



EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input checked="" type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: NBB on behalf of the Eurosystem	Institute: Eurosystem	Date raised: 07/03/2022
Request title: Update in the Credit Memorandum Balance configuration to allow leveraging on the CCBM model		Request No.: T2S 0784 SYS
Request type: Common	Classification: Scope enhancement	Urgency: Normal
1. Legal/business importance parameter¹: Critical		2. Market implementation efforts parameter²: Medium
3. Operational/Technical risk parameter³: Medium		4. Financial impact parameter⁴: High
Requestor Category: NCB		Status: Proposed for a release

Reason for change and expected benefits/business motivation:

Auto-collateralisation is one of the key features of T2S which allows payment banks to generate liquidity to settle pending transactions, which leads to a smoother settlement cycle. Central bank T2S auto-collateralisation in EUR is a type of Eurosystem credit operation whereby a counterparty of the Eurosystem is granted a credit by a Eurosystem central bank against adequate collateral, pursuant to Article 18 of the ESCB/ECB Statute.

The credit can only be provided to an eligible Eurosystem counterparty by the National Central Bank (NCB) of the country where the counterparty is located. This NCB is defined as the Home Central Bank (HCB). T2S can provide eligible assets owned by the counterparty to the HCB as collateral for the auto-collateralisation that are either local (issued in the domestic CSD) or foreign (issued in a CSD located in a different country) but accessible to the domestic CSD via an [Eurosystem eligible link](#). Furthermore, in practice some NCBs also provide T2S auto-collateralisation in foreign CSDs via the so-called 'remote access', i.e. by using securities accounts (SAC) set up by the HCB for this purpose in foreign CSDs.

In addition to the direct channels of mobilisation of eligible collateral from the counterparty to the HCB, the Eurosystem established the [Correspondent central banking model \(CCBM\)](#) to ensure that all eligible assets owned by a Eurosystem counterparty can be used for credit operations with the Eurosystem regardless of where the assets of the Counterparty are situated. Hence, the CCBM model allows counterparties to access credit against securities that are held in foreign CSDs to which there are no eligible links from the domestic CSD and where the HCB does not have remote SAC. In the CCBM model the NCB that has a SAC in the foreign CSD can act as correspondent Central Bank (CCB) for the credit providing HCB. In such transactions the counterparty of the HCB delivers the collateral to the SAC of the CCB held in the foreign CSD. The CCB records and confirms this to the HCB. The use of the CCBM is currently not possible for T2S auto-collateralisation but due to a strong business case identified by a number of Eurosystem NCBs – as per an agreement by the MIPC and the MIB – this will be allowed as of the go-live of the ECMS⁵.

The introduction of the use of CCBM and the lifting of restrictions on the use of remote access by HCBs in general will allow Eurosystem counterparties to rely on T2S auto-collateralisation using any eligible asset they own as collateral regardless of their location. However, there is a technical limitation today in the T2S auto-collateralisation

¹ Legal/business importance parameter was set to Critical because the T2S auto-collateralisation feature is a key feature allowing payment banks to generate liquidity to settle pending transactions.

² Market implementation effort parameter was set to Medium because adaptations to existing Static Data configuration may be needed on T2S user side

³ Operational/technical risk parameter was set to Medium because the relevant procedures and actions, for liaising with the update and configuration of CMBs have to be foreseen

⁴ Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high

⁵ The MIPC supported the use of CCBM in June 2020 for T2S auto-collateralisation as of the ECMS go-live in order to further improve the efficiency and effectiveness of T2S auto-collateralisation as a Eurosystem credit operation by improving the access to collateral by counterparties in general and to level the playing field between counterparties with large domestic CSDs and counterparties with small domestic CSDs.

feature which prevents Eurosystem counterparties to fully benefit from these additional mobilisation channels for mobilising non-domestic eligible assets in T2S auto-collateralisation (i.e. T2S auto-collateralisation via CCBM and remote access). Such limitation relates to a T2S Static Data configuration and, as such, among Eurosystem credit operations it only applies to T2S auto-collateralisation but not to any of the other Eurosystem credit operation types, i.e. monetary policy operations and intraday credit on TARGET2.

The limitation relates to the configuration of the Credit Memorandum Balance (CMB) static data entity in T2S. The CMB is defined in T2S to manage the relationship between an NCB and its clients. As per current T2S design rules there must be only one primary CMB defined per Dedicated Cash Account (DCA), and per CMB there can only be one receiving Securities Account to be defined for the Central Bank (i.e. either the HCB or one of the CCBs) defined.

In practice, this limitation means that on a given DCA, the amount of intraday credit that a Counterparty can get is limited by the quantity of securities that can be delivered to the receiving account defined for that DCA (via the CMB). This includes the securities that can be delivered via eligible links into said account. If the Counterparty disposes of more eligible securities, but these can only be delivered in a different CSD (and therefore, on a different receiving account), then the Counterparty needs to set up a different DCA. Intraday credit on that DCA will be granted against the delivery of collateral to a receiving account in the other CSD.

