

25.7.2007

## Initial consultation – The next generation of collateral management

This paper is a response of OP Bank Group, which consists of OKO Bank plc and OP Bank Group Central Cooperative, to the Eurosystem's counterparty consultation related to collateral management handling procedures.

We see that all 6 principles mentioned in consultation are steps in the right direction,

However, we want to point out that it is highly important to develop collateral management so that it is aligned with the Target2 payment system. This will enable the Pan-European central bank network to work as efficiently as possible.

We also see that some procedures should be clarified or need new scoping.

As a response for consultation's 7 main questions, we have the following comments:

A common IT platform is a base which enables streamlined, rationalised and harmonized procedures for each Eurosystem member country. This means that this project should focus on harmonization more than described in the consultation paper. E.g. collateralization techniques, delivery or return of collateral and release of related credit should work in the same way in every Eurosystem member country.

In addition to common procedures there should also be an emphasis on efficiency. Consequently the principle of decentralization should be reviewed. . Current system's main weakness is that collateral material is tied to local central banks, e.g. Spanish bonds must be delivered to Bank of Spain and pledged for another central bank etc. Counterparties would appreciate a "one desk service" which means that each central bank provides their own customers full collateral and custodian services related to collateral management. This model would streamline information flow inside the Eurosystem, simplify procedures and reduce costs. Each central bank would still be responsible for prices, haircuts etc. related to their local market products, but collateral transfers would always be done between a counterparty and it's own central bank.

We also want point out that Target2, Target2 Securities and CCBM2 should be very aligned. It is vital that these systems are not only monitored with one interface but that there should also be common automation and interactive functionality when it comes to delivery of collateral, release of credit and allocation of credit. This means that limits related to intraday, overnight and ECB operations should be handled in a flexible way.

Finally, we see that the dialogue between counterparties and the Eurosystem should be continued. This is arranged easily and most efficiently by meetings in the national level. Meetings between the central bank and an individual counterparty are also appreciated.