T2/T2S Consolidation
Central Liquidity Management

Task Force on Future RTGS Services
2nd meeting on 25-26 January 2017
Objective and summary of feedback received

- Main objective is to align and improve the current liquidity management and monitoring tools in T2 and T2S
- Feedback received during the last workshop has shown a wide range of business needs in terms of liquidity management:
  - Local bank with only reserve fulfilment (and potentially monetary policy access)
  - Central source of liquidity for all payments (single account)
  - Dedication of a certain amount of liquidity for specific payment purposes
- In addition, there is an imperative requirement for tools to monitor payment capacity during the day and to manage scarce liquidity
Objective and summary of feedback received

• Additional requests received:
  – Liquidity stemming from the TARGET2 credit line shall be available to fund TIPS settlement
  – Reservation of funds for cash withdrawals
  – Possibility to source liquidity from multiple accounts
  – Some banks do not want to receive payments on their accounts (unpublished in TARGET2 directory)
  – Banks want to have control on the accounts from which they may receive liquidity transfers (not payments)

• Other considerations:
  – Harmonised way of transferring liquidity between different domains (TARGET2, T2S, TIPS)
  – Different operational times for different services
Analytical Approach

• Considering the wide range of business needs, two alternatives have been developed

• The present proposal is illustrated by the following scenarios:
  – Scenario 1: Local bank having to fulfill minimum reserves and no payments
  – Scenario 2: Local bank having all types of payment activities
  – Scenario 3: Local bank wishing to allocate certain amounts of liquidity for specific payment purposes
  – Scenario 4: Multinational bank with various branches
  – Scenario 5: Multinational bank with various entities
  – Scenario 6: Group of banks with one entity managing RTGS payments
Central Liquidity Management

**Alternative 1**

- **Option to define minimum cash balance to remain on Main Account**
- **High level of automation between all accounts**
- **Intraday credit**
- **Marginal lending / overnight deposit**
- **Intragroup operations?**
- **Monetary policy?**
- **Other operations (e.g. cash withdrawals)**

**Main Account**
- **T2S DCA**
  - Securities settlement
- **RTGS account**
  - Payment to third parties
  - Ancillary systems
  - Intragroup operations
- **TIPS DCA**
  - TIPS settlement
- **Business Case 1**
  - Business Case 1
- **Business Case 2**
  - Business Case 2

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Alternative 2

Central Liquidity Management

Intraday credit
Marginal lending / overnight deposit

Payment to third parties (optional)
Ancillary systems (optional)
Intragroup operations
Monetary policy (optional)
Other operations (e.g. cash withdrawals)

Option to define minimum cash balance to remain on RTGS Account
## Common characteristics of Alternative 1 and 2

<table>
<thead>
<tr>
<th>Common characteristics of Alternative 1 and 2</th>
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<tbody>
<tr>
<td>Credit line and marginal lending are managed centrally</td>
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<tr>
<td>Payments and Ancillary System transactions are performed on the RTGS account</td>
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<td>High level of automation</td>
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# Comparison of Alternative 1 and 2

<table>
<thead>
<tr>
<th>Alternative 1</th>
<th>Alternative 2</th>
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<tbody>
<tr>
<td>Main Account allows liquidity to be managed centrally</td>
<td>Liquidity is directly allocated to each of the settlement services</td>
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<tr>
<td>Main Account includes balances being visible for treasury function</td>
<td>All transfers between the DCA are technically performed via a technical account</td>
</tr>
<tr>
<td>Option to manage the Main Account including defining a minimum cash balance on the Main Account</td>
<td>Option to define a minimum cash balance on the RTGS account, not on the technical account</td>
</tr>
<tr>
<td>Option to perform other operations, e.g. cash withdrawals managed on the separate Main Account</td>
<td>RTGS operations and other operations are all performed on the RTGS account</td>
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## Business Case: Intraday Credit line

<table>
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<tr>
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<th>Alternative 2</th>
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<tr>
<td>Option to use rules for the completely automated usage/allocation of the credit line to the settlement services; otherwise credit line is provided on the Main Account</td>
<td>Rules for the completely automated usage/allocation of the credit line to the settlement services</td>
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### Comparison between the two alternatives

