



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB
DG-MIP
T2/T2S Consolidation Project Team

T2/T2S Consolidation

Ancillary Systems Settlement Services

Task Force on Future RTGS Services

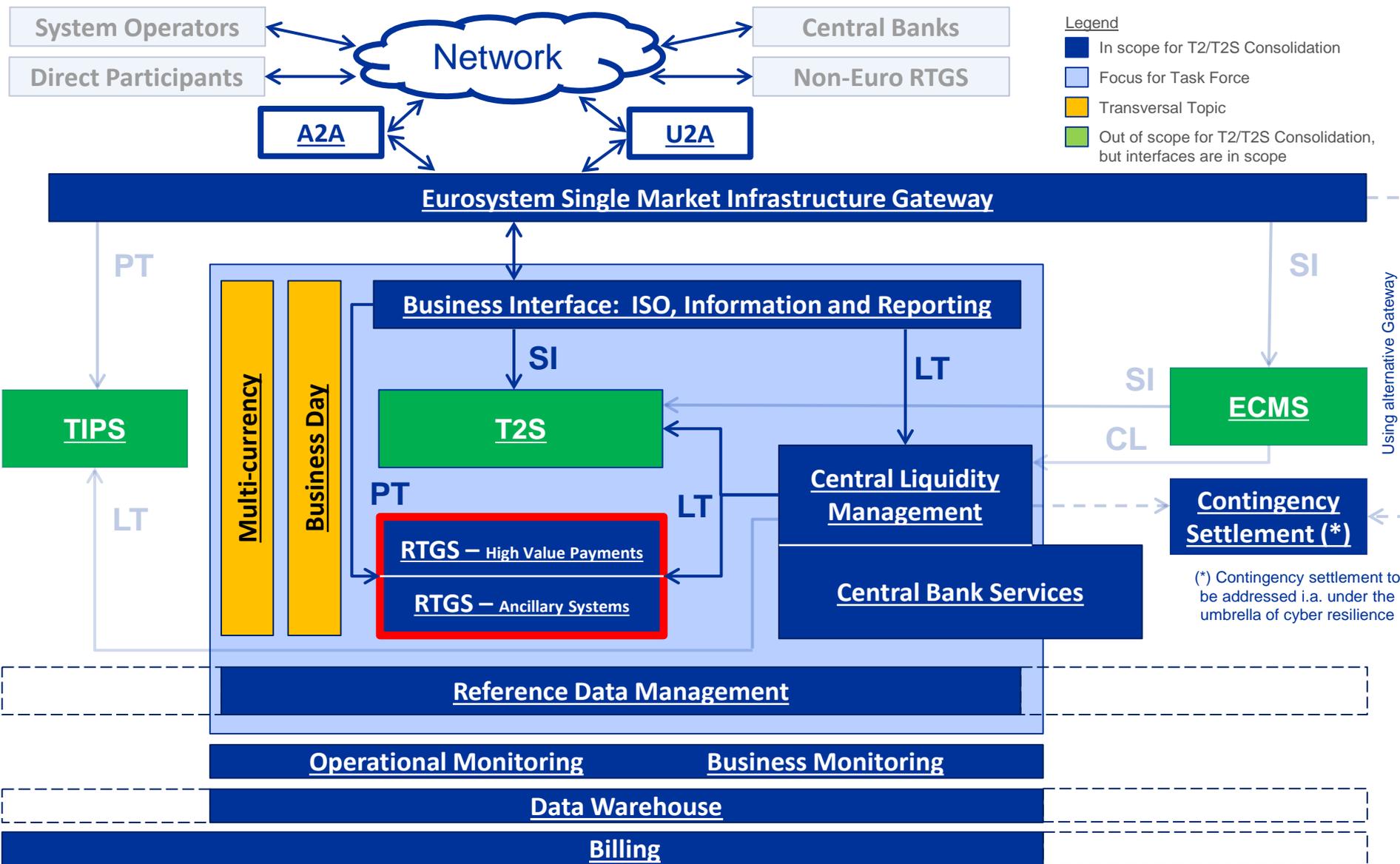
2nd TF meeting, 25-26 January 2017

1 Objectives and scope

2 Overview of AS Settlement

3 Business needs behind the ASI procedures

A APPENDIX



(*) Contingency settlement to be addressed i.a. under the umbrella of cyber resilience

PT – Payment Transaction; LT – Liquidity Transfer; SI – Settlement Instruction; CL – Credit Lines

The new context for future AS related services

In the future environment, AS settlement will face the following changes:

