



# T2S Guide for Payment Banks

*June 2016 – updated version*

T2S Programme Office  
European Central Bank

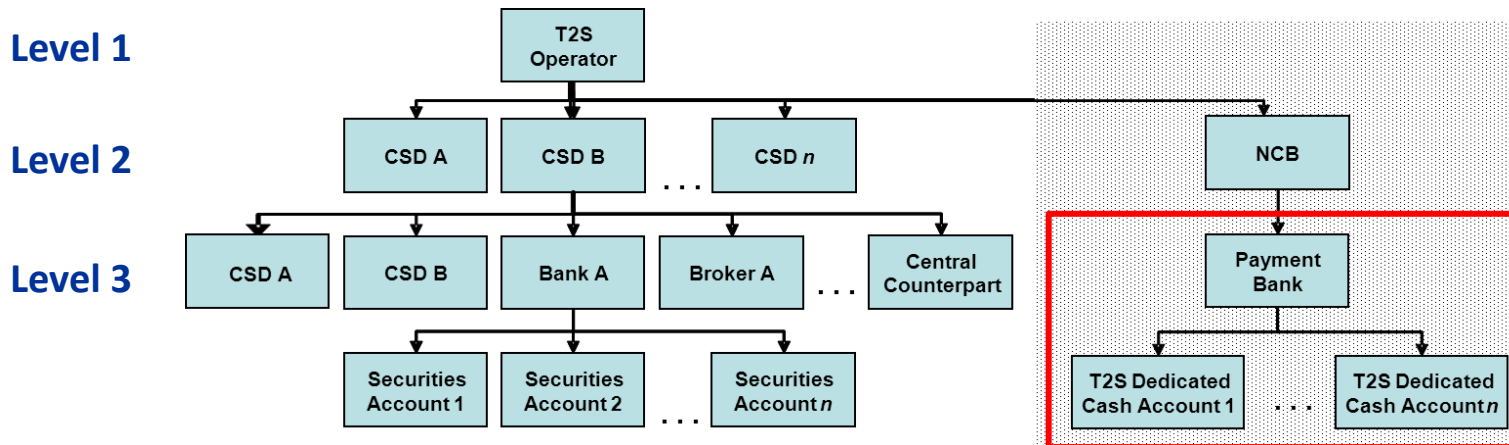


ECB-PUBLIC

- A Payment Bank is an important entity in T2S which will be used to settle the cash leg of securities settlements in T2S .
- The presentation provides detail information about required set-up and operations by a payment bank to service their clients.
- The presentation gives details about liquidity management and monitoring tools including auto-collateralisation available to payment banks in T2S
- The presentation also includes several examples to explain possible scenarios related to payment banks in T2S on various topics such as static data set-up, account structure, liquidity management, liquidity monitoring, auto-collateralisation, etc.

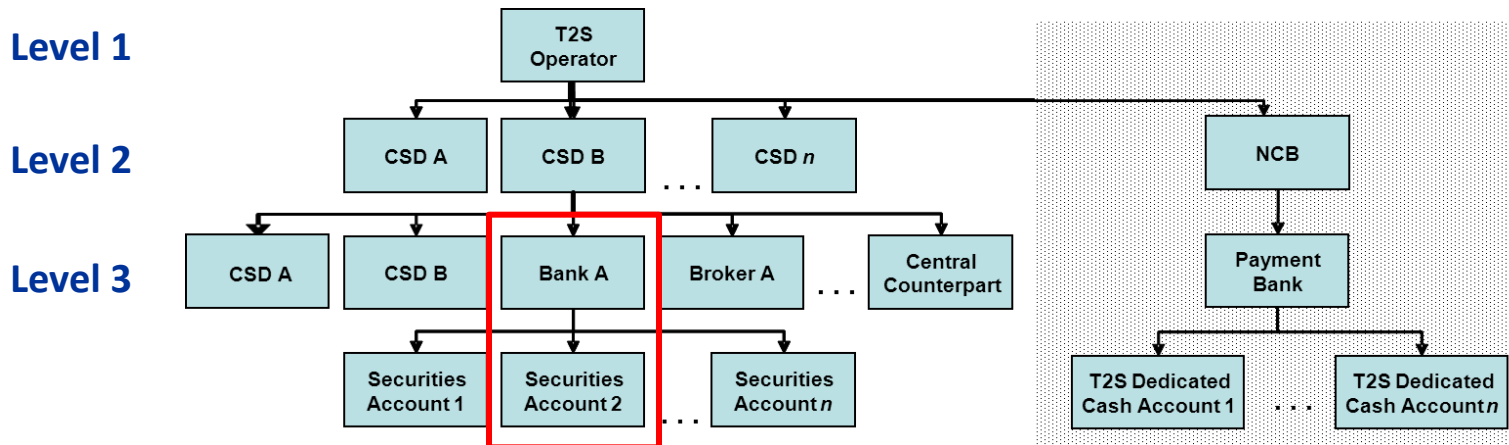
- 1 How to set-up Payment Banks and their clients in T2S?
- 2 How to provide liquidity to Payment Bank clients?
- 3 How to monitor and control limits?
- 4 How to leverage client-collateralisation?
- 5 How to use the T2S tool kit to service Payment Bank clients?

- I am a Payment Bank. How am I defined in T2S?
- A Payment Bank in the context of T2S is an entity that provides cash to CSD Participants (its clients) to support the settlement of securities.
  - In the T2S hierarchical party model, Payment Banks (Level 3) have one or several Dedicated Cash Accounts (DCAs).
  - In many cases the term “Settlement Bank” is used synonymously for Payment Bank.



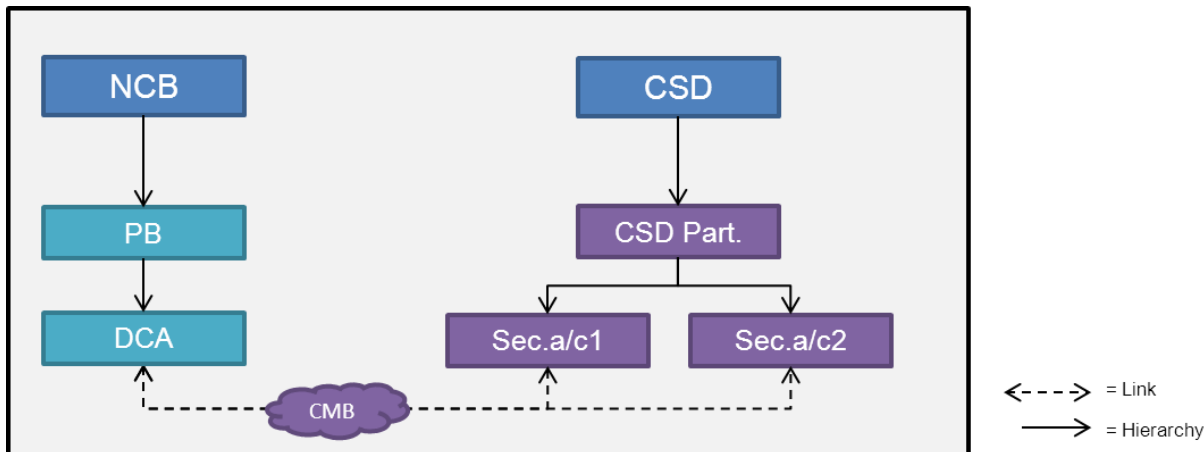


- I am a Payment Bank. How are my clients defined in T2S?
- Clients of Payment Banks typically handle only the securities settlement aspects, while the cash management lies with the Payment Bank.
  - In the hierarchical party model, clients of a Payment Bank are CSD Participants (Level 3) and have one or more securities accounts in their name.
  - The DCA will be owned by the Payment Bank.



# Defining the relationship of Payment Banks and their clients in T2S

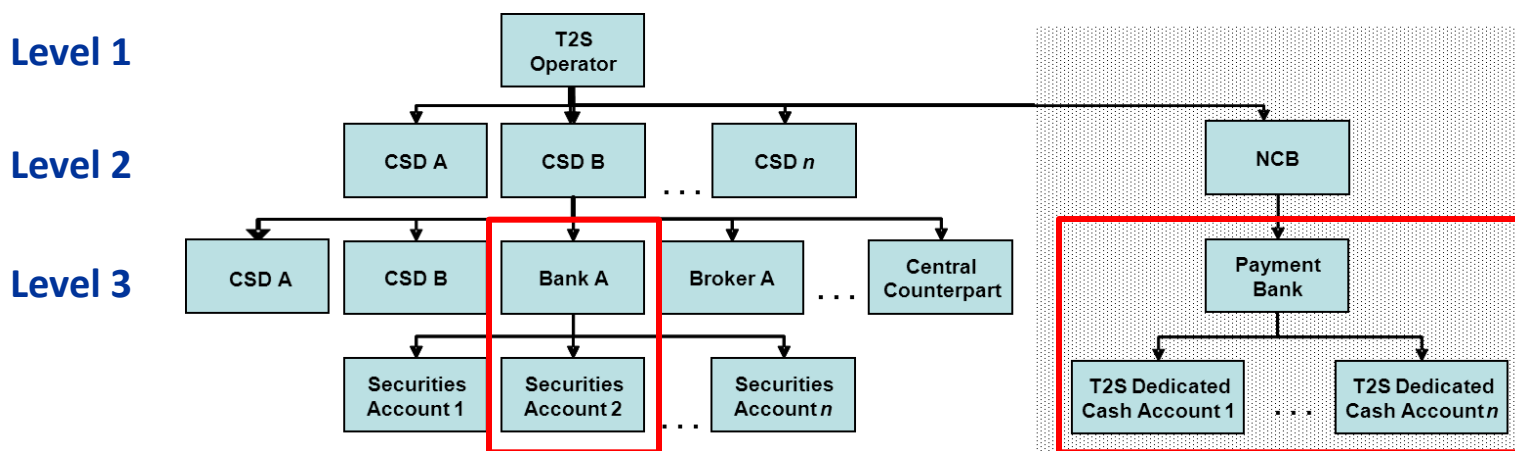
- I am a Payment Bank. How is the relationship between me and my clients reflected in T2S?
- In T2S, the relationship between Payment Banks and their clients is reflected by means of account links. Typically the securities accounts of the client and the DCAs of the Payment Bank will be linked for settlement purposes.
- Prior to linking a securities account to a DCA, a **Credit Memorandum Balance (CMB)** needs to be set-up by the Payment Bank.



- **What does the Credit Memorandum Balance (CMB) stands for?**
- The CMB provides with the facility to track the limit utilisation:
  - From the Central Bank to the Payment Bank (auto-collateralisation limit);
  - From the Payment Bank to its client (external guarantee limit, client-collateralisation limit and unsecured credit limit).
- A CMB to manage the relationship between Central Banks and Payment Banks is created for each DCA (one CMB per DCA).
- A CMB to manage the relationship between the Payment Bank and its client is required whenever a securities account with a different BIC from the Payment Bank's BIC is linked to the DCA.

