



EUROPEAN CENTRAL BANK
EUROSYSTEM

T2S CHANGE REQUEST FORM		
General Information (Origin of Request)		
<input checked="" type="checkbox"/> User Requirements (URD) or GUI Business Functionality Document (BFD) <input type="checkbox"/> Other User Functional or Technical Documentation (SYS)		
Request raised by: Bundesbank	Institute: Central bank	Date raised: 15/09/2019
Request title: Optional inbound liquidity transfer in case of negative NCB account balance at liquidity cut-off		Request No: T2S 0720 URD
Request type: Common	Classification: Scope enhancement	Urgency: Normal
1. Legal/business importance parameter¹: High		2. Market implementation efforts parameter²: Low
3. Operational/Technical risk parameter³: Medium		4. Financial impact parameter⁴: High
Requestor Category: Central bank		Status: Proposed for a release

Reason for change and expected benefits/business motivation:

In the context of the T2/T2S Consolidation, for EUR currency a feature of rule-based liquidity transfers (triggered by floor and ceiling amounts being reached⁵) between a CLM MCA and a RTGS DCA will exist. The below graph (extract from CLM UDFS v1.0) shows the principle of floor and ceiling between a MCA and a RTGS DCA in future Target Services (Go-live in November 2021). This change request aims at implementing a similar principle between a T2S DCA and its connected MCA, in the specific case of a T2S.NCB account having a negative balance after the end of the current inbound LT cut-off procedure.

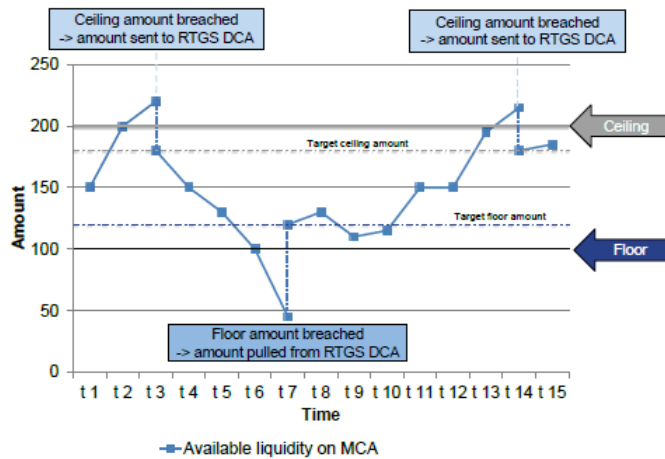


Figure 26 - Breach of floor/ceiling threshold - automatic liquidity transfer

¹ Legal/business importance parameter was set to High because potential infinite negative NCB balances would need to be monitored and corrected manually without CR-720 with the risk of infinite central bank money creation.
² Market implementation effort parameter was set to Low because CR-720 does not require any adaptation by T2S users.
³ Operational/technical risk parameter was set to Medium because it introduces new processes to be fitted into the sensitive EOD period and it will require some interaction between T2S and CLM
⁴ The financial impact parameter was set to High according to the following criteria: Low < 100kEUR < Low-Medium < 200 kEUR < Medium < 400kEUR < High < 700kEUR < Very high
⁵ And triggered by a failed settlement mechanism for Ancillary Systems

Main benefits of this Change request:

- **A possible complement to CR-709:** CR-709 (Make the mandatory automated cash sweep at 17:45 optional) does not foresee to transfer negative account balances (on NCB accounts) automatically to T2 anymore. Only positive amounts will be transferred if the automated cash sweep is activated. By setting a (target) floor amount of zero on the T2S Central Bank Account, liquidity would be pulled from the NCB's CLM CB account each time needed, preventing it to go below zero.

Description of requested change:

T2S should allow to set-up a rule-based, automatic liquidity transfer between T2S and T2. NCB accounts are allowed to have negative balances in T2S. Some NCBs may need to zero out these balances shortly before end-of-day, to ensure there is no overnight negative balance on their T2S accounts. The requested LT mechanism is only to cover a negative balance and should be triggered just before the new event for the optional cash sweep, for the exact amount needed to zero out the account (i.e. after the LT cut-off, there should be two exceptions: to allow liquidity in coming from this event based mechanism and to allow the LTs that carry out the optional cash sweep. From NCBs perspective, this feature should ideally be available by the go-live of T2-T2S Consolidation. The feature should be available, but not mandatory, for all CBs participating in T2⁶.

In case of liquidity transfer to be triggered in parallel from CLM to T2S, the FIFO principle will apply at the CLM level. If RTGS pull cash from CLM before T2S, the cash will be transferred to RTGS. In any case, liquidity transfers from CLM to T2S as described in this CR would not have access to the funds reserved in CLM for Central Bank Operations.

