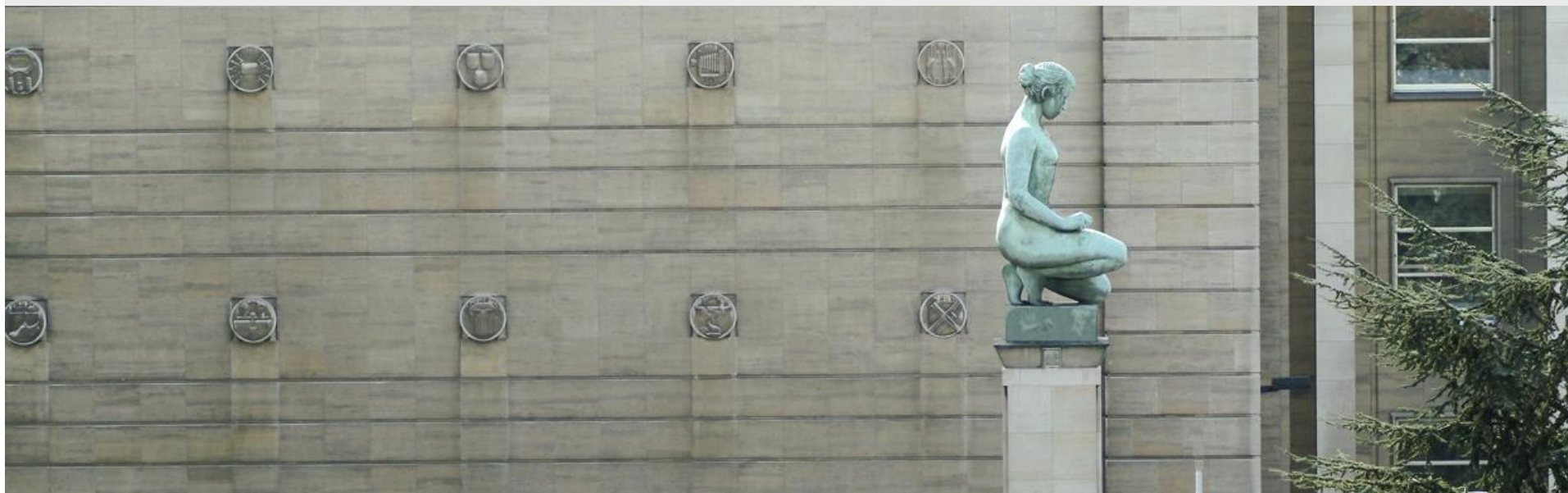# T2S auto-collateralisation

Brussels, 7 June 2012

Yvan TIMMERMANS
T2S BENUG Chairman

What is auto-collateralisation?

► Intraday credit operation triggered when a buyer lacks funds for settling a securities transaction

► on flow : credit secured by purchased securities

► on stock : credit secured by securities already held by the buyer

T2S auto-collateralisation

► Client collateralisation

- Payment/settlement banks' ability to provide intraday credit through auto-collateralisation
- Out of scope of this presentation

T2S auto-collateralisation

►Central bank auto-collateralisation

- T2S core settlement optimization procedure automatically providing (on behalf of NCB) <u>the buyer</u> with <u>collateralised liquidity</u> in case the buyer lacks liquidity to settle the underlying DvP transaction.

- Both auto-collateralisation **on stock** and **on flow** will be offered by T2S

- Night and day time

T2S settlement day

	18:45	**Start of day**
	19:30	Night time settlement
	03:00 - 05:00	**Maintenance window**
	05:00	Real-time settlement
	< 16:00	Expectation: banks reimburse voluntarily auto-collateralisation normally prior to 16:00
	16:00	**DvP cut off**
	16:00	Securities settlement restrictions cut-off
	16:00	Cash settlement restrictions cut-off
	16:00 - 16:10	Cash sttlement restrictions released
	Prior 16:30	**Automated optional cash sweep (bank's choice)**
	16:30	**Automated reimbursement of auto-collateralisation in T2S**
	17:00	TARGET2 customer payments cut-off
	17:40	**Secured money market transactions (BATM) cut-off**
		Central Bank Operations DvP cut-off
at the latest	17:45	**Automated <u>mandatory</u> cash sweep from DCAs to T2**
	18:00	**FoP cut-off** (both CBO FoP and interbank FoP)**
		TARGET2 interbank payments cut-off

* Indicative times
** Requests for accessing the standing facilities can be made until 18:15 (plus 15 minutes on the last business day of a minimum reserve maintenance period).

