



EUROPEAN CENTRAL BANK

**CORRESPONDENT
CENTRAL BANKING MODEL
(CCBM)**

April 1999

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Introduction

One of the guiding principles of Monetary Union is that counterparties should be treated equally. In seeking to apply this principle to the use of collateral, the Eurosystem has examined ways of ensuring that all collateral eligible for use either in monetary policy operations or to obtain liquidity in TARGET is available to all market participants, regardless of where in the European Union the collateral or the participant is situated.

In looking at these issues, the Eurosystem has considered, in addition to solutions already offered by the market, developments for the cross-border use of collateral planned by operators of securities settlement systems (SSSs) such as the European Central Securities Depositories Association (ECSDA) and the international central securities depositories (ICSDs). Regular meetings have also been held with market participants to establish their requirements.

The work of the ECB has clearly shown that, in the medium to long term, the market operators are moving toward real-time gross settlement systems based on delivery versus payment (DVP) procedures and offering cross-border settlement, which will bring SSSs into line with payment systems. However, in the short to medium term, there is a need for a system offering cross-border use of eligible collateral which covers the entire euro area and is operational from the start of Stage Three.

The Eurosystem has therefore designed the correspondent central banking model (CCBM) as an interim solution, to facilitate the cross-border use of collateral until adequate alternative market solutions are available throughout the Member States of the European Union. The Eurosystem expects the use of the CCBM to gradually decrease as these market solutions become available.

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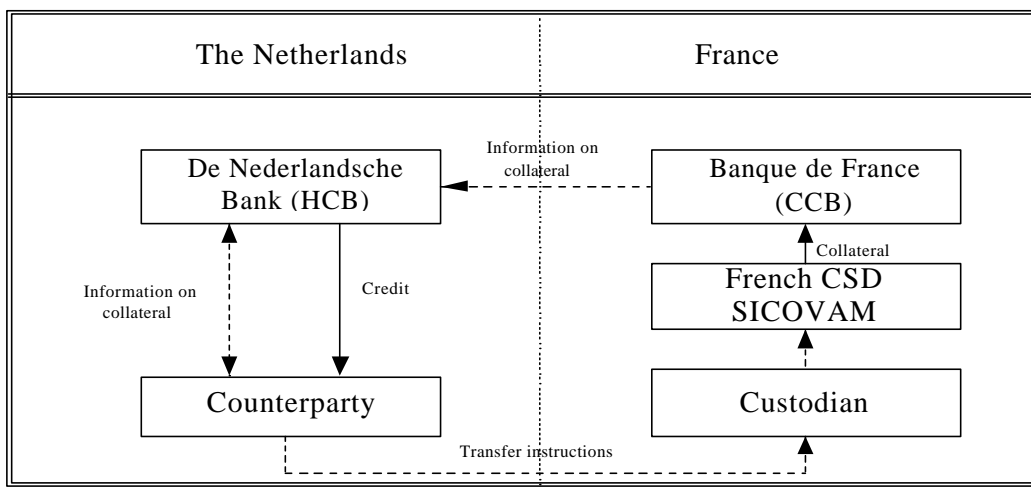
1 How the CCBM works

Counterparties to the monetary policy operations of the Eurosystem and participants in TARGET in the EU area can only obtain credit from the central bank of the country in which they are based – their home central bank (HCB). However, through the CCBM, they can use collateral held in other countries. To do so, they must arrange with the issuing SSS (i.e. the SSS in which the collateral has been issued and deposited) for the collateral to be delivered to an account maintained by the local national central bank (NCB). The local NCB will then hold the collateral on behalf of the central bank granting the credit (the HCB) and thus act as a correspondent central bank (CCB).

Example

A Dutch bank wishes to obtain credit from De Nederlandsche Bank (the Dutch central bank) on the basis of collateral held in the French central securities depository (Sicovam). To do so, the Dutch bank must arrange for its assets to be transferred to an account maintained by the Banque de France (the French central bank) at Sicovam. The Banque de France will hold the securities on behalf of De Nederlandsche Bank, thus in effect acting as its custodian. The collateral will be delivered to the Banque de France according to Sicovam's delivery procedures. The Banque de France will inform De Nederlandsche Bank when it is certain that it has received the eligible collateral in the relevant account. On the basis of this information, De Nederlandsche Bank will grant credit to the Dutch bank. In this example, the Banque de France thus acts as the CCB for De Nederlandsche Bank (HCB).

Use of eligible assets issued and deposited in France by a counterparty established in the Netherlands in order to obtain credit from De Nederlandsche Bank



The CCB is responsible for providing the necessary information on the delivery and eligibility of the securities, while the HCB is responsible for processing that information, as well as for conducting the valuation process¹ and for providing liquidity (i.e. cash payment or extending debit cap). Central banks will not advance funds until they are certain that the counterparties' securities have been safely received by the CCB.

All assets eligible for monetary policy or payment systems purposes² can be used on a cross-border basis through the CCBM (including certain non-marketable assets which are not held in an SSS and some assets of the Member States not participating in the euro area).

There is no obligation for the counterparties to use the CCBM if an approved alternative exists, such as a link between SSSs.