The solution should be designed in such a way that the failure of a liquidity transfer in the cases listed above does not result in reattempting that liquidity transfer in a potentially endless loop. The design of CLM and RTGS to handle similar cases should be re-used, to the extent applicable.

As foreseen between CLM and RTGS, all rule-based liquidity transfers defined in this CR should be allowed to settle partially in case of insufficient cash on the source account. Once settled partially, there should be no further attempts for the remaining part.

This new feature should be optional and should not impact the existing T2S feature consisting in sending notification when a floor or a ceiling is breached, i.e. all parties already using the feature will not be impacted and will not have to join the tests or re-do their set-ups. Concretely the notifications will be independent from the rule-based LT proposed in this CR, i.e. an account owner can configure a optional inbound LTs to avoid negative balances at EOD as described above and/or activate notifications when floor/ceiling thresholds are breached (this is what is foreseen in the new T2).

The set-up of rules for this functionality should be accessible to Central banks only (DCAs of payment banks cannot have negative balances).

This feature should ideally be available as of the T2/T2S Consolidation Go-live (November 2022). A future T2S Release would need to be considered in case the scope of the R6.0 was already frozen by the time of the completion of the ranking/detailed assessment exercise.

This feature should be designed in a multi-currency way, i.e. available for any T2S currency settling in T2..

Submitted annexes / related documents:

Outcome/Decisions:

CRG on 8 November 2019: The CRG launched the preliminary assessment of CR-720.

⁶ For T2S currencies not settling in T2, the existing, mandatory cash sweep already sweeps negative balances back to the relevant external RTGS system (e.g. Kronos 2)

CRG on 27 November 2019: The CRG confirmed the launch of the preliminary assessment of CR-720.

CRG on 17 September 2020: The CRG agreed to narrow the scope of CR-720 to include only an optional mechanism to prevent overnight negative balances on NCB accounts, and recommended the authorisation of CR-720 by the T2S Steering Level.

CRG on 20 September 2020: The CRG agreed on the proposed parameters for CR-720 and their justification

AMI-SeCo on 12 October 2020: The AMI-SeCo agrees with the CRG recommendation of authorisation of CR-720 by the T2S Steering Level.

CSG on 15 October 2020: The CSG took the resolution to authorise CR-720.

NECSG on 16 October 2020: The NECSG took the resolution to authorise CR-720.

MIB on 03 November 2020: The MIB agreed to authorise CR-720.

PMG on 19 November 2020: the PMG proposed to allocate CR-720 to R6.0 and launched its detailed assessment.

PMG on 21 May 2021: due to the dependencies with CSLD CR-0067, the PMG proposed to allocate CR-720 to R7.0 and launched its detailed assessment.

Documentation to be updated:

URD section 6.2.2.2 Types of liquidity transfer order

Preliminary assessment:

Only findings related to Case 4 apply

- **Impacted modules:** INTF (U2A, A2A?), LQMG, SETT, SDMG (CRDM)
- **Impact on other Services:** T2S-CR 720 requires a **CSLD-CR** due to impact on CLM/RTGS and DWH
- **Impact:** High

Case	Impact
Case 1	High
Case 2*	High
Case 3*	Medium
Case 4	High
All	Very high

* From SETT perspective the Cases 2 and 3 cannot be designed nor implemented separately

Findings:

SETT:

- Impact must address the RTS and NTS functional processes in order to:
- Trigger upon reception of an event at the End of Day (when the NCB makes the option) the automatic generation of Rule-based Liquidity Transfers crediting a NCB cash account up to zero if its balance is negative (Case 4).

SDMG:

- New types of Liquidity Transfer Order will allow to define relationships between the cash accounts to be debited/credited in each case. Defining a LTO for a specific scenario will enable that scenario for the Cash Account. Different credited/debited account combinations may be specified, but each T2S DCA may have at most one configuration for each of the cases listed above. LTO types are to be introduced specifically for this CR.
- The solution identified for T2-T2S Consolidation does not foresee a different behaviour for CB accounts (use case 4). This would be a T2S-specific behaviour.
- Case 4: Floor mechanism for NCB Accounts
 - A specific type of Rule-Based LTO is set up to define the account to be debited when, at the End of Day, a NCB Account balance is below zero.

LQMG:

- It has to be ensured that newly created End of day processes with CLM (camt.019, camt.025) are not jeopardised by the new rule based liquidity transfers.

Open issues:

- Potential performance and billing aspects have not been considered in the PA and should be clarified in the DA of T2S-0720-URD
- Which options should be configurable in A2A mode (possible A2A impact on camt.024, acmt.007/015). A2A impact is also not considered in the current PA.

Detailed assessment:
