



EUROPEAN CENTRAL BANK

EUROSYSTEM

## **AMI-SeCo Workshop on Eurosystem deliberations on taking collateral in T2S**

**Banco de España, Calle Alcalá 48, 28014 Madrid**

**11 May 2017**

### **Summary**

- Following introductory remarks by the chair of the Workshop, the ECB presented the context of its ongoing policy considerations to consolidate the settlement of mobilisation of marketable collateral in T2S and the details of its analysis on the potential benefits and challenges of such a policy. The ECB emphasised that presentations reflected the current state of thinking and the importance of getting clear and explicit feedback from market stakeholders. The triggers for the Eurosystem's considerations were key post trade developments in the recent years, in particular the go-live of T2S, ICSDs' public announcements to make their services available also on T2S, the entry into force of the CSDR (in particular the freedom of access to CSDs) and the European Commission's CMU initiative. The ECB explained that the requirement would imply more an adaptation on the NCBs' side (as NCBs' would take collateral in T2S CSDs), considering that counterparties could keep their securities accounts (source accounts) in any of the (I)CSDs. With respect to the timeline, the ECB highlighted that an eventual implementation of the policy would most likely not come before the go-live of an ECMS.
- The two ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) provided a high-level overview of how Eurosystem counterparties could mobilise securities held or issued in ICSDs to NCB accounts held in T2S. They highlighted that for cross-CSD settlement of "Eurobonds"<sup>1</sup> within T2S there is the need to find a (cost-)efficient solution for the realignment of securities transactions at the level of ICSDs. Furthermore, they confirmed that they are working on a solution (with the aim to leverage on existing T2S functionality) which they expect to be able to present to the AMI-SeCo in its meeting in July 2017. The two ICSDs stressed that there would have to be an efficient realignment and that a real-time, transaction-by-transaction solution would be more expensive than settling on a net basis. In addition, the two ICSDs confirmed that they will also make their asset servicing and tri-party collateral management services available to T2S (i.e. based on T2S settlement / holdings).
- Market participants supported the Eurosystem's deliberations to make collateral management procedures more efficient, as they would welcome a better integration between the cash and collateral sides. Market participants also stated that a single collateral pool would be ideal from their perspective, but acknowledged that this situation might not be easy to achieve given the various uses of collateral around the globe (i.e. not only for Eurosystem credit operations). A few participants cautioned that the T2S settlement policy should not lead to a split of collateral pools for market participants. Furthermore, some of the participants expressed some scepticism about a full network of links between T2S participating CSDs developing in the near future. They highlighted that CSDs will normally only set up links, if they see a business case. Furthermore, some market participants thought that the T2S settlement policy might introduce elements of restriction or potential complexities and could run counter to other Eurosystem policies, notably those which aim at giving free choice of collateral location and

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<sup>1</sup> For the purpose of this summary Eurobonds are defined as international debt instruments typically issued by non-resident issuers in the ICSDs

promoting efficiency of collateral mobility. Some participants took the view that the policy might imply some operational challenges which could encompass potential operational frictions between ICSDs and T2S.. From the perspective of market participants, the Eurosystem should aim at keeping the number of NCB accounts used to take collateral low and should avoid defining different mobilisation routes for different eligible asset classes. Market participants also emphasised the need to take into account the global nature of collateral management, because most big players manage global collateral inventories, i.e. they manage collateral across markets around the globe and not just for the euro area / Europe. In particular for these big players, the service offerings of ICSDs have been useful. In this context, workshop participants referred, e.g., to the challenge of different settlement windows / operating hours of ICSDs that are different from those of T2S CSDs, as the ICSDs would keep their systems open in a broader window than T2S does for settlement. Situations where collateral was held in T2S while the assets might be needed in the securities account held at the ICSD should be kept to a minimum. Buy-side workshop participants noted that any potential effects on buy-side clients of Eurosystem counterparties should be taken into account and that they would welcome clarity on what changes are expected – if any - from the buy side. Several market participants expressed the view that the Eurosystem should further simplify its collateral management procedures. In this context, one participant raised the idea that the Eurosystem could consolidate taking marketable collateral in one single Eurosystem securities account. The representatives of the Eurosystem emphasised the importance of providing a level playing field for all Eurosystem counterparties. There might be a trade-off between operating a highly automated and thus fully integrated and efficient CCBM (which would be made possible by the ECMS) and promoting the creation and use of links. It was mentioned that smaller CSDs which have a link to one or both ICSDs today might only operate a limited number of links with T2S participating CSDs. ECB representatives clarified that there will be several options for counterparties to ensure reachability, including the option to link to a T2S-participating CSD with a wide network of links as well as the use of the CCBM.

