



EUROPEAN CENTRAL BANK

EUROSYSTEM

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## **CCBM2 USER REQUIREMENTS**

### **MANAGEMENT SUMMARY**

# **CCBM2**

## 1. Introduction

On 8 March 2007 the Governing Council of the European Central Bank (ECB) decided to review the Eurosystem's current collateral management handling procedures, in particular the present correspondent central banking model (CCBM). A medium-term project for the next generation of collateral management has since been launched under the name "Collateral Central Bank Management" (CCBM2). CCBM2 is a common platform for Eurosystem collateral management, which may be used by the Eurosystem NCBs on a voluntary basis. Its objective is to consolidate and increase the efficiency of the Eurosystem's internal systems for collateral management. In particular, it aims, to the extent possible, to address the drawbacks identified in the current set-up by optimising the cost of mobilising collateral and by enhancing liquidity management.

The CCBM2 project is being conducted in parallel with the TARGET2-Securities (T2S) project in order to exploit all possible synergies and avoid any overlap between the two projects.

An initial consultation on this next generation of collateral management was launched in summer 2007 to seek the opinion of the market on the CCBM2 project and its guiding principles. Feedback received from market participants was, overall, very positive.<sup>1</sup>

The Eurosystem appreciated the valuable contribution made by market participants during that first consultation. It also welcomes the fact that this open dialogue has subsequently continued through the COGESI (the ECB contact groups dealing with euro securities infrastructure) and the national user groups.

The Eurosystem has now completed a first draft of the user requirements for CCBM2, which are hereby submitted for public consultation. The user requirements have been drafted in accordance with the guiding principles of CCBM2. They also reflect the specific input provided by market participants in their responses during the initial consultation phase. It should be noted that some of the features described in the user requirements document are currently being explored by the Eurosystem and thus may be subject to revision at a later stage.

The Eurosystem invites counterparties and other interested parties to comment on the draft user requirements, make suggestions and raise any queries they might have at this second stage of the project.

The closing date for this second consultation phase is 5 May 2008.

During the consultation period the Eurosystem will maintain an open dialogue with market participants through its contact groups in order to exchange views on the user requirements and provide any clarification required. At the end of the consultation phase market responses will be analysed and the

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<sup>1</sup> The initial consultation was launched on 26 April 2007 and ended on 26 July 2007. For further details of the principles of CCBM2 and the outcome of the initial consultation, please refer to the consultation documents published on the ECB's website at: <http://www.ecb.europa.eu/ecb/cons/html/ccbm2.en.html>.

requirements will be reviewed where appropriate. The final user requirements are scheduled for submission to the Governing Council of the ECB in summer 2008.

## 2. Guiding principles of CCBM2

CCBM2 will be implemented in accordance with the following **guiding principles**:

**Principle 1:** 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 the decentralisation of access to credit.

**Principle 2:** CCBM2 will be fully compatible with TARGET2 and T2S, particularly with the communication interfaces and the settlement procedures used by T2S for the delivery of securities.

**Principle 3:** CCBM2 will cover both domestic and cross-border use of collateral, as well as different credit techniques (such as pledges and repos), depending on the practices of the various central banks.

**Principle 4:** CCBM2 will handle all eligible collateral (i.e. both securities and non-marketable assets).

**Principle 5:** CCBM2 will process instructions in real time on a straight-through-processing (STP) basis, allowing the movement of collateral and the related credit adjustments in TARGET2 on a real-time basis.<sup>2</sup>

**Principle 6:** CCBM2 will be able to accept collateral through all eligible SSSs and eligible links between them.

Furthermore, CCBM2 will be based on a **modular approach** and **voluntary participation**. Like TARGET2, CCBM2 will consist of several modules, as described in more detail below. Only participation in the first module – the message router – will be compulsory for central banks wanting to join CCBM2. The other modules will remain optional. The modular approach gives national central banks the flexibility to choose the CCBM2 modules that suit their own requirements and local market needs. Eurosystem central banks are free to decide whether and when to join CCBM2.

Given this modular approach and voluntary participation, CCBM2 remains compatible with the current CCBM procedures. CCBM and CCBM2 will thus be interoperable. In this respect, following requests made by several respondents during the initial consultation, CCBM2 might be able to process securities in any eligible CSD, and not just in the CSD where the securities were issued (i.e. repatriation might be no longer required – subject to further discussion within the Eurosystem).

