

The CCBM2: The next generation of collateral management

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I. The current CCBM: rationale

No comprehensive network of market solutions for cross-border settlement of securities covering the whole euro area

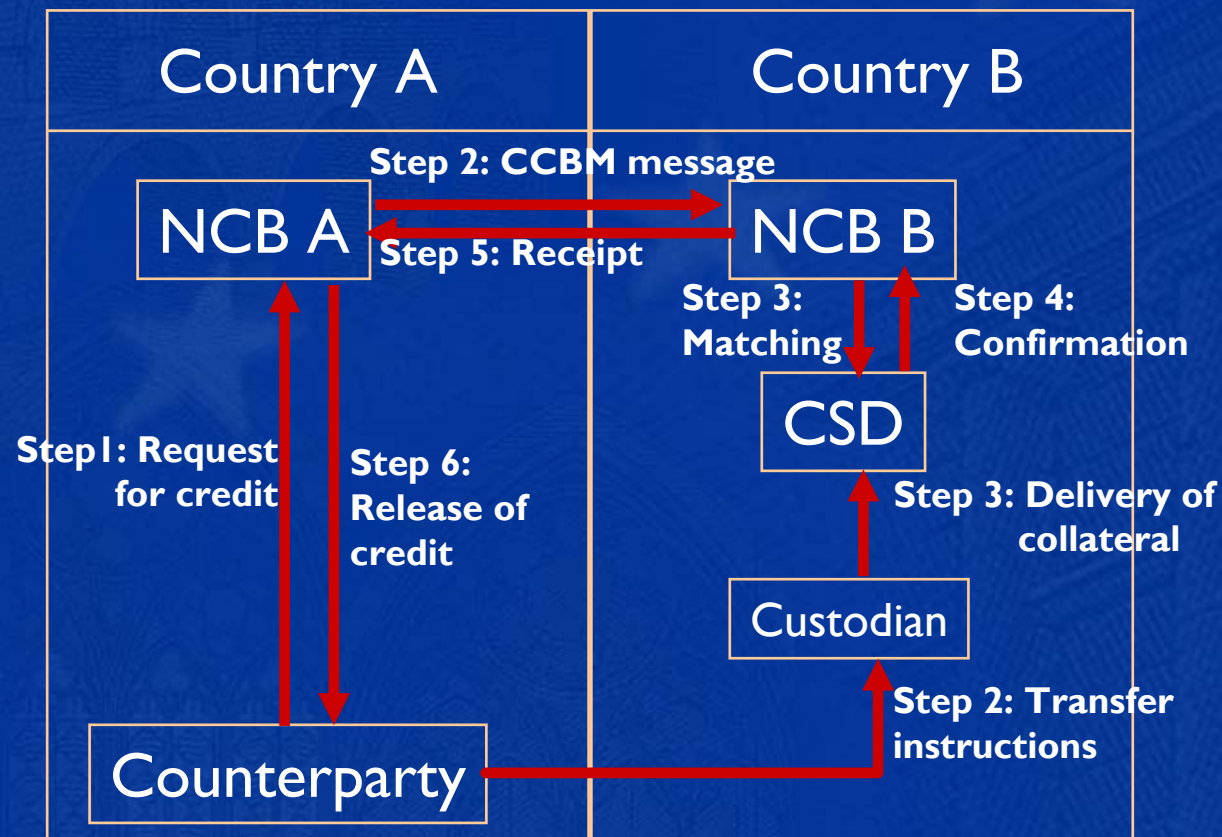
No market solution for cross-border mobilisation of non-marketable assets



