



European Central Bank  
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## **Second consultation on CCBM2**

ATIC FOREX, The Financial Markets Association of Italy, with its members, represents more than 200 Banks located in the country, and is an affiliation of ACI International.

Within our Association there are a number of Commissions which deal with different aspects of the financial markets and, among them a Settlement Systems Commission which is involved in the relevant issues related to payment systems. In particular it assesses the impact of Liquidity Management, Collateral Management and Business Continuity.

As Public Consultation touches one of the relevant areas of this commission's activities, it was decided to give a contribution on the last relevant matter.

### **❖ General comments**

Events since August 2007 have illustrated how liquidity risk impacts the stability of the global financial system and suggest important lessons for market participants and national regulators.

Central banks assume a crucial role in case of market liquidity needs and funding the system to guarantee the smooth course in terms of markets stability and settlement systems well functioning.

In mid-August 2007, the overall of banks' liquidity demand changed and the gap between secured and unsecured rates rose. In this context the association strongly believes that the Eurosystem could have an important role in developing market infrastructure and optimizing liquidity and collateral management.

### ❖ **Credit & Collateral Module**

The launch of CCBM2 is an historic step forward to an integrated collateral management infrastructure in Europe with an harmonization of collateral procedures within the Eurosystem. We could have the possibility to optimize the decentralized access to ECB operations with a single technical platform to grant credit in Target 2 cash.

The Credit & Collateral Module represents the key for managing monetary policy execution and intraday credit operations. The main objective of developing CCBM2 is to increase the efficiency of the current collateral management system of the central banks, optimizing market participants mobilization collateral cost.

An alternative secured money market access for market participants to buy or sell collateral, is the tri-party repo service as emerging instruments for liquidity purposes. The service improves market liquidity by adding an additional borrowing resource to the current market options. We believe that lower costs and the possibility to outsource the risk control to the Triparty agent, could push an a wider use of this service in the next years. CCBM2 could be the vehicle for liquidity management enhancement by providing the ECB open credit access. In this direction we underline as cross border use of collateral exceeded the domestic use. This is due to the increasing integration of financial markets in the euro area and the growing willingness of counterparties to hold in their portfolios assets located in another euro area country increasing the opportunity to reduce the cost of collateral through CSDs new market accesses.

Clearstream, one of the main Triparty agents, has introduced the collateral re-use towards another Triparty collateral receiver or to obtain Eurosystem refinancing operations via the Deutsche Bundesbank.

We think that the non-reusability of collateral might be one of the reasons for the limited use of Triparty repos and so the disappoint of the market participants. Moreover, we think that in a context of full harmonization (i.e. as

German community) this could be a great opportunity to guarantee the same playing field among collateral end users.

One of the other main Triparty agents, Euroclear, has announced plans to introduce new initiatives to sponsor these new liquidity windows access.

In this direction we think that the Eurosystem should consider all possible operative solutions, implemented by CCBM2, to make easier this liquidity access in cooperation with CSDs Triparty agents as expression of market participants' expectations.

#### ❖ **Credit Claims Module**

CCBM2 Credit Claims module will give to end users the possibility to treat bank loans transfers. This will represent an important aspect in term of additional borrowing resource to collateralize ECB credit.

The Credit Claims introduction as eligible collateral, has represented for Italian community a great opportunity to optimize its portfolio available for liquidity needs, delivering illiquid assets and maintaining tradable collateral to use with other counterparties. The objective is to see the central bank as "lender of first resort" reducing the needs for banks to hold and provide high quality securities for ECB main refinancing or intraday pledge for settlement systems usage.

Collateral cost deriving from sub-prime crisis reinforce this need for the bank industry.

For the above mentioned requirements, the recourse to Triparty services should also be possible even for the credit claims. In this direction the banks community should cooperate with national CSDs to achieve an open access for bank loans. This could be another challenge for commercial banks.

From a CCBM2 perspective, the easy cross border use of credit claims as collateral and its smooth mobilization, quickly available for ECB refinancing represents the next real needs for banks. To develop CCBM2 procedures at cross-border level we reinforce the expectation for an harmonization process that could go over national legal requirements differences, on the principle that, for a decentralized approach, the use of credit claims at cross-border level has to be considered in a new overall vision of eligible marketable and non-marketable assets management.

Requirements aspects, details for transferring credit claims, eligibility checking relevant for the identification, assessment and valuation should be harmonized at European level removing all potential constraints. Once this process has been finalized, credit claims are available for utilization by counterparties through CCBM2.

An efficient use of credit claims at European level will allow European banks to optimize Group collateral utilization to support T2 pooling of liquidity in terms of collateral saving for the smooth processing of all Group transactions.

CCBM2 should be the vehicle to do this.

#### ❖ **CCBM2 and the foreign collateral management opportunity**

The CCBM2 should be the main channel for transferring collateral cross border. Links between euro area SSSs will remain the alternative channel. Current differences between domestic and cross-border procedures and the minimum level of harmonization that doesn't allow multi-country players from having a centralized collateral management has to be considered in a whole perimeter of analysis considering also the not possibility of foreign collateral utilization.