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Conditions for T2S auto-collateralisation

- NCB offers auto-collateralisation
- Buyer
  - eligible counterparty + agreement with its NCB
  - own RTGS account
- Used collateral is eligible
- No close links (definition by the counterparties in the static data)
- For non-domestic collateral : domestic CSD of the NCB has links

Why is auto-collateralisation needed?

►To reduce

- settlement failures due to lack of liquidity
- gridlocks (when one party cannot deliver assets to another as it has not settled the assets)
- intraday liquidity needs for the settlement of assets

►To ease the settlement during the night time

Collateralisation techniques (repo/pledge)

- repo : underlying collateral transferred to NCB's securities account
- pledge : underlying collateral booked in favour of NCB but staying on the account of the counterparty
  - variant 1: so called "pledge"
    - Collateral transferred to counterparty's pledge securities account
  - variant 2: so called "pledge-sub"
    - Collateral earmarked on a counterparty's main securities account

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Collateralisation technique in NBB-SSS

► Technical setup : repo

- NBB will open a dedicated NCB auto-collateralisation securities account in the NBB-SSS
- NBB will open an auto-collateralisation cash account

► Legal setup : transfer on a pledge account of the NBB

Static data : roles of the counterparties

► Earmarking of the securities

- On flow
  - At the level of :
    - the securities account
    - the settlement instruction (account level overrides instruction level)

- On stock
  - At the level of :
    - the securities account
    - the securities position in a securities account

No earmarking of securities with close links = responsibility of the counterparty

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Static data : roles of the NCB

► To provide to T2S :
  ● eligible assets
  ● valuation of the assets

► To check the close links (ex-post)

Reimbursement of auto-collateralisation

► T2S will :

- generate and settle an auto-collateralisation operation and;
- simultaneously create on hold the reimbursement corresponding to the exact reverse operation

► Reimbursement at any moment (daytime) by the counterparty : release of on hold reimbursement instructions

Substitution (lack of securities)

- If securities not involved in a pending reimbursement operation
- If yes, T2S release of the pending transaction
- If enough liquidity : OK
- If not: generation of a new auto-collateralisation operation
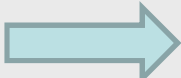
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Automated reimbursement (end of day)

► Mandatory reimbursement of the intraday credit

► T2S will automatically use all the liquidity available on the DCAs

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Automated reimbursement (end of day)

► Exceptional case : procedure when insufficient liquidity

- Reallocation of the equivalent collateral to the regular NCB collateral securities account

- Increase of the credit line in T2

- Reimbursement of the NCB in T2

- If liquidity on the PM account in T2 is still missing : intraday credit ⟹ marginal lending facility
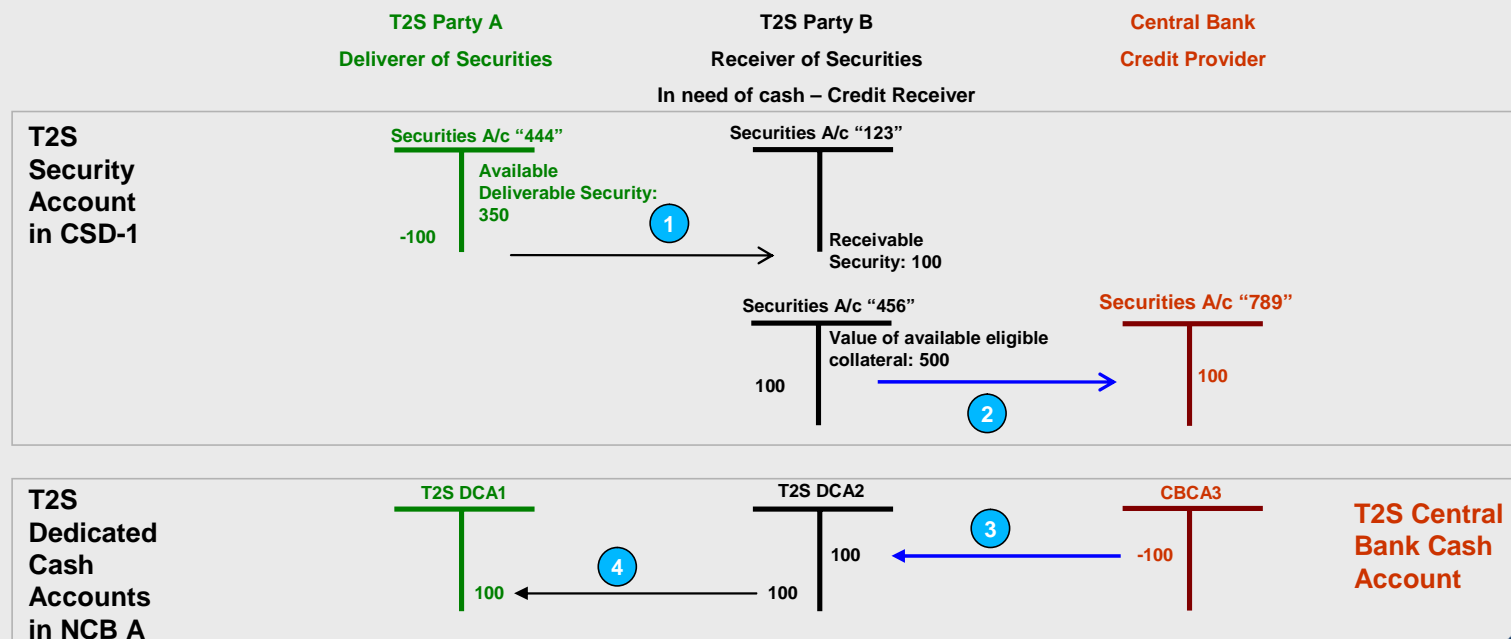
Domestic view : cash and securities movements

