CCBM2 and T2S
Where do we stand?

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Money Market Contact Group
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What’s coming up

**CCBM2**
- project status
- a closer look into CCBM2 features

**T2S**
- project status
- benefits for the market
Introduction (1)

**CCBM2: Collateral Central Bank Management**

A harmonised collateral management system for the Eurosystem central banks

**T2S: Integrated securities settlement in central bank money for the whole of Europe**

⇒ “settling without borders”
Introduction (2)

The Eurosystem “magic triangle”
CCBM2 Project – Status Update
CCBM2 Milestones

- Business requirements document
- Eurosystem acceptance test
- Counterparty certification
- Detailed system requirements
- Interface guide
- User interface guide
- CSD testing
- Wave 1 migration
- Wave 2 migration
**CCBM2 participation**

Governing Council 15/09/2010 approved 2 CBs offer and committed participation

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<th>NCB</th>
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</table>
Shortcomings of present collateral management services

- technically decentralised
- procedures vary depending on location of collateral (for counterparties and NCBs)
- high complexity => low efficiency
- not supportive to further market integration

Way Forward
- development of a common technical platform CCBM2
- facilitating swift and efficient handling of collateral
- in compliance with market developments and needs
Current framework for collateral delivery (domestic and cross-border)

Bank Country A

NCB Country A

NCB Country B

CSD-A Central Securities Depository

CSD-B Central Securities Depository

Cash account Bank in Country A

Transfer Instruction Delivery of Collateral

Matching

Release of Credit

Request for Credit

Receipt

CCBM message

Confirmation
CCBM2 features (1)

- centralised collateral management platform complying with the decentralised access to credit
- fully compatible with T2 and T2S
- domestic & cross-border, pooling & earmarking, repo & pledge
- real-time straight-through processing
- able to use all eligible SSS and eligible links between SSS

i.e. with the communication interfaces and securities settlement procedures of T2S

No repatriation requirement anymore
CCBM2 features (2)

- use of collateral for joint purposes  
  e.g. guarantees

- collateral pooling – global view on global positions of entities of the same group

- integration with existing market solutions  
  Tri-party collateral management services, including cross-border

- support of auto-collateralisation procedures in current CSD/SSS infrastructures and in T2S
Main changes with CCBM2

- removal of the Repatriation Requirement allows for new collateral route: CCBM and links
  - incorporation of cross-border triparty collateral management services
  - euro-denominated collateral from out-countries becomes eligible
Removal of Repatriation Requirement

With the removal of the repatriation requirement it will no longer be necessary to move assets from the investor SSS to the issuer SSS to get Eurosystem credit.

- Keep collateral in the (I)CSD of the counterparties’ choice
- Facilitate same-day settlement in a cross-border context
- Cost efficiency gains for counterparties
CCBM2 and triparty collateral management services

- Third party (ICSD) acting as an agent for both collateral taker (Eurosistem) and collateral provider (counterparty). Collateral taker and provider enter into an agreement with triparty agent on the level of outsourcing.

- Delegation of tasks to third party could take different forms and include e.g. eligibility checks/screening, valuation, margin and haircut facilities, automatic collateral allocation and substitution, monitoring and reporting.

- The three existing variations in the euro area will be facilitated by CCBM2, including the cross-border use.

**CBF/XEMAC, CBL/CmaX and Euroclear Group/Autoselect**
In CCBM2 out-collateral again eligible:

- Via eligible links the condition of settlement within the euro area is met, and
- Collateral is equally available to all Eurosystem counterparties
CCBM2 framework for delivering collateral

Harmonised procedures for domestic and cross-border mobilisation

- Bank Country A
  - Request for credit
  - Transfer instruction delivery of collateral
- CSD
  - Central Securities Depository
  - Matching
  - Confirmation
- CCBM
- Release of credit
- Cash account
  - Bank in Country A
  - targets 2
CCBM2 credit and collateral functionality

Global position per counterparty
View on global collateral & credit position

Bank A

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Collateral Position</td>
<td>• Credit Position</td>
</tr>
<tr>
<td>• Securities</td>
<td>• Open Market Operations</td>
</tr>
<tr>
<td>• Credit Claims</td>
<td>• Marginal Lending</td>
</tr>
<tr>
<td>• Other collateral (e.g. tri-party)</td>
<td>• Other Credit (e.g. Guarantees)</td>
</tr>
<tr>
<td>TOTAL COLLATERAL</td>
<td>TOTAL CREDIT</td>
</tr>
</tbody>
</table>

Remaining Credit Line = COLLABERAL – CREDIT = available intraday credit
How will stakeholders receive information?

Main communication channel is decentralised to the NCBs

- business relationships with CSDs and counterparties
- local practice of national Information Desks or creation of User Groups
- organise and co-ordinate national activities of testing and migration

General information sessions for market participants

- organised to introduce deliverables of general interest, and/or at key project milestones
- revamp the CCBM2 website
T2S status update

Helmut Wacket
Why do we need T2S?

Securities trading and settlement today
What is T2S?

TARGET2 - Securities
Lifecycle Management and Matching

- Instructions Interface
  - Instruct
  - Query Status
  - Maintain Instruction

- Account Balances Interface
  - Query
  - Monitor

- CSD AUTHORIZATION INTERFACE
  - Set up / change / maintain
  - Participants
  - Securities
  - Rules

T2S Static data

SEcurities ACCOUNTS
- CSD A ACCOUNTS
- CSD B ACCOUNTS
- CSD ... ACCOUNTS

CASH ACCOUNTS
- NCB A ACCOUNTS
- NCB B ACCOUNTS
- NCB ...