- Driven by external requests:
 - Migration to T2S of most CSDs
 - CR-767 “Instant Payment Settlement in TARGET2 - adaptation of ASI procedure 6 integrated“ has been fully implemented and ASI procedure 6 integrated is now replaced by “procedure 6-realtime”
- Driven by internal T2/T2S consolidation project work stream:
 - Streamlined core settlement procedures for all payment transactions
 - A new Central Liquidity Management
 - For AS directly settling in PM/using ICM: New global Messaging standard – ISO20022
 - (For AS using ASI: Potential impact by new Messaging standard – ISO20022 with general platform-wide usage of XML)

The reassessment of AS settlement in the T2/T2S consolidation project – a fact finding exercise

1. Identify current needs:

- Understand the business needs behind the current ASI procedure implementation



2. Validate future needs:

- Reassess the validity of current business needs in the future liquidity management environment



3. Identify Requirements:

- Consolidate different AS related requirements identified above with the various consolidated T2/T2S services

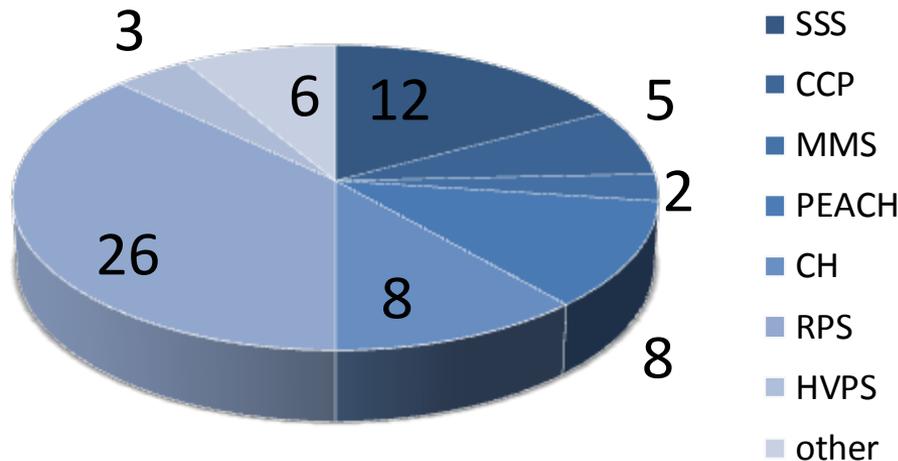
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Use cases and examples

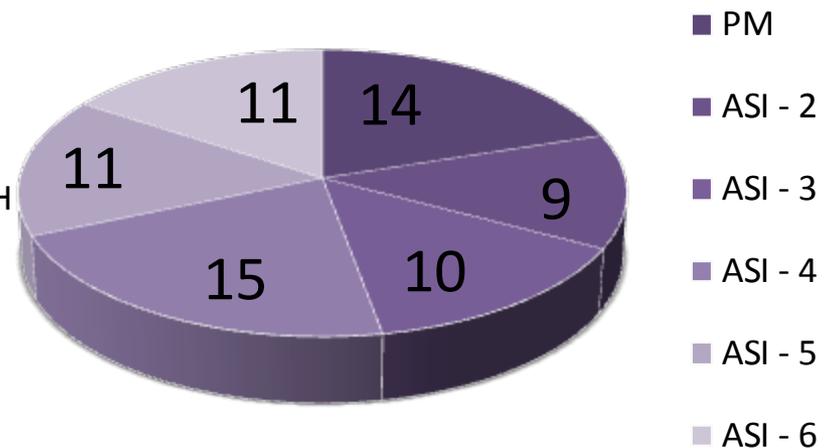
- **Directly in PM in own account**
 - e.g., Management of transactions for foreign exchange transactions
- **ASI Real-Time Settlement and Bilateral Settlement**
 - Unconditional gross-mode-Settlement of independent balances, submitted and settled one by one / submitted in one file and settled in a “batch”
 - e.g. secured money market transactions
- **ASI Standard and Simultaneous Multilateral Settlement**
 - Conditional gross-mode-Settlement of linked balances submitted in one file and settled in a batch / “one shot” including a possibility to manage a cash guarantee
 - e.g. Settlement of Multilateral Net Balances (e.g. of ACHs)
- **ASI Dedicated liquidity and cross-system settlement (interfaced)**
 - Settlement of transactions with guaranteed funds available/blocked
 - e.g. DvP for securities settlement
- **ASI Dedicated liquidity and cross-system settlement (real-time)**
 - Settlement of cross-AS transactions
 - Retail Payment Business

Usage statistics (w/o SSSs/MMSs migrating to T2S)
 – as of 2016-Dec-22

AS types - totals



AS models - totals



→ Since 2016-Sep-12, the ASI procedures 1 and 6 integrated are not used anymore
 → 6 real-time might be used by ACHs from 2017-Nov-13 onwards with R11.0 go-live

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Business needs behind the implementation of ASI real-time and bilateral settlement

