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)*
Interactions between CLM and RTGS

**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

Interactions between CLM and RTGS

1. Submitted CBO
2. Request for LT
3. LT
4. Executed CBO

CB 1
Party A

Seizure
Non-reserved

Cash Withdrawals
Urgent CBO

Non-reserved

Urgent

HU/AS

T2S DCA

RTGS DCA

TIPS DCA

Withdrawing
Seizure
Urgent
Non-reserved

1. Submitted CBO
2. Request for LT
3. LT
4. Executed CBO

T2S DCA

RTGS DCA

TIPS DCA

Non-reserved

Urgent

HU/AS

T2S DCA

RTGS DCA

TIPS DCA

Non-reserved

Urgent

HU/AS
Interactions between CLM and RTGS

Urgent CBO and decrease of credit line

- Submitted U CBO
- Submitted decrease of credit line
- Executed decrease of credit line

Flowchart:
- CB 1
- Party A
- Seizure
- Non-reserved
- Cash Withdrawals
- Urgent CBO
- T2S DCA
- Request for LT
- RTGS DCA
- Non-reserved
- HU/AS
- Urgent
- TIPS DCA
- LT

T2/T2S Consolidation

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

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

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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)