Finally, CCBM2 will in the future be able to adjust to changes in the Eurosystem's collateral and operational framework, as well as adapting to market developments in a smooth and swift manner.

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<sup>2</sup> The wording of Principle 5 has been amended in line with a proposal put forward in a reply during the initial consultation on CCBM2.

### **3. The main modules of CCBM2**

CCBM2 consists of four main modules: the message router, the credit and collateral module, the securities module and the credit claims module. These are described below.

#### **3.1 The message router**

This module handles all communication between CCBM2 and external parties (counterparties, SSSs/T2S, (I)CSDs, NCBs, TARGET2, external collateral management systems,<sup>3</sup> etc.) and between the other CCBM2 modules. The router validates all incoming and outgoing instructions and routes them to the appropriate recipient(s). It ensures automated communication based on standard messages and different communication networks (such as SWIFTNet and secure internet connections). It also supports real-time monitoring of the process status of each instruction.

#### **3.2 The credit and collateral module**

This module performs functions supporting the management of counterparties' collateral positions as regards the execution of monetary policy or central bank intraday credit operations. In particular, it assigns each counterparty a single global position, consisting of:

- i) a *collateral position*, which reflects the value of the (marketable and non-marketable) assets mobilised for collateralisation purposes (including both domestic and cross-border assets, and irrespective of the system used for their mobilisation (e.g. the CCBM2 securities and credit claims modules, or external collateral management systems) and the collateral provider (i.e. the counterparty itself, its domestic or foreign branches or subsidiaries, or a custodian)); and
- ii) a *credit position*, which reflects the outstanding credit operations, including both monetary policy operations and intraday credit in TARGET2.

This module has been designed to support the collateralisation methods and legal techniques currently applied by Eurosystem central banks. It therefore provides two functionalities, namely pooling and earmarking, supporting both pledge and repo legal techniques.<sup>4</sup> Participating central banks are free to opt for one or even both functionalities. The two functionalities also provide for: (i) the possibility of importing the allotment results of tenders during monetary policy operations; and (ii) the possibility of reusing collateral covering maturing monetary policy operations and netting cash exposures resulting from maturing and new monetary policy operations.

Furthermore, the credit and collateral module could include optional functionalities, such as:

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<sup>3</sup> From the CCBM2 perspective, external collateral management systems include both: (i) the internal management systems of NCBs which do not participate in the securities module and/or the credit claims module or which decide not to participate in CCBM2 (for example in cross-border collateral transactions where a non-participating NCB acts as correspondent central bank (CCB)); and, on an optional basis, (ii) (I)CSDs' systems providing collateral management services to NCBs (e.g. Clearstream's provision of its Xemac service to the Deutsche Bundesbank).

<sup>4</sup> Pooling applies to both marketable and non-marketable assets. Earmarking applies only to marketable assets.

- an option to freeze part of a counterparty's collateral position, which could then be used for purposes other than the collateralisation of Eurosystem credit operations, for instance the provision of central bank guarantees to CCPs, CSDs or other third parties, in line with current practices;
- a functionality dealing with the settlement of monetary policy operations other than collateralised credit, for instance liquidity-absorbing fine-tuning operations (such as liquidity-absorbing reverse transactions or the collection of fixed-term deposits);
- a functionality allowing interaction with the external collateral management systems of (I)CSDs; or
- a functionality supporting the auto-collateralisation procedures of SSSs/T2S, including both integrated and interfaced models. SSSs/T2S would be provided with relevant information both on the eligibility and valuation of assets and on counterparties' eligibility. This functionality would also keep records of the auto-collateralisation positions of counterparties.

### **3.3 The securities module**

This module provides for the mobilisation (and demobilisation) of marketable assets for collateral purposes and related custody services. It deals with both domestic and cross-border securities and supports both pledge and repo mobilisation techniques.<sup>5</sup>

For instance, the securities module performs all tasks concerning the acceptance of the securities as collateral (e.g. eligibility checks and checks on close links). After validation the securities module generates and sends the relevant settlement instruction to the relevant SSS/T2S on behalf of the central bank.<sup>6</sup> Once the SSS/T2S<sup>7</sup> has confirmed the mobilisation of the securities, the securities module updates the securities accounting records of the counterparty and the relevant central bank(s).<sup>8 9</sup>

The securities module interacts with the credit and collateral module for: (i) the updating of counterparties' collateral positions owing to collateral mobilisation; and (ii) the provision of the resulting credit (unless credit has already been provided through DvP repos).