Domestic Auto-collateralisation : securities accounts providing collateral and the securities accounts receiving collateral in the same CSD

Initial Position
Available Deliverable Security with Party A	: 350
Value of available eligible collateral with Party B	: 500
Available Auto Collateralisation Limit for Party B	: 1000
Available cash in T2S DCA2	: 0

Important: T2S Party B has earmarked securities account "456" in CSD-1 as a securities account providing collateral and the Central Bank has set-up securities account "789" in CSD-1 for receiving collateral

T2S Party A
Deliverer of Securities

T2S Party B
Receiver of Securities
In need of cash – Credit Receiver

Central Bank
Credit Provider

T2S Security Account in CSD-1

Securities A/c "444"
Available Deliverable Security: 350
-100

Securities A/c "123"
Receivable Security: 100

Securities A/c "456"
Value of available eligible collateral: 500
100

Securities A/c "789"
100

T2S Dedicated Cash Accounts in NCB A

T2S DCA1
100

T2S DCA2
100   100

CBCA3
-100

T2S Central Bank Cash Account

Movements 1, 2, 3, 4 happens on "All-or-None" basis
➔ This ensures that the credit received is used exclusively for the settlement transaction in need

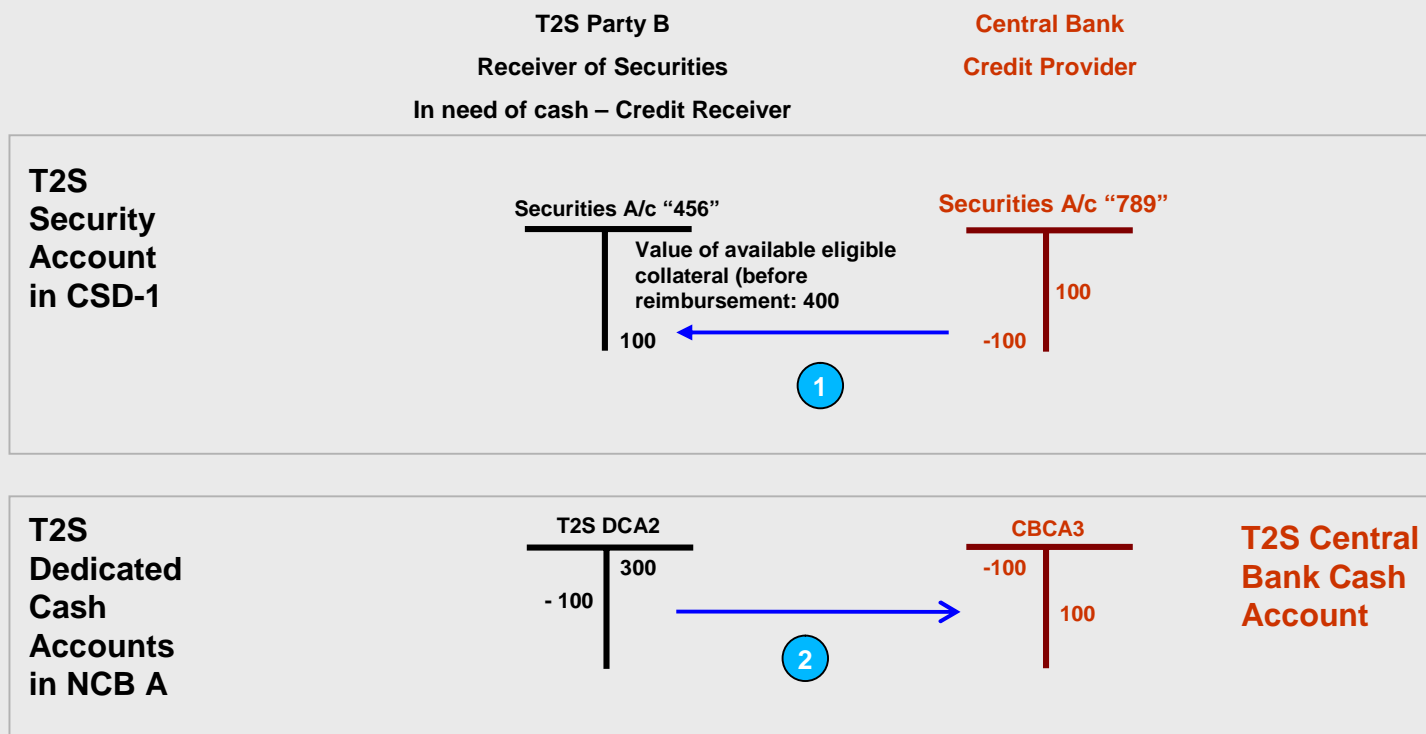Infosession 7 June 2012 : T2S auto-collateralisation