- **Liquidity:**
 - Liquidity controlled by AS participants
- **Transactions:**
 - Independent payments between several RTGS accounts
- **Settlement:**
 - (Correlated) transactions settled unconditionally one by one (model 2) / in batch-mode (model 3)
 - HU priority payments settlement. **Other priorities desirable?**
 - *Additional controls:* Set execution times “from” and “till”. **Any additional need?**
- **Monitoring:**
 - Model 3: One common screen to trace the various statuses of all transactions in the same file
 - Advanced monitoring features

Business needs behind the implementation of ASI standard and simultaneous multilateral settlement

- **Liquidity:**
 - Liquidity controlled by AS participants
 - Additional liquidity on guarantee funds available owned & controlled by guarantor. **Is the guarantee funds mechanism still needed, or can it be managed at the level of the AS?**
- **Transactions:**
 - Dependent payments between several RTGS accounts
- **Settlement:**
 - Linked transactions settled conditionally in a batch (model 4) / in “one shot” (model 5). **Is it still needed to have two models (debits first, and all or nothing)?**
 - HU priority payments settlement. **Other priorities desirable?**
 - *Additional controls:* Set execution times “till”, Set Information period (including revocation). **Any additional need?**
- **Monitoring:**
 - One common screen to trace all linked transactions
 - Advanced monitoring features

Business needs behind the implementation of ASI Dedicated liquidity and cross-system settlement (interfaced)

- **Liquidity:**
 - Prefunded (blocked) liquidity on the dedicated sub-accounts owned by the settlement banks and guaranteed by the CBs
 - Possibility for the AS to adjust the prefunded amount in case of need
 - In some cases, refunding is done on the sub-accounts following Auto-Collateralisation/coupon payments/redemption within the AS. **Is this still needed?**
- **Transactions:**
 - Settlement of net positions on the sub-accounts
 - Liquidity adjustments
 - Cross-AS-transactions
- **Monitoring:**
 - Advanced monitoring features
- **Business day:**
 - Settlement also during night-time

Business needs behind the implementation of ASI Dedicated liquidity and cross-system settlement (real-time)

- **Liquidity:**
 - Prefunded (transferred) liquidity on dedicated technical accounts assigned to the AS (or the NCB on behalf of the AS)
 - Possibility for the AS to adjust the prefunded amount in case of need
- **Transactions:**
 - Liquidity adjustments
 - Cross-AS-transactions
- **Monitoring:**
 - Advanced monitoring features
- **Business day:**
 - Settlement also during night-time. [What are, apart from the extended availability, other needs regarding night-time?](#)

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ASI procedures – technical settlement features

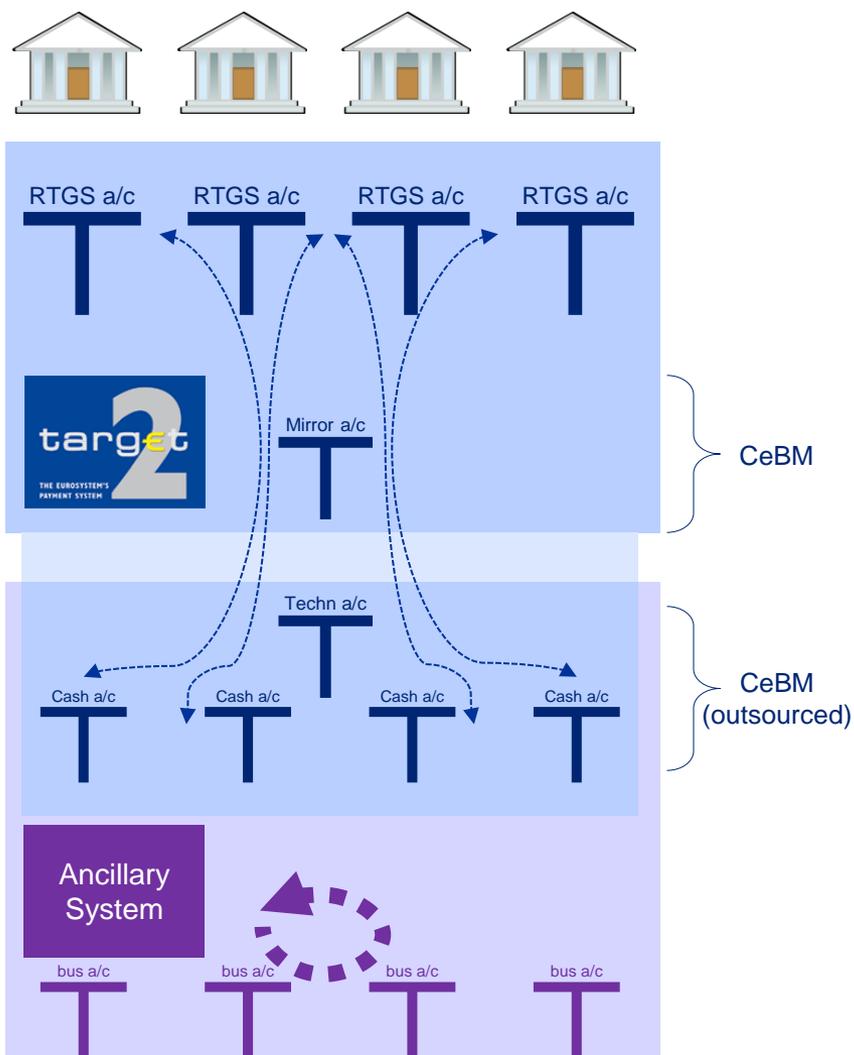
- ASs using ASI can use the ASI procedures with their technical settlement features listed below

