



EUROCLEAR S.A./N.V.  
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### **Euroclear response to Eurosystem consultation on the next generation of Collateral Management (CCBM2)**

Euroclear is pleased to provide its feedback on the Eurosystem's consultation on CCBM2. We appreciate the Eurosystem's consultation so early in the project and believe that this open approach will be a key element to ensure the success of the initiative.

We welcome the Eurosystem's decision to initiate the CCBM2 project and agree with the project's objective to improve the Eurosystem's central banks' internal management of domestic and cross-border collateral by implementing a consolidated infrastructure. We share the belief that harmonised and consolidated collateral handling will contribute significantly to the efficiency of credit and liquidity management in the euro-area as it will form a necessary infrastructure complement that will allow market participants to reap more benefits from TARGET2.

As market participants are most interested in efficient and flexible access to central bank liquidity, an important feature of the CCBM2 should be that it allows them to choose the settlement location for all eligible collateral. This will permit them to pool their collateral in their preferred settlement location.

In the below response, we provide you with the Euroclear views on the six principles put forward in the consultation and provide feedback on the various open questions in the consultation document. To complete the scope of the consultation, we suggest to adding a seventh principle. We would greatly appreciate the opportunity to discuss this response and questions raised with the Eurosystem in more detail. We will obviously refine our views as the Eurosystem consultation progresses and more details are known.

We are happy for the Eurosystem to make this response public.



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## The principles

We broadly agree with the proposed principles, with some changes as described below, but also believe an additional principle is needed to ensure that more shortcomings of the current CCBM are addressed.

We propose a changed wording for:

**Principle 5: The CCBM2 will process instructions in real time on a straight-through-processing (STP) basis permitting ~~the delivery of~~ movements of collateral and the related credit adjustments in TARGET2 on a real-time basis.**

This change will ensure that CCBM2 will allow the same level of efficiency for both delivery and withdrawal of collateral.

With regard to **Principle 6**, we would like confirmation of our understanding that the CCBM2 project will not change the rules for approving eligible SSSs and SSS-links; i.e. a SSS or SSS-link eligible under current CCBM will continue to be eligible under CCBM2.

We propose to introduce an **additional principle**:

**Principle 7: The CCBM2 should be settlement location independent and allow counterparties of the Eurosystem to choose their settlement location.**

Market participants want efficient, easy and flexible access to central bank liquidity using their eligible assets in their preferred settlement location. This can be achieved in two ways. Either by allowing a central bank to receive any eligible asset in any eligible settlement location, or by allowing a central bank to serve as correspondent central bank for other central banks for any eligible asset and not only for its home country assets. The choice between these two methods will depend on whether the central bank has a business case to implement a direct access with the relevant settlement location or not.

The current rule that makes that NCBs only accept collateral - or collateral information, as under the current CCBM - for credit purposes in the CSD of their home country forms a restriction that does therefore not belong in an environment of a fully integrated collateral and liquidity management in the euro-area. Also, it



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seems to be in contradiction with the delivery of a harmonised and consolidated platform that is the basic objective of the CCBM2 project. Therefore, we strongly believe that with CCBM2 all rules that restrict the market participants' possibilities to pool collateral in a single location should be lifted.

Removal of the current restriction means that CCBM2 should be based on access rights that have similarities to the ones included in MiFID. Art 34 of MiFID allows market participants to choose the settlement location of their trades. The Access and Interoperability Guidelines of the Code of Conduct on post-trading complement this right with access rights amongst market infrastructures to ensure that the conditions for building the necessary links between market infrastructures are effectively in place.

The implementation of Principle 7 would contribute greatly to the removal of Giovannini barrier 2 (restrictions in settlement location).

### **Open questions**

Q1: In general, with regard to the current collateral management handling procedures, what are the main imperfections that should be addressed and the main advantages that should be retained in the next generation of Eurosystem collateral management?

**Response:** The next generation of the Eurosystem's collateral management will be complying with the principle of decentralisation of access to credit. It seems therefore essential to retain a very efficient and real-time interface with the TARGET2 single shared platform. Standard SWIFT messages and protocols already used today should also be retained for the definition of the communication interface with the new IT platform. Messaging standards should be compliant with standards agreed in the frame of the removal of Giovannini barrier 1.

Q2: Do the CCBM2 principles as formulated above address your needs for improving the current Eurosystem's collateral handling procedures (in particular, for the cross-border use of collateral through the CCBM)?

**Response:** see above comments on the principles



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Q3: What enhancements should the CCBM2 be able to achieve in comparison with the current CCBM beyond the principles expressed above?

**Response:** According to Principle 1, the CCBM2 will deliver a centralised IT platform with harmonised collateral handling procedures and will therefore be able to provide harmonised services to the central banks. In line with our proposed Principle 7, the CCBM2 should allow both the Eurosystem and its counterparties to achieve collateral pooling capabilities, therefore addressing to a large extent the issue of sub-optimal collateral usage and processing identified under the current CCBM.

Q4: Apart from the components internal to the Eurosystem, what types of features should be covered by the CCBM2 user requirements, from your perspective?

**Response:** Some entities in the Euroclear Group are eligible SSSs and collateral transfers executed via Euroclear SSSs will lead to a potentially high level of interaction with the CCBM2 consolidated platform. In this context, important features to be covered in 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; and
- details on the exceptions handling procedures and processes; and
- details of the corporate actions and tax processing taking place on the CCBM2 consolidated platform

We would appreciate receiving more insight in the governance arrangements of CCBM2 (who will operate it), whether CCBM2 would be mandatory for central banks, how the interaction of CCBM2 would be with TARGET2 and TARGET2 Securities.

Q5: Do you have specific technical requirements that should be considered in the user requirements of CCBM2 (such as type of technical access; monitoring functions; opening hours/days; customer support requirements)?

**Response:** All the points mentioned in this question should indeed be covered in the user requirements. Information on the CCBM2 response



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time would also be welcome. The user requirements should provide more detail on the type of service level that is expected from the CCBM2 platform, in terms, for example, of feedback messages (response time) and more generically volumes and scalability.

Q6: Are you aware of planned market initiatives that might have an impact on the design and the business case for the CCBM2 as outlined in the principles mentioned above?

**Response:** As well known to the Eurosystem, Euroclear is engaged in an extensive program of harmonisation and platform consolidation. Once fully implemented (2010), the Euroclear model will make irrelevant the notion of cross-border amongst the markets it serves. This will also mean that collateral movements between these markets will be more efficient, thereby potentially increasing the use of the Euroclear (I)CSDs for the cross-border movement of collateral, in addition to the current CCBM. At this point in time, it is difficult to make an estimation of the potential impact.

The work that is ongoing in the frame of the removal of the Giovannini barriers 4 & 7 as well as the Code's Access and Interoperability Guidelines (that have been agreed upon by all Euroclear (I)CSDs) should result in more efficient CSD links which can then be used more frequently for the movement of cross-border collateral. Again, it is very difficult to assess the extent of the impact this could have.

Q7: How do you wish to conduct dialogue with the Eurosystem on the project in the future? For instance, the Eurosystem intends to continue consulting the market on an elaborated version of the user requirements. Would this level of interaction be appropriate? Do you think it could take place through the relevant market consultation groups at national and Eurosystem levels, or would you like to suggest another level of interaction (e.g. a contact group at Eurosystem level)?

**Response:** As the project concerns cross-border consolidation and harmonisation, we believe it would be worthwhile to organise market consultation with a working group at Eurosystem level, involving central banks, users and CSDs.



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