

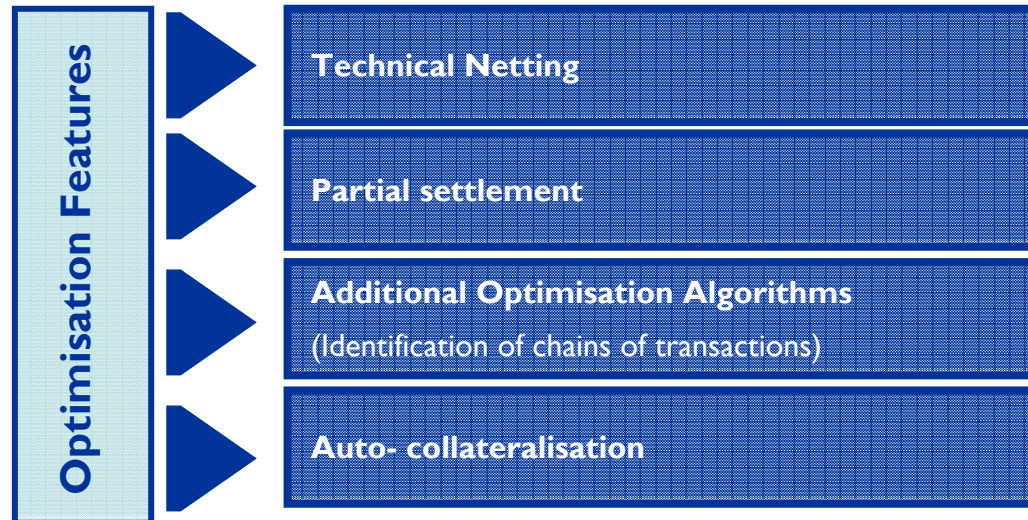


## **TARGET2 – Securities: Settlement Optimisation and Auto Collateralisation**

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# Optimisation Features



- Technical netting reduces the need of cash and securities on transactions to minimise the use of resources.
- The additional optimisation algorithms looks at all transactions in different ISINs to identify chains of transactions, empty circles, etc.
- Auto collateralisation, creates extra liquidity for the settlement via collateral on flow and an stock.
- Partial settlement splits transactions if only limited resources remain available.

## Additional Optimisation Algorithms

- Will look at all transactions eligible for the given settlement day, will identify chains of transactions, empty circles, etc. and link the transactions together in order to submit them to settlement.
- When necessary the additional optimisation algorithm will resort to auto-collateralisation and partial settlement in order to maximise settlement.

## Settlement optimisation in T2S

- Optimisation will run both during the night and during the day in T2S and will:
  - Identify back-to-back transactions and more complex circles.
  - Have the same efficiency during the night and during the day.
  - For each transaction, the optimisation looks for those transactions in the whole stock that could settle if linked.
  - It generates and settles the identified circles.
- The only difference between night and day-time optimisation is the starting point of the optimisation.
  - During the night time the optimisation will look at all transactions together aiming to maximise settlement with the resources available.
  - During the day time the optimisation is triggered by additional resources (cash and/or securities) or new transactions that can not settle when considered in isolation. It attempts settlement looking at all relevant transactions to this transaction to maximise settlement.

## Aim of Optimisation

- Optimisation can maximise settlement of number of transactions, overall value of transactions or a mix of the two, whereby the algorithm considers both and then settles a maximum mixed balance of the two.
- » » Should optimisation favour number of transactions, overall value or a mix of the two as described in the URD ?

## Partial Settlements

- Timing:
  - There will be partial settlement runs at the end of the night time and shortly before the end of the daytime settlement (to enable onward delivery of received securities).
- Partial settlement is optional:
  - Use of the partial settlement function is optional for both parties to the transaction.
    - Both parties need to agree to settle partials (via a flag in the instruction)
    - Flags can be set on instruction level
  - CSDs and CCPs can make partial settlement mandatory for their market.

## Auto-collateralisation

- Definition

An automated intraday credit operation in central bank money duly collateralised aiming at facilitating the settlement of securities-related transactions and triggered when cash is insufficient on the buyer's side.

- Auto-collateralisation should be available

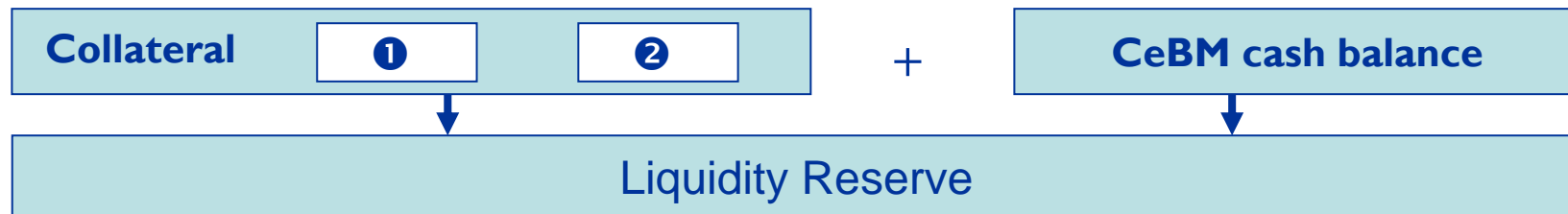
- ➡ To all participating markets

- ➡ During the whole settlement day at zero interest

» » Should the liquidity created via the auto collateral function be provided for individual transactions or in lump sums based on a threshold ?

## Sources of assets for Auto-collateralisation

- 2 sources of collateral:
  - ① Eligible assets available for collateralisation with the Eurosystem (collateral on stock)
  - ② Securities collateral from the securities being purchased (collateral “on flow”)
- Collateral will contribute to form a “Liquidity Reserve”



T2S will verify that sellers hold sufficient securities and buyers hold sufficient Liquidity Reserve as part of its settlement process



## Auto-collateralisation Process (I)

- Priority: Collateral can be used in the following order:
  - Collateral ‘on flow’
  - Collateral on stock

» » **Should collateral on flow be used first, then collateral on stock ?**
- Several options are available for the selection of instructions / positions to be used for auto-collateral.
  - Selection of all eligible instructions / positions of an account per default
  - Selection of individual eligible instructions / positions of an account per default

It is always possible to add and remove individual instructions / positions
- Booking Process:
  - All cash and securities movements of auto-collateralisation are linked on an all or nothing basis.
- Settlement banks can assign limits to the use of auto-collateralisation for their clients transactions.

## Auto-collateralisation Process (2)

- Substitution of auto-collateralisation operations
  - If securities used for auto collateral operations are needed for a securities transaction, T2S will automatically release the securities for an equivalent amount of cash, or automatically substitute them for other securities.
- Closing of auto-collateral operations
  - Settlement banks will have the choice to close all or part of their auto-collateral operations on request.
  - Dedicate liquidity to close their auto-collateral operations.
  - All auto-collateralisation operations will be closed automatically at the end of day.

**THANK YOU**