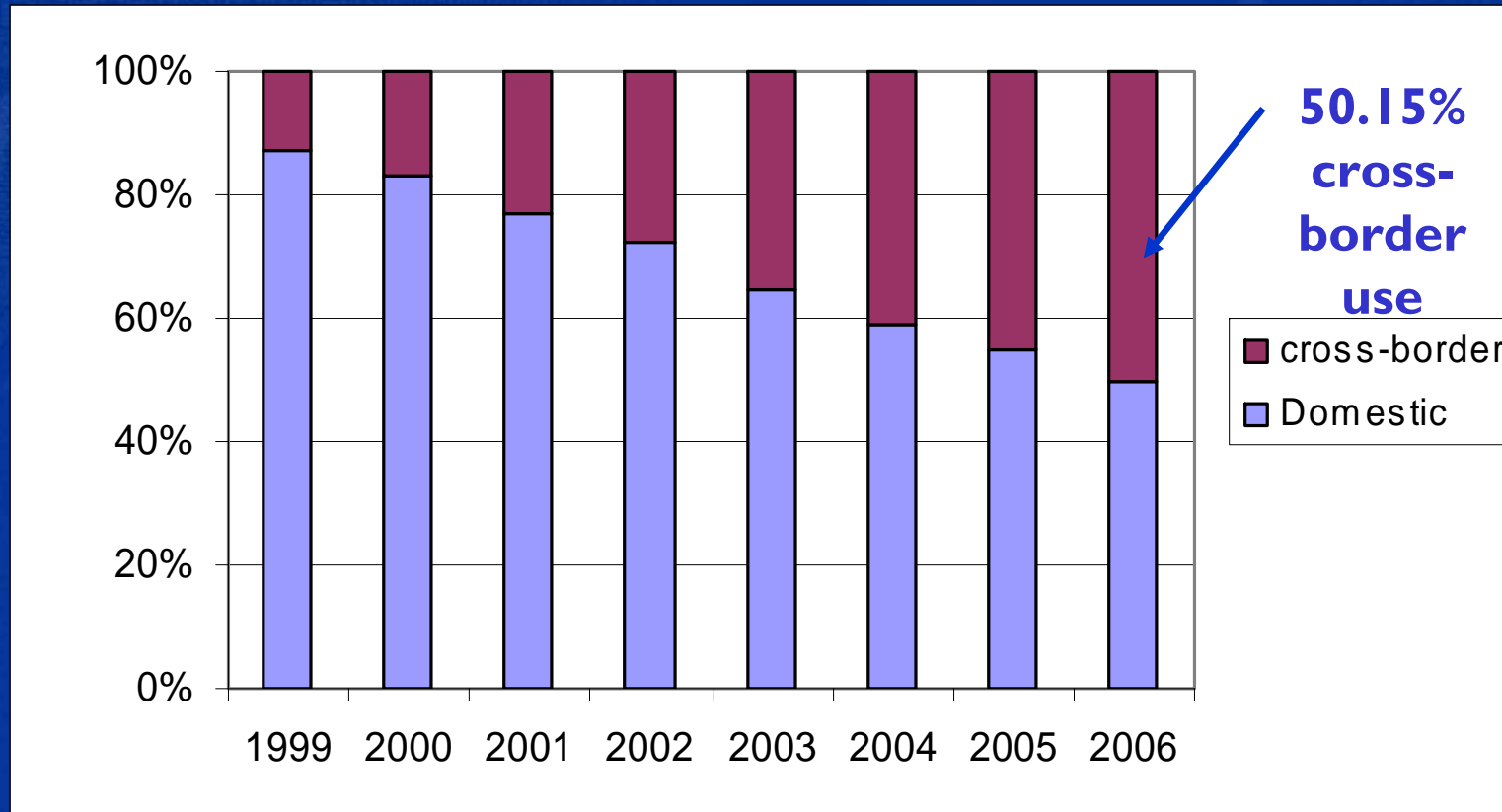
Development of the correspondent central banking model (CCBM) as an interim solution until market alternatives are developed

I. The current CCBM: main features

The correspondent central banking model (CCBM)



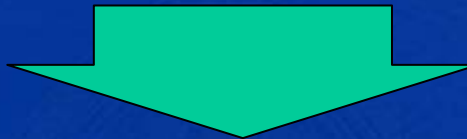
I. The current CCBM: present situation



In 2006, for the first time, cross-border use (i.e. CCBM + links) of collateral exceeded domestic use