Optimization procedures

Settlement Engine

Instruction ready for settlement
Information on status

Payment System Interface

CSD Participants
CSD B
CSD A

SEcurities
ISINs and data

PARTICIPANTS
Customers data

NCBs
N CB B
N CB A
N CB ...

Settlement Agents

TARGET2
So far, 30 CSDs have committed to work towards joining T2S community.

Settlement in euro and the three Scandinavian currencies:

- NBB-SSS
- CIK
- NEGICEF
- SIX SIS LTD
- KDD
- Euroclear UK and Ireland
- Euroclear Sweden AB
- Euroclear Finland Oy
- Euroclear France S.A.
- Malta Stock Exchange plc
- Depozitarul Central S.A.
- SITEME
- INTERBOLSA
- Clearstream Banking Ffm
- KDPW
- Iberclear – BME Group
- Clearstream Banking Lux
- HELEX
- BOGS
- VPS
- Monte Titoli S.p.A.
- CDSCP
- CSD of Lithuania, plc
- VP SECURITIES
- Cyprus Stock Exchange
- Latvian Central Depository
- KELER
- Icelandic Securities Depository
Proposed T2S Governance structure

- Governors’ Forum
  - ECB Governing Council
    - Executive Board
      - Non-euro Currencies Steering Group
        - (non-euro area NCBs that signed Currency Participation Agreement)
      - T2S Board
        - Information Sessions with all Stakeholders
        - National User Groups
        - Advisory Group
        - CSD Steering Group
          - (CSDs that signed Framework Agreement)
        - Eurosystem Informal Group
          - ESCB/ Eurosystem Committees

Non-euro central banks’ governors / boards
Financial equilibrium in T2S

Tariff Structure

Investment cost
PLUS
Running costs

Volume estimates
TIMES
Prices
T2S costs

- Development phase (total, from Jan. 2008 to Sep. 2014):
  4CB: € 256.4 million
  ECB:  € 90.2 million

- Migration and running phase (annual average, from Sep. 2014 to Sep 2022)
  4CB: € 51.0 million
  ECB:  € 9.2 million

- Capital cost over development and migration/running phase of eight years:
  € 88.9 million in total

- Contingency provision during migration and running phase:
  € 41.1 million over eight years
Volume estimates for future years

(in million securities settlement transactions) Full 2010 (projected)

1) all euro settlement of euro area CSDs 146.6

2) all euro settlement and Scandinavian non-euro business 185.5

3) all settlement from CSDs having signed the MoU 271.4

Estimates of future annual growth rates based on March 2010 AG questionnaire:

<table>
<thead>
<tr>
<th></th>
<th>Expected annual growth rates</th>
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<tbody>
<tr>
<td>2011</td>
<td>+3.2%</td>
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<tr>
<td>until T2S go-live</td>
<td>+4.7%</td>
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<tr>
<td>after T2S go-live</td>
<td>+6.3%</td>
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T2S pricing policy

• Governing Council decided to fix the **DvP price at 15 cent per instruction** for the period Sep. 2014 to Dec. 2018

• Commitment not to increase T2S fees by more than 10% per year between 2019 and the end of the cost recovery period, i.e. September 2022

• This pricing policy is subject to the following conditions:
  
  i. in addition to the euro settlement volume, non-euro currencies add at least 20% to the total volume;

  ii. the securities settlement volume in the EU is no more than 10% lower than the volumes projected by the T2S Programme Office, which are based on information provided by market participants; and

  iii. the tax authorities confirm that the Eurosystem will not be charged VAT for the T2S services it provides.

The T2S Programme Board aims at further lowering settlement prices below 15 cents
Harmonisation in T2S

List A
- T2S Functionalities and Rules
- (Common operating times, ISO 20022, etc)
- Already in 2008 as a part of the approved URD

List B
- Harmonisation that could not be included in the 2008 URD.
- Related to T2S specifications
- Concluded end 2009

List C
- General market harmonization
- No influence on T2S specifications
- EGMI holds the lead

Several AG sub-structures deal with issues related to harmonisation
AG decided in December 2010 that T2S should play an even more active role in harmonisation
T2S Benefits

Benefits of T2S

T2S -> CSDs -> Custodians

Custodians -> Investors

Custodians -> Issuers
T2S benefits for the markets

- Facilitating **easier access to foreign markets**, thus fostering **competition** in Europe’s post-trade industry
- **Reduced settlement cost** due to significant economies of scale
- **Reducing collateral and liquidity needs** by means of single collateral and liquidity pools, accessible in real-time; sophisticated system features (e.g. auto-collateralisation, optimisation)
- **Back-office cost savings** because of further reduction of complexity as a result of European (technical, legal and regulatory) harmonisation.
- Promoting a Single Market for financial services through the **harmonisation** of clearing and settlement in Europe.
- Positively impacting **financial stability** by reducing settlement risks on cross-border transactions.
- Contributing to **economic growth** by reducing capital costs for firms.

New business opportunities
Conclusion
CCBM2 and T2S synergies

- T2S will facilitate securities settlement in Europe – “settling without borders”
- CCBM2 will facilitate collateral management in the Eurosystem
- Both systems will closely interact for an efficient use of collateral (e.g. auto-collateralisation)
- T2 will allow for efficient transfer of central bank money
- All systems are closely interlinked and allow for more efficient back-office processes