

# BELGIAN FINANCIAL SECTOR FEDERATION

Financial Markets

CCBM2  
DR12129.DOC

Madame Daniela Russo  
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Payment Systems and Market Infrastructure  
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Dear Ms Russo,

## **Febelfin<sup>1</sup> 's response on the Collateral Central Bank Management (CCBM2) User Requirements - version 3.0**

Febelfin welcomes the opportunity to participate to the Eurosystem consultation on CCBM2 User Requirements.

### **1. General comments**

We believe that the User Requirement Document gives us a good picture of the possibilities of the CCBM2 system and that there is a will to build an integrated collateral system.

Nevertheless we have the feeling that some attention points raised in our response on the Public Consultation (letter dated 13/07/2007) are not (fully) incorporated in the User Requirements:

- Repatriation is a must for a cost efficient settlement,
- NCB participation: CCBM2 must be mandatory for all NCB's,
- ICSD's have to participate in CCBM2,
- Tri-party services are very important,
- Lack of Harmonization still exist on some items: notification , valuation,
- Procedures & methods, Voluntary participation of NCB's ...

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<sup>1</sup> Febelfin is the Belgian Federation of the financial Sector. In 2007, Febelfin and its members together represented 235 financial institutions in Belgium. Febelfin and its members defend the interests of the Belgian financial sector within 67 organisations. Our members : Belgian Bankers' and Stockbroking Firms' Association, Professional Union of Credit Providers, Belgian Asset Managers Association, Belgian Leasing Association and Belgian Stock Exchange Members' Association.

Furthermore, we would like to add:

- that the Eurosystem should consider an additional CCBM2 module for using collateral from other main currency areas,
- CCBM2 should be a unique opportunity and a strong driver towards harmonised procedures for collateralisation of the Eurosystem specially for credit operations (legal & operational issues)
- the launch of CCBM2 should be decoupled from T2S and implementation of CCBM2 should happen within a shorter time frame.

## 2. Selected issues

### 2.1. The message router :

- 2.1.1. SWIFT should be the preferred option with the advantage of allowing a further lowering of the costs resulting from an increase of volumes on SWIFT. The alternative of Internet could be an option. We believe that in such a scenario CCBM2 will also have to develop all the aspects around the Security and the management of User Rights on its side which is not the case in SWIFT. The alternative could then be quite expensive; the business case of this internet alternative would need to be assessed.
- 2.1.2. Use of ISO 20022 : if the types of data exchanged between counterparties and CCBM2 are the same than today then we have to perform format conversion or steadily take benefit of this small impact on format only to implement ISO 20022. If a part of the types of data exchanged between counterparties is really new (like we can expect with the Credit Claims Module) then ISO 20022 is simply unavoidable and harmonisation is key. Use ISO 20022 specifically if the intention of CCBM2 is to propose access to CCBM2 in a A2A mode to counterparty like Bank Back End application to automate a part of the process.
- 2.1.3. Message format used by CSDs : we favour all opportunities to further harmonise the messages and hope to take advantage of the progress achieved as regards Giovannini Barrier 1.

### 2.2. The Credit & Collateral Module:

#### 2.2.1. Interaction with triparty collateral management services

In the first consultation round of CCBM2, the market formulated the recommendation that the triparty collateral management services should be integrated within the CCBM2 platform.

We are very pleased that the Eurosystem is willing to investigate this recommendation and has included this functionality in the second round of the user consultation on CCBM2.

Triparty collateral management services are to be considered similar to all existing links with other SSS's, the ICSD's Clearstream International and Euroclear, but also other major market service providers as JP Morgan Chase and Bank of New York.

In order to benefit to a maximum extent from the interoperability and the complementarities of the three major systems offered by the Eurosystem (T2, T2S and CCBM2), we strongly recommend that the triparty collateral management systems that are accepted to interact with CCBM2, would become direct participants of the two other major services of the Eurosystem. This would allow settlement of refinancing operations (MRO, LTRO) in central bank money on a delivery versus payment basis within T2S.