1.1 Using the CCBM

In principle, use of the CCBM by counterparties does not require them to adopt special procedures (beyond arranging the transfer of the securities in a different country) as the model has been designed to make use of the procedures which already exist in each country. However, counterparties should be aware that different types of reverse transaction (repo and pledge) and different methods of holding collateral (pooled and earmarked collateral systems) are used in the different EU Member States and that the CCB may use a different procedure from that to which the counterparty is accustomed. The procedure to be used is chosen by the lending central bank (the HCB), but the method of collateralisation usually selected is the one that is normally used by the CCB.³

1.2 Timing

The CCBM will be used to support the monetary policy operations of the Eurosystem and to obtain intraday liquidity in TARGET. Under normal circumstances, the CCBM will be open for instructions from counterparties from 9 a.m. to 4 p.m. European Central Bank (ECB) time. This means that the operating hours of the CCBM cover the normal time frame in which regular open market operations are carried out by the Eurosystem but do not cover the full operating hours of TARGET. Counterparties which need to use collateral held on a cross-border basis after this cut-off time should therefore pre-deposit it with the CCB. In exceptional circumstances, when it is necessary for reasons related to monetary policy or to ensure the smooth closing of TARGET, the closing time of the CCBM may be delayed.

The procedures followed by the NCBs in the cross-border use of assets may differ slightly between the Member States. Further information on these procedures is available from the individual NCBs.

1.3 Which NCB is the CCB?

The general rule is that the CCB is the NCB of the country of the issuing SSS (which is usually the domestic SSS) of the country in which the assets are held.

¹ Including margin calls, valuation haircuts, etc.

² All assets used as collateral for monetary policy purposes can also be used for payment systems purposes. Collateral from non-participating Member States can only be used for payment systems purposes, but the use of the CCBM is, in principle, identical for both types of collateral.

³ A table showing which method of collateralisation is offered by the respective central banks is attached as Annex 1.

For Euro-market and international issues held in the ICSDs (Euroclear and Cedel), the Banque Nationale de Belgique, for Euroclear, and the Banque centrale du Luxembourg, for Cedel, will generally act as the CCB. One exception is when the issuer is the government of the United Kingdom (or a company incorporated in the United Kingdom), in which case the Bank of England will be the CCB. However, De Nederlandsche Bank, Danmarks Nationalbank, Sveriges Riksbank and the Bank of England intend to make use of their accounts in Euroclear for euro-market and international issues. The Bank of England will also use its account in Cedel for those issues. This means that counterparties wishing to use those assets to obtain credit from these NCBs must transfer them directly to the accounts held by the latter in Euroclear and Cedel, as appropriate.

The table on the following page sets out the main information required for a delivery of collateral on day S. In particular, it provides information on where to deliver assets using the CCBM (e.g. account), and details of the procedure to apply (such as cut-off times in the foreign SSS used). In addition, for each type of asset, it shows how the quantity must be expressed (FMT for the amount of nominal value to be delivered and UNT for amount of securities to be delivered) and the type of legal instrument available (when this appears in brackets it means that, although it is available, the instrument concerned is not recommended as the most appropriate legal instrument by the CCB).

All operating times are expressed in ECB time.

| Type of asset | SSS of location | Under normal conditions, instructions for delivery at S must be input between ⁴ | Type of instrument available | Central bank acting as CCB | CCB account at SSS | Telephone contact |
|---|---------------------|--|------------------------------|----------------------------|-------------------------------|--------------------------------------|
| Belgian domestic government securities (FMT) | NBB clearing system | 8 a.m. and 4 p.m. (4.15 p.m.) | Pledge/repo | National Bank of Belgium | Specific account ⁵ | +32 2 221 2504 |
| Euro-market and international securities of UK issuers ⁶ (FMT) | Euroclear | 7 a.m. and 4 p.m. (17.15 p.m.) | Repo/(pledge) | Bank of England | 21368 | +44 171 6014661 |
| Euro-market and international securities of other than UK issuers (FMT) | Euroclear | 7 a.m. and 4 p.m. (5.15 p.m.) | Pledge/repo | National Bank of Belgium | Specific account ⁷ | +32 2 221 2504 |
| Danish government and mortgage credit bonds ⁸ (FMT or UNT) | VP | 8 a.m. and 4 p.m. (6 p.m.) | Pledge/repo | Danmarks Nationalbank | N/a | +45 3363 6939 |
| Euro-market issues and international issues made with DBC as CSD (FMT), German public and private eligible securities (FMT) | DBC | 6 a.m. and 4 p.m. (5.30 p.m.) | Pledge/(repo) | Deutsche Bundesbank | 7073 | +49 69 9566 3852 +49 69 9566 3855 |
| German non-marketable assets (UNT) | Deutsche Bundesbank | 9 a.m. and 4 p.m. | Pledge/(repo) | Deutsche Bundesbank | N/a | +49 69 9566 3023 |
| Greek treasury bonds (FMT) | BOGS | 7 a.m. and 4 p.m. | Pledge/repo | Bank of Greece | 9103 | +301 325 4649 |
| Spanish public securities (FMT) | CADE | 7 a.m. and 4 p.m. (5.30 p.m.) | Pledge/repo | Banco de España | Specific account ⁹ | +34 91 338 5707 or 62 21 |
| Spanish private securities (FMT or UNT) | SCLV | S-1, 9 a.m. and S-1, 7 p.m. | Pledge/(repo) | Banco de España | 9000- | +34 91 338 5707 or 62 21 |
| Spanish private securities (UNT) | Espaceclear | S-1, 9 a.m. and S-1, 3.30 p.m. | Pledge/repo | Banco de España | 9000 | +34 91 338 5707 or 62 21 |
| Spanish regional securities (FMT) | SCL Barcelona | S-1, 9 a.m. and S-1, 7 p.m. | Pledge/repo | Banco de España | 9000 | +34 91 338 5707 or 62 21 |
| Spanish regional securities (FMT) | SCL Bilbao | S-1, 9 a.m. and S-1, 7 p.m. | Pledge | Banco de España | N/a | +34 91 338 5707 or 62 21 |
| Spanish regional securities (FMT) | SCL Valencia | S-1, 9 a.m. and S-1, 7 p.m. | Pledge | Banco de España | N/a | +34 91 338 5707 or 62 21 |

