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BANKENVEREINIGUNG DER EUROPÄISCHEN UNION
(aisbl)

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The TARGET Working Group (TWG) welcomes the opportunity to comment on the above document. The TWG would like to compliment the ECB/Eurosystem on this URD and has also benefited from a comprehensive presentation given by De Nederlandsche Bank which answered many of our initial queries. Nevertheless, we do have several comments of both a general and specific nature. It should be noted that these are generally restricted to cash operations and we have not commented on solely securities elements.

Executive Summary

1. The introduction of CCBM2 to facilitate provision of liquidity wherever required in the Euro area is strongly supported

2. The TWG also supports the concept of a tripartite system infrastructure incorporating T2, T2S and CCBM2 (assuming the latter two receive Governing Council approval) but believes that CCBM2 is required irrespective of any decision on T2S

3. Even if T2S is approved by the Governing Council, the TWG strongly supports the earlier introduction of CCBM2 (preferably by 2010) which it believes is required in its own right to facilitate provision of liquidity throughout the Euro area

4. In order to obtain maximum benefit and efficiency, the TWG would encourage all Euro area central banks both to join and subscribe to all modules. In this connection, it is recognised that eligible securities will remain with the correspondent CB but easier mobilisation is considered to be a major plus

5. The TWG requests further clarification on cost recovery and that banks are invited to participate in this discussion

6. To avoid duplication and the risk of inconsistency of common static data across systems the TWG favours design facilitating a single database for T2, T2S and CCBM2 (assuming the two latter systems are approved by the Governing Council).

7. In any event, in order to meet the needs of different counterparties, the TWG requests that the existing ICM interface be enhanced to cover T2, T2S and CCBM2 as well as A2A connectivity together with a portal from which more sophisticated counterparties can build their own bespoke interface. This will enable T2 banks to

integrate the CCBM2 interface with a 'single window' approach based on the SWIFT network (using Fileact and Interact protocols). See also comment on section 9.1.2.2. It follows that a coherent chronology for CCBM2 compatible with T2 chronology and tools such as those for night-time settlement is needed

8. Subject to any legal restrictions, the TWG strongly supports maximum harmonisation including that of CSD procedures and interaction with triparty collateral management services of ICSDs but with common normative/structured criteria to mitigate and prevent risks

9. CCBM2 will need to support specific arrangements pertaining to banking groups with a decentralised structure. For example, many cooperative banks enter into open market operations with their CB in their own name even though they do not maintain their own CSD account. Instead, they make use of the settlement and custody accounts of their central cooperative institution requiring, inter alia, segregation of assets within a CSD account. However, the URD does not appear to envisage this type of arrangement although it follows the lines of the ECB document 'General Documentation on Eurosystem Monetary Policy Instruments and Procedures'. The document grants that '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.'

10. In line with T2, which is already SWIFT based, there is strong support within the cash market for messages to be SWIFT based supporting ISO standards 15022 and 20022, with appropriate conversion capability, from the start of CCBM2 with (near) real time and STP processing capability

11. In view of the major impact on provision of liquidity, the TWG requests specific cash representation within the governance structure, both pre- and post-implementation

12. Segregation and freezing of elements of collateral at the discretion of the counterparty in order to assist the latter's liquidity management operations is requested. This is especially relevant in the event of contingency operation where a zero start is envisaged

13. Flexibility in design to accommodate possible future policy changes and contingency situations is strongly supported. This includes but is not restricted to mobilisation of collateral in multiple currencies, both EU and non-EU, and an optional 'collateral pocket' for use in contingency situations

14. Finally, it is recognised that a number of specific requests will be put forward by national communities but this submission focuses on Euro area wide cash requirements.

Specific Comments

Principle 2

Since the use of PHA and standing facilities is envisaged on a permanent basis outside of TARGET2, it is considered important that such PHAs are fully integrated from processing and communication points of view.

Principle 5

Clarification is requested on how secured internet access will allow STP processing. Will such internet access use SWIFT standards? Most banks would strongly prefer the use of SWIFT, wherever possible.

Principle 6

It is considered important that counterparties have the possibility of instructing CSDs intra day in order to obtain the corresponding credit line.

1.3.3

It is understood that the statement 'The Message Router is the mandatory core module of CCBM2' only refers to central banks which have joined the system. The TWG believes strongly that optimum benefit will only be obtained if all Euro area CBs participate fully in the system.

1.3.4

No regression is expected with regard to existing services including auto-collateralisation.

1.3.5

Confirmation is requested that it will be possible to recall securities in real time during the on-line day when permitted by the underlying legal structure.

1.3.7

   a. The TWG recommends that a central database for T2, T2S and CCBM2 be considered
   b. Where relevant information is available to the system, a forecasting facility covering usable collateral on future days is requested.

<u>2.1</u>

It is understood that external CMS will communicate with CCBM2 by means of harmonised standards./formats. It is requested that these are defined in cooperation with the market.

<u>2.3</u>

Confirmation is requested that both push and pull mode be available for communications with counterparties

<u>3.2</u>

Clarification is requested on exactly where the auto-collateralisation feature will reside.

<u>3.5.3</u>

Freezing and segregation of elements of collateral at the discretion of the counterparty is requested.

<u>3.5.3.1.1</u>

This section mentions the possibility that an indirect T2 participant can own a pool in CCBM2 where the cash account is owned by the related direct TARGET2 participant. Further information on how it is envisaged this will be managed e.g. can the DP access information on the IP's pool, how is this situation registered in the static data etc is requested. See also comment on section 7.2. Also, only SWIFT itself can generate an MT019.

<u>3.6.2.1.1</u>

Clarification is requested on what advance advice will be provided on an incoming MT204 for liquidity management purposes.

<u>3.6.2.1.2</u>

Further information is requested on the proposal to net forward and spot legs.

<u>3.11</u>

It is recommended that pre-defined times for the automatic return of collateral should be considered and defined in consultation with the market.

<u>4.3.6</u>

Under 'Initiators' it is mentioned that CCBM2 can ask the counterparty to send a cancellation. When is this envisaged?

<u>5.3.2</u>

Where is it envisaged recording will be managed within the system?

<u>5.3.3</u>

Under 'Additional Checks' the term 'country of issue' is used. Clarification on what this means is requested since a number of country aspects are relevant. (See table on page 105). Also, is the validation referred to repeated on a regular basis since some aspects such as credit quality can change?

<u>6.2</u>

Clarification is requested with regard to the reports it is proposed to make available to final users on static data and/or validation of updates. If these are still to be defined, consultation with the market is requested.

<u>6.3.1</u>

This section refers to National Central Banks of the ESCB. Does this include non-Euro central banks?

<u>6.3.2</u>

Under 'Exchange rates' clarification is requested on why legacy currencies are mentioned.

<u>7.2</u>

In some circumstances including where a decentralised structure exists, and subject to appropriate authorisation, the definition of counterparty may need to be widened for data privacy purposes. See also comments on section 3.5.3.1.1 above.

<u>7.4.1</u>

Will there be any facility for bespoke reports which are not pre-defined?

<u>8.2</u>

The TWG continues to have serious reservations about the obligatory need for new eligible collateral in contingency situations and requests confirmation that CCBM2 design will allow for acceptance of other collateral than the listed eligible assets in such circumstances. It is of course recognised this would probably require Governing Council approval but should not be precluded by system design.

<u>8.3.1</u>

Strongly supported – CCBM2 design should not preclude or hamper possible future Governing Council decisions.

<u>9.1.2.2</u>

<u>U2A web interface</u>

As stated in the Executive Summary, we wish all information to be available through the ICM.

<u>Secure internet access</u>
The comment under 'Secure internet access' regarding a possible secured A2A access via internet has generated considerable discussion. There is general agreement that this is not required as a back-up to SWIFT and, indeed, some counterparties have expressed strong reluctance to contribute to any cost involved. However, our consultation confirms that a requirement has been expressed for secure internet access as an alternative non-mandatory solution. Consequently, we believe further research is needed to quantify the level of support for such an interface before any decision is made.