CCBM2 could be implemented in an enlargement collateral framework such as the acceptance of new asset types as foreign collateral. Furthermore, the recent financial markets crisis, has underlined, how these functions, should be considered. CCBM2 user requirements do not include foreign collateral utilization in the first development phase. We think that in the future this could be the real objective for the Eurosystem for the reasons described below:

As stated above, collateral plays an important role to mitigate counterparty risks and to extend their utilization through the central bank. The globalization of financial markets and the increasing use of collateral in financial market transactions, has created in the banking community the expectation of using collateral in one country or currency to obtain liquidity in another.

Accordingly, to accept foreign assets as collateral, for instance in extraordinary circumstances, in our opinion is an option that central banks could consider to help international banks to solve intraday liquidity requirements.

Several central banks have already introduced such facilities and have modified the normal approaches for accepting these assets.

In the Eurosystem the use of cross-border collateral among the euro area countries is limited to euro-denominated collateral assets issued in the European Economic Area (EEA) and settled/held in the euro area.

A cooperation and coordination among central banks may be desirable to accelerate the actions of individual central banks to achieve common needs and evaluating the right balance between systemic risk and new real opportunities for market participants.

Acceptation of foreign collateral, to obtain central bank credit through CCBM2, could help to mitigate global systemic risk, especially by facilitating collateralized lending in emergency situations (by an efficient liquidity bridge across markets) reducing the delivery cost for the internationals active banks. The legal and technical complexity of cross-border collateral arrangements will represent an absolute challenge for the Eurosystem and so for banks community.

## ❖ Integration with Target2 and T2S

As for cash, timely and comprehensive collateral monitoring is also fundamental from a Treasury point of view. In our opinion in a context of a centralized Group liquidity monitoring, the Group liquidity manager should be able to monitor the collateral positions of their banks, branches and subsidiaries. This could be obtained through a T2S links with T2 ICM.

On the collateral side, CCBM2 information should be complementary in a global view context with:

- Group collateral positions for T2 pooling of liquidity perimeter (from T2S database)
- Credit freezing facilities (from CCBM2 monitoring module)
- Self collateralizations position (from CCBM2 monitoring module)
- Credit outstanding on CCBM2 (pledge or PM pre-deposit)
- CCBM2 operational steps monitoring (from monitoring module)
- Daily margining valuation (possible collateral/cash integration required)

Group liquidity manager needs that all functionalities should be included in the on-line ICM module of Target2 allowing a full Treasurer view during all T2 cash opening hours and to put in place liquidity control measures appropriate for its Group business and liquidity needs.

We think that the CCBM2 project has a different nature and objective than the Target2 Securities project so it is expected a different time line implementation for both projects. In this context CCBM2 could envisage an early start-up than T2S emphasizing the real need for a Credit Claims module implementation.

## ❖ Access to information by (I)CSD

The role of CSDs remains essential to guarantee an helpful alternative to CCBM2 project. With SSSs, market participants can access all markets securities transactions in a whole context including the smooth functioning of the capital market. With CCBM2, market participants can access ECB credit operations.

Given its importance, we think that the development of the financial market pushes to a significant changes in the structure of the CSD and in its cooperation with the Eurosystem. In this direction, CSDs could support CCBM2 to allow market participants to an easy access to ECB Credit facilities e.g. mobilizing collateral outstanding coming from Triparty Repo Services, or to capture information details impacting on Group liquidity management (e.g. auto- collateralization).

Auto-collateralization mechanism allows additional liquidity originated on an intraday basis during the securities settlement process. Its role of additional intraday liquidity generator it is essential in a liquidity management

perspective and should be available to all participating markets in repo and in pledge environments, during the whole settlement day.

In a view of centralization and harmonization of settlement, T2S could manage these auto-collateralization processes and CCBM2 should interact with T2S and with T2. In case CCBM2 starts before T2S, it should provide auto-collateralization facilities to support the settlement efficiency of SSSs.

## ❖ Conclusion

Recent events have attested the crucial role of central banks as ultimate providers of liquidity. Their interventions providing funding liquidity to individual institutions and the market as a whole, allows to achieve the double responsibilities in terms of monetary policy execution and financial stability.

It is in this contest that market participants expectations go to a full harmonization to help banks with international presence, and addressing all dynamics described in the previous sections. The objective is to prevent a possible local liquidity collapse owing to a strong increase in demand for central bank liquidity. The CCBM2 must be mandatory for all NCB's to obtain a single system for our collateral delivering and to allow all possible local synergies.

It should guarantee all eligible collateral mobilization (marketable and non marketable), allowing to manage collateral both for domestic and cross border operations to obtain credit in Target 2 also as Group decentralized access.

The right level of harmonization in terms of messages (swift) and liquidity information collected in a single interface for users (ICM), will complete the mentioned overall Group liquidity manager view.

For market participants, the ongoing sub prime mortgage crisis force towards new possible solutions on managing market liquidity risk also as liquidity assumptions taking into consideration, for Banks with international presence, the need to manage liquidity mismatches in each operating currency to avoid possible liquidity shock.

The Eurosystem should accept this challenge covering these real expectation from European banks in a context of a different overall liquidity view that from August 2007 could be changed.

Thanking you in advance for giving us the opportunity of participating in this Public Consultation, we remain at your disposal for any further clarification.

Best Regards.

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**ATIC FOREX  
The Financial Markets Association of Italy  
(Giuseppe Attanà – Chairman)**