

12 October 2007

OUTCOME OF THE INITIAL CONSULTATION ON THE CCBM2 – THE NEXT GENERATION OF COLLATERAL MANAGEMENT

Introduction

On 26 April 2007, the Eurosystem launched an initial consultation on the principles for the development of a common platform for Eurosystem collateral management, which will be called Collateral Central Bank Management (CCBM2) (see <http://www.ecb.europa.eu/ecb/cons/html/ccbm2cons.en.html>).

All Eurosystem counterparties and other interested parties, especially central securities depositories (CSDs), were invited to provide their comments on the proposed CCBM2 principles, which will be used as inputs for the finalisation of the user requirements for the new platform.

By 26 July 2007, the ECB had received a total of 14 responses:

- 7 common replies by European and national credit institution associations or market groups;
- 2 individual replies by credit institutions;
- 3 individual replies by (I)CSDs; and
- 2 replies by other interested parties (a central counterparty (CCP) and SWIFT).

All respondents to the consultation welcomed the Eurosystem initiative to develop a single platform for Eurosystem collateral management.

Respondents appreciated the opportunity to comment on the principles guiding the implementation of the CCBM2. In particular, several respondents stressed the importance of involving counterparties and market infrastructure providers in the definition of the CCBM2 user requirements and offered their availability to further contribute to the open dialogue initiated by the Eurosystem with this consultation.

This note summarises the main issues emerging from the responses to this initial consultation. Section 1 presents the market view on the six guiding principles. Section 2 presents the additional market inputs for the CCBM2 user requirements. Section 3 deals with the organisation of the dialogue with the Eurosystem on the CCBM2 project in the future.

All replies to the consultation are published on the ECB website (see <http://www.ecb.europa.eu/ecb/cons/html/ccbm2.en.html>).

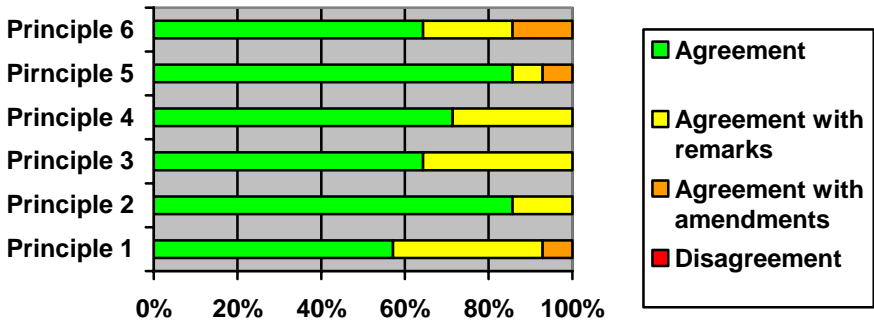
1. The market view on the six principles for the CCBM2

None of the responses challenged, or disagreed with, any of the principles defined for the CCBM2. To consultation question No 2 on whether the CCBM2 principles address counterparties' needs for

improving the Eurosystem’s current collateral handling procedures, respondents replied that these principles would address their needs. However, respondents noted that the consultation provides a list of high-level proposals and they expect that more details on CCBM2 functionalities will be provided in future “technical” consultations.

The graph below summarises the view of respondents on the six principles defined for the CCBM2 which were presented in the consultation. In most cases respondents simply indicated their agreement with the CCBM2 principles, while in some other cases respondents made remarks on the way in which the principles should be implemented. Only in a few cases did respondents suggest amendments to the principles.

Market agreement on the CCBM2 principles



1.1 Proposed amendments

Four proposals for amendments to the principles were put forward:

- A first proposal put forward by a national market group concerns **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*”). The proposed amendment is to include that the CCBM2 should provide fully harmonised procedures for collateralisation of Eurosystem credit operations, including the harmonisation of country practices regarding cut-off times, order execution, handling of corporate actions, etc.
- A second proposal – mainly of a drafting nature – put forward by an (I)CSD concerns **Principle 5** (“*The CCBM2 will process instructions in real time on a straight-through-processing (STP) basis permitting the delivery of collateral to generate the release of related credit in TARGET2 on a real-time basis*”). The proposal is to extend the principle from the delivery of collateral to all movements of collateral, including delivery and withdrawal of collateral.
- The last two proposals concern **Principle 6** (“*The CCBM2 will be able to take collateral through all eligible SSSs and eligible related linkages between them*”). They are: (i) to add that with the CCBM2 repatriation in the issuer-CSD should no longer be necessary (as proposed by a national credit institution association); and (ii) to include that the necessary approval processes for the

establishment of links should be reasonable and acceptable from a duration point of view (as proposed by an (I)CSD).

