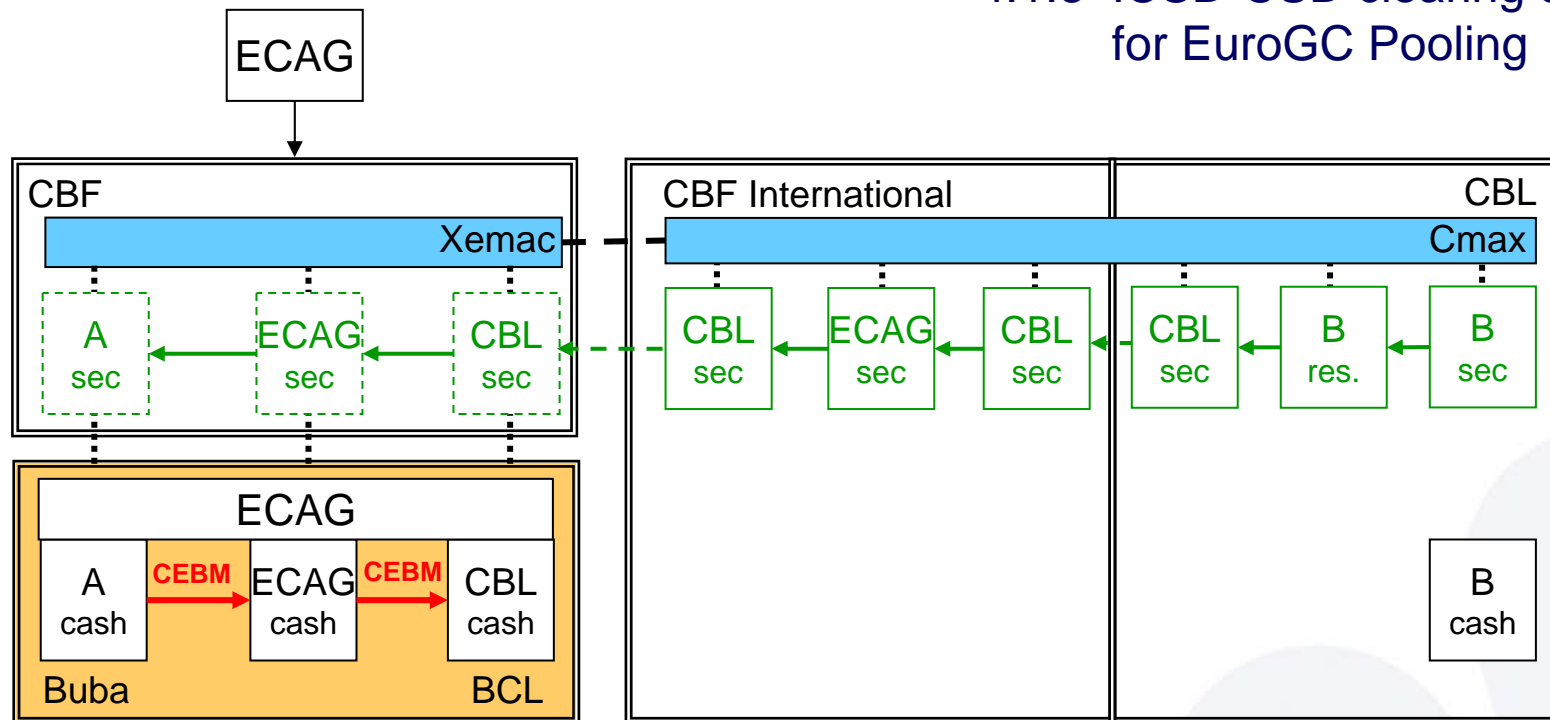
Upon confirmation of reservation, ECAG pays CBL cash account.

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



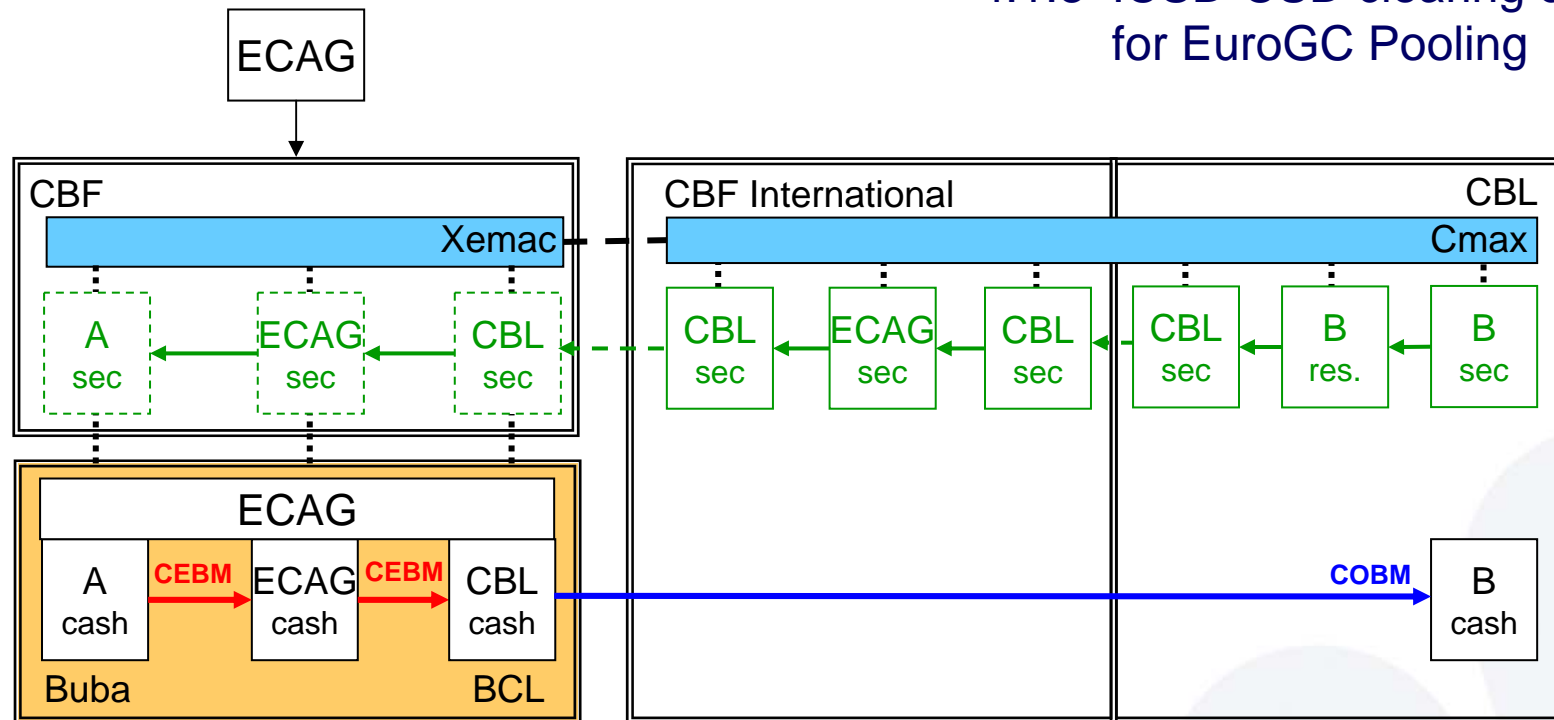
Upon confirmation of payment, securities released and re-aligned to ECAG across CBL.

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



Mirror image transaction between ECAG and A.

4.1.3 ICSD-CSD clearing & settlement for EuroGC Pooling



Cash credited to B across CBL.



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