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EUROPEAN CENTRAL BANK'S CONSULTATION ON COLLATERAL CENTRAL BANK MANAGEMENT 2

NCS D Finland welcomes European Central Bank (ECB) initiative to enhance the collateral management functionality and improve handling of collateral by national central banks in both cross-border and domestic level with the new Collateral Central Bank Management 2 (CCBM2). The development of shared IT platform can bring benefits also to market participants in addition to the optimisation of credit operations for central banks in the euro area.

NCS D Finland comments below separately the principles provided by ECB on the CCBM2 development initiative. NCS D Finland would like to contribute to the work undertaken by the ECB on the collateral management initiative with close co-operation with both the ECB and relevant National Central Banks.

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.

An IT system provided for the central banks should be able to support the current client relationships national central banks have with the market participants. Decentralisation should enable counterparties to freely choose the place of safekeeping without unnecessarily complicating the securities usage for credit operations.

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.

There should be no strong dependency on T2S at this stage since user requirements and the decisions if the T2S -project continues will not be done until spring 2008. CSDs can evaluate their possible business case and position related to T2S not until user requirements are agreed and price tags for services are estimated.

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Principle 3: The scope of 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.

The harmonisation of collateralisation techniques is a welcome initiative for both cross-border and domestic collateral handling and would undoubtedly bring benefits for the national central banks as well as participants of credit operations. The procedures should be harmonised to the extent possible while the ambition should be the harmonisation of financial market applicable legal framework that would simplify collateral management procedures in euro area especially.

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

NCS D Finland supports the principle. The possibility to centralise operations for all types of collateral will be welcomed by the participants who will be able to use the eligible collateral available in the most effective way.

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.

Processing of collateral movements without the possibility of STP nor real time delivery versus payment method is without dispute a risk for the participants of the credit arrangement. The real time release of credit generated by the transfer of collateral for the participants needs improves efficiency also in clearing and settlement operations in the financial market.

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

NCS D Finland supports the promotion of standard communication interfaces and settlement procedures to reach STP functionality to the benefit of all participants of credit operations.

Due to the various simultaneous development initiatives in European financial market and their partially overlapping implementation schedules, the standard communication interfaces and settlement procedures with open access to the CCBM2 is of great importance for also market infrastructures. The CCBM2 should therefore enable access to any CSD holding ECB eligible collateral if there is market demand for such access regardless if CSD is participating T2S or not.

The use of links and relayed links in credit operations should remain an option for the participants.

Kind regards,

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