1.2 Remarks received

From the remarks made on the CCBM2 principles and the replies to the first three consultation questions, the following requests emerged with regard to issues which were not yet addressed in the proposed CCBM2 principles.

Regarding **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.”*

- (a) **Use of collateral for other purposes:** some credit institution associations considered that the CCBM2 should enable counterparties to use the collateral transferred and managed within the CCBM2 also for purposes other than the collateralisation of Eurosystem credit operations, such as the provision of guarantees to other systems (e.g. CCPs, CSDs for night-time settlement) and transactions on secured markets (e.g. the repo market).
- (b) **Collateral pooling:** an (I)CSD considered that the CCBM2 should provide collateral pooling capabilities. Furthermore, several credit institution associations stressed that it should be possible to maintain collateral sub-accounts to enable the administration of several collateral providers within one group (e.g. different business units, but also indirect participants which in this way can provide collateral to support their business).
- (c) **Full Eurosystem participation:** some credit institution associations and infrastructure providers considered that all Eurosystem NCBs should participate in the CCBM2 to maximise the benefits (e.g. harmonisation and a level playing-field); if a large number of NCBs were to decide not to participate, the whole project would be in doubt. The credit institution associations mentioned that a migration phase could be introduced, as was done for TARGET2. However, during the migration the CCBM2 should have access to the non-participating NCBs’ collateral accounts to limit disadvantages for counterparties.

Regarding **Principle 2**: *“The CCBM2 will be fully compatible with TARGET2 and T2S, in particular, with the communication interfaces and the settlement procedures used by T2S for the delivery of the securities.”*

- (d) **Integration with other market systems:** some credit institution associations and an (I)CSD stressed that integration and compatibility with other existing market solutions (e.g. Clearstream’s XEMAC system, triparty service providers’ systems, etc.) should be achieved. In some countries, existing infrastructures that already provide efficient and real-time products for the delivery of collateral to

and from the NCB have been smoothly integrated into the NCB's collateral management system(s) (e.g. the XEMAC system provided by Clearstream has an interface with the Deutsche Bundesbank system). Market participants and infrastructure providers have invested in those solutions and integrated them into their system processing as well as their operational procedures. The CCBM2 should integrate such systems, thereby increasing the support from market participants. Furthermore, credit institution associations mentioned that the recourse to triparty services or collateral management agents should also be possible, even for credit claims.

- (e) **Timing of the CCBM2 implementation:** most respondents, including credit institution associations and an (I)CSD, stressed that the launch of the CCBM2 should be decoupled from TARGET2-Securities (T2S); in particular, there should be no strong dependency on T2S at this stage. The CCBM2 should be implemented within a shorter time frame. The (I)CSD suggested that in a first phase the CCBM2 should deliver a solution for securities rather quickly and not be delayed by additional requirements for other assets, like credit claims. Only two national credit institution associations and a CCP requested that the CCBM2 should have the same time planning as T2S (i.e. 2013-14), although one national association was interested in an early implementation (i.e. before T2S) of a CCBM2 module for credit claims.

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

- (f) **Harmonisation of collateralisation procedures:** most respondents stressed that the single IT platform should be complemented by the harmonisation of collateralisation procedures, although some credit institution associations and an (I)CSD requested that the CCBM2 should support both legal techniques currently used for the collateralisation of Eurosystem credit operations, namely pledge and repo.

Eurosystem counterparties operating in several countries (multi-country counterparties) are confronted with different sets of procedures and business dialogues with their central banks. European credit institution associations, supported by an (I)CSD, stressed that the CCBM2 should address these differences and achieve full harmonisation and standardisation of collateralisation procedures across countries (and between domestic and cross-border use), including national legal frameworks. In particular, these associations requested that collateralisation techniques, the delivery and return of collateral and the release/reimbursement of related credit should work in the same way in every Eurosystem member country.

One national market group even mentioned that the Eurosystem could consider using only one collateralisation technique with one method (e.g. pledge with pooling). For this purpose, the harmonisation of the national legal frameworks should be the desired goal. In this respect, the involvement of the European Commission could be helpful in developing a single legal technique for

Europe (alternatively, as also suggested by a European credit institution association, a CCBM2 Guideline could define common rules for collateralisation techniques).

Furthermore, respondents also referred to the harmonisation of national practices to be achieved with the removal of the Giovannini barriers, in particular with reference to process and message formatting, time-lines and cut-off times, order execution, handling of corporate actions, etc.