# Setting up the Payment Bank's own securities settlement

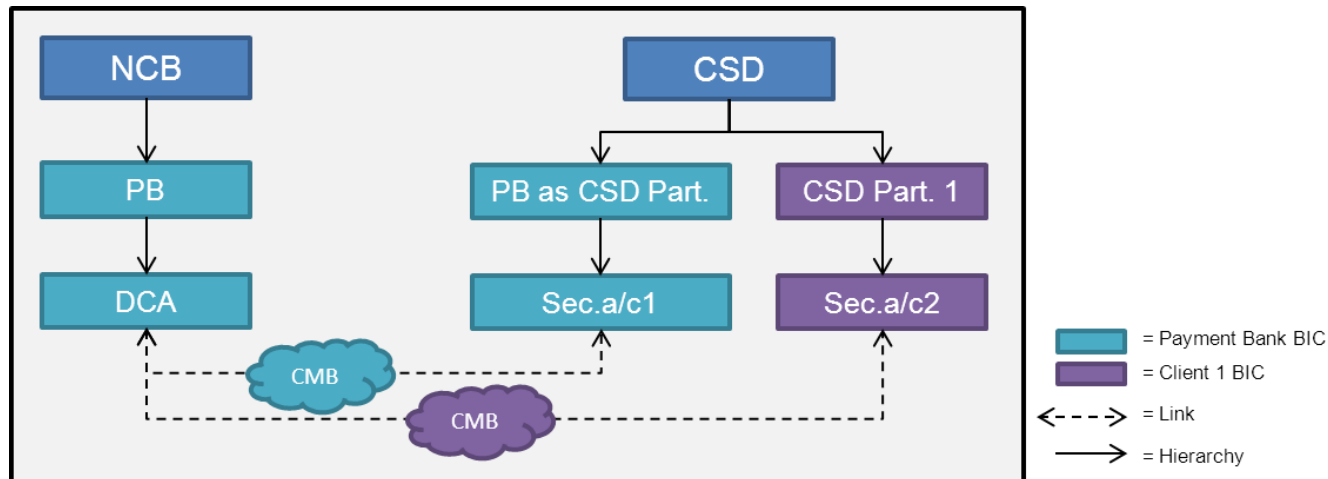
- I am a Payment Bank. How can I reflect my own securities settlement?
- Payment Banks can have securities accounts for their own securities settlement.
- In the hierarchical party model, this requires the Payment Bank to be set-up as CSD Participant in T2S.
  - As a result, the Payment Bank will be defined as two parties in T2S: as Payment Banks for the DCAs and as CSD Participant for its securities accounts.
  - The securities accounts need to be linked to the DCA for settlement purposes.





# Setting up the account structure

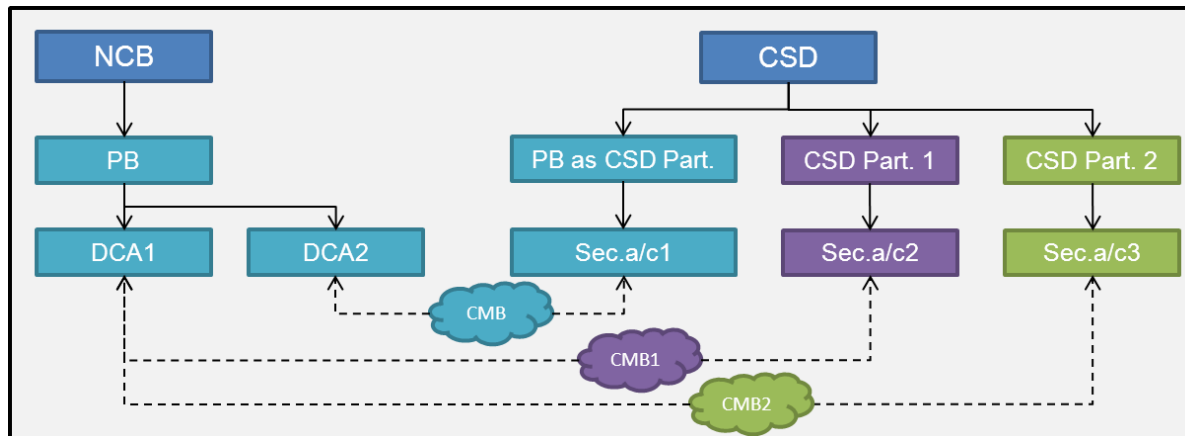
- I am a Payment Bank. Can I use the same DCA for my settlement and the settlement of my clients?
  
- Yes, the same DCA can be used.
  - Multiple securities accounts in the name of the client and in the name of the Payment Bank can be linked to the same DCA.
  - In order to link the securities account (BIC of client) to the DCA (BIC of Payment Bank), one or more CMBs need to be established.



- I am a Payment Bank. Can I have separate DCAs for my own settlement and for that of my clients?

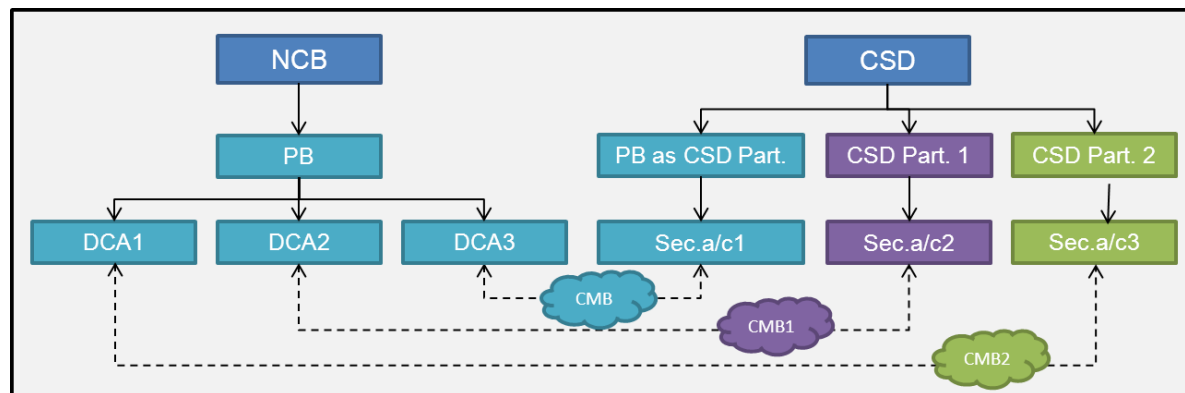
- Yes:

a) To separate client from own business



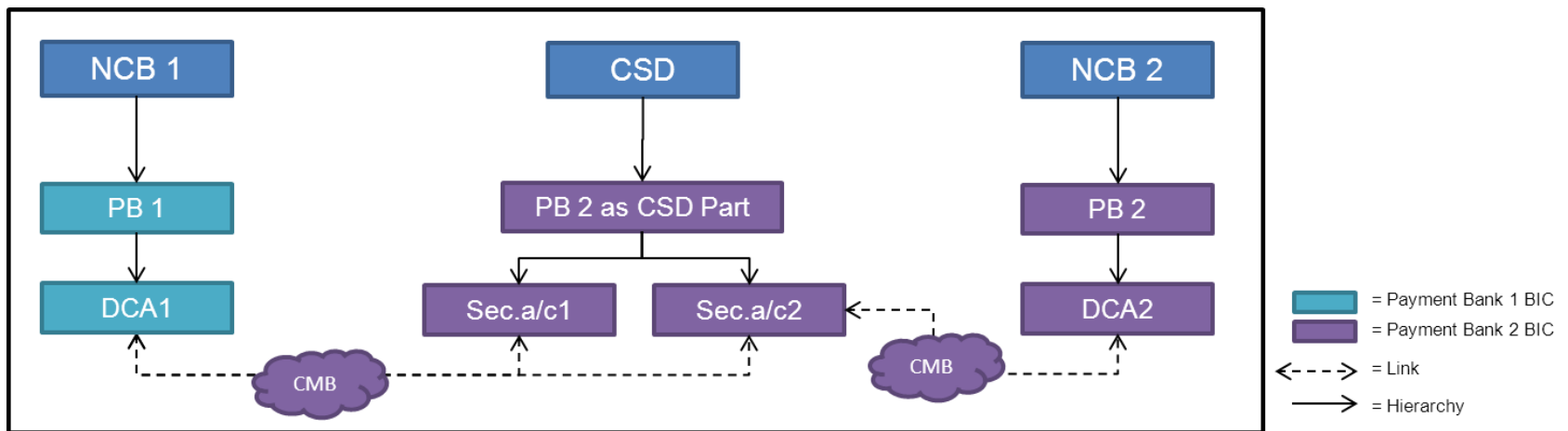
b) To additionally separate different clients

- = Payment Bank BIC
- = Client 1 BIC
- = Client 2 BIC
- = Link
- = Hierarchy

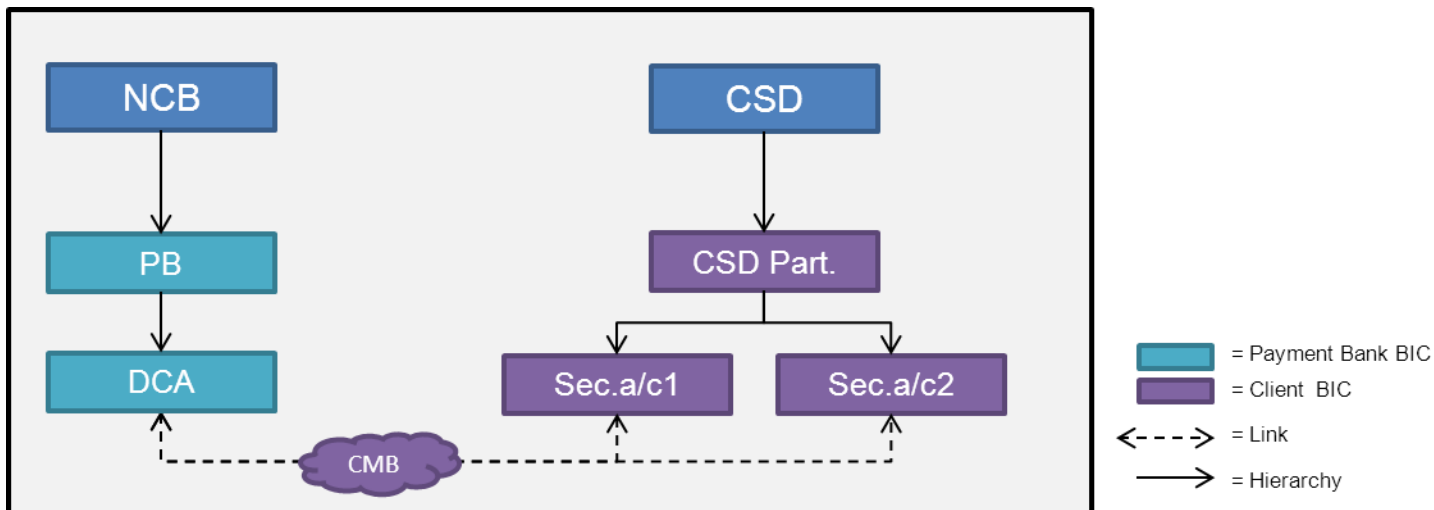


# Setting up the account structure

- I am a Payment Bank. What if I want to use the services of another Payment Bank (e.g. for another currency)?
- Payment Banks can be set-up as CSD Participants and have their own securities accounts in T2S.
- The securities accounts of Payment Banks in T2S are treated like all other securities account i.e. they can be linked via CMB to another Payment Bank's DCA.

