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EUROSYSTEM

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T2/T2S Consolidation

CLM and RTGS interactions – case study

Task Force on Future RTGS Services

4th TF meeting, 27 March 2017

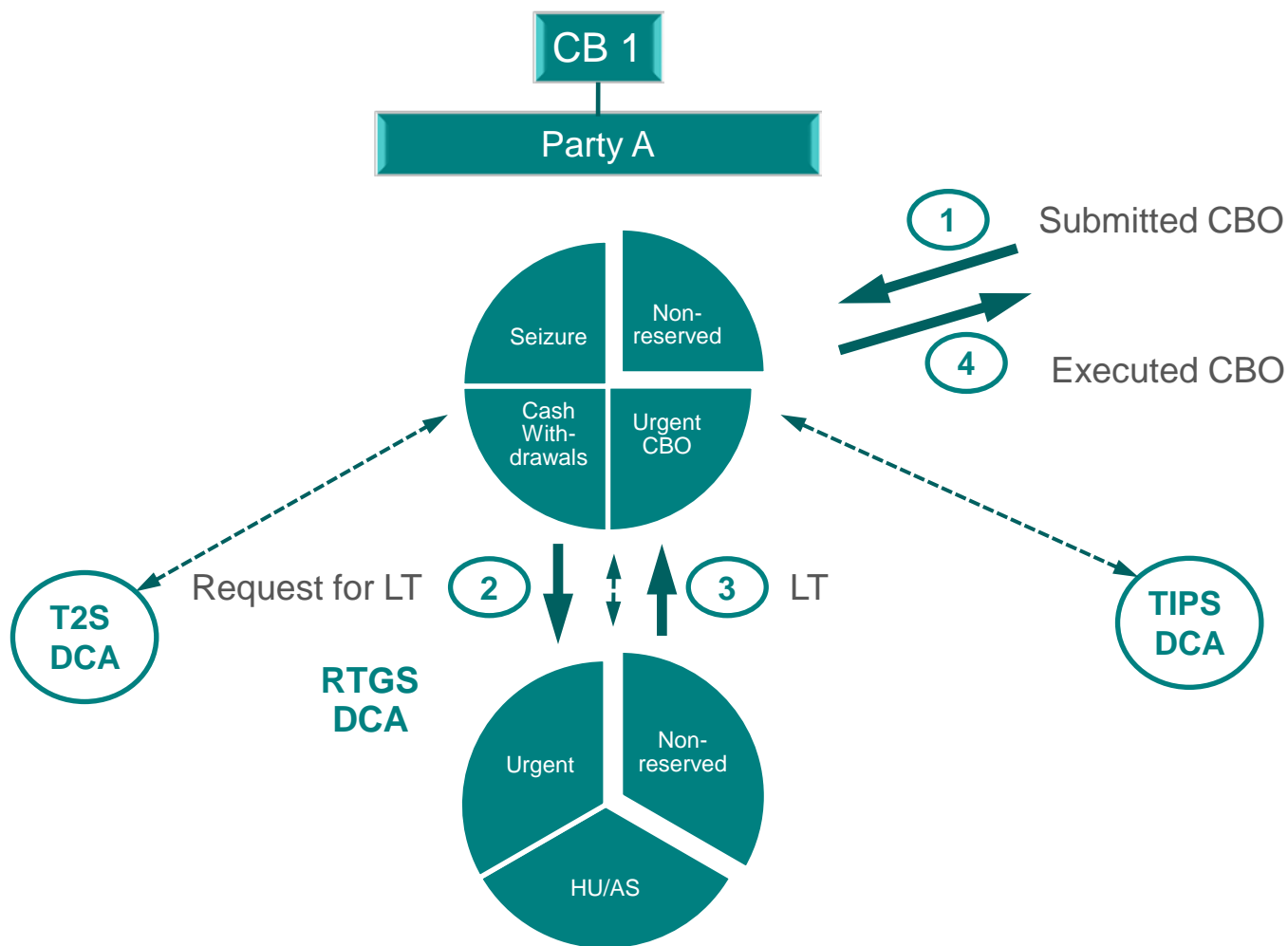
Objectives of the presentation

- The interactions between the MCA and all DCAs are in general described in the High Level Business Changes document
- During the last TF, it was requested to give an end-to-end view on the interactions between CLM and RTGS, through Liquidity Transfers. This presentation shows some examples of interaction between RTGS DCA and MCA
 - Liquidity shall be drawn from the RTGS DCA towards the MCA automatically (*in case of unsettled urgent CBO / pending reservation*)
 - Liquidity from the MCA can be requested by the RTGS DCA based on events predefined by the participant (*floor/ceiling / unsettled payment / pending reservation*)