One national credit institution association also mentioned the harmonisation of handling procedures for credit claims. Multi-country Eurosystem counterparties have to implement different handling procedures to use credit claims in the various countries (even with the CCBM). Moreover, the heterogeneity of national legal frameworks for credit claims hampers the establishment of a level playing-field, as the use of credit claims located in one country is easier than in others (e.g. with regard to the ex-ante notification).

Regarding pricing, two credit institution associations stressed that there should be no difference in costs between domestic and cross-border transactions; fees should reflect the different costs related to repo and pledge.

Regarding ***Principle 4***: *“The CCBM2 will handle all eligible collateral (both securities and non-marketable debt instruments).”*

(g) **Inclusion of a contingency module for non-euro collateral**: several credit institution associations requested that the Eurosystem should consider adding to the CCBM2 a module for using collateral from other main currency areas (e.g. connection to other countries/central banks/currencies for cross-border/cross-currency use of collateral), in particular in order to facilitate contingency arrangements between major central banks in crisis situations.

Regarding ***Principle 5***: *“The CCBM2 will process instructions in real time on a straight-through-processing (STP) basis permitting the delivery of collateral to generate the release of related credit in TARGET2 on a real-time basis.”*

No remarks received.

Regarding ***Principle 6***: *“The CCBM2 will be able to take collateral through all eligible SSSs and eligible related linkages between them.”*

(h) **No repatriation**: current CCBM procedures require that eligible securities, which are not held in the respective issuer-CSD (i.e. held in another CSD, linked with the issuer-CSD), be repatriated in the issuer-CSD, where these will be transferred to the local NCB, playing the role of correspondent

central bank (CCB).¹ Most respondents consider this procedure to be cumbersome, time-consuming and error-prone and request that it be discontinued. The removal of this requirement would contribute greatly to the removal of Giovannini barrier 2 (restrictions in settlement location). The Eurosystem should take the securities as collateral as much as possible where they are held; an (I)CSD stressed that the decentralisation of the access to credit should not prevent counterparties from freely choosing the place of settlement/safekeeping of collateral assets. This can be achieved by allowing a central bank to serve as CCB for any eligible asset held in the domestic CSD (i.e. both assets issued in the CSD and assets transferred to the CSD via eligible links) and not only for domestic assets (i.e. assets issued in the domestic CSD).

- (i) **Disintermediation in cross-border transactions:** two respondents (a credit institution and an ICSD) proposed that, in a medium-term perspective, the Eurosystem could introduce new solutions for the cross-border use of collateral (based on direct participation in securities settlement systems), eliminating the need to use other NCBs as intermediaries. Counterparties would appreciate a “one desk service”, which means that each central bank would provide its own customers with full collateral and custodian services related to collateral management. This model would streamline information flows inside the Eurosystem, simplify procedures and reduce costs. Each central bank would still be responsible for prices, haircuts, etc. related to their local market products, but collateral transfers would always be made between a counterparty and its own central bank.

2. Additional market input on the CCBM2 user requirements

In reply to the consultation questions referring to the CCBM2 user requirements (i.e. question Nos 4 and 5), the input from market participants can be summarised as follows:

1. **Use of standard messages:** as proposed by credit institution associations and an (I)CSD, technical access through standard messages should be kept, in particular SWIFT collateral management messages, with respect to the different collateralisation and delivery techniques (pool pledge with asset servicing in the market infrastructure on the one hand and repo on the other hand).
2. **Interface with counterparties:** credit institution associations stressed that banks which do not wish to develop automated systems based on SWIFT messages should be able to introduce instructions manually in the CCBM2 system in a secure, user-friendly way. There should however also be an application-to-application interface available. Counterparties should be able to visualise their collateral positions online, preferably via a web browser or through the ICM module of TARGET2 (including information on credit granted, margining, expiry and CSD transfers). A CCP suggested establishing reliable web browser services, with user profile control and accreditation, where instructions can be entered and followed up (e.g. the status of each instruction, collateral positions). A European credit association requested that real-time reporting to commercial banks be provided

¹ E.g. in order to pledge Finnish or Portuguese securities via an ICSD account, Belgian banks first have to transfer these securities out of their ICSD account to the account of the respective NCB (the CCB) in the Finnish/Portuguese CSD; from there, the securities will be pledged to the BNB/NBB using the CCBM.

via a user-friendly workstation (e.g. ICM). In particular, banking groups should be able to visualise the collateral positions of their branches and subsidiaries.

