

Directorate General payments and market infrastructure

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## **OUTCOME OF THE 27<sup>TH</sup> MEETING OF THE COGESI**

held in Frankfurt on Thursday, 22 November 2012

at the ECB's Eurotower

### **1. Opening remarks**

The Chair, Ms Daniela Russo, welcomed the participants and opened the meeting.

### **2. Update on collateral harmonisation developments**

The group was informed on the progress made by the three Ad-hoc COGESI workstreams on collateral harmonisation.

On Workstream 1 (gap analysis exercise on collateral eligibility requirements), Ms Fiona van Echelpoel (ECB) provided an update on the progress of work to date. Members agreed on the relevance of the fact-finding of the main differences in collateral frameworks, especially in view of the expected increase in demand for collateral going forward. The Chair concluded that a workshop will be organised early 2013 in view of publishing the findings in a future report.

Regarding Workstream 2 (Extension of operating hours of (I)CSDs/link arrangements), the Chair explained that the scope of the work could be broadened. In particular, the current focus could be extended to analyse infrastructural requirements supporting liquidity management at the end of the day, taking into account the shift in the market from unsecured funding towards secured funding. To the extent that this shift will also concern overnight or it could lead to profound changes in collateralisation and settlement processes at the end of day, which could also necessitate improvements to existing processes, it was agreed that a survey will be circulated to the COGESI members (and possibly the Money Market Contact Group) to better identify the need for changes in the infrastructure that would support longer operating hours of the repo market. The survey could also include questions on the possible expected measures or changes for end of day processes and their priority.

Ms Simonetta Rosati (ECB) introduced the discussion on Workstream 3 (minimum common features for CCPs/(I)CSDs triparty interoperability). Members reported that in view of the expected increased demand for collateral, collateral velocity and triparty mobilisation are increasingly relevant. On behalf of EACH, Mr Rory Cunningham explained that CCPs were asked to make their commitment to set up

interoperable baskets, but further information is needed to obtain clarity on the challenges, concerns and the business needs justifying the necessary investments. In the discussion that followed the other market participants confirmed their support for the initiative to establish CCPs/(I)CSDs triparty interoperability.

Regarding possible commercial concerns, the Chair recalled that authorities will carefully assess whether fair and open access and participation requirements are implemented by market infrastructures (in line with Principle 18 of the CPSS-IOSCO Principles for Financial Market Infrastructures). The Chair suggested that a questionnaire will be circulated to COGESI members to identify whether there are any legal or operational barriers that need to be addressed. The outcome of the questionnaire would then serve as a basis for a report on Workstream 3. The report should clearly explain the reasons, benefits and remaining difficulties of triparty interoperability. A draft report for subsequent publication should be prepared for the next COGESI. The findings of the report could also contribute as input to future legislative developments on interoperability in the EU.

### **3. Eurosystem collateral management developments**

Ms Fiona van Echelpoel (ECB) provided an update on the enhancements to be introduced to the Eurosystem's collateral management services in 2014, focusing in particular on the planned removal of the repatriation requirement from the Correspondent Central Banking Model (CCBM). She explained that the removal of this requirement which requires Eurosystem counterparties to transfer assets to the respective issuer SSS before they can be mobilised as collateral for Eurosystem credit operations, will bring benefits to the market, allowing for the use of links via the CCBM as well as use of euro-denominated EEA (non-euro area) collateral.

Ms Simonetta Rosati (ECB) expanded on the enhancement related to the introduction of triparty collateral management services on a cross-border basis. The Eurosystem will support three models of triparty services, which are based on existing triparty solutions of (I)CSDs. In case other (I)CSDs would start offering triparty services, they should follow one of the three models. The Eurosystem will perform an assessment of the (I)CSD's triparty services from a user perspective prior to the implementation of the cross-border triparty services.

Members welcomed the introduction of both enhancements and asked to be kept informed on the progress.

### **4. ICSD initiatives on collateral management services**

Mr Saheed Awan (Euroclear) presented Euroclear's "global collateral management highway", which opens up Euroclear's infrastructure and technology to provide services to mobilise collateral cross-border. Mr Jean-Robert Wilkin and Mr Gerd Hartung (Clearstream) presented the on-going implementation of Clearstream's Global Liquidity Hub strategy and current (I)CSD developments on collateral management (in particular the insourcing experience in that field). Ms Teresa Castilla (Iberclear) presented developments on the outsourcing of collateral management.

