

# ZENTRALER KREDITAUSSCHUSS

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## Comments of the Zentraler Kreditausschuss<sup>1</sup> on version 3.0 of 28 January 2008 of the CCBM2 User Requirements

5 May 2008

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<sup>1</sup> The Zentraler Kreditausschuss (ZKA) is the joint committee operated by the central associations of the German banking industry. These associations are the *Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR)*, for the cooperative banks, the *Bundesverband deutscher Banken (BdB)*, for the private commercial banks, the *Bundesverband Öffentlicher Banken Deutschlands (VÖB)*, for the public-sector banks, the *Deutscher Sparkassen- und Giroverband (DSGV)*, for the savings banks financial group, and the *Verband deutscher Pfandbriefbanken (vdp)*, for the Pfandbrief banks. Collectively, they represent more than 2,200 banks.

The ZKA thanks the ECB for the opportunity to respond on behalf of its member banks to the draft CCBM2 User Requirements. We warmly welcome the CCBM2 project as a supporting measure for TARGET2-Securities and TARGET2. We believe that it has the potential to increase the efficiency of the European financial market in providing collateral for central bank money and thus significantly optimise liquidity management, which is so crucially important for the financial services industry.

For these objectives to be realised, however, the German banking industry considers it essential for CCBM2 to take account of existing market standards and systems. The project must not be allowed to result in worse service or higher costs for users.

We are thinking particularly of the highly efficient, tried and tested collateral management systems such as KEV and XEMAC which have been developed by the German banks in collaboration with the Deutsche Bundesbank and the German CSD Clearstream. These systems must be able to operate on the CCBM2 platform without any need for adjustment. We would also ask the ECB to bear in mind when considering our comments that the German system handles collateral worth over 600 billion euros, representing around 65% of the total European market, and has proved its worth not least against the background of the present market turmoil. Around 124 billion euros of this collateral is currently handled by XEMAC.

Our main concerns regarding the development of CCBM2 are as follows:

### **1. Inclusion of tri-party services**

To preserve the above-mentioned high level of efficiency after the introduction of CCBM2, it should remain possible to use the tri-party collateral management services of CSDs and ICSDs. Pooling and not least the eligibility checks and valuation services offered by CSDs/ICSDs are essential elements of a streamlined system and have proved their worth in the German market.

### **2. Ensuring all collateral providers have direct and equal access to the platform**

If the potential efficiency gains of CCBM2 are to be exploited to the full, it is essential for user-to-application (U2A) and application-to-application (A2A) interfaces to have equal status. We would like to point out in this context that the above-mentioned German KEV procedure for the submission and administration of credit claims is currently based on a U2A and A2A approach. If the building-block approach already used in connection with T2 were applied to CCBM2 as well, this would considerably reduce development costs.

### **3. Single platform for CCBM2, TARGET2 and TARGET2-Securities**

The CCBM2 collateral management platform for the Eurosystem will interact closely with the TARGET2-Securities platform for securities settlement and the TARGET2 payments platform. In the interests of efficiency and cost-effectiveness it would therefore be a logical step to offer CCBM2 on the same platform/data-processing centre as that used by T2S and T2. The “two regions, four sites” approach selected for T2S and T2 is consistent with current security standards and, not only from a technical perspective, we strongly support its application to CCBM2 as well. This is the only way access to real-time information across all three services can be achieved, which is indispensable for efficient treasury management.

Should the Eurosystem decide against such a structure, the additional costs thus generated must not be passed on to users (banks, CSDs). Nor must the overall efficiency of the interaction between the three services be adversely affected. A European single interface (ESI) – the crucial ability for treasurers to obtain an overview of all positions relevant to central bank money in the Eurosystem (see point 4) across all three systems at the push of a button – will only be possible if the system servers are comparatively close to one another. It would therefore be worth considering whether, irrespective of the responsibility for the development of CCBM2, the servers providing the platform could be situated at the same location as those running T2S and T2.

Moreover, the Information and Control Module (ICM) will be the one relevant access to all three systems (CCBM2, T2S, T2), as it already is for T2 and is planned for T2S. The integration of CCBM2 into the ICM will therefore be of the utmost importance for treasurers and liquidity managers in the financial industry.

### **4. Support for established evaluation tools**

Alongside technical possibilities of delivering collateral, a further prerequisite for efficient treasury management is to have an overview of all positions relevant to central bank money (see above). These are security holdings (delivered, ECB eligible, auto collateralisation eligible) and the associated payment flows or cash balances. Various evaluation tools have been developed for this purpose and it should continue to be possible to use them when CCBM2 is introduced. We would therefore suggest compiling information about these essential market-specific instruments in the course of fine-tuning at national workshops under the auspices of national central banks. The central banks could then ensure that the tools are adequately taken into account during further work on CCBM2 by the Eurosystem.

## **5. Third-party custody**

The CCBM2 user requirements do not envisage the possibility of third-party custody at correspondent banks, but only of accounts at CSDs. This would mean abandoning the tried and tested practice of pooling custody at correspondent banks, which is highly important for the German market.

According to chapter 5.3.1 of *The Implementation of Monetary Policy in the Euro Area: General Documentation on Eurosystem Monetary Policy Instruments and Procedures*,

“Counterparties without a safe custody account with a national central bank or a securities settlement account with an SSS fulfilling the ECB’s minimum standards may settle the transactions of underlying assets through the securities settlement account or the safe custody account of a correspondent credit institution.”

Excluding the possibility of third-party custody at correspondent banks is at odds with the principle that CCBM2 should enable the provision of all services set out in the relevant Eurosystem publications. What is more, it would result in a radical change for the worse compared to the existing level of service.

For small and medium-sized banks in particular, custody accounts at correspondent banks play a crucial role in minimising costs. Without them, it would be prohibitively expensive to offer custody services, manage corporate actions, submit reports to the Federal Financial Supervisory Authority (BaFin) for market monitoring and banking supervision purposes or report balance sheet statistics to the Bundesbank and ECB. It would become impossible to provide integrated services if banks using third-party custodians had to divide their holdings between two accounts (third-party custodian and Bundesbank). Third-party custody is expressly permitted by the rules on implementing monetary policy and we consider it essential to introduce grandfathering arrangements enabling the practice to be retained.

## **6. Collateral system as an official task**

We would also like to point out that CCBM2 is a platform for collateralising monetary policy operations. Under Article 18.1 of the ECB Statute, monetary policy operations are one of the Eurosystem’s official tasks and as such may not be priced.

## **7. Date of introduction**

In principle, it makes sense to introduce CCBM2 as soon as possible in order to realise the efficiency gains which it will bring. Nevertheless, we believe that careful consideration should be given to cost/benefit aspects given that its introduction before that of the T2S platform would

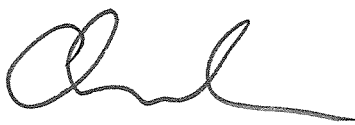
require technical interfaces to be established with all national central banks involved as well as between these and their national CSDs. Since these interfaces would become obsolete with the introduction of T2S, the associated costs need to be weighed against a period of benefit which would probably be quite brief.

We would be happy to provide further information about any of the issues raised in our comments.

Yours sincerely  
for the Zentraler Kreditausschuss,  
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