Such integrated solution, where the available collateral with the different triparty collateral management systems can be reused for refinancing operations with the ECB while benefiting from delivery versus payment settlement in T2S in central bank money, will allow the market participants to optimize their liquidity and collateral management.

Especially in emergency situations -i.e. the ECB intraday fine-tuning operations- it is very important that settlements for the different financial transactions can be handled in one integrated financial market infrastructure as offered by the Eurosystem.

#### 2.2.2. Adding a CCBM2 module for using collateral from other main currency areas i.e. USD funding to Eurosystem counterparts in the context of TAF term auction-facility

From the very outset, CCBM2 should take a leading role in pushing / facilitating global collateral management with other non Euro Central Banks. Priority should be given to interaction with the major non EUR Central Banks in complementary time zones: the US and Japan. This would allow global credit institutions to optimise the management / allocation of their collateral (usage of the same collateral in different time zones) to the highest extend; in particular in stress situations (liquidity or currency crisis).

Adding this functionality obviously requires the CCBM2 system to operate within large opening hours and to adapt technically in order to handle non-Euro collateral as well.

Cross currency / country eligibility of assets will in this context be a major issue.

We favour the Eurosystem giving priority to T1 assets in the first phase: assets which fulfil, from a credit quality point of view, all criteria of the Federal Reserve, the ECB and the Bank of Japan.

#### 2.2.3. Provide within CCBM2 a 'virtual collateral pooling' mechanism similar to T2

The purpose of the 'virtual collateral pooling' is to offer a multi-country bank group the functionality to aggregate intraday (possibly by using the freezing

functionality) the collateral available on a set of single accounts (belonging to a group of accounts) held with multiple home Central Banks.

This would allow banks belonging to a multi-country bank group:

- to pledge collateral with their home Central Bank which can consequently be used within CCBM2 through the 'virtual collateral pooling' (similar to T2) by another bank that manages the liquidity & collateral in a centralised way within the group
- to benefit from an optimal usage of collateral which is managed centrally but can be used decentralised for other purposes than the collateralisation of the Eurosystem operations through the credit freezing facility.

### 2.3. Credit Claims Module:

#### 2.3.1. Individual procedure and bulk procedure:

Belgian market wants that the credit claims module supports both procedures.

#### 2.3.2. SWIFT messages and Web Interface:

We opt for both communication systems. For the individual procedure SWIFT is the preferred option ( MT598 / MT54X messages ) because our internal present systems communicate already with CCBM system on basis of swift messages but we want to have the possibility to communicate with the NCB on basis of a Web Interface as a back-up system. The bulk procedure has to work via a Web Interface.

#### 2.3.3. Theoretical valuation:

We opt for both valuation systems but with a preference for the theoretical valuation.

#### 2.3.4. Lack of ( legal ) harmonization:

Items with a lack of harmonization :

Notification : Register – like & Debtor Notification

Valuation : Theoretical pricing & Based on outstanding amount

The involvement of the European Commission in driving towards harmonisation could be most helpful in making the market ultimately move towards best practices at an operational level:

- Swift communication for transfer / update of claims
- unique process for assignment of identification number  
no ex ante notification.



*2.4. Communication with T2S and CCBM2 (slide 32):*

2.4.1. Need for screens cross-applications.

The advice is "Yes" depending mainly on the price.

2.4.2. Purpose

The advice is also purely related to integrating TARGET2 and CCBM2. Integrating T2S on top of TARGET2 and CCBM2 should also make sense, although we believe this is still a bit early to assess the added value and the adequacy of such integrated reporting on collateral and liquidity management tools. We favour this option to be kept open.

2.4.3. Nature of the info

The advice is to integrate the existing ICM Browser information of TARGET2 with relevant information that allow OPS to follow the status of the collateral requests (CCBM2) and the status of the instructions related to monetary policy operations (CCBM2).

**3. Other technical comments**

Those points refer directly to the consultation document and are in annex.

We look forward to the further evolution of the CCBM2 system and remain at your disposal should you wish to further discuss any of our comments.

Yours faithfully,

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Head of the Business Line  
"Financial Markets"

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Mr. Alec Schotte, Head of Credit & Collateral Management Division NBB