Benoît Cœuré: COGESI workshop on collateral eligibility requirements

Speech by Mr Benoît Cœuré, Member of the Executive Board of the ECB, at the COGESI (Contact group on euro securities infrastructures) workshop on collateral eligibility requirements, Frankfurt am Main, 15 July 2013.

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Ladies and gentlemen,

It is a privilege for me to say a few words at this occasion, when we present the report on collateral eligibility requirements. The work conducted by the "*ECB Contact Group on Euro Securities Infrastructures*" – known simply as COGESI – together with members of the ECB Money Market Contact Group has been remarkable.

This is the first COGESI event that I have attended, and I am very pleased to see so many key stakeholders present to address issues and developments relevant for the European securities settlement industry and issues which are of common interest for market infrastructures, market participants and the Eurosystem.

Before turning more specifically to the report itself, let me just say that COGESI provides a very useful platform for industry collaboration and advancement of new developments in the field of securities infrastructures.

It is an optimal forum to discuss issues and challenges which are emerging in relation to increasing demand for collateral, such as addressing solutions for the optimisation of collateral usage and, where needed, the transformation of collateral, as well as considering consistency of rules and regulations, standardisation, and post-trading developments insofar as these relate to collateral. In this sense, the work of COGESI complements some recent work at the level of the Committee for the Global Financial System (CGFS) on the implications of asset encumbrance and demand for high-quality assets that can be used as collateral.

Furthermore, COGESI supports both the ECB and Eurosystem in our ongoing monitoring of developments in the market and at the level of market infrastructures. In this regard, COGESI continues to be one of the most important sources of feedback from market participants and infrastructure representatives on initiatives related to euro securities clearing and settlement integration. The transparency generated through these exchanges of information plays an important role in building confidence in the financial system.

The published report on collateral eligibility requirements is an excellent example of what can be achieved through a forum such as COGESI, also when it cooperates with another ECB contact group in a related field, the MMCG.

The report contributes to a relevant and topical discussion on the availability of collateral, and its use in both central bank operations and private repo markets. As a system of central banks that implements monetary policy and ensures adequate intraday liquidity by providing collateralised lending, the Eurosystem is itself a large collateral receiver and is very much affected in its core activities by collateral availability in the financial system.

At previous opportunities I have discussed in detail the initiatives that the ECB has already taken to enhance collateral availability for its own operations[1], so that I do not need to repeat these today. However, the report not only looks at the central bank collateral frameworks of the Eurosystem and other major central banks, but applies a comprehensive approach encompassing also the impact of related regulatory requirements and existing practices of

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[1] Speech by Benoît Cœuré, Member of the Executive Board of the ECB, ECB-DNB Joint central bank seminar on collateral and liquidity, Amsterdam, 1 October 2012.

central counterparties (CCPs). This report, therefore, complements the work of the BIS Markets Committee on "Central bank collateral frameworks and practices" that was published this March.

Let me underline the added value of this work. From a policy perspective, market participants are confronted with the increasing demand for collateral, which could raise challenges – particularly taking into account that not all collateral assets are equally accepted under each framework. The report takes a broad view, and provides information that extends beyond our day-to-day business. Understanding differences in collateral acceptance is important to address the implications of the differences and to identify issues that merit further consideration by both policy-makers and market participants.

As mentioned in the report, while understanding the differences among the collateral frameworks is important and having transparency in this respect is absolutely essential in the current environment, there should be no call for ultimate unification of collateral rules, given the different purposes for which collateralisation is provided. Market participants will have to manage their respective pools of collateral in a way that allows them to provide collateral for different purposes, such as collateralisation in central bank operations, as assets in liquidity buffers of regulators and as margin requirements with central counterparties.

I note that the report in fact sees a certain diversification across the collateral frameworks as a positive element that enhances resilience; provided of course, that certain conditions are met, first and foremost that we have ex-ante transparency of the different collateral requirements and a smooth and efficient functioning at the level of market infrastructures.

Given the differences in collateral frameworks, it is important that there are no obstacles in the transfer of collateral. In the euro area, continuous attention is needed on ensuring that there are sufficient settlement links between (I)CSDs, that these have appropriate operating hours to address the needs of the market, and that triparty collateral management services are further developed.

On the latter, I pause for a moment to recall that one important milestone was achieved earlier today with the signing of a Memorandum of Understanding between (I)CSDs, banks (in the name of the European Repo Council) and a CCP, with the respective parties committing to work further on a solution for triparty settlement interoperability. Triparty settlement interoperability is an important initiative that will help foster greater financial integration and harmonisation, reduce fragmentation and help to create a single European repo market. The aim of the "TSI initiative", as you are all well aware, is to bring together borrowers and lenders, regardless of where the underlying liquidity or collateral is held, thereby avoiding the build-up of silos of collateral in the market.

More should be done, and I therefore fully subscribe to the actions identified by COGESI.

In particular, I encourage the group to further increase the transparency, clarity and understanding of the linkages between collateral frameworks, regulatory rules and market practices.

We need also further improvements in the processes that support the mobilisation of collateral. The Eurosystem will do its part in 2014, by abolishing the so-called Repatriation Requirement. That will allow for more efficient mobilisation of assets for use in Eurosystem credit operations via the Correspondent Central Banking Model (CCBM).

The Eurosystem is also integrating the support of triparty collateral management services on a cross-border basis into its central bank framework and of course T2S, which will go live from 2015 to 2017, will support more efficient cross-border collateral transfer. From the industry, we may expect to see further improvements in the services that support a more optimal use of collateral assets.

In this regard, I encourage you to analyse solutions to optimise the use of collateral. I am very interested in the group's deliberations on the tools to increase the efficient use of collateral, and the implications of collateral transformation services.

Against a background of increasing demand for collateral, COGESI should drive further development of effective procedures for enhancing collateral availability.

Again, I would like to show my appreciation for your work on the report and to encourage you to continue your successful collaboration.

Thank you!