The removal of this limitation in the configuration of the T2S auto-collateralisation feature would provide the following benefits to the T2S community:

- Payment Banks to fully benefit from a cash pooling perspective across activity they would have in all CSDs instead of maintaining different DCAs due to CMB configuration limitations;
- CSD participants to fully benefit from their entire securities portfolio of ESCB eligible assets irrespective of the CSD in which they hold them;
- Payment Banks could use a single DCA to benefit from Balance sheet netting across all their Secured financing transaction settling across T2S.
- The enhancement would further help a wider and more efficient use of T2S auto-collateralisation (use of a wider set of eligible assets as collateral in a convenient way) by Eurosystem counterparties in T2S indirectly also contributing to a better settlement efficiency in T2S.

The principle to be followed by auto-collateralisation feature is that in every possible scenario the use of a Home Central Bank (HCB) SAC should always be preferred to (i.e. have a priority over) using a foreign NCB (CCB) SAC for the mobilization of collateral. I.e. a CCB SAC as a receiving account should only be used if there are no available HCB receiving accounts

Description of requested change:

The T2S auto-collateralisation feature should allow that multiple receiving and regular Securities Accounts are configured to allow Eurosystem Counterparties to get all the intraday credit in a single DCA regardless of the mobilization channel used i.e. collateral delivered to the local CSD where the NCB is located either directly or via cross-CSD links, via remote access or via the CCBM model.

This request from the Eurosystem is agnostic to the concrete implementation design or choice in the T2S design and would invite the 4CB to identify in the context of the assessment of this CR the most optimal and less costly option. Potential options which could be considered by the 4CB could require updates in the CMB – New/Edit screen to allow for the configuration of multiple receiving and regular Securities Accounts in a primary CMB or to allow several CMBs to be configured for a single DCA. A limitation of a single pair or receiving and regular SAC per CSD to be configured in the CMB is to be considered to facilitate the implementation of the CR.

As this CR could create scenarios whereby the T2S auto-collateralisation feature could be mobilizing the same security via different Eurosystem mobilization channels (e.g. mobilization via cross-CSD links or via CCBM model), a logic to select the one would be necessary.

The logic (order of priority for the T2S auto-collateralisation mechanism to select the collateral receiving account in case several is possible) to be implemented should be as follows:

1. default mobilization channel for T2S auto-collateralisation must always be the receiving Securities Account held in the local CSD where the NCB providing the credit is located, either directly or via cross-CSD links. If the HCB has both domestic or foreign SACs to which the collateral could be transferred the domestic HCB account should be preferred;
2. allocation of the securities to the HCB receiving account located in the same CSD as the securities sourcing account (i.e. this scenario relates to the remote access mobilization channel available to Eurosystem NCBs);
3. Using a receiving Securities Account held by a Correspondent Central Bank (CCB) in the issuer CSD of the ISIN (i.e. a CCBM model).
4. Using a receiving Securities Account held by the CCB in a CSD with a link to the issuer CSD of the ISIN

(i.e. a CCBM + link). The difference between this option and the previous one is that this one relies on links and hence creation of realignment instructions or more complex transaction at T2S technical level.

The logic to be implemented in T2S should aim at the less costly solution in terms of implementation and maintenance.

Submitted annexes / related documents:

Outcome/Decisions:

- * CRG 30 September 2022: The CRG agreed to launch the preliminary assessment of CR-784
- * CRG 26 October 2022: The CRG agreed to update the CR with additional requirements requested by the 4CB as part of its preliminary assessment.
- * CRG 12 December 2022: The CRG agreed to ask three policy related questions to the Eurosystem MIPC committee and to assess the situation once feedback was received.
- * CRG on 27 April 2023: The CRG agreed to recommend CR-784 for authorisation by the T2S Steering Level.
- *AMI-SeCo on 9 May 2023: The AMI-SeCo agreed with the CRG recommendation of CR-784 for T2S Steering Level Authorisation
- *CSG on 10 May 2023: the CSG agreed to authorise CR-784.
- *NECSG on 10 May 2023: the NECSG agreed to authorise CR-784.
- *MIB on 18 May 2023: the MIB agreed to authorise CR-784.
- *PMG on 6 June 2023: the PMG agreed to launch the detailed assessment of CR-784 with a view of scoping in R2024.JUN

Documentation to be updated:

Preliminary assessment:

Impact: High

Impacted Modules: SETT and CRDM

Findings:

The main change to be implemented with the CR is to introduce the CCB model in the T2S auto-collateralisation feature.

- Impact must address the RTS and NTS auto-collateralisation processes.
- The Preliminary Assessment is based on the assumption that only one SAC per CMB can be configured by the CCB as Receiving SAC in the foreign CSD. In the case it would be possible to define multiple Receiving/Regular SACs in the foreign CSD for a unique CMB, the CR needs to mention it and indicate in which order they must be selected.
- In the original CCBM it was assumed that the securities owned by a counterparty via the CCB channel in the foreign CSD will be always issued by this CSD. As for a while now CCBM plus links is in place, foreign securities owned by the counterparty in the foreign CSD are issued by a third CSD of the Eurosystem may be used via Eligibility Link. Such securities may also be used if they are held in a third CSD and would be realigned to the CSD with the receiving account in case of need.
- Only securities issued in CSDs without a (relayed) link to the CSD with the receiving account may not be used currently
- LCMM assumes no impact when the auto-collateralization instructions are generated as they are generated at this moment

Open questions:

- The impact of the increase of the number of ACO templates should be evaluated during the detailed assessment.

Detailed assessment:
