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Ihre Zeichen
Ihre Nachricht
Unsere Zeichen Dr. La - khan
Aktenzeichen 413-WP-CCBM2

CCBM2 User Requirements

Dear Madam, dear Sir,

May we introduce our association: As the National Association of the German Cooperative Banks, we are the promoter, representative and strategy partner of its members. Over 1,200 German Volksbanks and Raiffeisenbanks with 16 million members and 30 million customers are a pillar of the German banking and a major force in the German economy.

On 26 February 2008, the Euro system invited market participants to comment on the draft CCBM2 user requirements. The BVR would like to thank you for this opportunity to highlight the most important remarks and thoughts.

First of all, the BVR welcomes the CCBM2 project as a measure to provide more stability and efficiency in the context of collateral management within the Eurozone. However, the success of the project heavily depends on the functionalities which CCBM2 will be able to provide.

Consideration of existent business models within the market

In general, the majority of the cooperative banks in Germany use one of the two existing cooperative central banks (either DZ BANK AG Frankfurt or WGZ BANK AG Düsseldorf) for refinancing activities. Approx. 10-15% cooperative banks are regularly dealing with the Deutsche Bundesbank via open-market operations (Tender Transactions) in their own name. As those banks do not maintain own CSD accounts, they use the existent settlement and custody accounts of their correspondent cooperative central bank.

This third-party safekeeping model is not adequately encompassed by the CCBM2 user requirements. Considering the current planning, CCBM2 will only support one custody account at the CSD, whereas third-party safekeeping functionality (as of today and therefore a key functionality for a cooperative central bank) via correspondent banks will not be supported. Delivery of an eligible security from a CSD/Clearstream account of a third party to the account of the NCB/Deutsche Bundesbank has to be granted by the CCBM2 User Requirements.

In our point of view, CCBM2 must ensure that current operating models are reflected adequately in their full scope and that existing service levels will not be impaired. This view is backed by official monetary documents issued by ECB, e.g. the "GENERAL DOCUMENTATION ON EUROSISTEM MONETARY POLICY INSTRUMENTS AND PROCEDURES". The document grants that "Counterparties without a safe custody account with a national central bank or a securities settlement account with an SSS fulfilling the ECB's minimum standards may settle the transactions of underlying assets through the securities settlement account or the safe custody account of a correspondent credit institution."

The grouping model of cooperative banks implies that comprehensive services are delivered from central cooperative banks to the primary banks, such as custody, asset servicing (i.e. corporate actions and income), investment advice, portfolio analysis, regulatory reporting and accounting services etc.. Changing these tested and reliable structures could affect the existing banking model of cooperative banks, as several of the integrated services could not be provided due to a necessary segregation of assets.

We therefore ask for adding the above described functionality to the CCBM2 user requirements.

Interface to CCBM2

With regard to the user requirements, we understood that the A2A interface would be the desired line of connection on the side of the ECB to connect CCBM2 with participants. To realize this on the bank's side, an own application (front end) would be required. As this would cause additional cost and does not represent a valid solution for smaller and medium-sized banks, we suggest to equate the U2A with the A2A being a full alternative, especially from a functional point of view.

The above described model of third-party safekeeping should also be considered in the technical setup of the interfaces and front end, meaning that there should be a "client – sub client" model for user rights, where different users/legal entities might be enabled to process on defined accounts.

Third-party collateral management systems

As it has already been discussed in several user groups and meetings, we also welcome the implementation of existent (tri-party) collateral management systems into CCBM2. Since it is well established in the German market, we would like to focus on Xemac, used as central collateral management platform for

- a) pledging ECB-eligible collateral to the Bundesbank for open-market operations,
- b) being the Central CM-Platform for EuroGCPooling repo trading activities via EurexRepo as CentralCounterPart,

to be integrated within the CCBM2 business model.

Xemac is an integrated platform which allows pooling and therefore concentration and usage of collateral for various business activities. As CCBM2 – according to our understanding – is focussing on only one of the above mentioned functionalities, i.e. “open market operations and other central bank money related activities”, we prefer Xemac as one of the most ideal solutions in the markets today to enhance the current service scope of CCBM2.

From our point of view, the advantages of an integrated collateral management system are as follows:

- Reduced counterparty risk due to high demands on counterparties' creditworthiness / solvency,
- High quality collateral pool (according to ECB eligibility criteria),
- Integrated platform which allows bundling collateral for various activities like
 - the use and re-use of collateral for several trading activities, i.e. collateralisation for derivative trading, repo trading via CCP, Open Market Operations and overnight refunding,
 - the reduction of operational risk due to collateral concentration,
 - the reduction of settlement procedures and less manual monitoring needed,
- Automated blocking or release of collateral according to business needs,
- Full transparency and online interface to the National Central Bank (e.g. Deutsche Bundesbank) possible,
- Integrated reporting functionalities,
- Online overview of collateral position,
- Easy and market user friendly interface.

Latest market surveys show that Xemac and its setup as a flexible collateral management system (here: fully integrated into CCP repo trading and in combination access to the National Central Bank/ Deutsche Bundesbank) could help market users in this domain to stabilize trading to a certain extent.

During the market turbulences starting in July 2007, the combined usage of Xemac-Trading EuroGCPooling via CentralCounterPart and pledging collateral to the National Central Bank/ Deutsche Bundesbank resulted in higher trading volumes.

As a recommendation, we therefore strongly suggest to enhance the current CCBM2 user requirements with a concrete approach, how Xemac could be part of a successful CCBM2 solution.

Evaluation Tools

Alongside technical possibilities of delivering collateral, a further prerequisite for efficient treasury management is to have an overview of all positions relevant to central bank money (see above). These are security holdings (delivered, ECB eligible, auto collateralisation eligible) and the associated payment flows or cash balances. Various evaluation tools have been developed for this purpose and it should continue to be possible to use them when CCBM2 is introduced. We would therefore suggest compiling information about these essential market-specific instruments in the course of fine-tuning at national workshops under the auspices of national central banks. The central banks could then ensure that the tools are adequately taken into account during further work on CCBM2 by the Eurosystem.

Pricing Policy

Although not part of the current consultation, the experience from the T2S project shows that the topic of pricing is a very important one for the market participants. It is therefore our intention to address this issue as early as possible. Currently, the administration of collateral belongs to the sovereign activities of the NCBs and should therefore stay without charges. With the implementation of CCBM2 and knowing that this will require investments, we assume that the pricing policy will remain unchanged, meaning that participants can use CCBM2 related NCB services free of charge.

We hope that our considerations and recommendations will be considered in your upcoming elaborations and can contribute to the further successful progress of the CCBM2 project. Please do not hesitate to contact us in case of any questions you might have.

Best regards,

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