Settlement feature	Description	Usage in ASI procedures
ASI advanced mechanisms	Reservation and blocking of liquidity during settlement execution	5
ASI advanced mechanisms	Entry Disposition, Express algorithm	1, 2, 3, 4, 5, 6
ASI advanced mechanisms	Optimisation Algorithms	4, 5
ASI advanced mechanisms	Queuing in case of insufficient liquidity	2, 3, 4, 5
ASI advanced mechanisms	Automated reversing procedure in case of ultimate lack of liquidity (All or Nothing)	4
Messaging	XML based	2, 3, 4, 5, 6
Opening hours	Night Time hours	6

ASI procedures – T2 account features

Typology	Procedure	Use	Balance	Holder
Technical account	1, 2, 3, 4, 5, 6	<ul style="list-style-type: none"> • liquidity transfers processed through direct debit/ credit transfer (procedure 2) • direct debit and credit transfer settlement (procedure 3) • debits and credits posted during the settlement process (procedures 4 and 5) • cash balances processed through direct debit/credit transfer (procedure 6) • settlement of specific transactions (all procedures) • increase of the dedicated liquidity triggered by specific transactions (procedure 6) 	<p>In theory all technical accounts can have funds at the EoD. For the ASI procedure 6 real-time, the technical account will have funds 24/7.</p> <p>It is a business requirement for the other procedures to square them once a day.</p>	AS
Guarantee funds account	4, 5	<ul style="list-style-type: none"> • debits and credits posted during the settlement process (procedures 4 and 5) 	Positive or equal to zero.	CB, AS, Guarantor
Sub-account 6F		<ul style="list-style-type: none"> • liquidity transfer from/to the RTGS account to set aside liquidity for the subsequent settlement of procedures 6F 	Equal to 0 when the whole AS's settlement procedure is closed. At most positive during the settlement process.	settlement bank

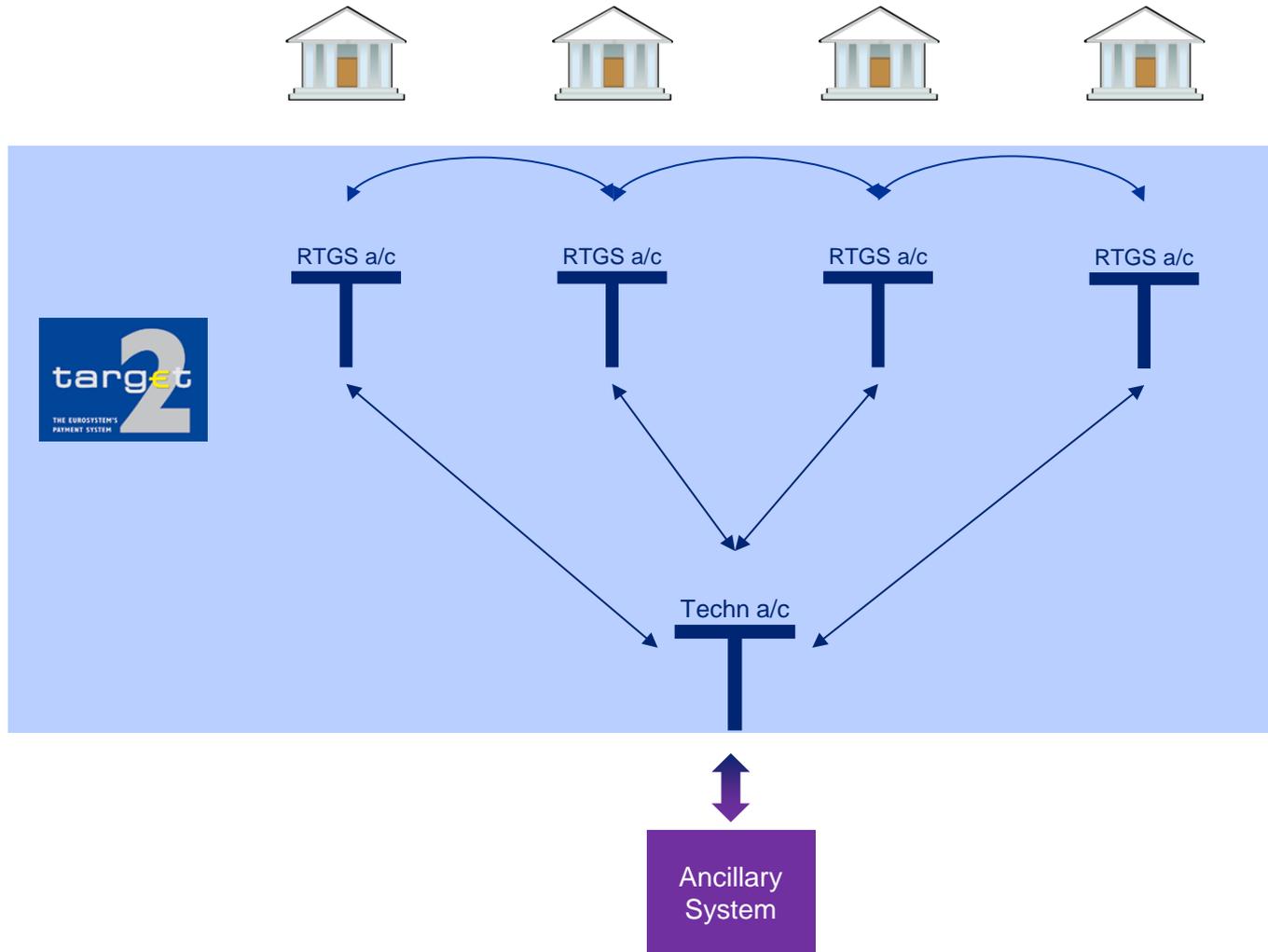
ASI Liquidity transfer (procedure 1)