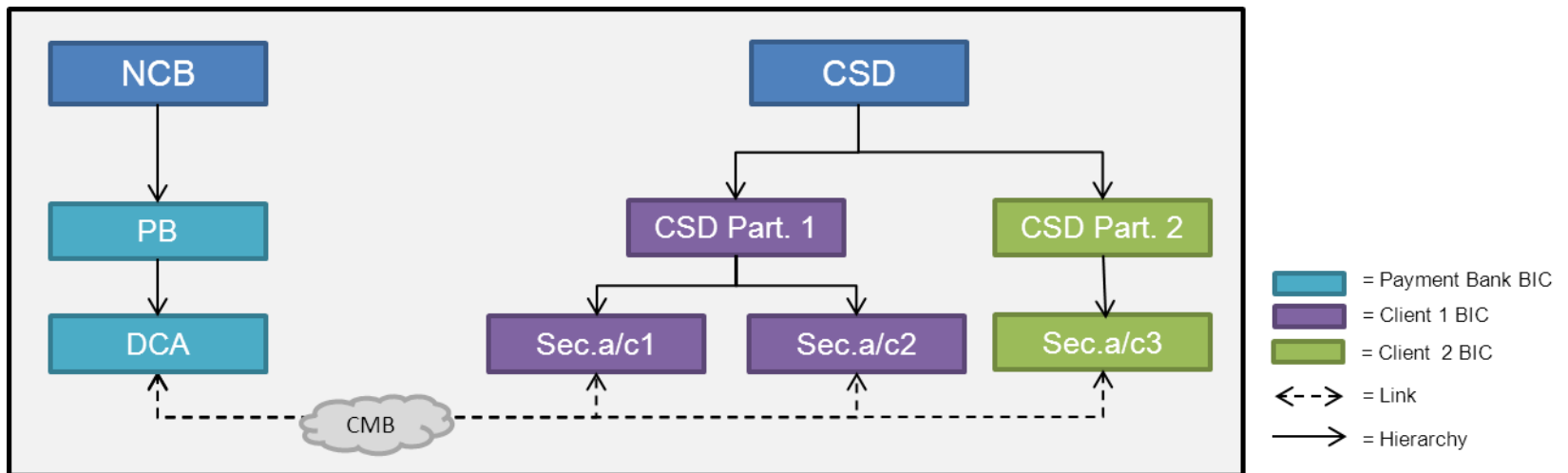


- I am a Payment Bank. Can several securities accounts of one client be linked to my DCA via one CMB?
- Yes, it is possible to link several securities accounts of a single client to one CMB
- In fact, for each DCA a given client (BIC) can have only one CMB i.e. if several securities accounts of the same client are to be linked to one DCA, one single CMB must be used.



# Setting up the account structure

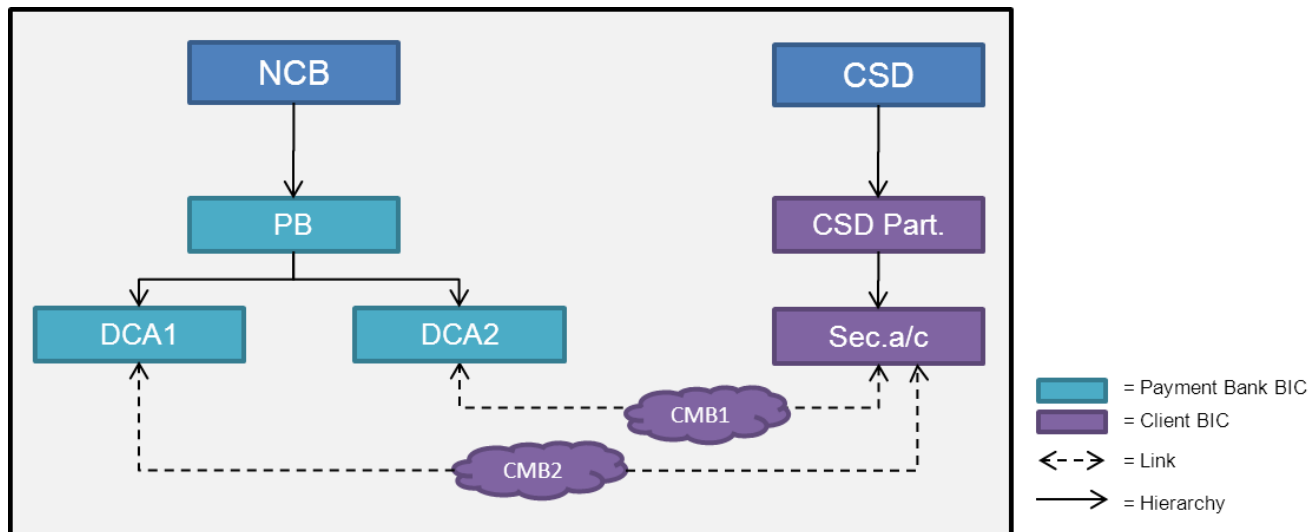
- I am a Payment Bank. Can several securities accounts of different clients (i.e. different BICs) be linked to my DCA via one CMB?
- Yes, the securities accounts of different clients can be linked via one CMB.
- Alternatively, several CMBs can be used, this decision is up to the Payment Bank.
  - E.g. different subsidiaries (set-up with different BICs) can be managed using the same CMB or several CMBs, depending on the Payment Bank's choice.





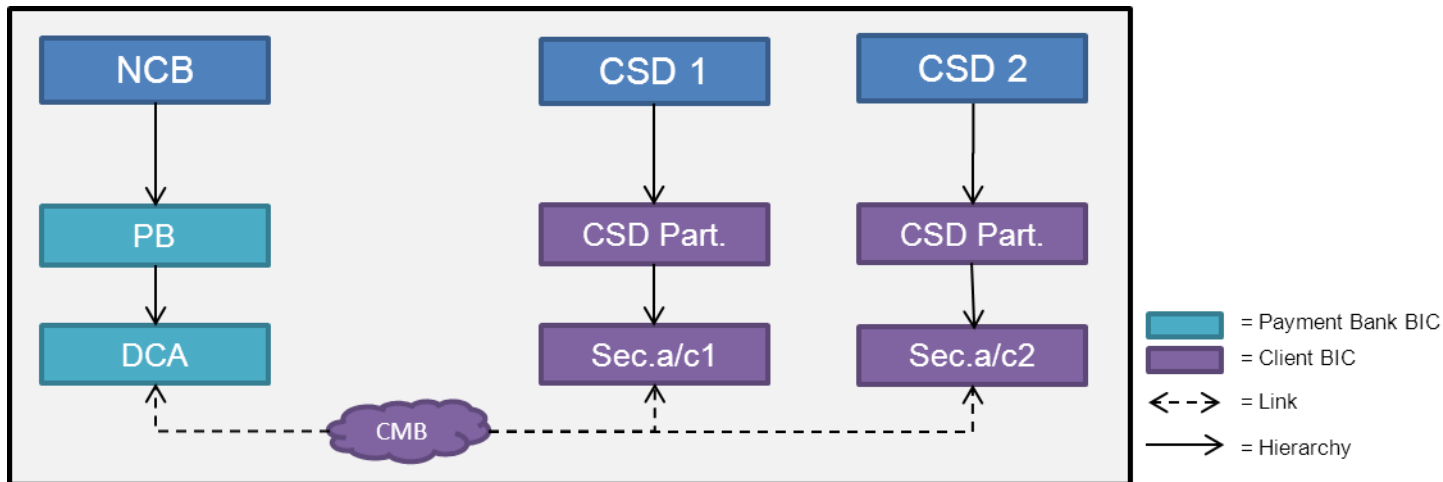
# Setting up the account structure

- I am a Payment Bank. Can several DCAs be linked to my clients' securities accounts via one CMB?
  
- No, it is not possible to link several DCAs using one CMB. For each DCA at least one CMB needs to be set-up.
  - For instance, if two DCAs are set-up, this requires the use of at least two CMBs, even if the DCAs are linked to the same client account.



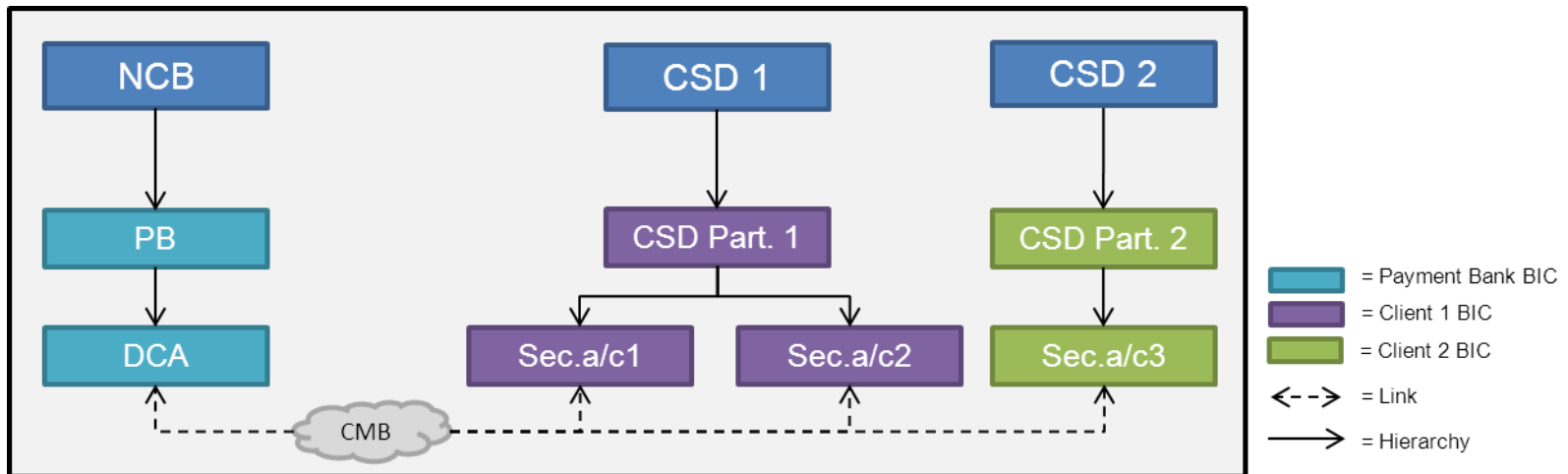
# Setting up the account structure

- I am a Payment Bank. Can I link the securities accounts of one client in different CSDs to one DCA?
- Yes, the securities accounts of one client (BIC) linked to the DCA can be in different CSDs.
- If the securities accounts are linked to the same DCA, only one CMB can be used. It is not possible to link several securities accounts of one client to one DCA using several CMBs.



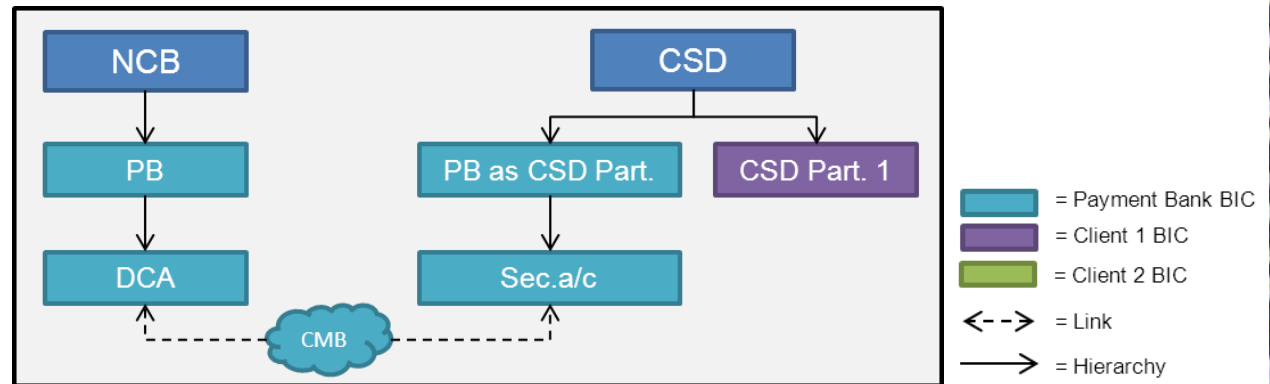
# Setting up the account structure

- I am a Payment Bank. Can I link the securities accounts of several clients in different CSDs to one DCA?
- The securities accounts belonging to different clients (BIC) in different CSDs can be linked to one DCA.
- Since the BICs are different, it is the Payment Bank's choice to use one or several CMBs for the different clients.

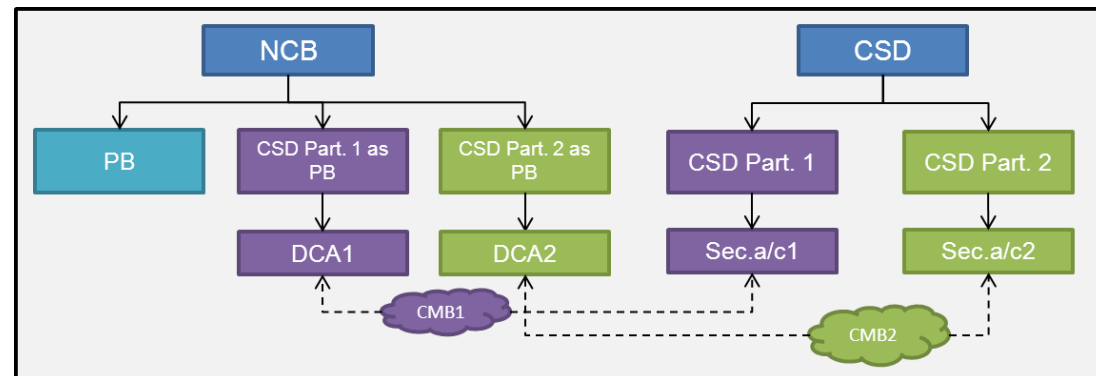


- I am a Payment Bank. Are there alternatives to using CMB for my clients?
- Yes, it is possible to avoid the use of (client) CMBs

a) Either securities accounts are set-up with the BIC of the Payment Bank, or



b) The DCAs are set-up with the BIC of the clients.



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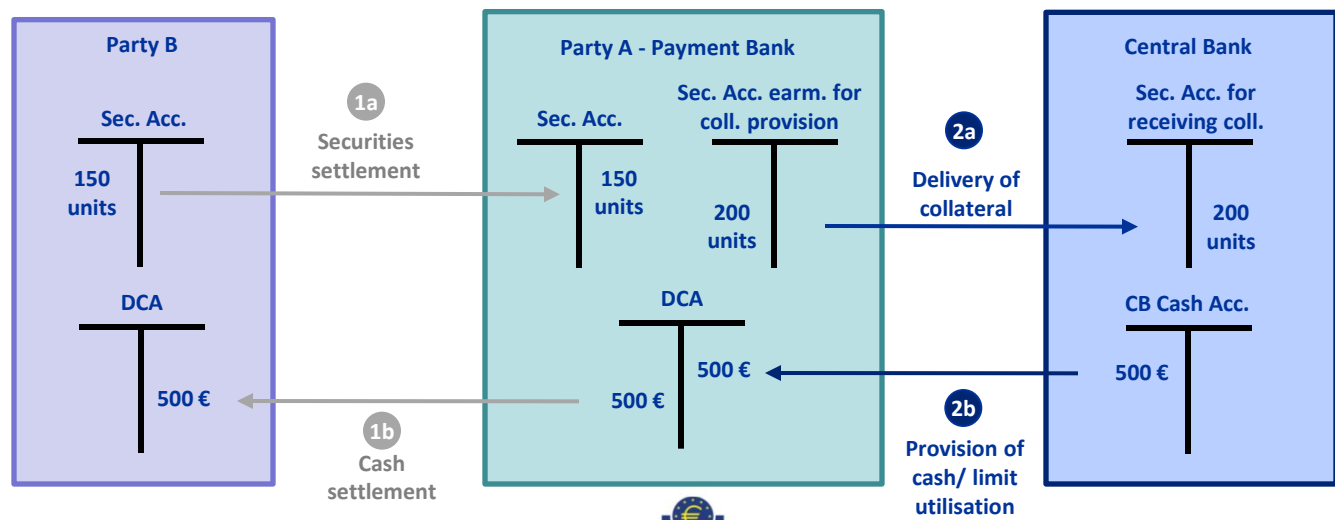
- **I am a Payment Bank. How can I enable my client's securities settlement?**
- Payment Bank service consists in enabling DVP securities settlement for their clients.
- This is achieved by making cash available on the DCAs.
- Cash can be provided on a DCA in several ways:
  1. Liquidity transfers
  2. Auto-collateralisation with the Central Bank
  3. Settlement instructions

- **I am a Payment Bank. How can I use liquidity transfers to provide cash on a DCA?**
- A liquidity transfer is an instruction from a cash account holder to transfer a specified amount of money from its cash account to another cash account.
  - Inbound liquidity transfer: Move cash from RTGS account to DCA.
  - Internal liquidity transfer: Move cash between DCAs of the same Payment Bank; both DCAs must be owned by the Payment Bank or linked to the same RTGS account.
  - Inbound and internal liquidity transfers take place using immediate liquidity transfer orders i.e. liquidity will be transferred immediately after the transfer was instructed.
- To move cash out of T2S (outbound liquidity transfers) there are several options:
  - Predefined and standing liquidity transfer orders: Liquidity will be transferred either once or at every occurrence of a given event/time.
  - Automatic EOD cash management procedures.

# Providing liquidity using Central Bank auto-collateralisation

- I am a Payment Bank. How can I use Central Bank auto-collateralisation to provide cash on a DCA?
- Auto-collateralisation is triggered when T2S detects a lack of cash on the DCA being debited in a settlement transaction (not for intra-balance movements and liquidity transfers!).
  - The auto-collateralisation limit determines the maximum amount of intraday credit that a payment bank can obtain via auto-collateralisation with its Central Bank.

Movements 1 and 2 take place on an **all-or-none basis** to ensure that collateralisation is used exclusively for the respective transaction

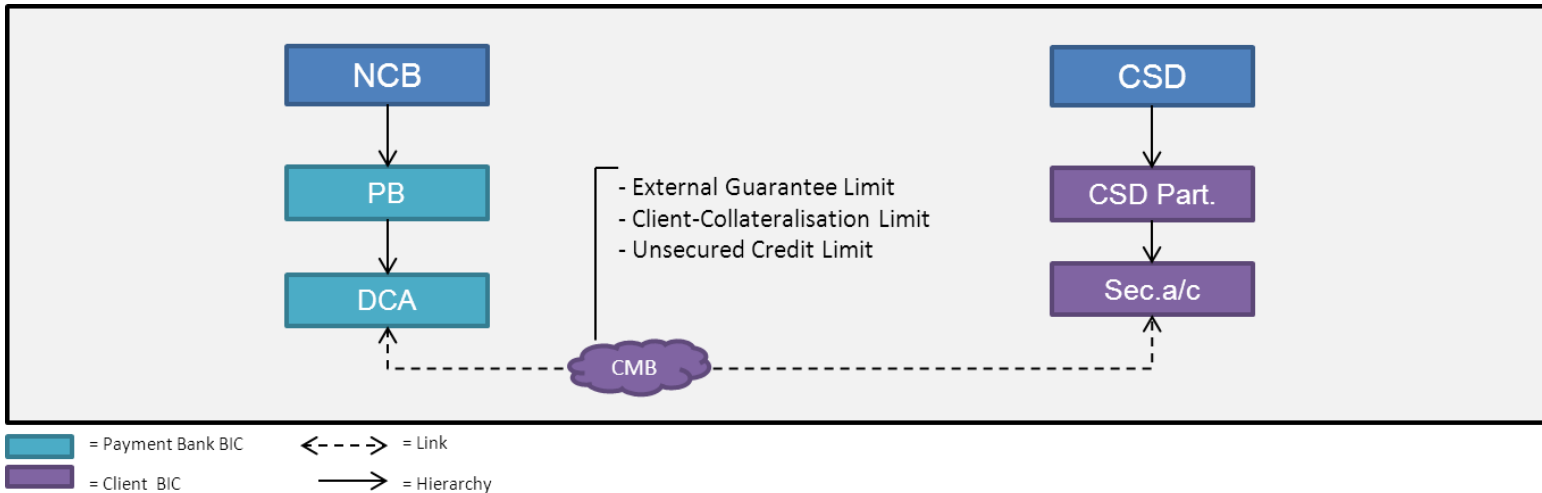


- **I am a Payment Bank. How can I restrict the usage of cash available on the DCA by my client?**
  
- In general, the client will have access to all cash available on the DCA, to the extent of the defined limits, to enable its securities settlement.
  
- However, cash balances on the DCA can be reserved or blocked by the Payment Bank and thereby restricted from usage.
  - The amount of cash reserved or blocked cannot be used to settle instructions, unless the instruction being settled specifies the generated restrictions reference(s).

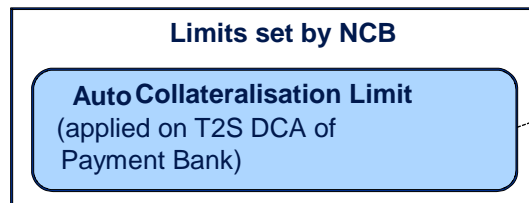
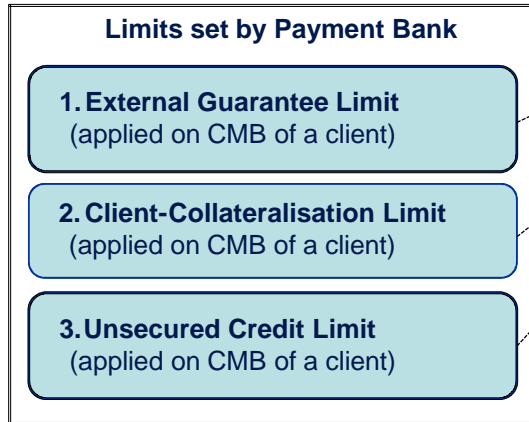
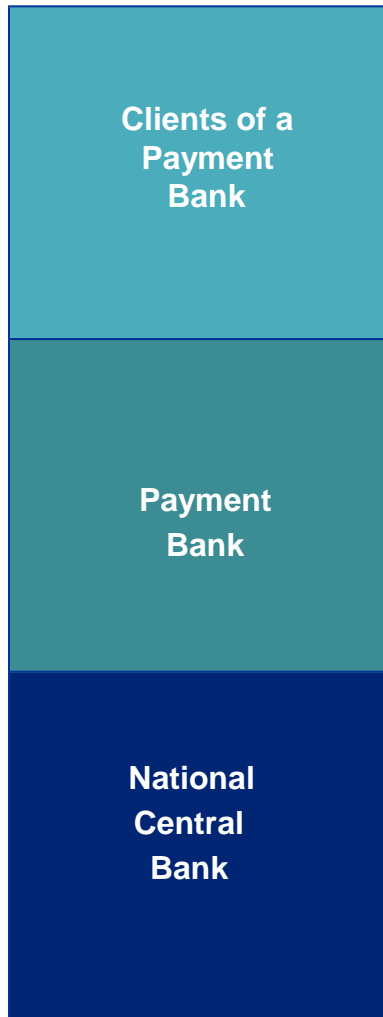
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- I am a Payment Bank. What are the limits that I can define for my clients?
- T2S allows Payment Banks to set three limits for their clients :
  - In order to use the limit management facilities a CMB needs to be in place.



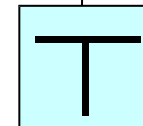
- **I am a Payment Bank. What is the difference between the three limits?**
  
- The Payment Bank can set three limits for its clients:
  - **External guarantee limit:** Cap on the cash that the client can use out of the amount available on the DCA of the Payment Bank without collateralisation
  - **Client-collateralisation limit:** Cap on the cash that the client can use out of the amount available on the DCA of the Payment Bank with collateralisation
  - **Unsecured credit limit:** Additional Cap on the cash that the client can use out of the amount available on the DCA of the Payment Bank without collateralisation
  
- The limits are utilised in the order above, with the external guarantee limit being used first.
  
- The limits are always linked to a given CMB i.e. there might be more than one set of limits for a given client.



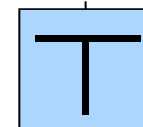
Credit Memorandum Balance



T2S Dedicated Cash Account



Central Bank Cash Account

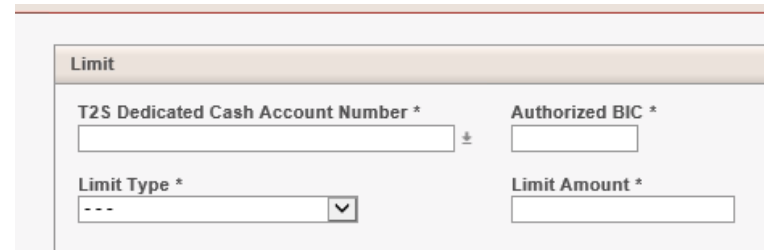


----- Link  
 -----> Applied on

- **I am a Payment Bank. Do I have to use all three limits for my clients?**
- When the CMB is created, the three limit amounts are set to zero by default.
- The definition of at least one limit is a pre-condition in order to enable the settlement of client transactions
- Besides that, it is the Payment Bank's decision how to use the three limits available in T2S.
  - For instance, if a Payment Bank want to resort to client-collateralisation directly, the external guarantee headroom will be kept at zero.
  - Similarly, if a Payment Bank does not want to provide further limit headroom after resorting to client-collateralisation, the unsecured credit limit can be set to zero.
- The Payment Bank can increase and decrease the limit amount of all limit types during the settlement day.

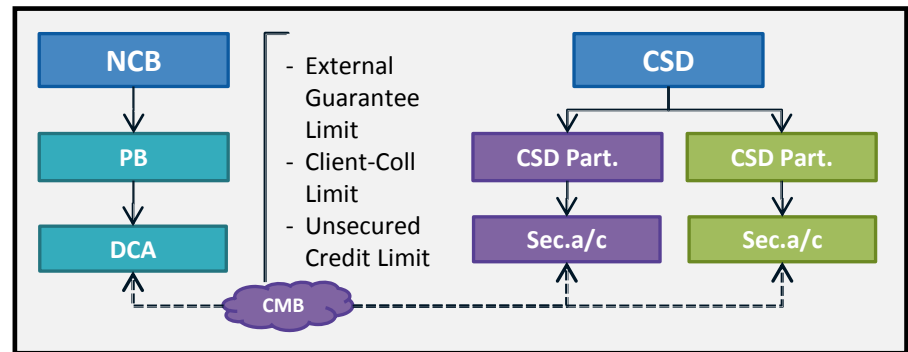
- I am a Payment Bank. How can I set up limits in the T2S GUI?

- When creating a limit for a given CMB, the CMB must be identified via the combination of DCA and BIC. If there are two or more BICs authorised for the CMB, any of those BIC can be used.



- The limit will apply to all authorised BICs and their related SACs, independent from the authorised BIC provided when creating the Limit

- For any given CMB, it is not possible to set up the same Limit Type several times, even when specifying different authorised BICs.

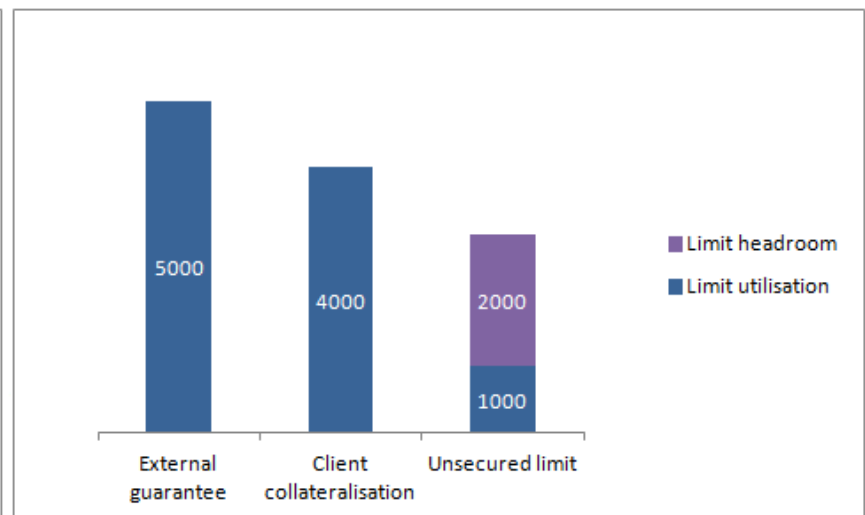




- **I am a Payment Bank. What happens if I increase or decrease the limits for my clients during the day?**
- The Payment Bank can increase and decrease the limit amount of all limit types during the settlement day.
- If the limit is increased, T2S automatically recycles settlement instructions, which are pending due to an insufficient limit headroom, and attempts their settlement again.
- If the limit is decreased and the utilisation is **lower** than the new limit, no specific process is initiated by T2S. The new limit will be available for future settlement.
- If the limit is decreased and the utilisation is **higher** than the new limit, the limit headroom becomes negative. The limit cannot be used to settle transactions, until it becomes positive again.

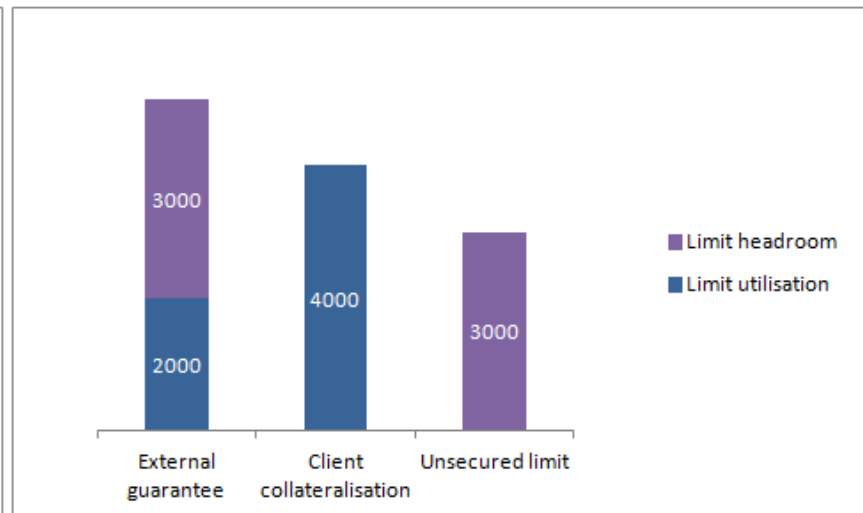
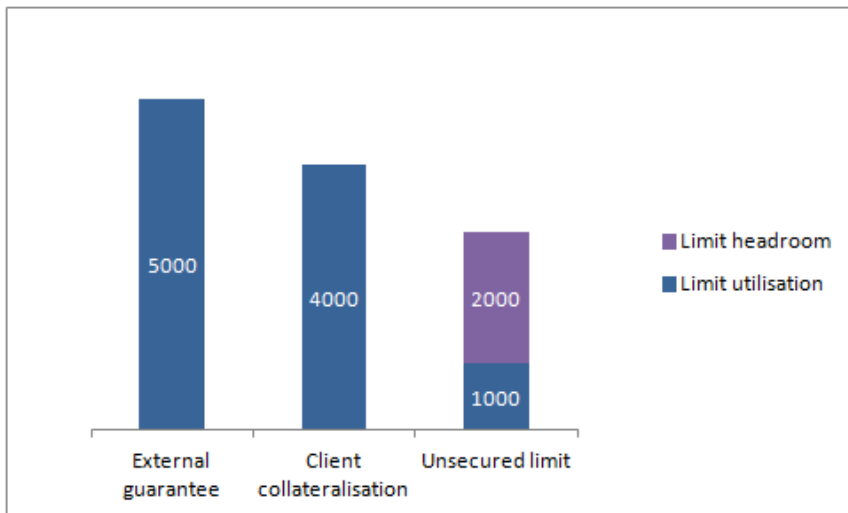
- I am a Payment Bank. Which effect does a buy transaction have on the usage of my clients' limits?
- Any buying settlement instruction first impacts the external guarantee limit available by increasing its limit utilisation (i.e. lowering available headroom).
- Once the external guarantee limit headroom is fully utilised, T2S resorts to the client collateralisation limit (i.e. the T2S auto-collateralisation procedure) and, if necessary, the unsecured credit limit.
- The limit headroom is reduced at the time of settlement (pending instructions do not have an impact on limits).

**Example A: Buying SI against EUR 10,000**

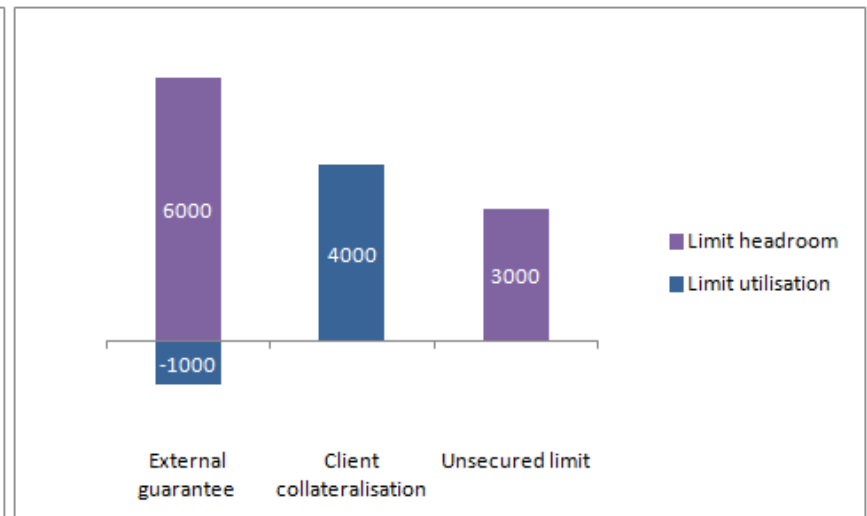
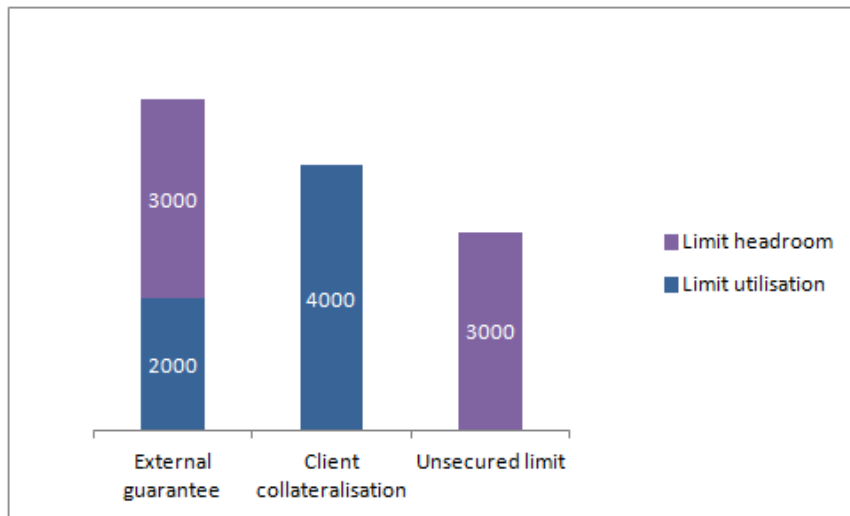


- I am a Payment Bank. Which effect does a sell transaction has on the usage of my clients' limits?
- Upon settlement of a selling settlement instruction the limit utilisation on either the unsecured credit limit, the external guarantee limit or both is decreased
  - If the unsecured credit limit utilisation is greater than zero, it will be lowered (i.e. headroom increased).
  - Next, the external guarantee limit utilisation is decreased (i.e. headroom increased).
- Selling settlement instructions do not impact the utilisation of the client collateralisation limit (only the reimbursement of auto-collateralisation does).

**Example B: Selling SI for EUR 4,000**



## Example C: Selling SI for EUR 3,000



- **I am a Payment Bank. How can I monitor the usage of my clients' limits?**
- T2S offers several queries to view
  - The configured limits (Limit query);
  - The limit utilisation (Limit utilisation query or limit utilisation journal query).

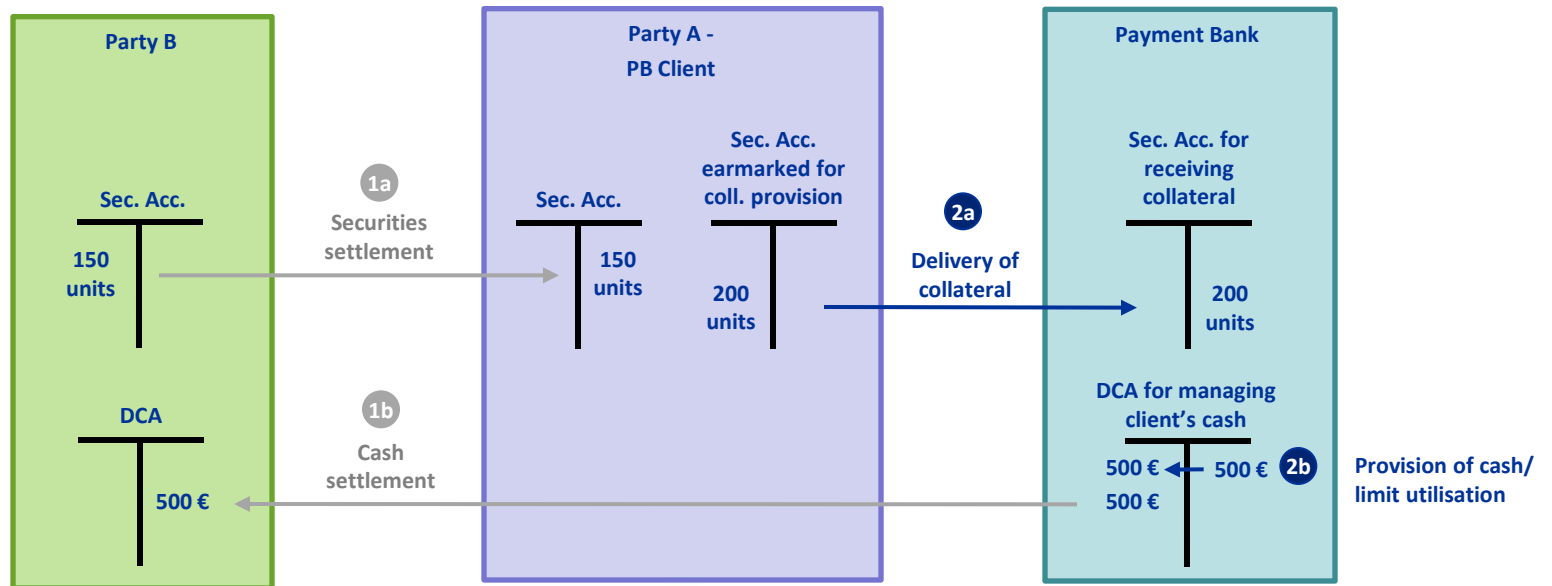
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- **I am a Payment Bank. What do I need to set-up for client-collateralisation?**
  
- In order for client-collateralisation to work, a Payment Bank needs to set-up daily:
  - Once for all clients
    - List of eligible collateral securities i.e. the list of securities accepted as collateral.
    - Securities valuation i.e. the specification of the prices that T2S can use for the valuation of securities positions; the prices need to be provided on a daily basis.
  - Per CMB:
    - The maximum amount to be provided i.e. the client-collateralisation limit.
    - Securities accounts for receiving the collateral (owned by Payment Bank).

- **What are the triggers for client-collateralisation? What are the conditions?**
- Client-collateralisation is triggered, when the cash requirement of a buying settlement instruction exceeds the client's external guarantee limit headroom.
- Below conditions must be satisfied for client-collateralisation
  - Client-collateralisation is configured for the client (i.e. Limits are setup on the CMB, collateral providing securities account is linked to the CMB).
  - Positions on the 'eligible securities' are available. Either the positions are earmarked for collateralisation or are in the securities account earmarked for collateralisation.
  - The sum of all limit headrooms must be sufficient to settle the settlement instruction. If other settlement instructions are linked on an all-or-none basis all linked instructions must be able to be settled.
  - The client has no "close link" (as defined by the Central Bank) with the eligible securities available. While eligible securities and valuations are stored separately for client and Central Bank auto-collateralisation, close links are kept in a single database.

- **How is a client-collateralisation operation processed?**
- If all pre-conditions are met, T2S
  - Generates and settles the collateral settlement instructions 2a and 2b;
  - Generates and put on “Party Hold” the reverse collateral settlement instructions for the reimbursement later on (when released by the Payment Bank).



Movements 1-2 take place on an **all-or-none basis**, together with the update of the limit utilisation, to ensure that collateralisation is used exclusively for the respective transaction

- **I am a Payment Bank. Is there an automatic reimbursement of client-collateralisation at the end of day?**
- No, for client-collateralisation there is no automatic reimbursement at the end of day. Payment Banks need to make sure that their clients' client-collateralisation operations are reimbursed.
- However, T2S does offer automatic substitution of collateral: If securities provided as collateral are needed to settle another settlement instruction, T2S automatically releases the held reverse collateral settlement instruction(s).

