

European Central Bank
Secretariat Division
Kaiserstrasse 29
D-60311 Frankfurt am Main
Germany
Fax: +49 69 1344 6170
E-mail: ecb.secretariat@ecb.int

cc. Dutch Central Bank

Subject: CCBM2 consultation

We would like to thank the Eurosystem for the opportunity to respond to the Consultation paper on CCBM2.

Our reaction will mainly be focused on the problems in the current CCBM model which need to be addressed in the CCBM2 model. This will go beyond the requirements for an IT solution as this covers only part of the area where changes are needed. Next, we also considered long term developments which should already now be taken into account.

Our consultation will be structured as follows:

1. Response to the 6 core principles
2. Response to the general questions on page 2 and 3 of the consultation paper
3. Additional remarks.

1. RESPONSE TO THE 6 CORE PRINCIPLES

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.

The Dutch market is of the opinion that it is essential that all central banks will connect to this collateral IT platform in such a way that full harmonization and level playing field is achieved. Centralised collateral management is more than a central IT-platform. It is also the harmonisation of all country specific habits regarding cut-off times, order execution, handling of corporate actions etc. Therefore we suggest the wording of this principle should be changed to express this intention.

Obviously we appreciate that changes can not be achieved overnight and would therefore suggest to define a migration period for NCBs to change to the new platform (comparable as to TARGET2). During the migration period the central collateral platform should have access to all the local collateral accounts of central banks in order to limit the impact of non-participation of a NCB to its own counterparties.

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.

We agree with principle 2, but would like to mention in addition that this should include integration with the TARGET2 ICM. In order to achieve full compatibility, we would strongly advise user involvement for the design and realisation phase. The Dutch market requests user involvement for the development of interfaces for T2, CCBM2 and T2S. These interfaces should be fully compatible resulting in one standard interface (for all 3 systems), although this should not result in dependencies. Summarized: compatible, but not dependent.

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.

We agree that CCBM2 should have the coverage as mentioned in Principle 3, however we feel that it is important to mention that within coverage the difference between cross-border and domestic as well as between pledge and repo should be completely transparent for the user. There should be no difference with regards to costs with regards to cross-border or domestic.

Furthermore we would like the Eurosystem to consider migrating to use only 'pledge' as technique for central bank collateral. This will reduce the development, maintenance and operational costs significantly. If pledge and repo have different costs, this has to be reflected in the pricing for those who use it. Maybe the EU Commission can help to realise a single legal technique (pledge) for Europe.

(Although it is noted that repos are temporarily used in CBF for the night-time funding for countries not joining T2 in the first round)

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

Principle 4 is obvious and a minimal requirement.

In addition the Eurosystem should consider making the CCBM2 Model suitable for collateral used for other (main) currency areas. The developments now should not rule out possible future connections to other countries / central banks / currencies for cross-border / cross-currency use of collateral. This is in order to facilitate contingency arrangements between major central banks in crisis situations.

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.

We agree to this principle.

It is noted however that although a central collateral management platform may increase the processing speed of collateral mobilisation, there still is a dependency on the processing time of local custodians. It would be a major improvement if the message harmonisation and STP processing will be extended to the custodian / CSD instructions.

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

In addition to this principle we would include the need to achieve standardization via ISO for the interfacing and messaging required. In addition also time-lines and cut-off times must be harmonized.

2. RESPONSE TO THE GENERAL QUESTIONS

1) 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?

In general we can say that the imperfections in the current CCBM model are all related to the absence of harmonization which in some cases results in non-level playing field. We see this absence in the following area's:

- Process and message formatting
- Costs
- Time-lines and Cut-off times
- Countries, securities and between the securities themselves

CCBM2 should address these differences and achieve full harmonization across the areas mentioned above to achieve a level playing field for all users.

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

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

With regards to the features, enhancement or technical requirements, we can list the following (in addition of points mentioned within the remarks to the core principles):

- It should be possible to maintain Sub Collateral accounts. This in order to facilitate the possibility to administrate several collateral providers within one group. For example for different business units, but also possible for indirect participants who in this way can provide collateral to support their business.

- Because participants will use their positions for both central bank collateral as for the commercial (repo) markets, it should be easy and within pre-defined timelines to transfer between the systems and parties involved. In both the system requirements as well as the procedures around CCBM2, this aspect should be given the proper attention.
- If full harmonisation of Messaging between the Banks and CSD's proves not to be achievable on the short term, the system should (optional) facilitate '1 message only', whereby the CCBM2 is authorized to send the instruction to the CSD on behalf of the credit institution as well. By doing this, the level of harmonization to the users of CCBM2 can be achieved in an easier way, as the differences between CSDs can be made transparent to the users (with regards to message formats at least).
- There should be an Application to Application interface available.
- Documentation of CCBM2 should be improved compared to the available documentation on the current CCBM model.
- Realisation of a cross-currency module.

3) 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?

We do not see specific initiatives that might have an impact at this time.

4) 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)?

With regards to the consultation process, we feel it would be worthwhile to have interaction at the relevant European working group level directly with the Eurosystem, with interaction into the existing country working groups. The members should be the end users of the CCBM system and should represent both Security Settlement experts as well as experts on the Liquidity side.

Any interaction with CSDs should be done directly between the Eurosystem and the CSDs.

3. ADDITIONAL REMARKS

One of the items not addressed in the consultation is costs. We want to emphasize that a solid business case must be provided and that it must be fully transparent on how the funding is done.

The use CCBM2 should be cost effective (lower costs) compared to the current model and all users should pay an equal share relevant to the use of the system based on the amount of related work instead that it is based on the collateral value or market value. Special attention with regards to transaction fees is needed for REPO vs. PLEDGE.