

T2S auto-collateralisation (T2SAC)

Here you can find relevant information on the topic of T2S auto-collateralisation (T2SAC) in the context of ECMS.

What is it?

T2S auto-collateralisation (T2SAC) is an intraday credit operation provided in TARGET2-Securities (T2S), triggered when a buyer lacks funds for settling a securities transaction¹. T2SAC does not rely on National Central Bank (NCB) collateral management systems (at least not during its execution in real-time), but is executed fully automatically by T2S during the day in line with the static data provided to T2S by the Home NCB (HCB). From the perspective of smooth operation of the securities infrastructure, T2SAC is a systematically important type of Eurosystem credit operations.

T2SAC has two main forms:

- **On flow (predominantly used):** Credit secured by purchased securities.
- **On stock:** Credit secured by securities already held by the buyer.

How it works

T2SAC on flow: T2S automatically grants intraday credit to eligible T2S actors if it detects that they do not have sufficient balance on their T2S Dedicated Cash Account (DCA) to settle a transaction in which they receive eligible securities against cash. With the automated granting

of credit for the missing amount, the transaction settles the same way as if the T2S actor had enough cash balance. The only difference is that the securities are not delivered to the 'normal' Securities Account (SAC) of the T2S actor, but to a designated Collateral Receiving Account (CRA) held by or pledged to their Home NCB.

T2SAC on stock: The same as above described happens, with the difference that the collateral is not the securities incoming in the transaction, but a stock of securities that is already available on the T2S actor's 'normal' SAC. In this case the eligible collateral from this already available stock is transferred to the relevant CRA (held by or pledged to

their Home NCB). In case of DNB the so-called repo procedure² is used whereby securities are actually delivered to the CRA.

Given that it concerns intraday credit, the reimbursement of T2SAC takes place at the latest by 16:30 CET on the day the T2SAC operation was triggered. If no reimbursement takes place before 16:30 CET, T2S automatically reverses the operation by debiting the counterparty's DCA and releasing the collateral. If funds on the DCA are not sufficient to execute the reimbursement, the first step is the rebalancing of liquidity between the T2S DCAs of the T2SAC user. Next, T2S performs a 'relocation' of the collateral transferring it to

the general collateral pool of the counterparty by moving it to the 'regular collateral account' of the Home NCB. In this case, T2SAC is transformed into general TARGET intra-day credit and, if still not reimbursed as such by the end of the TARGET business day, into marginal lending. Such relocation of collateral happens very rarely in practice and incurs a penalty of EUR 1000 charged to the counterparty.

¹ Technically, the T2SAC functionality also covers client auto-collateralisation where T2S allows payment banks to give intraday credit to their clients against collateral. This type of T2SAC is not a Eurosystem credit operation and is much more rarely used by T2S actors than central bank T2SAC. This Onepager focuses on central bank T2SAC and does not cover client auto-collateralisation.

² For more information, see also [T2S User Detailed Functional Specification R2024.JUN \(UDFS\) \(europa.eu\)](#)

NCBs options to expand non-domestic collateral available to counterparties

T2SAC and the use of the correspondent central banking model (CCBM)

Currently T2SAC on non-domestic collateral can only be used via CSD links, i.e. relying on the CSD links of the domestic CSD or via direct access by the given NCB asking for an exemption from the general ban on direct access and taking collateral in a foreign T2S CSD. With the go-live of the Eurosystem Collateral Management System (ECMS), planned for 18 November 2024, the use of the CCBM for T2SAC will become possible and available for NCBs and their counterparties. With the requirement for all euro area NCBs to offer auto-collateralisation facilities, counterparties will have access to a significantly larger set of eligible collateral to be used in T2SAC.

Establish direct access to a foreign T2S CSD

In addition to using the CCBM, another option for individual NCBs to increase the number of ISINs available to their counterparties in T2SAC is to establish direct access to foreign T2S CSDs by opening a securities account in such foreign CSDs used to take collateral. Technically the use of CCBM or direct access for T2SAC simply means that instead of the collateral receiving account (CRA) of the Home NCB held in the domestic CSD, a CRA held in a foreign T2S CSD in the name of the CCB (CCBM case) or in the name of the HCB (direct access case) is set up in relevant T2S static data³ for the counterparty. In this way collateral not available in the domestic CSD, but available in the foreign CSD, can also be used in T2SAC.

Eurosystem developments that may affect the access to the T2SAC

Ex-ante close links checks for T2SAC

NCBs have been excluding assets that are affected by the close links prohibition⁴ (i.e. assets potentially subject to close links) when uploading the list of their accepted ISINs for T2SAC to T2S. T2S is now technically able to perform ex-ante close link checks itself and can prevent the use of securities closely linked to the given counterparty in the context of T2SAC. However, due the timing of the delivery of the underlying close links data by RIAD⁵ to the ECMS (and subsequently to T2S), T2S will be able to process the list of ISINs only at the start of the next business day. Until the Eurosystem Statistics Committee (STC) addresses this, NCBs need to continue ensuring being compliant with close links provisions in the context of T2SAC.