- **I am a Payment Bank. How and when can I trigger the reimbursement of client-collateralisation?**
- To trigger the reimbursement of an client-collateralisation operation, the payment bank needs to 'release' the 'held' reverse collateral settlement instruction (which was previously generated automatically by T2S).
- Before triggering the reimbursement the Payment Bank has to make sure that sufficient limit headroom is available.
- T2S treats the reimbursement instruction as any other settlement instruction in terms of cash provisioning. i.e. T2S checks that the necessary headrooms are available to settle the transaction (the sum of external guarantee headroom, client-collateralisation headroom, unsecured credit headroom).
- The release of the reimbursement can be triggered at anytime. However, settlement can occur only until the DVP cut-off (4:00 pm).

- **I am a Payment Bank. What happens to my client's transactions requiring cash, when there is no cash balance in the DCA?**
- T2S checks if the cash balance available in the DCA is sufficient to settle the transaction. In case it is not sufficient, T2S checks if auto-collateralisation can provide the required cash into the DCA.

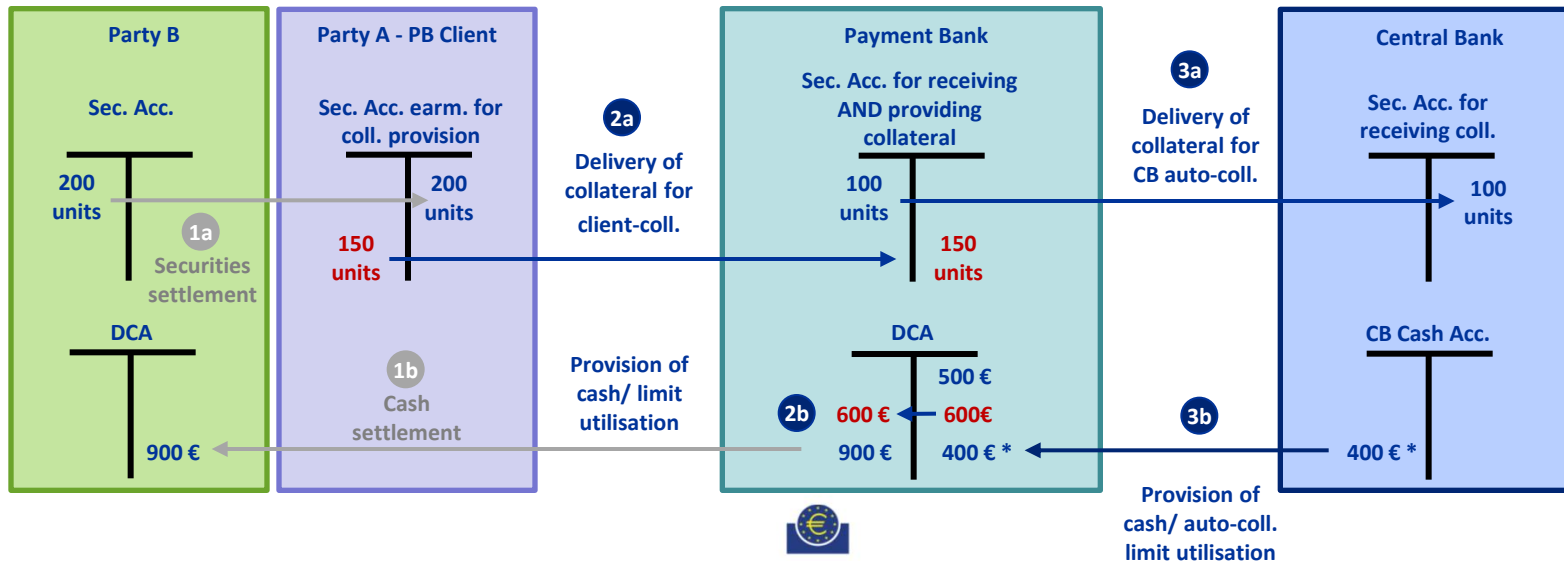


# Link between Central Bank and Client collateralisation

- **I am a Payment Bank. Is my client's client-collateralisation limit linked to my own auto-collateralisation limit with my Central Bank?**
- No, the auto-collateralisation limit set by the Central Bank for a Payment Bank is completely independent of the client-collateralisation limit, which the Payment Bank sets for its clients.
  - The client-collateralisation limits can exceed the Payment Bank's auto-collateralisation limit with the Central Bank.
- Likewise, there is no dependency between the use of the Central Bank auto-collateralisation limit and the client-collateralisation limit.

# Link between Central Bank and Client collateralisation

- I am a Payment Bank. Can I use the collateral received from my clients as collateral for Central Bank auto-collateralisation?
- Yes, it is possible to use the collateral received from clients in the Central Bank auto-collateralisation (see example for collateral on flow). Securities account used for receiving collateral (receiving account) during client-collateralisation is also earmarked for Central Bank auto-collateralisation.



\* different valuations might be applied for CB auto-collat. and client-collat.

# Link between Central Bank and Client collateralisation

- **I am a Payment Bank. Are there any dependencies between Central Bank collateralisation and client-collateralisation?**
- In terms of cash, No. Reimbursement of client-collateralisation does not impact the cash balance in the DCA. Therefore, reimbursement of client-collateralisation does not impact reimbursement of Central Bank collateralisation with regard to cash.

# Link between Central Bank and Client collateralisation

- **I am a Payment Bank. Are there any dependencies between Central Bank collateralisation and client-collateralisation?**
- In terms of securities, there is a dependency in a scenario in which a payment bank uses (e.g. as collateral to the Central Bank during Central Bank collateralisation) the collateral it received from its client during client-collateralisation.
- In this scenario, before initiating the reimbursement of client-collateralisation (on ISIN A), the payment bank has to identify, if it is possible to get back those collateral securities (ISIN A) from the Central Bank.
  - If there are other collateral eligible securities (ISIN B) in the Payment Bank's securities account, that could be used to substitute the ISIN A positions, the Payment Bank can initiate the client-collateralisation reimbursement.
  - If there are not sufficient other collateral eligible securities (ISIN B) in the Payment Bank's securities account, then the Payment Bank should first initiate reimbursement of the Central Bank collateralisation involving ISIN A (before initiating reimbursement of client-collateralisation).
- Otherwise the client collateralisation reimbursement transaction will fail to settle due to lack of securities.

# Link between Central Bank and Client collateralisation

What are the differences between central bank & client collateralisation?

Characteristics	Central Bank Collateralisation	Client Collateralisation
Credit Provider	Central Bank	Payment Bank
Credit Consumer	Payment Bank	Payment Bank client
Maintenance of Eligibility	Central Bank	Payment Bank
Maintenance of Securities Prices	Central Bank	Payment Bank
Maintenance of Close Links	Central Bank	Central Bank
Trigger for Auto-Collateralisation	Lack of cash on DCA	Lack of external guarantee limit headroom
Ceiling of Auto-Collateralisation	Central Bank collateralisation limit	Client-collateralisation limit
Intraday Re-Imbursement	<ul style="list-style-type: none"> <li>- Automatic substitution</li> <li>- Manual release</li> <li>- Central Bank collateralisation limit reduction below utilisation</li> </ul>	<ul style="list-style-type: none"> <li>- Automatic substitution</li> <li>- Manual release</li> </ul>
End of Day Re-Imbursement	Automatic	Manual

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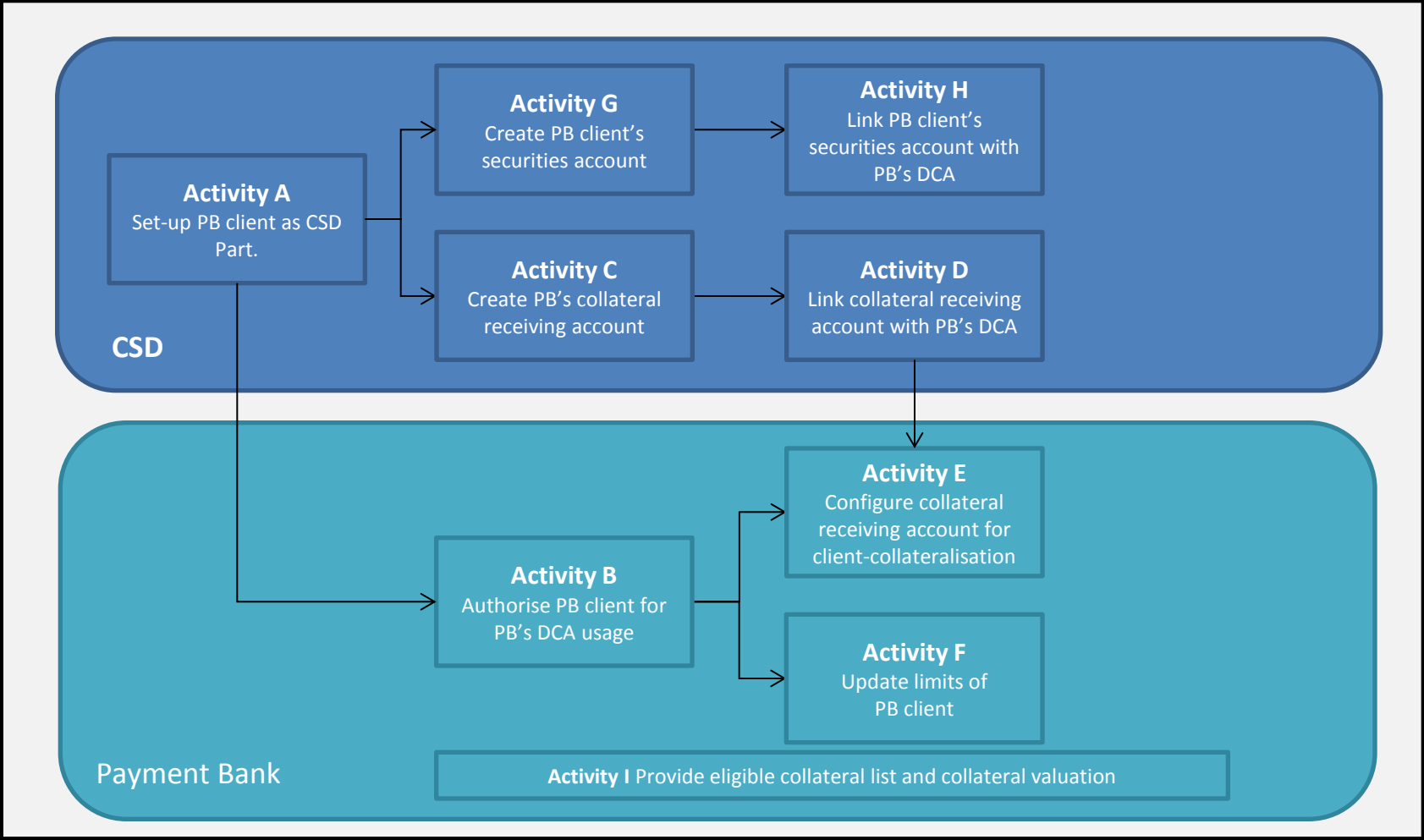
- **What needs to be done in T2S to service Payment Bank clients?**
- Which T2S queries and reports can be used to manage Payment Bank clients?
- What are the possible exceptions, the implications and possible resolution approach?
- Which activities would need to be considered during a day in the life of Payment Bank operations?