⁴ The time in brackets refers to the closing time for domestic free of payment deliveries of ESCB collateral, under normal conditions, when it is different from the one for CCBM use.

⁵ For pledge repos and outright deliveries at the ECB: 9205, or the central bank of DK: 9203, DE: 9202, ES: 9204, GR: 9209, FR: 9207, IE: 9210, IT: 9211, LU: 9212, NL: 9213, AT: 9201, PT: 9214, FI: 9206, SE: 9215 and UK: 9208. Counterparties must always match any transfer of securities between accounts: the entry of the trade date in the notification sent to NBB Clearing is mandatory.

⁶ For these assets, De Nederlandsche Bank (Account 92745), Danmarks Nationalbank, Sveriges Riksbank and the Bank of England make use of their accounts in Euroclear. The Bank of England uses its account in Cedel. Therefore the counterparties of these central banks will directly deliver the assets to the accounts of these central banks without using the model.

⁷ For repos and outright deliveries at the ECB: 21207, or the central bank of DE: 21082, ES: 21083, GR: 21087, FR: 21086, IE: 21088, IT: 21089, LU: 21090, AT: 21277, PT: 21091, FI: 21085 and UK: 21340 and for pledges made in favour of the central bank of DE: 28205, ES: 28206, GR: 28210, IE: 28211, IT: 28212, LU: 28213, AT: 28250, PT: 28214 and FI: 28208. Intraday deliveries on a free of payment basis to or from the NBB do not need to be matched, but the following fields in the S.W.I.F.T. MT580 message have to be completed: 1) field 23-DELFREE/TRANS; 2) Field 26j:1; 3) Field 72 :/SETD/

⁸ Only eligible for intraday credit operations and counterparties of the Banque de France, the Deutsche Bundesbank, the Banque centrale du Luxembourg and De Nederlandsche Bank.

⁹ For repos and outright deliveries at the ECB: 1901, or the central bank of BE: 1902, DK:1903, DE: 1904, GR: 1905, FR: 1907, IE: 1908, IT: 1909, LU: 1910, NL: 1911, AS: 1912, PT: 1913, FI: 1914, SE: 1915 and UK: 1916.

| Type of asset | SSS of location | Under normal conditions, instructions for delivery at S must be input between ¹⁰ | Type of instrument available | Central bank acting as CCB | CCB account at SSS | Telephone contact |
|--|--------------------------|---|------------------------------|-------------------------------|--------------------------------|------------------------------------|
| Spanish non-marketable assets (FMT) | Banco de España | 9 a.m. and 4 p.m. (6 p.m.) | Pledge | Banco de España | N/a | +34 91 338 5707 or 62 21 |
| Euro-market issues and international issues made with Sicovam SA as CSD, French public and private eligible securities (UNT or FMT) | Sicovam SA | 8 a.m. and 4 p.m. (5.15 p.m.) | Repo/(pledge) | Banque de France | 282 | +33 1 4292 6285 +33 1 4292 3250 |
| French non-marketable assets (FMT) | Banque de France | 9 a.m. and 4 p.m. (6 p.m.) | Outright | Banque de France | N/a | +33 1 4292 3961 |
| Irish government bonds (FMT) | CBISSO | 9 a.m. and 4 p.m. (6 p.m.) | Repo | Central Bank of Ireland | N/a | +353 1 6716 019 or 282 or 904 |
| Irish Treasury bills (FMT) | NTMA | 9 a.m. and 4 p.m. (6 p.m.) | Repo | Central Bank of Ireland | N/a | +353 1 6716 019 or 282 or 904 |
| Irish non-marketable assets (FMT) | Central Bank of Ireland | 9 a.m. and 4 p.m. (6 p.m.) | Repo | Central Bank of Ireland | N/a | +353 1 6716 019 or 282 or 904 |
| Euro-market issues and international issues made with CAT as CSD, Italian government securities (FMT) | CAT | 7 a.m. and 4 p.m. (6 p.m.) | Pledge/repo | Banca d'Italia | 47411121 35 | +39 06 4792 3172 or 3369 |
| Euro-market issues and international issues made with Monte Titoli as CSD, Italian private eligible securities (FMT) | Monte Titoli | 7 a.m. and 4 p.m. (6 p.m.) | Pledge ¹¹ /repo | Banca d'Italia | 61003 | +39 06 4792 3172 or 3369 |
| Euro-market and international securities of UK issuers ¹² (FMT) | Cedelbank | 7 a.m. and 4 p.m. (6 p.m.) | Repo/(pledge) | Bank of England | Specific account ¹³ | +44 171 601 4661 |
| Euro-market and international securities of non-UK issuers ⁴ and Luxembourg securities (FMT) | Cedelbank | 7 a.m. and 4 p.m. (6 p.m.) | Pledge/repo | Banque centrale du Luxembourg | 82801 | +352 4774 4452 |
| Euro-market issues and international issues made with Necigef as CSD, Dutch public and private eligible securities (govt. bonds FMT; equities UNT) | Necigef | 7 a.m. and 4 p.m. (6 p.m.) | Pledge/(repo) | De Nederlandsche Bank NV | 100 | +31 20 524 3696 +31 20 524 2463 |
| Dutch non-marketable assets (FMT) | De Nederlandsche Bank NV | 9 a.m. and 4 p.m. (6 p.m.) | Pledge/(repo) | De Nederlandsche Bank NV | N/a | +31 20 524 3696 +31 20 524 2463 |

