Eurobond XCSD settlement in T2S
Joint presentation of Clearstream and Euroclear
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Making eligible assets available in T2S

• Eurosysten new collateral management system aims to mobilise marketable collateral only in T2S for Eurosysten credit operations

• How will securities of non-participating (I)CSDs be made available in T2S with the aim (inter alia) of enabling higher collateral mobility and liquidity efficiency in T2S?

Two cases:
1. ESCB eligible securities issued in a T2S CSD, held in the (I)CSDs
2. ESCB eligible securities issued in the ICSD
ESCB eligible securities issued in T2S CSD, held in the ICSDs

- Eurosystem credit operations in ESCB eligible securities issued in a T2S CSD and held in the ICSDs would settle in an efficient way through the (I)CSD approved links with the T2S CSDs.

- Under the assumption that NCB would be able to receive any type of collateral in T2S the current option whereby NCB would receive Eurosystem credit operations collateral in the ICSD would be discontinued.
ESCB eligible securities issued in the ICSDs

- ESCB eligible Eurobonds (denominated in Euro) are already or will be made eligible by Clearstream Banking Frankfurt (CBF) and Euroclear France (EF) and therefore are available for settlement on T2S.

- However, whilst intra-CSD settlement is efficient on T2S for T2S-out securities, a solution still needs to be implemented to achieve efficient cross-CSD (X-CSD) settlement.

Clearstream and Euroclear are elaborating a solution to provide for efficient X-CSD settlement of Eurobonds on T2S.
Scope & objectives

- ESCB eligible Euro-denominated Eurobonds to be settled on T2S, potentially extended to other T2S-out securities

- Allow for efficient settlement of Eurosystem credit operations, T2S auto-collateral on stock and on flow and standard settlement transactions on T2S

- Allow for efficient cross-border settlement of Eurosystem credit operations and standard settlement transactions if such securities are held in the ICSDs
Proposed solution (1/2)

- Proposed model built on existing T2S functionality
- CBF and EF act as Technical Issuer CSD for Eurobonds in T2S
- CBF and EF will open a ‘cross CSD holding account’ with each other
- Settlement between CBF and EF participants with immediate finality on T2S using “cross CSD holding accounts” and not conditional on realignments between CBF and EF in the ICSDs
- Deferred realignments similar to Bridge ICSD realignments, will be triggered to level out “cross CSD holdings”, e.g. in case of upcoming corporate action
- Daily reconciliation of “cross CSD holding accounts” between CBF and EF.
**Proposed solution (2/2)**

- T2S CSDs other than CBF and EF can render Eurobonds eligible by becoming Investor CSD into CBF or EF.
- This setup allows for efficient X-CSD settlement between all such T2S CSDs without changing current T2S functionality.
- The setup with CBF or EF as Technical Issuer CSDs will enable other T2S CSDs and their clients to benefit from:
  - Access to ESCB eligible Euro-denominated Eurobonds, including
  - Settlement with immediate finality in T2S
  - T2S Auto-Collateralization on stock and flow
  - Efficient settlement of Eurosystem credit operations
Settlement Flows: DVP between a customer of CBF and a customer of EF

Scenario: CBF customer instructs a DVP to EF customer for 100 shares and 50 EUR

1. CBF and EF customers send their transactions to their respective CSDs.
2. Settlement takes place:
   - R1 (triggered by T2S): in CBF, CBF customer account is debited, EF Cross CSD account is credited.
   - R2 (triggered by T2S): in EF, CBF Cross CSD account is debited and EF customer account is credited.
3. A realignment between CBF and EF is triggered to realign the positions from CBF omnibus account in CBL via the Bridge to EF omnibus account in EB.
   The realignments of EF and CBF will follow the OUT-CSD flows established in EF and CBF.
4. Settlement confirmation (of the Bridge realignment) is sent by CBL to CBF, and by EB to EF. When the settlement confirmation is received in CBF/EF, the settlement of the realignments in T2S will be concluded:
   In CBF, the Cross CSD EF account is debited, and the CBL mirror account in CBF is credited. In EF, the EB mirror account is debited, and the Cross CSD CBF account is credited.

Amount in grey: Initial position (cash or shares)
Amount in blue: movement of shares/cash related to the trades
**Settlement Flows:** DVP between two customers of different In-CSDs acting as Investor CSD in CBF and in EF, respectively

*Scenario:* Customer of In-CSD1 instructs a DVP to a customer of In-CSD2 for 100 shares and 50 EUR, In-CSD1 is investor CSD in CBF while In-CSD2 is investor CSD in EF

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**DVP from a customer of In-CSD (1) to a counterparty of In-CSD (2):**

1. The customers of In-CSD1 and of In-CSD2 send their instructions to T2S. The instructions match in T2S.

2. Settlement takes place in T2S:
   - R1 in In-CSD1: customer account is debited, mirror account for CBF is credited.
   - R2 in CBF: omnibus account of In-CSD1 is debited and the Cross CSD EF account is credited.
   - R3 in EF: the Cross CSD CBF account is debited, and the Omnibus account of In-CSD2 is credited.
   - R4 in In-CSD2: mirror account for EF is debited, and customer account is credited.

The following steps are only relevant for EF and CBF:

3. There is a realignment between CBF and EF (via the Bridge). The trigger for the realignment will be an instruction in T2S from:
   - The Cross CSD EF account in CBF via CBL
   - The Cross CSD CBF account in EF via EB
   - In CBL: CBF Omnibus is debited and EB Transit account is credited.
   - In EB: CBL Transit account is debited and EF omnibus account is credited.

4. Settlement confirmation (of the Bridge realignment) is sent by CBL to CBF and by EB to EF. When the settlement confirmation is received from both ICSDs, the instruction will settle in T2S (R5/R6):
   - In CBF, the Cross CSD EF account is debited, and the CBL mirror account is credited.
   - In EF, the EB Mirror account is debited and the Cross CSD CBF account is credited.
ESCB eligible securities issued in the ICSDs

Settlement flows – additional remarks

– The deferred realignment process is transparent for clients, as well as for Investor CSDs. It will be managed solely by CBF and EF.

– No need for clients to build any related realignment logic.

– No need for other T2S CSDs using CBF or EF as Technical Issuer CSD to build any related realignment logic.

– Model focuses on Eurobonds, but could be extended to other OUT-CSD securities
ESCB eligible securities issued in the ICSDs

Next steps

- Elaborate legal framework

- Workshops between Clearstream and Euroclear to further detail settlement mechanism, realignment and corporate actions processing and finalize delivery plan

- Obtain key stakeholders buy-in (T2S CSG, AMI SeCo)