## **5. Update on (I)CSD links eligible for use in Eurosystem credit operations in the context of T2S**

Ms Simonetta Rosati (ECB) provided an update on the ongoing Eurosystem review of (I)CSD links in a T2S context in view of their assessment against the Eurosystem standards for use in credit operations. Members exchanged views on the timing and potential simplifications of Eurosystem link assessments in T2S.

Regarding the timing of link assessments, both the Eurosystem and market participants have a common interest that all links are assessed timely before the launch of T2S, to allow their use in T2S for Eurosystem credit operations (including for T2S self-collateralisation). In this regard it was reminded that an early notification by (I)CSDs on the links that will be set up in T2S, will support a more timely assessment process by the Eurosystem. Some members (eg Clearstream) explained that they have already informed their National Central Bank on the intended links in T2S. The Chair welcomed the information received so far from some (I)CSDs, which would allow the Eurosystem to anticipate these assessments. The Eurosystem could prioritise work on the links in T2S that are already reported so far (working on a “first in, first out” basis). COGESI members were also reminded to provide feedback on whether link arrangements in T2S would involve more than 3 (I)CSDs (such arrangements are currently not eligible for Eurosystem credit operations) or present other innovative features compared to links as they exist today, which could be taken into account in the Eurosystem’s ongoing review of the assessment process.

Regarding potential simplifications of the assessment process, the Eurosystem expects that T2S will facilitate compliance of (I)CSDs and their respective link arrangements with the Eurosystem requirements on the settlement side. As regards contractual/legal frameworks of (I)CSD links, it was suggested that consideration could be given on the market side to the use of standard link agreements (such as that developed by ECSDA). Taking into account that both existing links and newly set-up links will have to be assessed when CSDs migrate to T2S, support from the industry on the assessment process is important. During the T2S migration waves, links will continue to function with some CSDs migrating sooner to T2S than other CSDs (through in-out settlement), and this will be taken into account in the assessments.

## **6. Legislative process in the EU**

Mr De Vidts (ERC) informed the group on ERC discussions and contributions to legislative initiatives, ie regarding the proposed CSD Regulation, Securities Law Directive, and MiFID. In addition, there are initiatives of the Financial Stability Board regarding clearing of repos and trade repositories for repos.

Members exchanged views on the proposed CSD Regulation and the type of banking services provided by some (I)CSDs. The ECB published its Opinion<sup>1</sup> on the proposed regulation on 1 August 2012, in which it confirmed that the Eurosystem fully supports the proposed regulation's aims. The opinion also addresses, inter alia, concerns relating to the consistency with global standards for CSDs, in particular the Principles for Financial Market Infrastructures (PFMIs). Regarding the type of banking services provided by (I)CSDs, the PFMIs state that market infrastructures may be organised in a variety of forms, including specialised banking organisations. A more comprehensive assessment of the various options for the provision of ancillary banking services may be warranted given the crucial nature of this issue.

## **7. CGFS survey on bank funding patterns and demand for high-quality collateral assets**

Evangelos Tabakis (ECB) provided feedback on the survey on bank funding patterns and demand for high-quality collateral assets carried out over the summer to support the work of the CGFS. The global survey results indicate that there is no evidence of collateral shortage in most parts of the world, although there is a clear increase in demand arising in particular from regulatory reforms; in the euro area however, concerns emerge that the (high quality) collateral pool is shrinking. The CGFS will finalise its work on the increased demand for collateral assets and implications for markets and policy by February 2013. The COGESI and MMCG will be informed on the conclusions of the work. Members exchanged views on recent developments that have an impact on (high quality) collateral availability, e.g. sovereign crisis, shadow banking requirements, etc. Members also indicated that further data could be collected on estimated demand of collateral and use of collateral.

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<sup>1</sup> Opinion of the European Central Bank of 1 August 2012 on a proposal for a regulation on improving securities settlement in the European Union and on central securities depositories ([http://www.ecb.int/ ECB/legal/pdf/c\\_31020121013en00120031.pdf](http://www.ecb.int/ ECB/legal/pdf/c_31020121013en00120031.pdf))