| Type of asset | SSS of location | Under normal conditions, | Type of instrument | Central bank acting as CCB | CCB account | Telephone contact |
|---------------|-----------------|--------------------------|--------------------|----------------------------|-------------|-------------------|
|---------------|-----------------|--------------------------|--------------------|----------------------------|-------------|-------------------|

¹⁰ The time in brackets refers to the closing time for domestic free of payment deliveries of ESCB collateral, under normal conditions, when it is different from the one for CCBM use.

¹¹ Pledges are used only for intraday liquidity operations and for marginal lending facilities, while repos are used for main refinancing operations.

¹² For these assets, De Nederlandsche Bank (Account 92745), Danmarks Nationalbank, Sveriges Riksbank and the Bank of England make use of their accounts in Euroclear. The Bank of England will also use its account in Cedel. Therefore the counterparties of these central banks will directly deliver the assets to the accounts of these central banks without using the model.

¹³ For repo securities, must be delivered to the Bank of England account 83371, and for pledges to the account 83372.

| | | instructions for delivery at S must be input between ¹⁴ | available | | at SSS | |
|---|-------------------------------|--|---------------|-------------------------------|--------------------------------|------------------|
| Austrian public and private eligible securities (FMT) | OEKB | 8 a.m. and 4 p.m. (5 p.m.) | Pledge/(repo) | Oesterreichische Nationalbank | 2295/00 | +43 1 404 204210 |
| Austrian non-marketable assets (UNT) | Oesterreichische Nationalbank | 9 a.m. and 4 p.m. (6 p.m.) | Pledge/(repo) | Oesterreichische Nationalbank | N/a | +43 1 404 203400 |
| Portuguese Treasury bills and central bank paper (FMT) | Sitme | 7 a.m. and 4 p.m. (6 p.m.) | (Pledge)/repo | Banco de Portugal | Specific account ¹⁵ | +351 1 353 7279 |
| Portuguese public bonds and private eligible securities (FMT) | Interbolsa | 7 a.m. and 4 p.m. (6 p.m.) | (Pledge)/repo | Banco de Portugal | Specific account ¹⁶ | +351 1 353 7279 |
| Finnish public and private eligible securities (FMT) | APK – RM system | 8 a.m. and 4 p.m. (6 p.m.) | Pledge/repo | Suomen Pankki | Call | +358 9 183 2176 |
| Swedish government securities and mortgage institutions bonds ¹⁷ (FMT) | VPC | 7 a.m. and 4 p.m. (6 p.m.) | Pledge/repo | Sveriges Riksbank | N/a | +46 8 787 0416 |
| UK government gilt-edged securities ¹⁸ (FMT) | CGO | 9.30 a.m. and 3.45 p.m. | Repo/(pledge) | Bank of England | 6644 | +44 171 601 4661 |
| UK Treasury bills ¹⁹ (FMT) | CMO | 9.30 a.m. and 4 p.m. (5.45 p.m.) | Repo/(pledge) | Bank of England | Repo5544 Pledge 6544 | +44 171 601 4661 |

¹⁴ The time in brackets refers to the closing time for domestic free of payment deliveries of ESCB collateral, under normal conditions, when it is different from the one for CCBM use.

¹⁵ For these assets, the following reference must be given: BPCCB and specific account (ECB: 15, BE: 01, DK: 02, DE: 03, ES: 05, GR: 04, FR: 06, IE: 07, IT: 08, LU:09, NL: 10, AT: 11, FI: 12, SE: 13 and UK: 14) and type of operation (for repos/outright transactions: OWN and for pledges: PLE).

¹⁶ For repos/outright transactions the securities must be delivered to the account 5998888859, “motivo 180” for same day transfers or 5997777751, “motivo 151” for tomorrow value transfers, and for pledges “motivo 153”.

¹⁷ Only eligible for intraday credit operations and counterparties of the Banque de France, the Deutsche Bundesbank and De Nederlandsche Bank.

¹⁸ Only eligible for intraday credit operations and counterparties of the Banque de France, the Deutsche Bundesbank and the Central Bank of Ireland.

¹⁹ Only eligible for intraday credit operations and counterparties of the Banque de France and the Central Bank of Ireland.

More detailed information on the assets eligible for Eurosystem credit operations is available on the ECB Web site (www.ecb.int). In case of problems or for further information a Hotline is available at the ECB under the MFIs and Assets Database.

For non-euro area assets, which are only eligible for intraday credit, detailed information can be obtained from the central bank of the country concerned, as follows:

- Danish assets: the Danmarks Nationalbank Web site at www.nationalbanken.dk (or directly by telephone);
- Greek assets: the Bank of Greece Web site at www.bankofgreece.gr (or directly by telephone);
- Swedish assets: the Sveriges Riksbank Web site www.riksbank.se (or directly by telephone);
- UK assets: the Bank of England Web site at www.bankofengland.co.uk (or directly by telephone).