Finally, the securities module performs custody functions, such as: (i) the handling of corporate actions, such as coupon payments and redemption; and (ii) the daily reconciliation of statements of holdings. It will also support participating central banks in their completion of tax reporting formalities.

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<sup>5</sup> Repos can be settled either on a DvP basis or on an FOP basis – depending on the type of transaction or the choice of the NCB. (In the current framework, cross-border repos can be processed only on an FOP basis.)

<sup>6</sup> This is also the case where a participating NCB acts as CCB in a CCBM transaction. By contrast, where the home central bank (HCB) in a CCBM transaction opts for the securities module but the CCB does not, the securities module will not carry out such tasks, which will instead be performed by the non-participating NCB acting as CCB.

<sup>7</sup> Or the NCB acting as CCB, where the CCB has not opted for the securities module.

<sup>8</sup> The HCB, the CCB or both, depending on their participation in the securities module.

<sup>9</sup> Where the HCB does not participate in the securities module, the settlement confirmation is forwarded to the HCB.

### **3.4 The credit claims module**

This module performs functions related to the handling of credit claims. It deals with both domestic and cross-border use of credit claims. It supports the legal techniques used to mobilise credit claims (i.e. pledges, assignments and charges) and the associated legal requirements prescribed at the national level, such as ex ante notification or registration in a defined register.

For each credit claim, counterparties have to provide all relevant details needed for the eligibility checks, additional legal checks and valuation. Details of credit claims can be submitted individually (i.e. on a claim-by-claim basis) or in bulk.

Before recording the credit claims submitted, the credit claims module performs the necessary eligibility checks on the basis of the details provided. Depending on national requirements, additional checks and validation by the relevant central bank may be necessary (requiring, for example, physical delivery of the credit claim documentation, ex ante debtor notification or registration, delivery of the pledge agreement, an absence of restrictions regarding mobilisation or realisation, or an absence of restrictions relating to banking secrecy as regards debtor information).

Once they have been validated and recorded, credit claims can finally be mobilised. The credit claims module then interacts with the credit and collateral module for the updating of the counterparty's collateral positions and the corresponding provision of credit.

## **4. Supporting functions and additional modules**

### **4.1 Supporting functions**

The main modules of CCBM2 are complemented by **two supporting functions** integrated into CCBM2, namely the static data function and the monitoring and reporting function.

#### ***The static data function***

This supporting function provides tools for data management (e.g. the consultation, creation, updating, validation and deletion of records). As a general rule, each central bank remains responsible for the management of its respective national data.

Data are organised in two groups: the Eligible Collateral Database and the Application Reference Data.

The Eligible Collateral Database contains only data on (marketable and non-marketable) assets, including pricing information. Data on marketable assets are imported through synchronisation with the existing Eurosystem Eligible Assets Database. Rating and pricing information could be imported from external parties such as rating agents, CSDs and market price providers. Data on non-marketable assets are provided by counterparties (through the credit claim module).

The Application Reference Data cover all other data used in CCBM2 applications, such as reference data on actors (eligible counterparties, central banks, CSDs, etc.) and other administrative data (calendars, exchange rates, application parameters, standard abbreviations, etc.).

### ***The monitoring and reporting function***

This supporting function provides participating central banks and counterparties with monitoring and reporting tools allowing them to follow up their own credit and collateral transactions. Through this function, they have access both to their own data stored in the static data function and, depending on the participation of the central banks, to the other optional modules of CCBM2.

This function is built on a web interface, enabling central banks and counterparties to consult historical data on their credit and collateral transactions and check the status of ongoing credit and collateral transactions. Through the web interface they can even manually enter credit and collateral instructions. In particular, central banks can also create, update and delete reference data, manually upload the results of tender allotments and bilateral operations, and enter credit and collateral instructions on behalf of their counterparties.

### **4.2 Additional modules**

As suggested by market participants in their replies during the initial consultation, CCBM2 could also provide additional modules, for example dealing with collateral in emergency situations. These could, for instance, include:

- i) a module dealing with the use of eligible collateral for the TARGET2 contingency module; and
- ii) a module dealing with the use of “emergency” collateral (i.e. assets other than eligible collateral (including euro-denominated and non-euro-denominated assets), which – subject to future decisions by the Governing Council of the ECB – could be used as collateral in central bank credit operations in emergency situations).

This list of additional modules is still preliminary, not exhaustive and subject to further discussion within the Eurosystem.