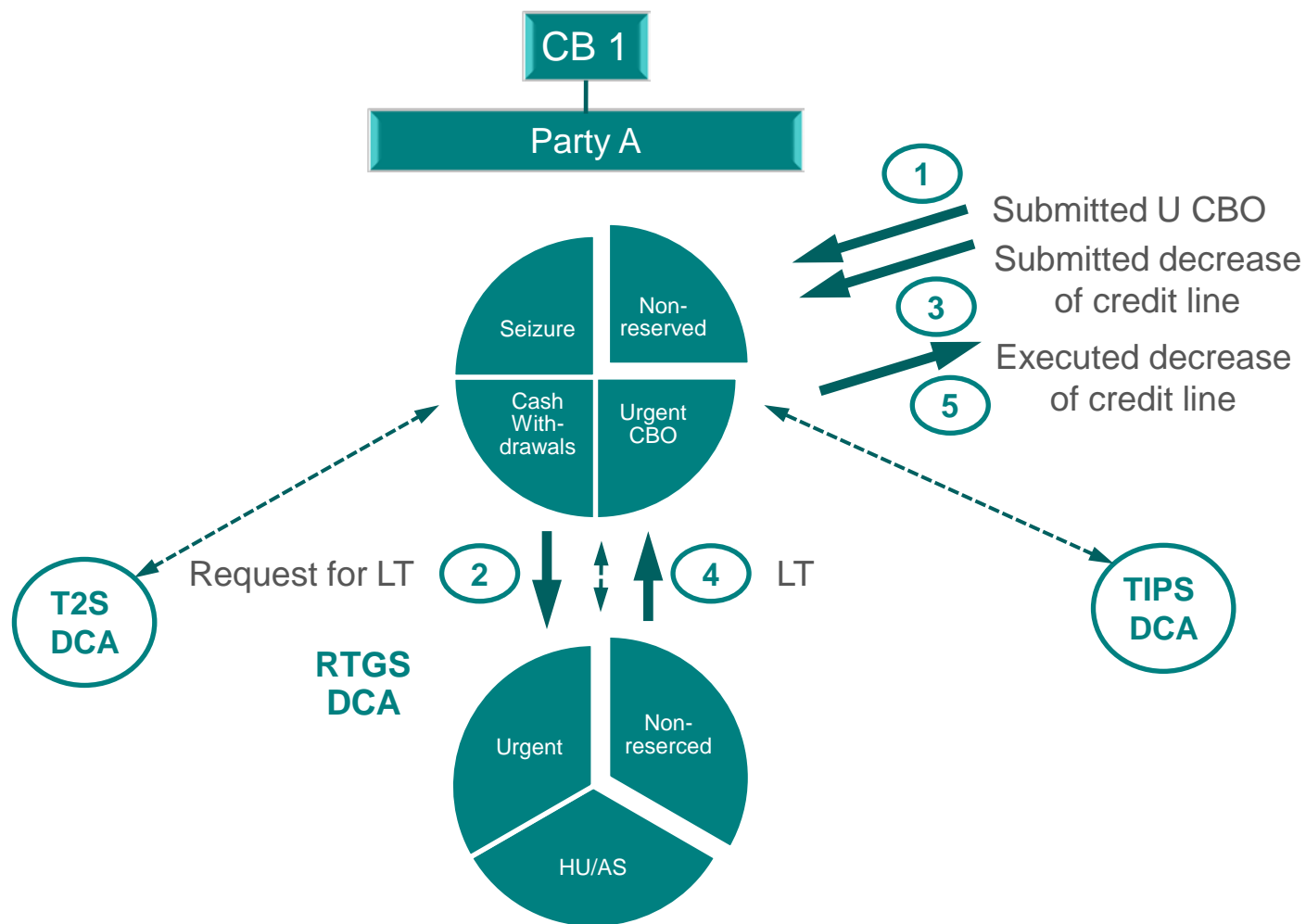
Principles

- In case LTs are successful, liquidity is repatriated, without any link to the original queued payment that has initially triggered the LT
- The usage of the repatriated liquidity will be handled by the management of the queue, i. e. if meanwhile a more urgent payment has entered the system, it might use the repatriated liquidity
- In case an event-based LT cannot be executed, the order is not queued but dropped

Simple case



Urgent CBO and decrease of credit line



Interactions between CLM and RTGS

Settlement with the usage of automated LT (1/2)

Activity	Auto- mated LT	Avail. Liq. MCA	(Credit Line)	Balance MCA	Cash Wdrw Res	U CBO Res	Non- reserv ed	Balance DCA RTGS	HU Res	U Res	Non- reserv ed
Start		500	0	500	200	300	0	800	100	500	200
AS Settlem. -50		500	0	500	200	300	0	750	50	500	200
Urgent payment -200		500	0	500	200	300	0	550	50	300	200
Urgent CBO with 400 debit		500	0	500	200	300	0	550	50	300	200
	LT: RTGS DCA to MCA 100	600	0	600	200	300	100	450	50	300	100
	Exec of U CBO	200	0	200	200	0	0	450	50	300	100
Mod. of Credit Line +500		700	500	200	200	0	500	450	50	300	100

Interactions between CLM and RTGS

Settlement with the usage of automated LT (2/2)

Activity	Auto- mated LT	Avail. Liq. MCA	(Credit Line)	Balance MCA	Cash Wdrw Res	U CBO Res	Non- reser- ved	Balance DCA RTGS	HU Res	U Res	Non- reser- ved
Urgent Payment Order 700		700	500	200	200	0	500	450	50	300	100
	LT towards RTGS 300	400	500	-100	200	0	200	750	50	300	400
	Exec of Payment Order	400	500	-100	200	0	200	50	50	0	0
In-coming Payment 800		400	500	-100	200	0	200	850	50		800
	LT 100 /Ceiling 700 on RTGS Non/res	500	500	0	200	0	300	750	50		700

Possible parameter setting

- One efficient way of managing liquidity would be to set a floor LT (with either a fixed amount or a target to reach). This would manage most uncovered payments