In addition, in some specific cases, eligible issuers issue directly to foreign domestic markets (in the Annex is a list of these types of issues as at March 1999). These issues can be used in the same way as for any domestic issue in the SSS concerned (same CCB, same account, same contact number). For example at present some Belgian government securities are issued directly in Germany and therefore the issue is deposited in the DBC (the German local SSS). The CCB for these securities is the Deutsche Bundesbank, as they are considered to be local German securities.

2 CCBM variants for non-marketable tier two assets

In drawing up the list of assets eligible for use in the monetary policy operations of the Eurosystem and intraday credit of the ESCB, it was decided to include assets in various countries which are of particular importance for their national financial markets and banking systems: these are the so-called tier two assets. The eligibility criteria for inclusion in the list of eligible assets is given in the ECB publication entitled "The single monetary policy in Stage Three – General documentation on monetary policy instruments and procedures (September 1998)". A full list of eligible assets is also available from the ECB and the NCBs. In accordance with the principle of equality of treatment, the ECB and the NCBs have agreed that these assets should also be available in order to obtain credit on a cross-border basis. In some countries these eligible assets also include non-marketable assets, such as private claims, bills of exchange and non-marketable bonds. Because of their specific characteristics, the ECB and the NCBs have established specific procedures for the mobilisation of these assets through the CCBM. The countries which have so far included such non-marketable assets on their tier two lists are Germany, Spain, France, the Netherlands and Austria. In accordance with domestic procedures and legal environments, two methods of using these assets through the CCBM have been developed.

2.1 Transfer of full title to the CCB for its own account

This variant of the CCBM allows the mobilisation of private bank claims by transferring full title to the CCB. This method has been chosen by the Banque de France for the mobilisation of French private claims (these are claims – governed by French law – on debtors established in France).

A counterparty wishing to use these assets as collateral must first enter into a general agreement with the CCB for the mobilisation of the assets. Thereafter, each time the

counterparty wishes to use such assets, full transfer of ownership to the CCB must be arranged. The CCB then issues a guarantee in favour of the HCB, whereupon the credit can be released to the counterparty as with any other assets. Further details are given in Annex 3.

2.2 Transfer in the name or pledge in favour of the HCB

The Deutsche Bundesbank, the Oesterreichische Nationalbank, the Banco de España and De Nederlandsche Bank have also included on their tier two lists private claims and bills of exchange (excluding the latter in the case of Spain and Netherlands) for which the debtor or the liable party has been accepted by those NCBs. The Oesterreichische Nationalbank also includes non-marketable bonds and commercial paper on its tier two lists.

A counterparty will be able to use these assets to obtain credit from its HCB. The procedures have been put in place to allow either for pledge (in the case of Spain, pledge only) or transfer of full title (in the case of Austrian private claims, assignment for security purposes). The HCB will decide whether it prefers to make the transfer in its name as a repo or as a pledge. Further details are given in Annex 2.

3 Legal framework

The use by the EU central banks of the CCBM is based on agreements, the terms of which are internal to the ESCB. According to these agreements, each NCB agrees to act as the local agent for each other NCB and the ECB (the contractual relationship between an HCB and its counterparties will continue to be covered by existing documentation). These agreements allocate duties and responsibilities to the HCB and the CCB.

The terms applicable to the collateral operations of counterparties are set out in the relevant contractual or regulatory arrangements of the HCB. These documents contain all the information counterparties need in order to use collateral on a cross-border basis.

In particular, these documents specify whether the HCB will base its operations on repurchase transactions, secured loans or both. (In conformity with market practice, the term "collateral" is used for both types of transaction, notwithstanding the fact that repurchase transactions involve the outright transfer of title to securities, so that those securities are not held as "collateral" in the strict legal sense.) The CCBM has been designed to ensure that, as far as is possible under the relevant national legal systems, the choice of the type of operation made by the HCB is respected both for domestic assets and for assets to be used on a cross-border basis. A table in annex 1 contains a short description of the features relevant to each NCB when acting as an HCB or as an CCB.

The model implies that the same counterparty may put up collateral for a monetary policy operation or for intraday credit vis-à-vis the same central bank using two different legal instruments, i.e. a pledge and a repo.

To the extent that the HCB follows the method of collateralisation suggested by the CCB, this presents no difficulties for the local custodian, which will continue to use its current market practices in use for its domestic operations. Only if the HCB should choose not to follow the practice suggested by the CCB, would the local custodian be obliged to transfer the collateral to the CCB in a way that is not common practice in the country in question.

4 Pricing

Counterparties which make use of collateral held on a cross-border basis through the CCBM will be charged a single fee of E5 for each cross-border transaction. This fee has been set to cover the costs of the CCB. Local fees charged by the HCB are not included in this figure.

5 Future perspectives

The CCBM has been designed as an interim solution in order to provide a means of allowing counterparties to use all eligible assets as collateral vis-à-vis their local NCB, regardless of the location of the assets. From the outset the intention was that the use of the CCBM would be reduced as alternative solutions from the private sector become operational and their use increases. However, it is now clear that some types of collateral (non-marketable tier two assets, for example) can only be used on a cross-border basis through the CCBM because they are not securities and are therefore not so easily transferred.