Main features

- **T2 Account Types:** Mirror accounts
- **Transaction Types:**
 - credit transfers from AS' mirror account to settlement banks' PM accounts
 - credit transfers from settlement banks' PM accounts to AS' mirror account
- **Priority Types:** Highly urgent payments
- **Advanced mechanisms:**
 - Scheduled times "till" and "from"
- **Not in use anymore**

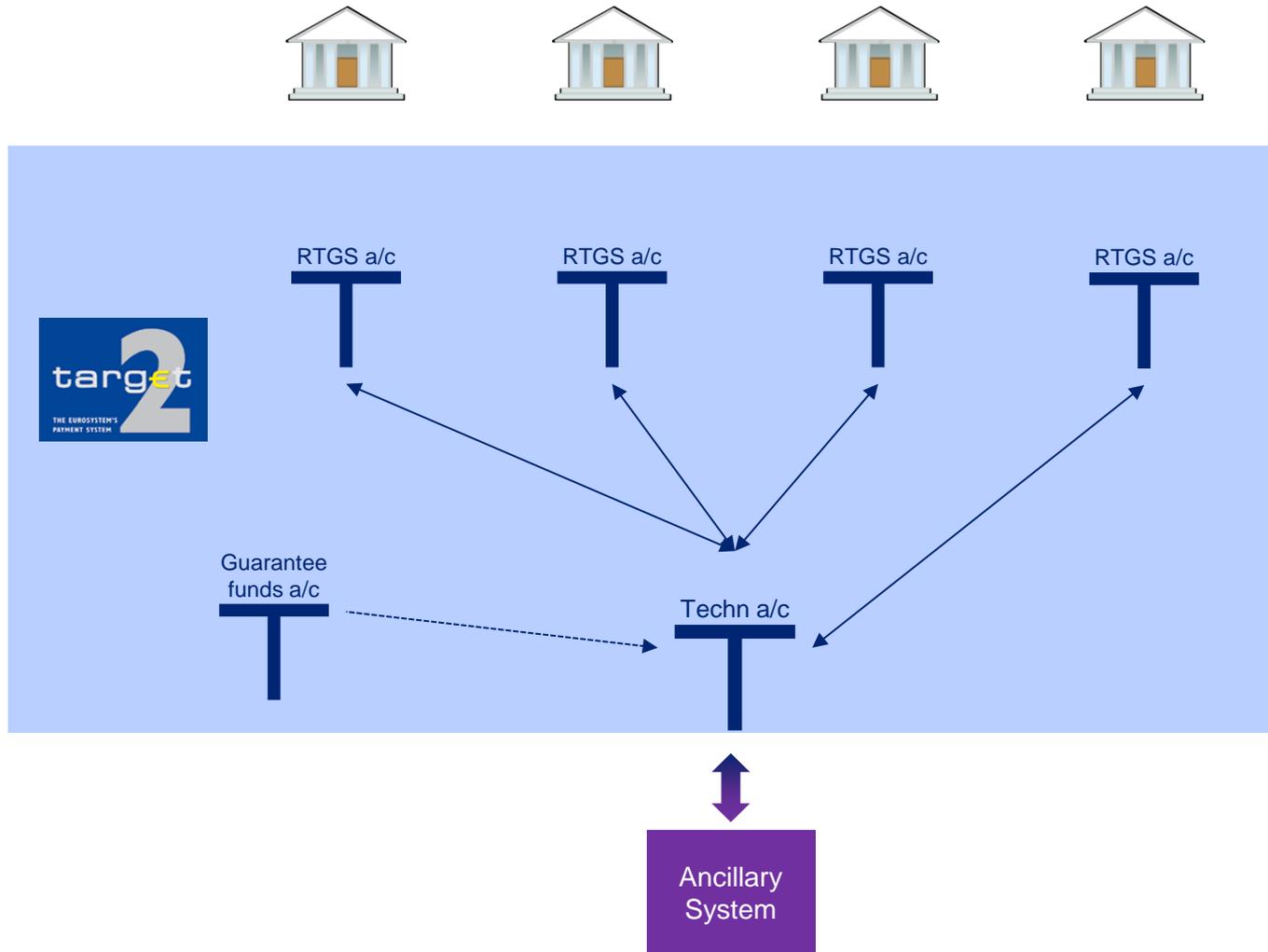
Accounts for ASI Real-Time and Bilateral Settlement



