

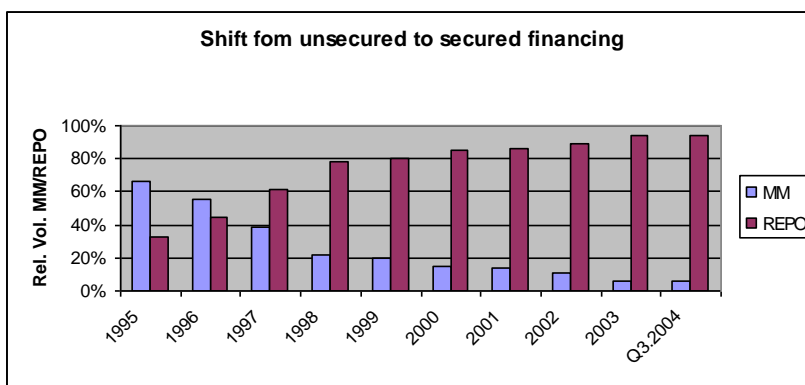
Issues concerning collateral

Daniela Russo
Director General Payments and Market Infrastructures
European Central Bank
Frankfurt, 16 November 2009

Agenda

- **Collateral arrangements: relevant trends before the crisis**
 - increased use of collateral
 - need for foreign collateral
- **Possible responses, in particular to address issues emerging during the crisis**

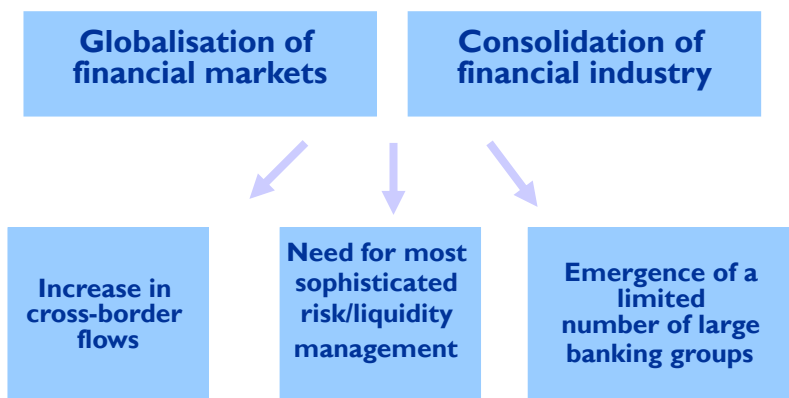
Increased use of collateral - I



Increased use of collateral - II

- **RTGS systems**
but... liquidity saving features in RTGS systems
- **DvP settlement (but... different DvP models)**
- **Time critical payments may create liquidity pressure**
- **Need for collateralisation**
- **Central counterparties**
- **Emergency situations**

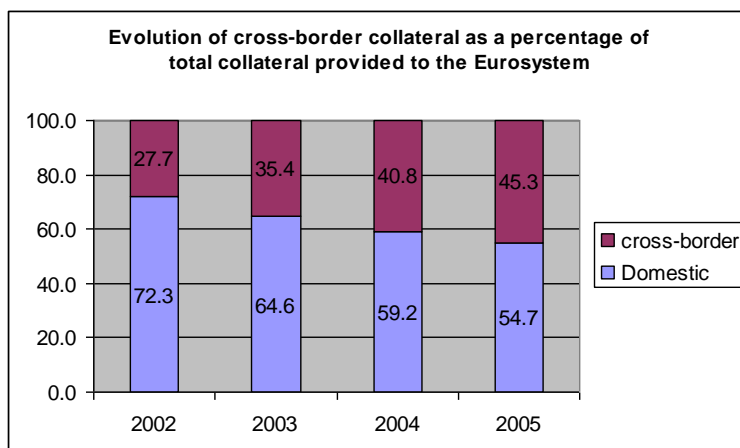
Demand for cross-border collateral - I (evolutionary factors)



EUROPEAN CENTRAL BANK

5

Demand for cross-border collateral - II (some figures)



EUROPEAN CENTRAL BANK

6

Demand for cross-border collateral - III (behavioural factors)

Internationally active banks

Centralisation of liquidity/collateral management

Fully centralised	6	2	2
Partially centralised	10	4	2
Decentralised	1		3
	Low (1-2)	Medium (3-4)	High (>4)

Direct participation in payment systems 8

EUROPEAN CENTRAL BANK

7

Possible responses: actions to improve collateral management

Central Banks	Private-sector	Joint efforts
Establishing central banks facilities	Improving ICSDs/custodians Facilities used by central banks (e.g. process at least FOP transfers outside normal hours);	More compatibility of central banks and market collateral Management (incl. increase CB use of „market“ facilities)
Improving central banks facilities	Longer or more flexible operating hours;	Support elements of common processing facilities
Improve ability to process collateral outside normal hours	Increase interoperability CSD and custodians services	Developing secondary market for credit claims
Additional automation	Common legal doc for repo transactions and triparty collateral services.	
Harmonise key operational Features		

EUROPEAN CENTRAL BANK

8

Possible central bank responses – central banks facilities for international liquidity

<i>Scenarios</i>	<i>Facilities</i>
Scenario I: The bank asking for credit: (i) not a counterparty (ii) Is constrained by a credit limit (ii) Has not enough eligible collateral (iii) unable to deliver collateral in time	Inter-central banks swaps and provision of credit in a foreign currency
Scenario II: The bank asking for credit: (i) Has “cross-border” collateral	Credit against foreign collateral
Scenario III: The bank asking for credit: (i) No “cross-border” collateral but has foreign currency	Credit against (foreign) cash collateral

II.2 Possible actions

What does it mean “more infrastructure”

- At trading level:
- More use of automated platforms for trading
- More use of other automated facilities
(confirmation/affirmation, matching and according to the product other specialised services, e.g. portfolio reconciliation and compression for CDS)

Possible responses: use of infrastructure to support collateralisation

- Establishment of CCPs (e.g. OTC derivatives)
- Promote collateralisation of uncollateralised markets (e.g. MIC in Italy)
- Triparty repos facilities