Other solutions than the CCBM for marketable assets will be used by the Eurosystem for monetary policy and the ESCB for intraday credit operations from the start of Stage Three, provided that:

- they meet the requirements set out in the report entitled "Standards for the use of securities settlement systems in the ESCB credit operations" published by the EMI in January 1998; and
- they comply with other operating requirements which stem from monetary policy operations (i.e. some functions that are carried out by the CCB may need to be carried out by another entity, depending on what solution is proposed).

The CCBM may continue to operate between countries where a practical alternative does not exist or where its use is limited to assets that are not included in any alternative scheme. Taking these points into account, the Eurosystem has agreed that, in principle, the CCBM will continue to operate as long as there is a market demand for it. However, after the CCBM and market solutions have co-existed for a period of time, this issue will be examined again.

ANNEX 1

Table on legal instruments used in the EU countries

| | As an HCB, the central bank will use the following instruments | | | | As the CCB, the central bank will support the following services | | |
|-----------|--|--|---|--------------------------------------|--|---|------|
| | PLEDGE | | REPO | | PLEDGE | | REPO |
| | Pooled | Earmarked | Global margining | Transaction by transaction margining | Pooled | Earmarked | |
| BE | Yes | No | Yes | (Already available) | Yes | Yes | Yes |
| DK | Yes | Yes | Yes | No | Yes | Yes | Yes |
| DE | Yes | No | No | No | Yes | Yes | Yes |
| GR | No | Yes | No | Yes | No for the present | Yes | Yes |
| ES | Yes | No | No | Yes | Yes | Yes | Yes |
| FR | No | No | Yes | No | Yes, but legal complexity ¹⁾ | Yes, but legal complexity ¹⁾ | Yes |
| IE | No | No | No | Yes | No | Yes ²⁾ | Yes |
| IT | No | Yes (Marginal lending facilities and intraday credit) | No | Yes (Open market operations) | Yes | Yes | Yes |
| LU | Yes (Standing facilities and intraday credit) | No | No | Yes (Monetary policy operations) | Yes | Yes | Yes |
| NL | Yes | No | Yes | No | Yes | Yes | Yes |
| AT | Yes | No | No | No | Yes | No (Operational issue) | Yes |
| PT | Could be used if necessary but legal risk ³⁾ | Could be used if necessary but legal risk | No | Yes | Could be used if necessary but legal risk | Could be used if necessary but legal risk | Yes |
| FI | Yes | No | Could be used if necessary for foreign collateral | No | Yes | Yes | Yes |
| SE | Yes | No | Yes | No | Yes | Yes | Yes |
| UK | No | No | Yes | No | Yes | Yes | Yes |

- 1) The legal complexity is attributable to the opening of pledge accounts with the CCB in the name of ESCB counterparties.
- 2) The legal complexity is attributable to the necessary registration procedures.
- 3) Legal risk because realisation in the event of bankruptcy would depend on a court decision.

ANNEX 2

Transfer in the name or pledge in favour of the HCB

As a general rule, a counterparty wishing to use such assets as collateral needs to:

- (a) accept additional legal terms and conditions submitted to it by the HCB (the CCB provides special conditions related to its domestic collateral); and
- (b) approach the CCB to inform them if it intends to use this type of collateral and to provide it with a list of authorised signatures. It requires the counterparty to take all necessary measures to check the validity of the signatures provided in this way (which may take some time). However, in order to speed up the process, the HCB of the ESCB's counterparty will, if possible, assist the CCB in providing this list of signatures.

For specific operations, the counterparty informs the HCB of its intention to make use of this type of collateral (in pooling systems this is not necessary, since in pooling systems there is no need to indicate the collateral used in each operation). The HCB then sends a message to inform the CCB that it will be receiving this type of collateral from this counterparty and that it should be pledged or transferred to the HCB (in the case of Spanish private claims, it can only be pledged).

As soon as it has been approached by the counterparty, the CCB:

- checks the counterparty's signature against the list of signatures that it has previously received (from the HCB or from the counterparty); and
- in respect of bills of exchange, checks that there is a blank endorsement.

The value of the collateral is based on the value of the nominal amount to be paid at maturity. For bills of exchange, a discounted daily value is calculated also based on the value of the nominal amount to be paid at maturity. A haircut is required for both private claims and bills of exchange.

Normally these types of non-marketable tier two assets are not returned to the counterparty before their maturity. However, if a counterparty decides to withdraw specific (or all) assets before that date, it will inform the CCB (not the HCB). The CCB will then separate the assets and inform the HCB of the reduced value of collateral held on its behalf. The HCB will then check if the new value is sufficient to cover the credit still outstanding and, if not, it will inform the CCB, whereupon the CCB will continue to hold the assets on behalf of the HCB. For Spanish private claims, the counterparty will inform the HCB, as with any other eligible collateral.

ANNEX 3

Transfer of full title to the CCB for its own account

The Correspondent Central Banking Model (CCBM) will be used for non-marketable assets which are included in the tier two list of the Banque de France. In order to take into account the specific features of these assets, a variant of the CCBM including special technical and legal arrangements has been set up. These specifics are described in the following sections.