Domestic view : reimbursement of auto-collateralisation

Payment Bank can trigger **Reimbursement of Pending Auto-collateralisation** by releasing the reverse collateral instruction (i.e. reimbursement instruction) in "Hold status"

<u>**Initial Position**</u>   **Cash Available in T2S DCA2**   **: 300**

Important: T2S Party B (i.e. the Payment Bank) releases the reverse pending instruction in the "Hold" status.

T2S Party B	**Central Bank**
Receiver of Securities	**Credit Provider**
In need of cash – Credit Receiver	

T2S Security Account in CSD-1

Securities A/c "456"

Value of available eligible collateral (before reimbursement: 400

100

Securities A/c "789"

100

-100

①

T2S Dedicated Cash Accounts in NCB A

T2S DCA2

300

- 100

②

CBCA3

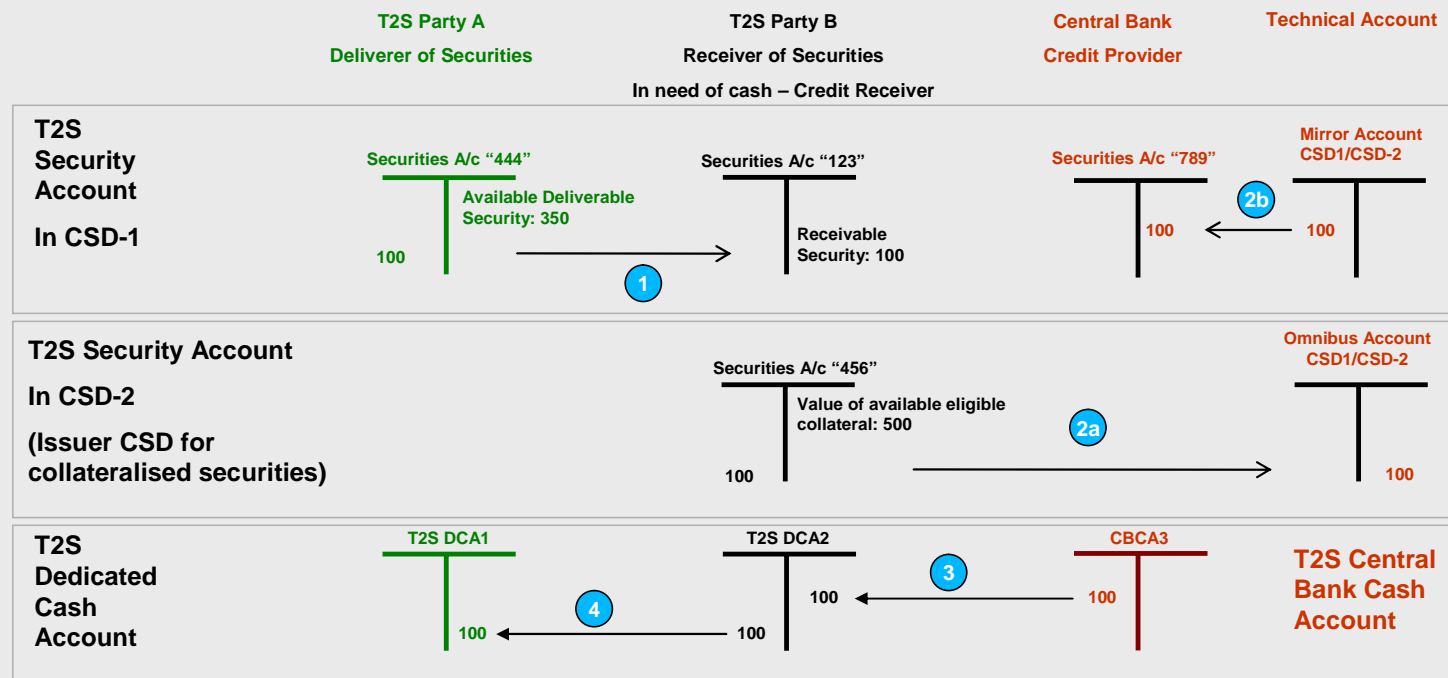-100

100

T2S Central Bank Cash Account

Movements 1 and 2 happen on "All-or-None" basis

Cross-border view : cash and securities movements

Cross Border Auto-collateralisation : securities accounts providing collateral and securities accounts receiving collateral in different CSDs

Initial Position
Available Deliverable Security with Party A	: 350
Value of available eligible collateral with Party B	: 600
Available Auto Collateralisation Limit for Party B	: 1000
Available cash in T2S DCA2	: 0

Important: T2S Party B has earmarked securities account "456" in CSD-2 as source of collateral and Central Bank has set-up securities account "789" in CSD-1 for receiving collateral

T2S Party A	T2S Party B	Central Bank	Technical Account
Deliverer of Securities	Receiver of Securities	Credit Provider	
	In need of cash – Credit Receiver		

T2S Security Account In CSD-1

Securities A/c "444"
Available Deliverable Security: 350
100

Securities A/c "123"
Receivable Security: 100

Securities A/c "789"
100

Mirror Account CSD1/CSD-2
2b
100

1

T2S Security Account In CSD-2 (Issuer CSD for collateralised securities)

Securities A/c "456"
Value of available eligible collateral: 500
100

Omnibus Account CSD1/CSD-2
2a
100

T2S Dedicated Cash Account

T2S DCA1
100

T2S DCA2
100   100

CBCA3
100   100

3

4

T2S Central Bank Cash Account

Movements 1, 2a, 2b, 3, 4 happens on "All-or-None" basis
→ This ensures that the credit received is used exclusively for the settlement transaction in need

Pricing

► Auto-collateralisation transactions (Provision of liquidity, rebooking of securities) : free (currently)