I. The current CCBM: present situation

- Involves (at least) five actors (and related procedures)
- Does not work exactly in the same way in the different countries (different procedures of NCBs, CSDs, banks), e.g. non-homogeneous degree of automation
- Relies on the principle of decentralisation of access to credit which may require the repatriation of collateral



Different conditions for cross-border and domestic transfers
(execution time, timing and costs)

Different conditions for cash and securities

I. The current CCBM: present situation

The market demand (based on initial discussions already held with some market participants in the framework of the COGESI*):

- Implement a “centralised” system for all securities transactions (not only collateral)
- Harmonise national procedures and conditions for domestic and cross-border use of collateral
- Support the secondary market for non-marketable assets
- Avoid repatriation of securities

* Contact Group on Euro Securities Infrastructures

II. The CCBM2: main principles

Objectives of CCBM2 (Collateral Central Bank Management)

- Increase the efficiency of the Eurosystem's internal collateral management systems
- Address to the extent possible the identified drawbacks by optimising the cost of mobilising collateral
- Establish efficient methods for delivering and accepting securities and non-marketable assets both domestically and across borders
- Provide a harmonised level of service based on SWIFT communication protocols



Harmonised solution facilitating the interaction of counterparties acting as collateral providers with the Eurosystem

II. The CCBM2: main principles

Principle 1 - The CCBM2 will provide central banks with an IT platform for the management of eligible collateral used for Eurosystem credit operations, while complying with the principle of decentralisation of access to credit

Same IT platform for domestic and cross-border use =>

- Harmonisation through a centralised IT solution
- Rationalisation of central banks' internal organisation, while preserving decentralised business relations (decentralisation of securities accounts of Eurosystem counterparties with the relevant NCBs)
- Higher efficiency in terms of both cost and speed
- Eurosystem participation in the CCBM2 is of a voluntary nature (following a modular approach for the functionalities)

II. The CCBM2: main principles

Principle 1 - The CCBM2 will provide central banks with an IT platform for the management of eligible collateral used for Eurosystem credit operations, while complying with the principle of decentralisation of access to credit

Based on existing central bank systems (such as the system developed by the NBB/BNB and the DNB)

- Reduced development costs
- Potentially reduced amortisation period for investments

II. The CCBM2: main principles

Principle 2 – The CCBM2 will be fully compatible with TARGET2 and TARGET2-Securities (T2S), in particular with the communication interfaces and the settlement procedures used by T2S for the delivery of the securities

Mainly derived from the use of access facilities to convey data to counterparties for TARGET2 and T2S =>

- Common communication tool with standardised interfaces for counterparties to payment, securities settlement and collateral-related services

Compatibility with T2S settlement procedures for the delivery of securities

II. The CCBM2: main principles

Principle 3 – The scope of the CCBM2 will cover both domestic and cross-border use of collateral, as well as different collateralisation techniques (such as pledge and repo) depending on the practices of each central bank

Integration of both domestic and cross-border collateral management =>

- Enlarged scope compared with the CCBM

Coverage of all collateralisation legal techniques (pledge and repo) and mechanisms (pooling and earmarking) =>

- Cater for the practices of each Eurosystem central bank
- Harmonised collateral management procedures for each legal technique

II. The CCBM2: main principles

Principle 4 – The CCBM2 will handle all eligible collateral (both securities and non-marketable debt instruments)

Securities functionality:

- Perform central bank functions related to the management of the instructions regarding the settlement of securities transactions and the custody of these securities
- Main functions are:
 - Receipt of instructions
 - Eligibility check functions (security eligibility + close links)
 - Settlement function: creation of settlement instructions + follow-up of the settlement cycle of the instruction until the final settlement status
 - Custody function: keep a record of securities mobilised as collateral + processing of corporate actions according to local practices
 - Reporting and query function

II. The CCBM2: main principles

Principle 4 – The CCBM2 will handle all eligible collateral (both securities and non-marketable debt instruments)

Non-marketable assets functionality (the role of the CCBM2 with respect to these functions requires further elaboration):