Main features

	Real-time settlement	Bilateral settlement
T2 Account Types	Technical accounts for the AS	
Transaction Types	credit transfer from AS' technical account to settlement banks' PM accounts	
	direct debits towards AS' technical account from settlement banks' PM accounts	
	mandated payments from settlement banks' PM accounts to other settlement banks' PM accounts	
Priority Types	Highly urgent payments	
Advanced mechanisms	Scheduled times "from" and "till"	Scheduled times "till" only, i.e. no Scheduled times "from"
		Information period – time window within which the settlement bank may express disagreement with an transaction in order to avoid the settlement
	"real-time mode"- only one instruction at a time can be sent which will be processed immediately	"Batch mode" – several instructions at a time can be sent in one file which will then be processed individually

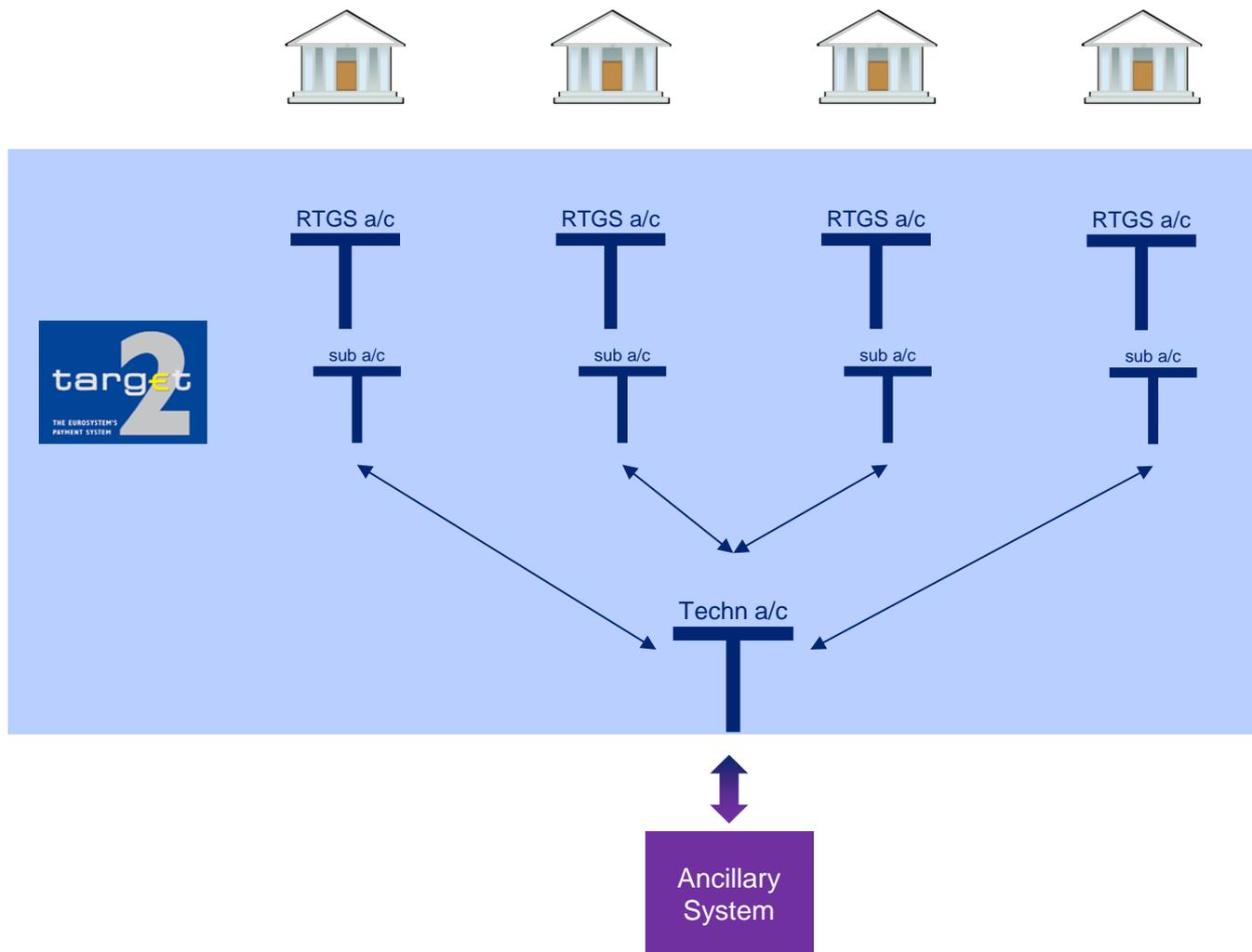
Accounts for ASI Standard and Simultaneous Multilateral Settlement