► End of day automated reimbursement (reallocation of collateral) : to be decided

► Reporting (as reporting messages)

T2S fees

►Underlying DvP

- Chargeable items
  - buyer's instruction (15 cents)
  - seller's instruction (15 cents)
  - matching buyer's instruction (3 cents)
  - matching seller's instruction (3 cents)
  - *daylight settlement (3 cents per instruction)*

T2S fees

- Non-chargeable items
  - Cash leg of the DvP transaction
  - Security transfer / booking of the DvP transaction
  - Intra-position movements (pledge-sub related transactions)

T2S fees : who is charged ?

► NCBs for cash

► CSDs for securities

► CSDs and NCBs might charge more

Belgian specificities

- ► 2 CSD's in T2S : NBB-SSS and Euroclear Belgium

- ► Euroclear Belgium (EBE) is not an Eurosystem eligible CSD. NBB can therefore not receive collateral in EBE

- ► NBB-SSS has no links

- ► Consequence : only eligible assets issued in NBB-SSS usable for auto-collateralisation by Belgian settlement banks

- ► Direct holding structure (one CSD of reference by ISIN) of ESES : only Euroclear France has links with non-ESES CSDs.
  - limitation also for Dutch participants : one DCA of a settlement bank only linked to one NCB receiving auto-collat. securities account

Belgian specificities (examples)

► Belgian settlement bank is participant in Monte-Titoli (MT)

  ● no auto-collateralisation using Italian securities (no link NBB-SSS with MT)

  ● auto-collateralisation (on stock) using eligible securities held in the NBB-SSS possible

► Belgian settlement bank is participant in Euroclear Belgium

  ► auto-collateralisation (on stock) using eligible securities held in the NBB-SSS possible

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Questions to the Belgian counterparties

1) Do you intend to use auto-collateralisation taking into account the practical limitation of eligible securities to the ones issued in NBB-SSS ?

2) Could you confirm if your institution is a direct participant and acts as cash settlement bank in non-Belgian CSDs (so nor indirect participation via a custodian nor a direct participation with the use of a cash settlement agent) ?

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Questions

► T2S : general aspects

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► T2/T2S (cash)

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► Collateral management

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