3. **Interface with SSSs:** as regards the interaction with securities settlement systems (SSSs), an (I)CSD stressed that important features to be covered in the CCBM2 user requirements are:

- the details of the life-cycle(s) that will apply to different types of collateral movements (delivery, withdrawal, etc.) when interacting with the CCBM2 platform;
- details of the exception-handling procedures and processes; and
- details of the corporate actions and tax processing taking place on the CCBM2 consolidated platform.

Two credit institution associations proposed that, if full harmonisation of messaging between the banks and CSDs proves not to be achievable in the short term, the system should (optionally) facilitate a “1 message only” function, whereby the CCBM2 is authorised to send the instruction to the CSD on behalf of the credit institution as well, as also supported by an (I)CSD. By doing this, the level of harmonisation for the users of the CCBM2 can be achieved in an easier way, as the differences between CSDs can be made transparent to the users (with regard to message formats at least).

4. **Interface with T2S:** a national credit institution association proposed that CCBM2 mobilisation instructions should be identified as specific types of operations within T2S to ensure the appropriate level of priority.

5. **Interface with triparty service providers:** a CCP mentioned that, provided that the recourse to triparty services or collateral management agents is also possible (even for credit claims), the CCBM2 should access directly on an STP basis the collateral deposited with the triparty service providers (e.g. ICSDs/banks).

6. **Integration of the Eurosystem’s systems:** several respondents requested that there should also be common automation and interactive functionality between the CCBM2, TARGET2 and T2S dealing with the delivery of collateral, the release of credit and the allocation of credit. One credit institution proposed that limits related to intraday, overnight and ECB operations should be handled in a flexible way.

7. **Integration with the TARGET2 contingency module:** a national credit institution association and a CCP mentioned that the CCBM2 should help bank treasurers to manage their liquidity both in normal situations (TARGET2 credit line) and in contingency situations (contingency module). The input of liquidity into the TARGET2 contingency module should be ensured in an easy and user-friendly way.

8. **Opening hours/days:** credit institution associations requested that opening hours/days should be in line with those of TARGET2. An (I)CSD mentioned that the CCBM2 should be open and operating on a 24-hour basis as it needs to cover the processing hours of all securities settlement systems, i.e.

also during the night to accommodate for example self-collateralisation techniques. A special assessment is needed to identify the functional and operational requirements around the end-of-day deadlines of the securities settlement systems and TARGET2.

9. **Access to information:** an (I)CSD requested real-time access to all securities reference data, e.g. in the Eligible Assets Database (i.e. full description, issuers, haircuts, prices, any information required for valuation, etc.) and to counterparty information (e.g. close links).
10. **Customer support:** credit institution associations requested customer support and a help desk for any user requirements, as well as a service review.
11. **Service level:** an (I)CSD requested that specific requirements should be established, e.g. in terms of feedback messages (response time) and more generally volumes and scalability.

3. Dialogue between market participants and the Eurosystem

The last question of the initial consultation concerned the dialogue between the Eurosystem and market participants on the development of the CCBM2 user requirements. Respondents considered that this should take place at both the domestic and Eurosystem levels.

On the one hand, one national credit institution association proposed that the “technical” consultations should be managed in parallel with T2S contributions in order to enhance interactions with T2S. It was proposed to create at least one additional technical group dedicated to the CCBM2 which would report directly to the T2S Advisory Group. This organisation could facilitate the coordination and coherence of the CCBM2 and T2S work streams. Another national association proposed that, as for T2S, national user groups could organise internal consultations to make proposals to the Eurosystem through the local NCB. A European credit institution association proposed including progress reports at the T2S Advisory Group meetings, as well as at the T2S information meetings for market practitioners organised by the ECB.

On the other hand, other respondents, among which (I)CSDs and a national credit institution association, requested the setting-up of a separate coordination group at a European level including representatives of market participants, infrastructure providers and the Eurosystem. This group would then interact with the existing country working groups. The members should be the end-users of the CCBM system and should comprise both securities settlement experts and liquidity experts. Any interaction with CSDs should take place directly between the Eurosystem and the CSDs. A CCP even proposed applying the same governance as for T2S (i.e. a steering group, an advisory group and technical groups), as well as a close interaction between the two projects.

A European credit institution association and a national credit institution association proposed holding ad hoc information meetings at various crucial stages of the project. A first meeting could usefully take place once the ECB has collated the findings of this initial consultation. Invitations to such a meeting could be extended to the members of the ECB’s relevant Market Contact Groups (securities settlement and liquidity/treasury experts) as coordinated through the European Credit Sector Associations (ECSAs).