- Then in case of uncovered payments with a higher amount than the floor, a specific LT can be set (with either the uncovered amount or a fixed amount). The uncovered payment is queued, and the repatriated liquidity will be handled by express-algo
 - In case liquidity is not enough in the 2nd account, this means that the participant is missing liquidity in both MCA and DCA
 - In case liquidity is enough, in case in the meantime a more urgent payment comes in, this payment uses the repatriated liquidity; the original payment would still be pending

Pending payments

- There might be the case of an increase of the credit line while already pending payments are in the RTGS DCA queue
- The treasurer would initiate a LT in order to use the additional liquidity injected by the modification of credit line for the processing of the pending payments. The liquidity injected on the MCA will not automatically be used for the processing of payment(s) already pending on the RTGS DCA

Advantages

- This mechanism allows a decoupling of CLM and RTGS
- This mechanism is in general identical for RTGS, TIPS and T2S; in T2S the floor/ceilings do not lead to LTs but to a notification only
- The floor setting should limit the number of LT
- The timing for the repatriation of the liquidity should be a few seconds
- On CLM side, it is clearly limited to critical CBO
- On RTGS side, it is limited only to HU and U payments (N payments are managed by the liquidity-saving optimisation features)

Advantages

- The CLM allows a specific treatment for U and HU payments in RTGS

➔ No disadvantage from business perspective for HU and U payments compared to today's handling. Simply technical split to allow similar liquidity management for other services (T2S & TIPS)