



To: European Central Bank - Secretariat Division  
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From: LCH.Clearnet

Date: 10th July 2007

Subject: **The next generation of Collateral Management (CCBM2)** – reply of  
LCH.Clearnet

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LCH.Clearnet welcomes the consultation on the next generation of collateral management made by the ESCB.

We understand that the CCBM2 project (Collateral Central Bank Management2) is mainly a project that aims to develop an efficient and centralised system of collateral management for the Eurosystem credit operations (intraday credit).

We appreciate to be consulted on this CCBM2 project. We need however to gather more information to make easier the link with this service and with the future auto-collateralisation service that will be offered by T2S.

We would also outline that as Central counterparty in Europe we want to have a direct access to the CCBM2 platform.

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**The CCBM2 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.

*We agree with that principle*

**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 that principle, and we understand that the real benefit of CCBM2 would be reached once the large number of CSDs and their respective NCB will have migrated to T2S. In addition a launch date close to T2S implementation would have our preference allowing us to amortise all our IT and operational effort resulting from the 3G project*

**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.

*The exact functional scope and CCBM2 would require further clarification.*

*Today, we access the Central Bank's liquidity ("Pension livrée" in Banque de France) at a very low cost. As CCP, we are particularly concerned to maintain a competitive position in the European market infrastructure (Code of Conduct) and are looking forward to receive the detailed functional and commercial offer of CCBM2.*

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

*We agree with this principle*

**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 with this principle*

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

*We agree with this principle and believe it will be facilitated once T2S will be up and running where the number of SSSs will decrease dramatically (ideally one SSS for the Euro-zone if all CSDs decide to join T2S).*

### **Feedback to European Central Bank questions**

**Question 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?

*For the time being, LCH.Clearnet is not a direct user of the current CCBM. However we do not want any regression of what 3G is expected to deliver.*

**Question 2:** Do the CCBM2 principles as formulated above address your needs for improving the current Eurosystem collateral handling procedures (in particular, for the cross-border use of collateral through the CCBM)?

*Those principles seem to address our needs. We are waiting for the next steps i.e.: "Technical" consultations" explaining the operational and technical flows in CCBM2 between the CSDs and NCBs*

**Question 3:** What enhancements should the CCBM2 be able to achieve in comparison with the current CCBM beyond the principles expressed above?

*We request real time straight through processing (STP, combined with standardized and harmonised procedures (swift ISO messages, telecommunication, and same eligibility of collateral irrespective of the NCB). The dismantling of GB1, GB3, GB4 and GB5 would facilitate this.*

**Question 4:** Apart from the components internal to the Eurosystem, what types of feature should be covered by the CCBM2 user requirements, from your perspective?

We identified 3 components (not exhaustively) to be covered:

- 1. The collateral deposited in the ICSDs (EB, Clearstream) or commercial banks of the Euro-zone should be in the scope. It means that NCBs should access directly on a SPT basis to the collateral deposited in the ICSDs/banks via an own account open in their books. This would avoid the participant of CCBM2 to request a transfer from the ICSD to the CSD before being able to be granted credit facilities by the NCB.*
- 2. The collateralisation using the "basket composition"*
- 3. The input of liquidity in the T2 cash Contingency Module on an easy and user friendly way.*

**Question 5:** 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)?

*We request reliable screen web browser services where manual instructions can be entered and followed up (status of each instruction, collateral positions) and opening hours/days similar as T2 cash*

**Question 6:** 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?

*The services of credit facilities that will be offered via CCBM2 should be designed in close synergy with T2S project (auto collateralisation module) avoiding any redundancies of development and extra cost*

**Question 7:** 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)?

*We would advocate applying the same governance as T2S (Steering, advisory group and technical groups) as well as a strong interaction between the 2 projects.*

This consultation paper will be send to the ECB at the following address:

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