- Centralised tool facilitating the use of non-marketable assets (e.g. credit claims) as collateral (across borders and domestically)
- Main functions are:
 - Records (registration): recording of all non-marketable assets transferred to the Eurosystem, including all related information
 - Valuation if required by a Eurosystem central bank
 - Ex ante notification if required by a Eurosystem central bank (depending on the possible level of automation)
- The CCBM2 will complement the functions of Eurosystem central banks vis-à-vis their counterparties and the tasks still performed by them at the national level (e.g. legal transfer procedures)

II. The CCBM2: main principles

Principle 5 – The CCBM2 will process instructions in real time on an STP basis permitting the delivery of collateral to generate the release of related credit in TARGET2 on a real-time basis

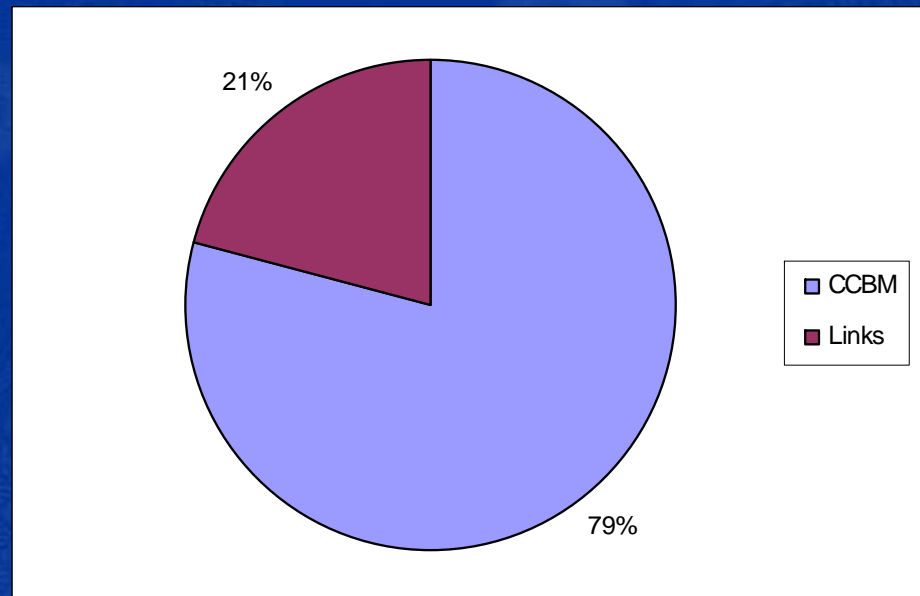
Collateral management/TARGET2 interface functionality:

- For the settlement of credit operations using the different functionalities offered by TARGET2 standard payments, connected payments
- For the creation of cash flow movements stemming from custody of collateralised assets
- For the monitoring and management of the Eurosystem's counterparties' credit lines in TARGET2 via a single entry point

II. The CCBM2: main principles

Principle 6 – The CCBM2 will be able to take collateral through all eligible SSSs and related eligible links between them

Links eligible for use in Eurosystem credit operations will still continue to be an alternative for the cross-border use of collateral



Share of cross-border use in 2006

III. The CCBM2: potential benefits for the markets

Satisfies the (initially collected) market needs

Same platform for domestic and cross-border use =>

- Harmonised solution
- Lower costs
- Higher efficiency
- Integration between cash and collateral processing (potential for DvP)

But:

- As not all identified shortcomings fall within the remit of central banks, they cannot all be addressed by the CCBM2
- Repatriation still required
- The CCBM2 cannot be the infrastructure for the secondary market for non-marketable assets (since there is no control of the quality of ineligible credit claims)

IV. Concluding remarks

- The CCBM2 will bring benefits both to the Eurosystem and counterparties
- It constitutes a solution to some of the drawbacks of the current CCBM, but some aspects (e.g. differences in collateral arrangements) are not catered for
- It will be developed in parallel with T2S in order to exploit synergies between the two projects
- Concrete time horizon of the project remains to be decided

IV. Concluding remarks

- The Eurosystem is now consulting market participants, in particular to obtain input on the user requirements of this project

<http://www.ecb.int/ecb/cons/html/t2securities.en.html>

- Feedback welcome by 27 June 2007