❶ A CCBM variant for the cross-border use of French private claims

The eligible assets which are handled by the French variant are French private claims accepted on a domestic basis by the Banque de France according to a special procedure governed by Act No. 81-1 of 2 January 1981 (Loi Daily, Daily law). These claims represent bank loans granted to French firms with the best rating given by the Banque de France. The claims involved should be governed by French law with a residual maturity of up to two years. The information needed to ascertain the eligibility of French private claims will be provided by the "Direction des Entreprises" at the Banque de France. To obtain regular access to the information on the ranking of the relevant debtors,²⁰ a specific agreement between the foreign counterparty and the Banque de France has to be signed.

In the French variant, the full ownership of the private claims is transferred to the Banque de France. Then, the Banque de France provides, on demand, an unconditional guarantee to the lending central bank in respect of the private claims put forward as collateral by the ESCB counterparties. The transfer of ownership of the claims should be made prior to any refinancing operation since the stock of claims will be managed by the Banque de France as a pool of collateral that can be used for any credit operations.

The transfer of ownership becomes effective through the delivery of a deed of transfer together with the specifications of the claims, in order to ensure their individual identification as required by the law.

❷ Legal and technical prerequisites

In order to use French private claims as collateral in their refinancing operations, credit institutions must meet the following legal and technical conditions:

- they must sign a bilateral agreement with the Banque de France; and
- they must be accredited after successful validation tests in order to transfer to the Banque de France the data concerning the private claims on diskette. Thus, credit institutions have to provide a specific data file containing the private claims according to the guidelines of the "Cahier des Charges de la Déclaration TRICP" describing the users' requirements of the

²⁰ Online information on the ranking of French firms will be available on the Internet from the beginning of the second quarter of 1999. This so-called "I-Net" eligibility service will be usable, with an online help function and users' guide, by resident and non-resident credit institutions established in the euro area. NCBs and the ECB will also be able to use this device, which will enable queries and answers on the debtor's eligibility/ineligibility status to be addressed. Until that date, information on the ranking of French firms will be provided by fax at the foreign counterparty's request. Specific details regarding this procedure may be obtained by calling the "Direction des Entreprises" at the Banque de France (telephone contact numbers: + 33 1 42 92 49 01).

system. The file has to be secured through specific software developed by the Banque de France, named "SECURBDF". Prior tests of the files format with the Banque de France are compulsory.

③ Specific details of the procedure (see diagram)

Unlike the standardised procedure of the CCBM based upon the current sub-custodian network used by the credit institutions, the French variant implies a direct relationship between the ESCB counterparties and the correspondent central bank (i.e. the Banque de France). Moreover, the mobilisation of private claims is made by transfer of full title to the Banque de France. The Banque de France, acting as the correspondent central bank, issues a guarantee in favour of the lending central bank, whereupon the credit can be released to the counterparty.

a- Transfer of the ownership of the claims to the Banque de France prior to their mobilisation

After having met the legal and technical prerequisites, the credit institution concerned will have to transfer the ownership of the claims directly to the Banque de France, according to the following procedure:

- the credit institution transfers the ownership of the claims through the delivery of a deed of transfer form;
- at the same time, the credit institution sends a file through the telecommunications network or on diskette, indicating all the items necessary to identify the assigned claims. The files are recorded in an electronic database which contains the list of eligible claims continuously administered by the Banque de France. Each transfer must indicate the details of claims which will replace the previous one in the database.

The transfer of ownership of the claims to the Banque de France must be renewed at least once every four weeks, and at most once every week. The diskette containing the data must be transmitted to the Banque de France before every Friday in order to be taken into account on the following Tuesday.

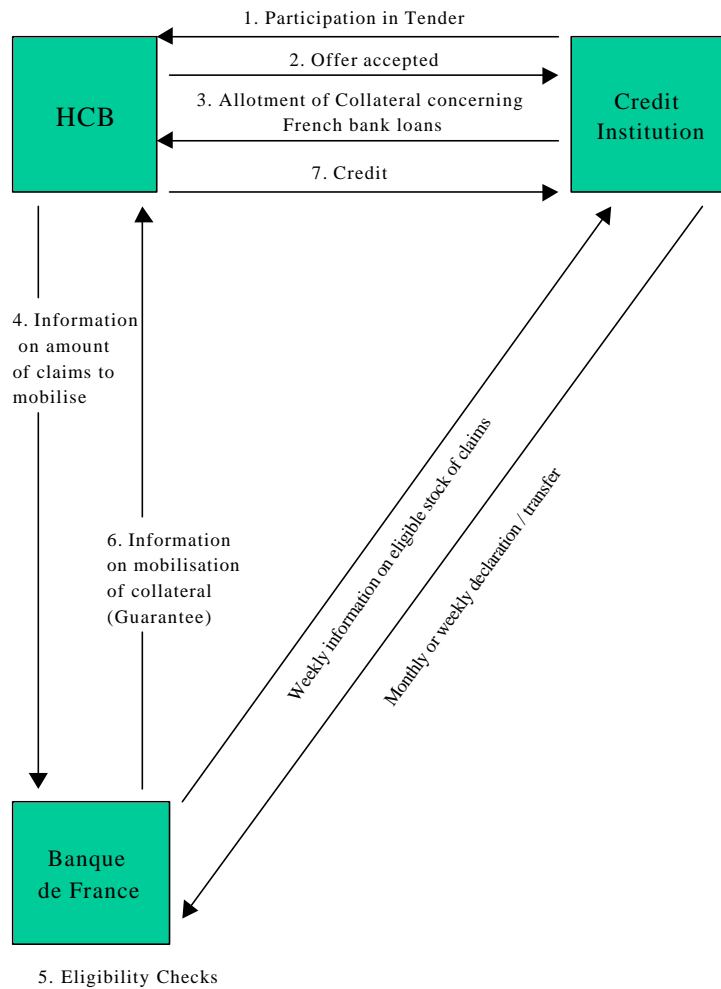
Upon receipt of the files, various checks on the eligibility of the claims transferred are automatically carried out. The foreign counterparty is informed of the number of claims considered eligible by the Banque de France after a specific haircut has been applied.

