

T2S auto-collateralisation

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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) the buyer with collateralised liquidity 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 < 16:00	Real-time settlement Expectation: banks reimburse voluntarily auto-collateralisation normally prior to 16:00
16:00 16:00 16:00 16:00 - 16:10	DvP cut off Securities settlement restrictions cut-off Cash settlement restrictions cut-off Cash settlement restrictions released
Prior 16:30 16:30	Automated optional cash sweep (bank's choice) Automated reimbursement of auto-collateralisation in T2S
17:00	TARGET2 customer payments cut-off
17:40 at the latest 17:45 18:00	Secured money market transactions (BATM) cut-off Central Bank Operations DvP cut-off Automated <u>mandatory</u> cash sweep from DCAs to T2 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).



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



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



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




Automated reimbursement (end of day)

- ▶ Mandatory reimbursement of the intraday credit
- ▶ T2S will automatically use all the liquidity available on the DCAs



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

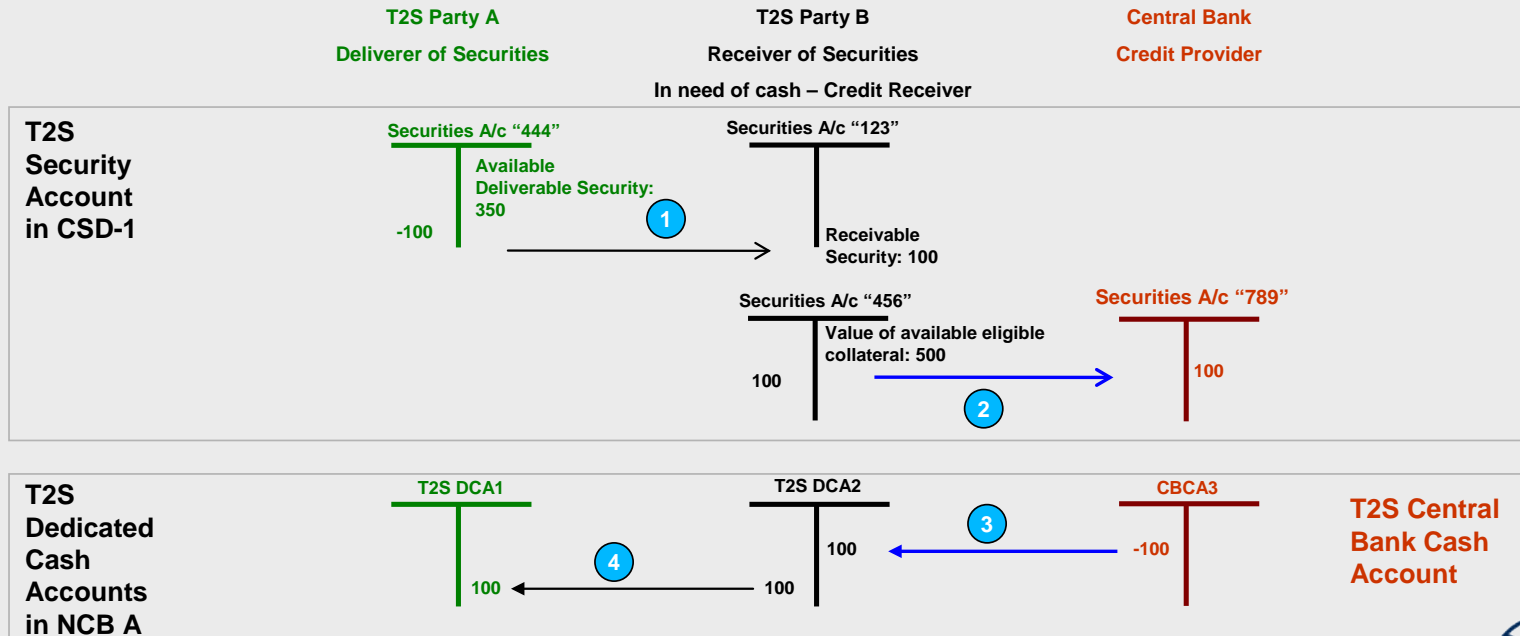


Domestic view : cash and securities movements

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

<u>Initial Position</u>	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



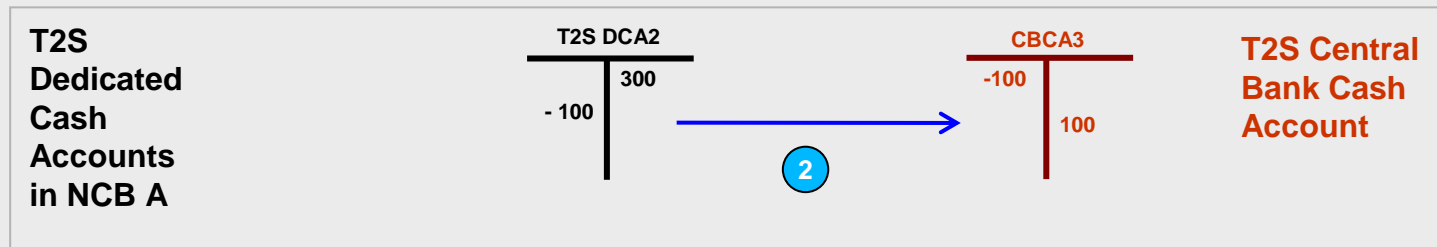
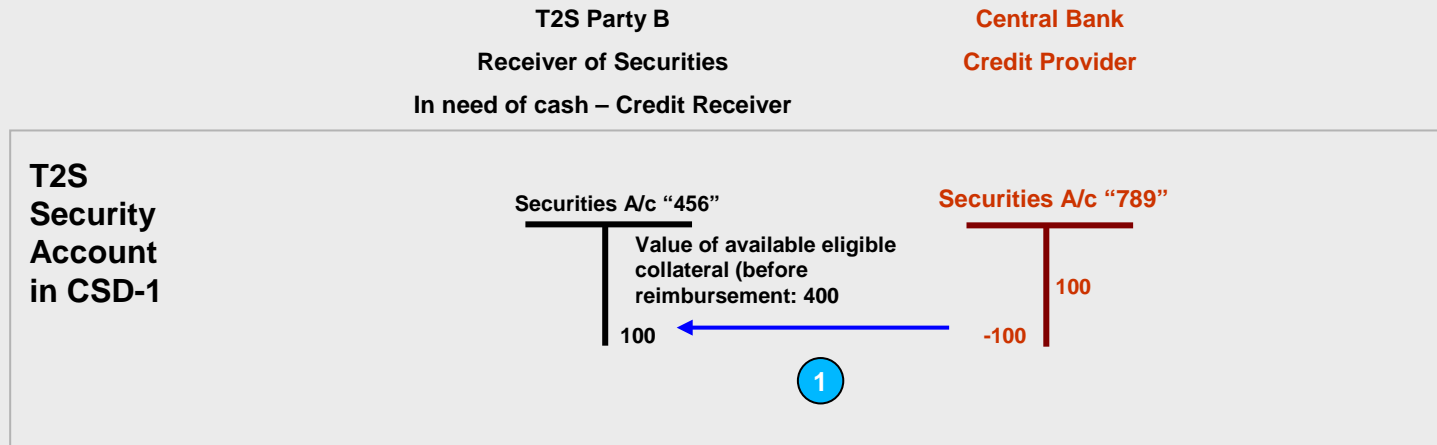
Movements 1, 2, 3, 4 happens on "All-or-None" basis
 → This ensures that the credit received is used exclusively for the settlement transaction in need

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”

Initial Position Cash Available in T2S DCA2 : 300

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



Movements 1 and 2 happen on “All-or-None” basis

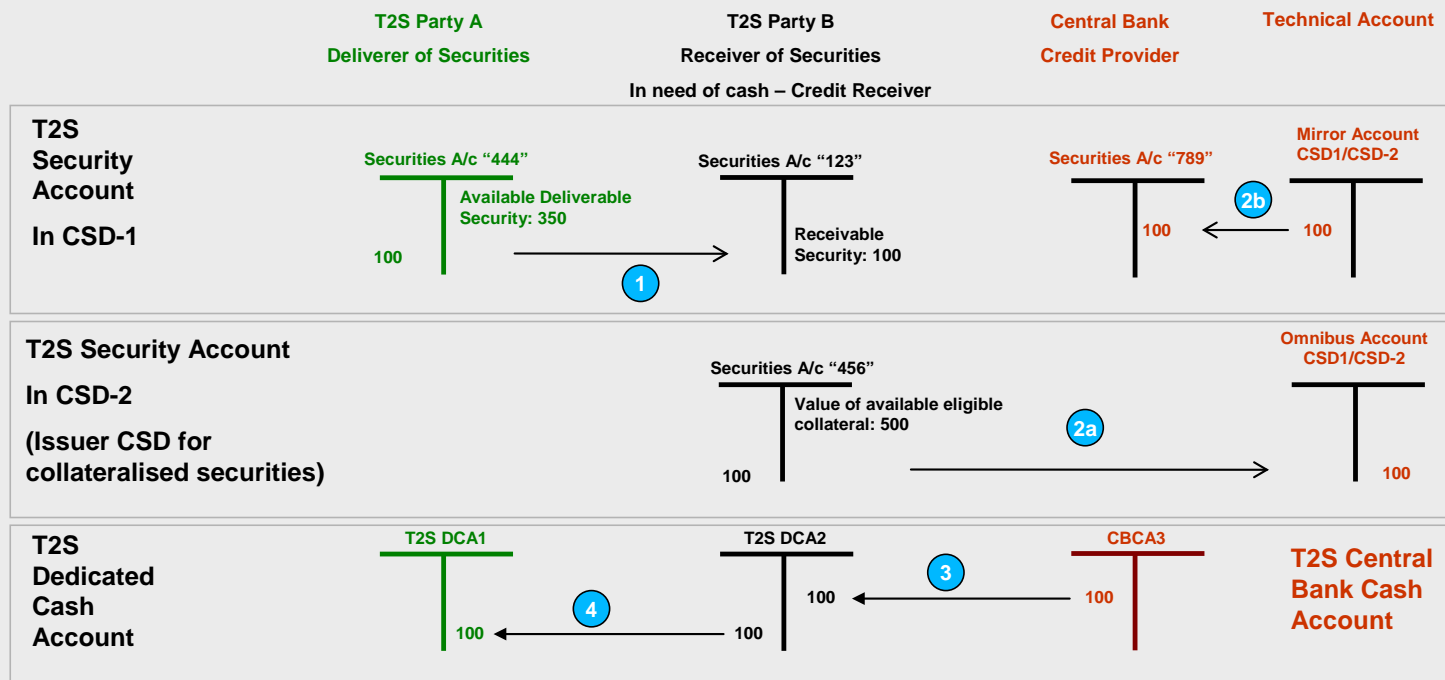


Cross-border view : cash and securities movements

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



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



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) ?



Questions

▶ T2S : general aspects

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▶ T2/T2S (cash)

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