- Workshop participants explicitly asked about the final goal/scope of a Eurosystem collateral taker policy and the milestones which the Eurosystem envisages to reach this goal.

## **Follow-up**

- The Eurosystem will use the input received from workshop participants to support its ongoing policy deliberations.
- The ECB will prepare a set of questions which it will address to market stakeholders represented in the AMI-SeCo. The aim of this stocktake will be to solicit additional views from AMI-SeCo membership.
- The Eurosystem will continue its discussions with the two ICSDs on the potential solutions for the realignment of Eurobonds. The two ICSDs will present a solution to the July 2017 meeting of AMI-SeCo.
- Further discussions (similar to this workshop) might be contemplated in as well as after the July AMI-SeCo meeting.

## List of participants

### Institution

### Name

#### ***Chair and Secretary***

European Central Bank	Helmut Wacket ( <i>Chairperson</i> )
European Central Bank	Gergely Koczan ( <i>Secretary</i> )

#### ***Users***

ABN AMRO	Joris Dekker
BBVA	Fernando García Rojo
BNP Paribas	Patrice Braulotte
BNY Mellon	David Allen
CASG Chair (BNY Mellon)	James Cunningham
CECA	José Luis Rebollo
Chair of the ERCC Operations Group (JP Morgan)	Nick Hamilton
Citi	Marcello Topa
Citi	Massimo Scordino
Deutsche Bank	Britta Woernle
ING	Jean-Marc Anciaux
Intesa Sanpaolo	Mario Recchia
Société Générale	Eric de Gay de Nexon
State Street	Swen Werner

#### ***Central Banks***

Banque Nationale de Belgique	Yvan Timmermans
Deutsche Bundesbank	Steffen Bruns
Eesti Pank	Kaire Torsus
Central Bank of Ireland	Ronan O'Hara
Bank of Greece	Daniela Marcelli
Banco de España	Sofía Galmés
Banco de España	Montserrat Jiménez
Banque de France	Valérie Fasquelle
Banque de France	Pauline Facon
Banca d'Italia	Valentino Baglioni
Banca d'Italia	Cristina Mastropasqua
Banque Central du Luxembourg	Esmeralda Balla
Banque Central du Luxembourg	Pierre Thissen
Central Bank of Malta	Gianella Gauci

De Nederlandsche Bank  
Suomen Pankki

Annemarie Hondius  
Mikko Olli

### ***Financial market infrastructures***

BME Clearing

Teresa Castilla

Clearstream Banking Frankfurt

Karla Amend

Clearstream Banking Luxembourg

Jean-Robert Wilkin

Euroclear Bank

Edwin de Pauw

Euroclear Bank

Dimitri Pattyn

Iberclear

Jesús Sánchez

Iberclear

Rafael Fuentes

LCH.Clearnet SA

Michael Carignano

Monte Titoli

Umberto Granata

VP Securities A/S

Nikolaj Hesselholt Munck

### ***Observers***

Association for Financial Markets in Europe (AFME) Marcos Santander Centenera

European Association of Clearing Houses (EACH) Juuso Korhonen

European Banking Federation (EBF) Sérgia Gonçalves Narciso

European Banking Federation (EBF) Fernando Morais Santos

European Funds

and Asset management Association (EFAMA) Vincent Dessard

European Central Bank Markus Mayers

European Central Bank Rémy Al Sbinati

European Central Bank Benjamin Stamer