<table>
<thead>
<tr>
<th></th>
<th>Alternative 1</th>
<th>Alternative 2</th>
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<tbody>
<tr>
<td>Credit Line</td>
<td>Main Account, option to route</td>
<td>Routed to services</td>
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<tr>
<td>CB operations (HU)</td>
<td>Main Account</td>
<td>RTGS*</td>
</tr>
<tr>
<td>Reservations for specific purposes (cash withdrawals…)</td>
<td>Main Account</td>
<td>RTGS*</td>
</tr>
<tr>
<td>ML/OD</td>
<td>Main Account</td>
<td>Routed to RTGS</td>
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<tr>
<td>Intragroup operations</td>
<td>Main Account or RTGS account</td>
<td>RTGS</td>
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<tr>
<td>Reservations for U</td>
<td>RTGS</td>
<td>RTGS</td>
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<tr>
<td>Payments (U/N)</td>
<td>RTGS</td>
<td>RTGS</td>
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<tr>
<td>Reservations for each AS</td>
<td>RTGS</td>
<td>RTGS</td>
</tr>
<tr>
<td>AS / CLS transactions (HU)</td>
<td>RTGS</td>
<td>RTGS</td>
</tr>
</tbody>
</table>

All in all, automation is optional for alternative 1, but mandatory for alternative 2.

*RTGS account without payments/AS transactions*
Scenario 1
Local bank having to fulfil minimum reserves and no payments

Party A account opened in the books of CB1
Scenario 2 Alternative 1
Local bank having all types of payment activities

Party A accounts opened in the books of CB1
Scenario 2 Alternative 2
Local bank having all types of payment activities

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Party A accounts opened in the books of CB1
Scenario 3 Alternative 1
Local bank wishing to allocate certain amounts of liquidity for specific payment purposes

Party A accounts opened in the books of CB1

Pending: what is the level of granularity in terms of reservation? Reservation for payment type (i.e. HVP, ASP(s)) or payment transaction?
Scenario 3 Alternative 2
Local bank wishing to allocate certain amounts of liquidity for specific payment purposes

Party A accounts opened in the books of CB1

Pending: what is the level of granularity in terms of reservation? Reservation for payment type (i.e. HVP, ASP(s)) or payment transaction?
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Scenario 4 Alternative 1
Multinational bank with various branches

Party A branch accounts opened in the books of CB2

Party A accounts opened in the books of CB1
Scenario 4 Alternative 2
Multinational bank with various branches

Central Liquidity Management

Party A branch accounts opened in the books of CB2

Party A accounts opened in the books of CB1
Scenario 5 Alternative 1
Multinational bank with various entities

Central Liquidity Management

Banking Group

CB 1

Party A

Main Account

TIPS DCA

RTGS account

T2S DCA

CB 2

Party B

Main Account

TIPS DCA

RTGS account

T2S DCA

Party A accounts opened in the books of CB1

Party B accounts opened in the books of CB2
Scenario 5 Alternative 2
Multinational bank with various entities

Central Liquidity Management

Banking Group

Party A
- RTGS account
  - TIPS DCA
  - T2S DCA

Party B
- RTGS account
  - T2S DCA
  - TIPS DCA

Party A accounts opened in the books of CB1

Party B accounts opened in the books of CB2

CB 1

CB 2
Scenario 6 Alternative 1
Group of banks with one entity managing RTGS payments

Central Liquidity Management

Party B accounts opened in the books of CB1

Party C accounts opened in the books of CB1

Party A accounts opened in the books of CB1

Main Account

Main Account

Main Account

T2S DCA

RTGS account

TIPS DCA
Scenario 6 Alternative 2
Group of banks with one entity managing RTGS payments

Central Liquidity Management

Party A accounts opened in the books of CB1

Party B accounts opened in the books of CB1

Party C accounts opened in the books of CB1

RTGS account

T2S DCA

TIPS DCA

RTGS account

RTGS account
Level of automation of movements between accounts

- Level of automation of movements between accounts shall allow almost fully automatic provisioning of liquidity between them.

- Objectives
  - Manage liquidity shortage (and surplus)
  - Simplify liquidity management

- Questions:
  - Level of automation?
    - Trigger when there is a lack of liquidity? Or when the minimum/maximum cash balance is reached?
    - Cash amount to be transferred?
  - Optionality?
Minimum Reserve fulfilment = Sum of cash balances in A, B, C and D.

No necessity to sweep the T2S, TIPS and RTGS cash balances at the end of the day.
Central Liquidity Management

Centralised view

- User-friendly human interface to view:
  - Cash balances in all accounts across CBs
  - Credit line
  - Liquidity adjustments between accounts

- Triggering of alerts when minimum/maximum limits on account balances are reached?

- Input of liquidity transfers?
Central liquidity management proposal presented during last workshop

**Main Cash Account**

- **T2S**
  - Dedicated account
  - Liquidity Transfers
  - Instant Payments settlement

- **CLM**
  - Dedicated account
  - Liquidity Transfers

- **Standing Facilities settlement**
  - Dedicated account
  - Liquidity Transfers

- **Ancillary System Payments settlement**
  - Dedicated account
  - Liquidity Transfers

- **Large-value Payments settlement**
  - Dedicated account
  - Liquidity Transfers