b- Monitoring of the stock of claims by the Banque de France

Between the two transfer dates, the Banque de France updates the database by deleting all claims falling due and checking their eligibility. A weekly report will be sent to the counterparty.

c- Mobilisation of the claims through the CCBM standardised procedure

The mobilisation of French private claims and the redemption of the credit will follow the standardised procedure consisting of the exchange of S.W.I.F.T. messages between the relevant lending central bank and the Banque de France.



ANNEX 4

Table of types of foreign securities held in SSSs as of March 1999

| SSS of location | Central Bank acting as CCB | Foreign assets managed as CSD |
|------------------------------------|----------------------------|--|
| DBC | Deutsche Bundesbank | Belgian government securities issued in Germany (FMT) Danish securities issued with in Germany (FMT) Spanish public and private securities issued in Germany (FMT) French securities issued in Germany (FMT) Irish government bonds issued in Germany (FMT) Italian government securities issued in Germany (FMT) Dutch securities issued in Germany (FMT) Austrian securities issued in Germany (FMT) Portuguese securities issued in Germany (FMT) Finnish securities issued in Germany (FMT) Swedish securities issued in Germany (FMT) |
| Sicovam SA | Banque de France | Danish securities issued in France (FMT or UNT) German securities issued in France (FMT or UNT) Spanish public securities issued in France (FMT or UNT) Irish government bonds issued in France (FMT or UNT) Italian government securities issued in France (FMT or UNT) Dutch securities issued in France (FMT or UNT) Austrian securities issued in France (FMT or UNT) Portuguese securities issued in France (FMT or UNT) Finnish securities issued in France (FMT or UNT) Swedish securities issued in France (FMT or UNT) |
| SCLV (Book entry Securities) | Banco de España | German securities issued in Spain (FMT) French securities issued in Spain (FMT) Irish government bonds issued in Spain (FMT) Dutch securities issued in Spain (FMT) Portuguese securities issued in Spain (FMT) Finnish securities issued in Spain (FMT) Swedish securities issued in Spain (FMT) |
| ESPACLEAR (Physical Securities) | Banco de España | German securities issued in Spain (UNT) French securities issued in Spain (UNT) Irish government bonds issued in Spain (UNT) Dutch securities issued in Spain (UNT) Portuguese securities issued in Spain (UNT) Finnish securities issued in Spain (UNT) Swedish securities issued in Spain (UNT) |
| Necigef | De Nederlandsche Bank NV | French securities issued in the Netherlands (FMT) Italian government securities issued in the Netherlands (FMT) Austrian securities issued in the Netherlands (FMT) Finnish securities issued in the Netherlands (FMT) Swedish securities issued in the Netherlands (FMT) |



EUROPEAN CENTRAL BANK

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1999***

PRESS RELEASE

THE CORRESPONDENT CENTRAL BANKING MODEL

In December 1998 the European Central Bank (ECB) released a brochure entitled "Correspondent central banking model (CCBM)" describing the main features of the model that the Eurosystem is using for the cross-border use of collateral in its credit operations.

An updated version of the brochure is now available on the ECB Web site (<http://www.ecb.int>). This new brochure, in addition to the general presentation of the main features of the correspondent central banking model, includes further information on national procedures, which will prove helpful to counterparties in using the model. In particular, a table summarising the main technical and operational features of domestic securities settlement systems has been added.

Copies of the brochure are also available from the ECB at the following address:

European Central Bank

Press Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: 0049 69 1344 7455, Fax: 0049 69 1344 7404

Internet: <http://www.ecb.int>

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EUROPÄISCHE ZENTRALBANK

Sperrfrist:

Mittwoch, 21. April 1999, 12.00 Uhr EZB-Zeit (MEZ)

PRESSEMITTEILUNG

DAS KORRESPONDENZZENTRALBANK-MODELL

Im Dezember 1998 veröffentlichte die Europäische Zentralbank (EZB) eine Broschüre mit dem Titel „Correspondent central banking model (CCBM)“, in der die wichtigsten Merkmale des vom Eurosystem für die grenzüberschreitende Nutzung von Sicherheiten bei seinen Kreditgeschäften verwendeten Modells beschrieben werden.

Eine aktualisierte Fassung der Broschüre ist nunmehr auf der Internetseite der EZB unter <http://www.ecb.int> abrufbar. Die neue Broschüre enthält neben der allgemeinen Beschreibung der wichtigsten Merkmale des Korrespondenzzentralbank-Modells weitere Informationen zu den nationalen Verfahren, die für die Geschäftspartner bei der Nutzung des Modells hilfreich sein werden. Insbesondere wurde eine Tabelle hinzugefügt, in der die wesentlichen technischen und organisatorischen Merkmale nationaler Wertpapierabwicklungssysteme zusammengefaßt sind.

Diese Broschüre ist auch unter der folgenden Anschrift bei der EZB erhältlich:

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