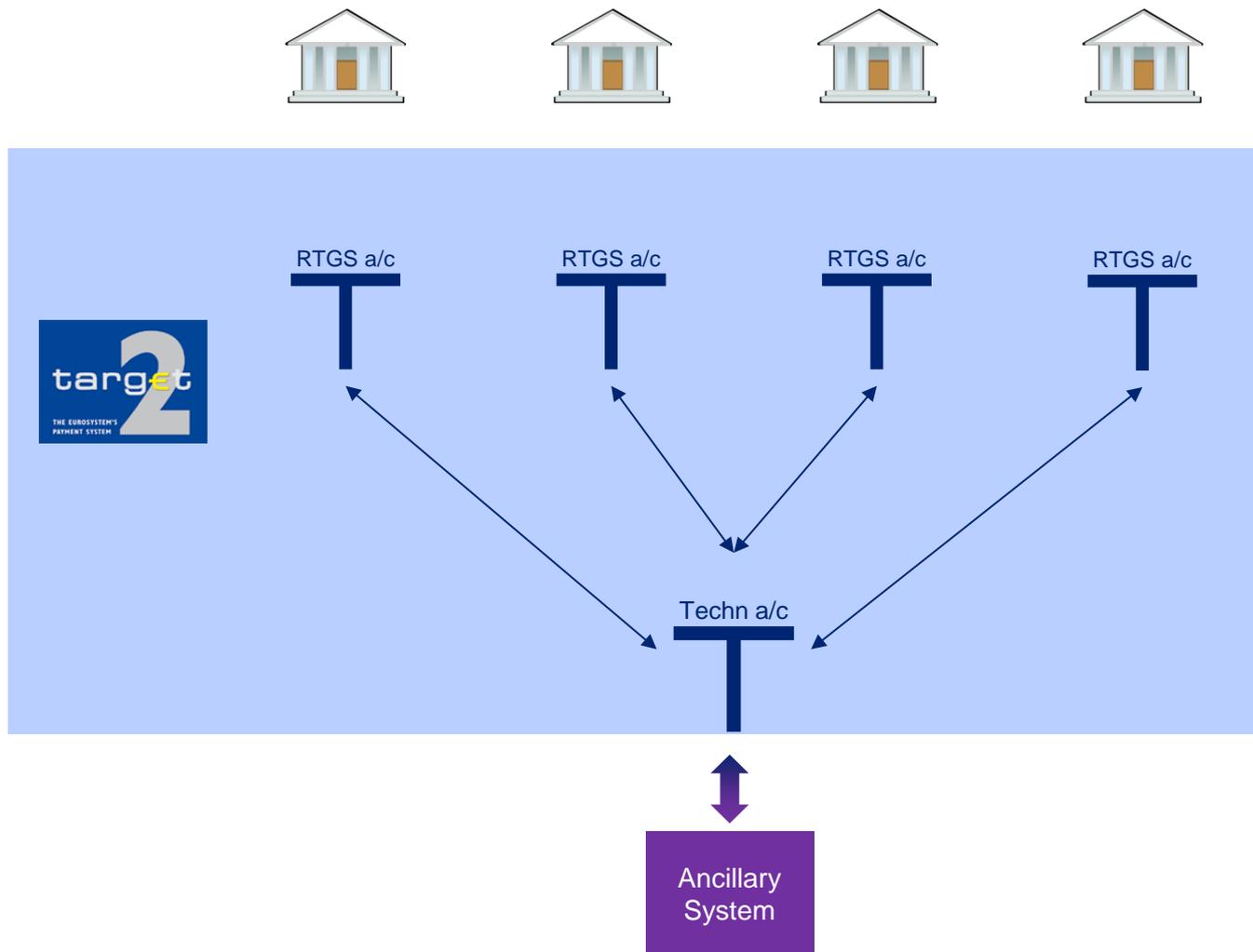
Main features

	Standard multilateral settlement	Simultaneous multilateral settlement
T2 Account Types	Technical accounts for the AS	
	Guarantee funds accounts	
Transaction Types	credit transfer from AS technical account to settlement banks' PM accounts	
	direct debits towards AS technical account from settlement banks' PM accounts	
Priority Types	Highly urgent payments	
Advanced mechanisms	Scheduled times "till"	
	Information period – time window within which the settlement bank may express disagreement with an transaction in order to avoid the settlement	
	Links between transactions: Debits first	Links between transactions: All or nothing ("One shot settlement")
	Guarantee funds mechanism	

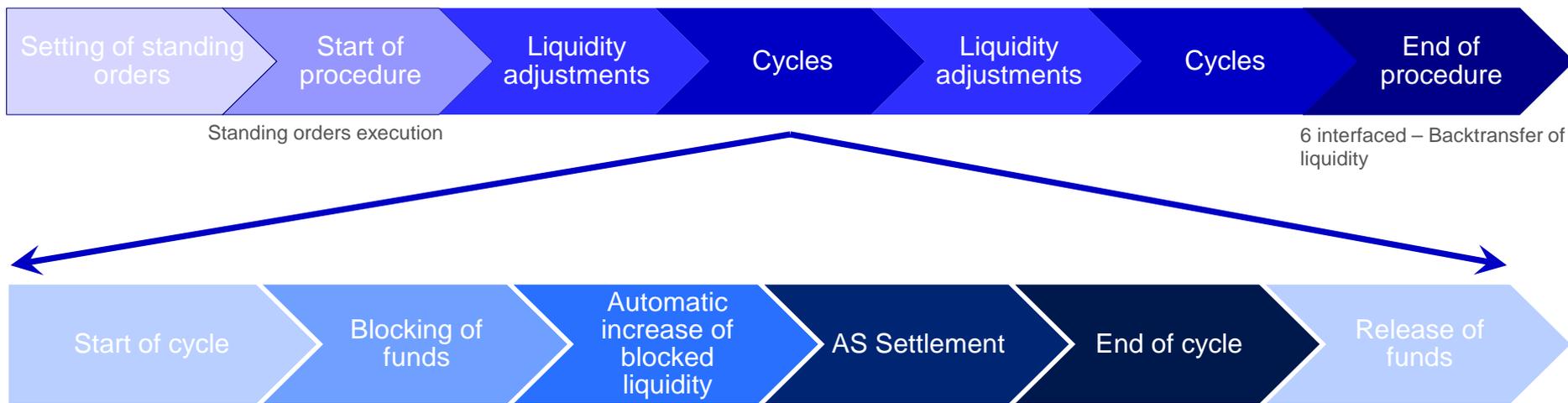
Accounts for ASI Dedicated Liquidity and cross-system settlement (interfaced)



Accounts for ASI Dedicated liquidity and cross-system settlement (real-time)



ASI Dedicated liquidity and cross-system settlement (interfaced) – Procedures and Cycles



Main features

	Dedicated liquidity and cross-system settlement (interfaced)	- - (real-time)
T2 Account Types	Technical accounts for the AS	
	Settlement banks' specific sub-accounts	
Transaction Types	Liquidity adjustments - direct debits/credits from/to settlements banks' main/sub-account from /to AS Technical Account	
	Settlement on dedicated accounts - debiting the main/sub-accounts towards the AS Technical Account and then debiting the AS Technical Account towards the participants' main/sub-accounts	
	mandated payments debited from AS auto-collateral account and to credit sub-accounts	
	connected payment on SSP account to increase the credit line of a settlement bank then to transfer funds to a sub-account	
	debit from CB's RTGS account to credit RTGS dedicated sub-accounts (repo countries)	
	transfer funds (credit lines from local home account) from CB account to the sub-account	
Priority Types	Highly urgent payments only during day-time	
Advanced mechanisms	Prefunding including reservation and blocking of liquidity before settlement	Prefunding
	Payments will be immediately credited if a cycle is running only during day-time	Payments will always be immediately executed as cycles are not in use
	Automatic increase of liquidity through ACO, redemption and coupon payments	