Requirement that NCBs also maintain a Regular Collateral Account (RCA) in each CSD in which they maintain a Collateral Receiving Account (CRA) used for T2SAC

To eliminate the risk of causing potentially serious operational incidents in T2S in the rare cases of end-of-day relocation of collateral used in T2SAC, the NCBs are required to ensure that for each CRA that they use for T2SAC, they also maintain a corresponding RCA in the **same** CSD. The requirement is relevant only in the case where direct access for T2SAC is used in parallel to domestic T2SAC. In such case NCBs cannot rely on their domestic RCA only but have to also open an RCA in the foreign CSD (next to their CRA).

Removal of remote / direct access prohibition

It is agreed to remove the current ban on direct access by NCBs to foreign CSDs for the purpose of taking collateral for Eurosystem

credit operations as of the go-live of the ECMS. NCBs will be free (without the need to require and justify a special exemption from the Governing Council) to open securities accounts in foreign T2S CSDs of the euro area in case they see the business case to improve the access to T2SAC for their counterparties.

Pending T2S change request: T2S CR-0784

This change request ("*Update in the Credit Memorandum Balance configuration to allow leveraging on the CCBM model*") will eliminate the current restriction relevant for the use of T2SAC when used via CCBM or direct access. Momentarily, it is to be decided by the CSG for potential inclusion in a future T2S-release, but not before 2026.

The current T2S design requires counterparties, using T2SAC via the CCBM or via direct access in parallel to the domestic T2SAC, to have more than one DCA in T2S

³ This set of static data is the 'Credit Memorandum Balance' (CMB) which is a set of static parameters set for each T2S Dedicated Cash Account (DCA).

⁴ General Documentation ECB - Title VIII Article 138

⁵ The Register of Institutions and Affiliates Data (RIAD) is constructed and maintained as a shared dataset using a platform shared across the ESCB and SSM and it is owned by the STC. ECMS will use RIAD as the exclusive source for close link information for performing the related checks. The close links information from RIAD will also be delivered to T2S, for the purpose of central bank auto-collateralisation transactions, and to triparty agents.

(and execute the transactions via the respective DCAs if they want to benefit from T2SAC via the given mobilisation channel). The objective of the T2S CR-0784, is to create a level playing field for Central Banks' counterparties for the range of monetary policy eligible securities for auto-collateralisation in T2S.

There is one limitation in the current T2S design which prevents that counterparties using the CCBM or direct access channels for T2SAC (in parallel to using their domestic CSD) achieve the same level of efficiency as counterparties relying only on links from the domestic CSD. The current design of T2S requires that for each collateral receiving account (CRA) held by the CCB or HCB to where T2S will deliver the assets as collateral in a T2SAC transaction, a different corresponding T2S dedicated cash account (DCA) is necessary⁶. In practice this restriction means that counterparties wishing to use T2SAC

in parallel in both their domestic CSD and in a foreign CSD via the CCBM or direct access arrangements would have to have more than one T2S DCA and the liquidity will be allocated to these DCAs according to where (in which CSD) the assets are mobilised. The counterparties would have to ensure that they settle the assets against the right DCA (i.e. the one which is linked to the CRA they would need to use) to enable T2SAC on the transaction. It is important to note that in all other types of Eurosystem credit operation the location of the cash leg does not depend on the location of the collateral used and counterparties can rely on a single (TARGET) cash account. I.e. when Eurosystem counterparties use the CCBM or direct access for normal TARGET intra-day credit or longer-term Eurosystem credit they are able to rely on a single cash account regardless of where the collateral they mobilise is located.

To this end, the T2S CR-0784 would eliminate the restriction described above and would allow the use of a single T2S DCA or T2SAC even if several CRAs (i.e. CCBM or direct access in parallel to domestic use) are used by the counterparty.

The ECB investigated the reasons and rationale behind the existing T2S design rule. Based on this preliminary investigation it was found that the current functionality dates back to the early days of T2S design (when such use of T2SAC via these additional mobilisation channels were not yet contemplated) and that there seems to be neither technical nor policy reasons for such restriction in T2S. Hence, a single T2S DCA (held at the HCB) used by the counterparty to process the cash-leg of T2SAC could be allowed even when more than one CRA is used to process the securities leg (delivery of collateral). This would neither conflict with any existing Eurosystem policies nor with any design principles of T2S.

Where to find more information?

Relevant information can be found on the [DNB dedicated ECMS website](#) and on the [ECB dedicated ECMS website](#).

Contact details

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⁶ This means that the CCBM can be used for T2SAC without changing T2S but with such technical restriction. The restriction in T2S is related to the existing limitation in the creation of the Primary Credit Memorandum Balance (CMB). The CMB is the Static Data element that manages the relationship between an NCB and its client in T2S. As per the current T2S design, an NCB can only define one primary CMB per Dedicated Cash Account (DCA) of its client where only one receiving Securities Account of the NCB (CRA) can be defined. This limitation in the CMB definition prevents the existence of a one-to-many relationship between a DCA of the counterparty and multiple CRA(s) of CCB and HCB.