May 5th, 2008

Euroclear feedback on Eurosystem CCBM2 User Requirements document Version 3.0

Euroclear is pleased to be given the opportunity to comment on the CCBM2 User Requirements document. You will find below both generic comments on the document and a more detailed feedback, with indication of the page, section and topic being commented.

General comments on the CCBM2 User Requirements

Euroclear welcomes the Eurosystem's initiative to consolidate its existing Collateral Management Systems (CMS) into one unique back-office system interoperating between counterparties and market infrastructures like SSSs and TARGET2. The CCBM2 initiative definitely represents a unique opportunity for a further and much needed harmonisation of collateralisation procedures related to Eurosystem credit and monetary policy operations.

CCBM2 platform to be compatible with triparty systems

Euroclear believes that the CCBM2 system should be compatible with or even be integrated within existing market infrastructures like triparty systems in (I)CSDs. Euroclear would however recommend, fully in line with its previous comments, that the Eurosystem defines one unique model of interoperability leading to both harmonization and greater efficiency. In that context, Euroclear recommends that the CCBM2 system supports collateral substitutions on a 24/24 hrs basis. In addition, to increase efficiency and transparency, Euroclear would welcome the possibility for the ECB to share static and dynamic data for ESCB-eligible securities.

Collateral location independence

Referring to its response to the first CCBM2 consultation (July 2007), Euroclear re-iterates the need to make the collateral mobilisation process settlement location independent. We strongly believe that all rules that restrict market participants' ability to pool collateral in a single location should be lifted. Removal of the current restriction means that NCB collateral procedures should be based on access rights that have similarities to the ones included in MiFID. Art 34 of MiFID allows market participants to choose the settlement location of their trades. The Access and Interoperability Guidelines of the Code of Conduct on post-trading complement this right with access rights among market infrastructures to ensure that the conditions for building the necessary links between market infrastructures are effectively in place. This would furthermore contribute greatly to the removal of Giovannini barrier 2 (restrictions in settlement location).

We understand that this consideration goes beyond the scope of the CCBM2 User Requirements and that changes to this rule are not linked to the implementation of CCBM2. We therefore urge the Eurosystem to review the policy rule that limits an NCB to receive collateral only in its home SSS as quickly as possible. This would allow NCBs to individually decide where they receive eligible collateral, depending on the market demand they experience.

CCBM2 to be developed early and independent from T2S

Finally, Euroclear believes that the market should be able to benefit as soon as possible from CCBM2 implementation. The current credit turmoil and the resulting increased need for liquidity and related collateral further demonstrate the market's need for efficient collateral procedures both at domestic and cross-border level. We therefore believe that the CCBM2 implementation should be kept independent from, and delivered earlier than, the potential T2S development.

Contacts

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Detailed comments on the CCBM2 User Requirements

Page #11 – 1.2. Principles of CCBM2

Principle 4 "Processing of all corporate actions in accordance with local practices; supporting tax withholding services"

EUROCLEAR: This statement may need to be refined as both Sections 1.3.5 and 4.5.1. on Pages #18 and #97 highlights that only coupon payments and redemptions would be handled.

Page #18 – 1.3.5 Securities Module

Functions related to the corporate actions "The Securities Module deals with the corporate actions which occur for the coupon payments and partial or full redemptions"

EUROCLEAR: This statement may be aligned to the one of Page#97, i.e. "The Securities Module handles the corporate actions in the following cases:

- Coupon payments

- Redemptions (partial or full)

Page #20 – 1.3.7. Support Functions

*Note "Respecting the principle of decentralisation of the execution of the monetary policy, **each participating NCB will manage its own static data**. Only the common data (e.g. the list of eligible securities) will be managed centrally"*

EUROCLEAR: We would like some clarification on this point: Does static data include all securities information, i.e. will there be a full set of securities information managed by each NCB separately?

Page #60 – 3.6.2.1.2. Collateral substitution and netting

Substitution "Collateral can be substituted by the counterparty at any time of the working day. However, the collateral value must cover the credit it is linked to."

EUROCLEAR: These substitution mechanisms may need to be clarified by illustrations, in the Earmarking DvP mode, but also in the case of Pooling.

Page #65 – 3.7.1. Functional principles of earmarking combined with pooling

*Earmarking "...The repo transactions with the local **CSD** will automatically take place on a DvP basis (or FoP) "*

EUROCLEAR: To be in line with other sections, we believe "CSD" should be replaced by "SSS".

Page #68 – 3.7.2. Use case: Mobilisation through pooling and earmarking in tender operation

*Stage 3 Repo transactions "...3 MT541 instructions (settlement through local **CSD**)"*

EUROCLEAR: To be in line with other sections, we believe "CSD" should be replaced by "SSS".

Page #70 – 3.8. Concentration Limits

*Note "The CCBM2 function of checking for concentration limits is a **complementary function** relating to the fulfilment by the counterparty of its obligation not to submit collateral securities exceeding the concentration limits""*

EUROCLEAR: We would like some further clarification on the reasons why this would only be a complementary function.

Page #72 – 3.10. External Collateral Management Systems (optional)

Introduction "Some NCBs may decide not to choose the Securities and/or Credit Claims Module or to use third party services offered by ICSDs"

EUROCLEAR: The scope of such third party services should be clarified. While securities mobilisation and settlement may be processed under such services, we would like to understand if eligibility checks and valuation are part of such services.

Note "Each NCB concerned is responsible for the interface between the external CMS and CCBM2"

EUROCLEAR: We would like to receive more details on the types of messages considered.

Page #73 – 3.10.1. Cancel and replace mode

Registration "The external CMS sends the corresponding total collateral value to CCBM2"

EUROCLEAR: Here also, we would like to receive some more details on the impacts of such an interface mode when processing transactions with a "full participating" NCB/CCB.

Page #74 – 3.10.2. Transaction by transaction mode

Interface with CCBM2 use case 1 "The external CMS interfaces with CCBM2 to transfer or mobilise the assets as collateral. **In this case the functions of Securities and/or Credit Claims Module are outsourced to the external CMS***"*

EUROCLEAR:

- This statement seems to imply that the external CMS is then owned by the relevant NCB as it is assumed that the eligibility checks are not outsourced to a (non-NCB) third party. If this is correct, this may need to be clarified.

- We would like to understand if such an interface mode is compatible with a "full participating" NCB/CCB. And more specifically, how is a settlement fail managed if all Securities Module functionalities are outsourced to an external CMS?

Page #76 – 3.11 Auto-collateralisation

EUROCLEAR: The CCBM2 process explained for auto-collateralisation functionality in case of an SSS using an interfaced model is limited to a single course of action. We believe the process should be enriched so that it allows for using auto-collateralisation in combination with the securities settlement process. This would guarantee the highest possible level of settlement efficiency while ensuring that the NCBs keep full control over the auto-collateralisation process (i.e. an efficient pre-agreement by the NCBs on auto-collateralisation transactions).

Page #78 – 3.11 Auto-collateralisation – Description of tasks on S-1, task nr. 2

EUROCLEAR: CCBM2 would send information on close links to the SSS for ex-ante checks (if available). We would appreciate further explanation on whether these ex-ante checks would need to be conducted by the SSS or rather the CCBM2 in case a pre-agreement process would be made available (see earlier statement).

Page #86 – 4.3.2. Receiving requests

DvP & FoP Note *"With the implementation of **T2S**, DvP can also apply to the cross-border context"*

EUROCLEAR: We would like to point out that it is not only T2S that can implement a DvP settlement model.

Page #89 – 4.3.4. Interaction with SSSs

Credit & Collateral "The Credit & Collateral Module uses the settlement information to adjust the collateral and credit positions of the counterparty for participating NCBs"

EUROCLEAR: We would like some clarification: Is this compatible with transactions for which one NCB does not opt for the module? Specifically, how does it work in a transaction by transaction mode – Use Case 1, as presented on Page#74?

Page #90 – 4.3.5. Accounting records

EUROCLEAR: As above, we would welcome clarification: Is it compatible with transactions for which one NCB does not opt for the module? Specifically, how does it work in a transaction by transaction mode – Use Case 1, as presented on Page#74?

Page#103 to 119 – 5. CREDIT CLAIMS MODULE

Page #109 – 5.3.2. Recording

Recording data "The counterparty has to hand over all necessary data for

- *the checks (e.g. eligibility checks, legal checks and close links)*

- *the receipt of collateral*

- *valuation"*

Page #112 – 5.3.4. Receipt of collateral

Individual recording "The process of mobilisation is described below..."

Page #121 – 6.1. Presentation

Automatic functionality "The Static Data Support Function is not mandatory as such, but is embedded in the CCBM2 functionality and will automatically be implemented when a CCBM2 module is chosen.

It serves as a central repository of referential data available to the CCBM2 modules"

EUROCLEAR: For all of the above points, we would like to understand if they are compatible with a transaction by transaction mode – Use Case 1, as presented on Page#74?

Page #123 – 6.2. Generalities

*Decentralisation "CCBM2 in general and the Static Data Support Function in particular, respect the principle of decentralisation of the execution of the monetary policy**: each participating NCB remains responsible for the management of its own static data**. The common data are maintained/updated by CCBM2"*

EUROCLEAR: We would appreciate some clarification on this point: Does static data include all securities information, i.e. will there be a full set of securities information managed by each NCB separately?