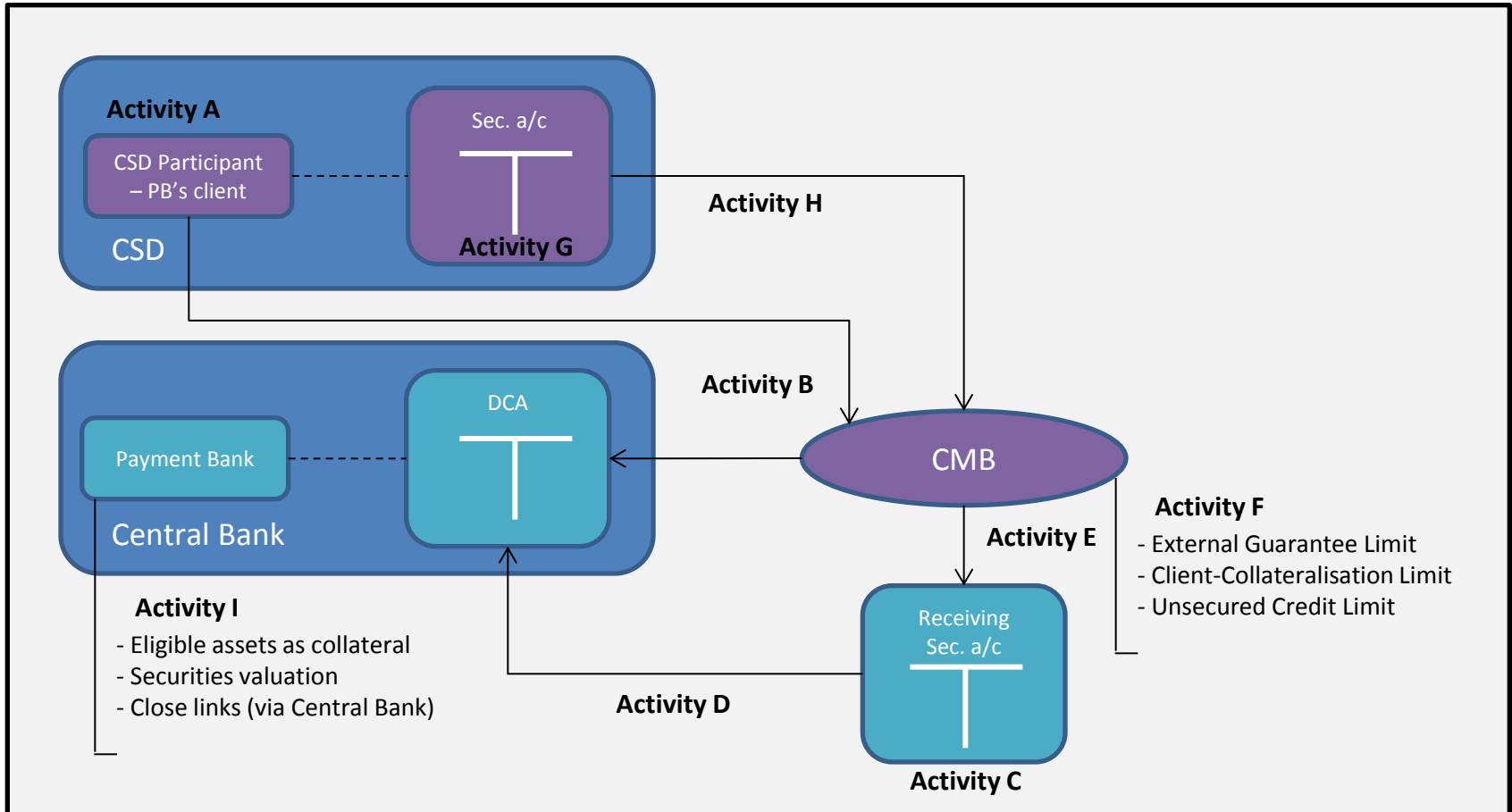
- **Which business actors are responsible for set-up the relationship between the Payment Bank and its clients?**
  
- The business actors can use the T2S tools available in the A2A and/or U2A mode for the maintaining the configuration of Payment Bank clients:
  - CSD of the Payment Bank client,
  - Payment Bank and
  - Payment Bank client.

**Scope of this section is limited to the activities imperative for configuration in T2S only. Some additional activities may be required to be performed as a pre-requisite for set-up in T2S.**

	Activity	Responsible	T2S Tool
<b>Set up of Payment Bank client</b>	Activity A: Set-up Payment Bank client in T2S as CSD Participant	CSD (of the Payment Bank client)	A2A & U2A
	Activity B: Authorise Payment Bank client to use Payment Bank's T2S DCA	Payment Bank	U2A
<b>Set up of Client-collateralisation facility</b>	Activity C: Create collateral receiving securities account	CSD (of the Payment Bank in its role as CSD Participant)	A2A & U2A
	Activity D: Link the collateral receiving securities account to the Payment Bank's DCA for settlement purpose	CSD (of the Payment Bank in its role as CSD Participant)	A2A & U2A
	Activity E: Configure collateral receiving securities account for client-collateralisation service	Payment Bank	U2A
<b>Enabling Client activities</b>	Activity F: Update Limit(s) for Payment Bank clients	Payment Bank	A2A & U2A
	Activity G: Create securities account for Payment Bank's client	CSD (of the Payment Bank client)	A2A & U2A
<b>Essential data for client-collateralisation</b>	Activity H: Link the Payment Bank client's securities account to the T2S DCA	CSD (of the Payment Bank client)	A2A & U2A
	Activity I: Provision of eligible collateral list and collateral valuation	Payment Bank	A2A & U2A

# Configuration activity dependencies





- Payment Bank client is an institution that leverages the Payment Bank for providing cash services to enable *Versus Payment* securities settlement in T2S.
- To enable securities settlement, the Payment Bank client must exist as a CSD Participant.
- CSD is responsible for the set-up of a Payment Bank client in T2S as a T2S Party with the *Party Type* as CSD participant.
- Tools available for the creation of T2S Party
  - A2A : PartyCreationRequestV01 (reda.014.001.01);
  - U2A : T2S GUI.



- Information blocks required for set-up of a T2S Party:
  - Party Reference Data (such as Party Type, Opening and Closing Dates);
  - Party Name (such as long name, short name);
  - Party Address (i.e. postal address);
  - Party Code (i.e. BIC);
  - Party Technical Address;
  - Market Specific Attributes;
  - Restriction Information (e.g. information related to the intraday restrictions on the Party).

**Please note that this activity does NOT qualify yet the T2S Party (a CSD Participant) as a Payment Bank client.**

- This activity involves the Payment Bank authorising the BIC(s) of the Payment Bank's client to use the Payment Bank's DCA in T2S.
- The activity qualifies the T2S Party as a Payment Bank client.
- This functionality is available in U2A mode only.
- Key features of the *Authorisation* functionality:
  - Single or multiple BICs associated with a CMB;
  - Use of wildcard pattern;
  - Use of inclusion / exclusion concept;
  - Validity period.

## Sample case study depicting the flexibility of authorisation definition:

Bank A (Primary BIC: BANKDEFFXXX) is a CSD Participant of “CSD 1” as well as of “CSD 2” and is defined with 5 different parties in T2S (two parties with CSD 1 and three parties with CSD 2).

CSD	Party Name	Party Code
CSD 1	Bank A1	BANKDEFFXXX
CSD 1	Bank A2	BANKDEFF001
CSD 2	Bank A3	BANKITRR100
CSD 2	Bank A4	BANKITRR200
CSD 2	Bank A5	BANKITRR200

Different configurations are possible in order to fulfil different business needs.

CSD	Party Name	Party Code
CSD 1	Bank A1	BANKDEFFXXX
CSD 1	Bank A2	BANKDEFF001
CSD 2	Bank A3	BANKITRR100
CSD 2	Bank A4	BANKITRR200
CSD 2	Bank A5	BANKITRR200

Option 1: All parties linked to the CMB:

Wildcard Pattern	Inclusion Mode
BANK*	True

Option 2: Only Bank A1 and Bank A4 have to be linked to the CMB:

Wildcard Pattern	Inclusion Mode
BANKDEFFXXX	True
BANKITRR200	True

Different configurations are possible in order to fulfil different business needs.

CSD	Party Name	Party Code
CSD 1	Bank A1	BANKDEFFXXX
CSD 1	Bank A2	BANKDEFF001
CSD 2	Bank A3	BANKITRR100
CSD 2	Bank A4	BANKITRR200
CSD 2	Bank A5	BANKITRR200

Option 3: All parties in CSD 2 and Bank A2 in CSD 1 have to be linked to the CMB:

Wildcard Pattern	Inclusion Mode
BANKDEFF001	True
BANKIT*	True

Option 4: All parties but Bank A4 have to be linked to the CMB:

Wildcard Pattern	Inclusion Mode
BANK*	True
BANKITRR200	False

# Activities C, D and E: Collateral receiving securities account

- The activities related to collateral receiving securities account are mandatory if the Payment Bank intends to provide client-collateralisation to its clients.
- Client-collateralisation in T2S is based on the REPO Model. This means that the Payment Bank must own a securities account in its role as a CSD Participant. This securities account is used during a client-collateralisation operation to receive collateral from a Payment Bank's client.

Activity C: Creation of the securities account for the purpose of receiving collateral

- Responsibility of the CSD (where the Payment Bank is set-up as CSD Participant).
- Functionality is available in A2A and U2A mode.

# Activities C, D and E: Collateral receiving securities account

Activity D: Link the collateral receiving securities account to the Payment Bank's DCA

- Responsibility of the CSD (where the Payment Bank is set-up as CSD Participant).
- The collateral receiving securities account must be linked to the DCA with the link type as "settlement". This link ensures that any versus payment settlement on this securities account can use the DCA for cash settlement.
- Functionality is available in A2A and U2A mode.

Activity E: Specification of the collateral receiving securities account

- Responsibility of the Payment Bank.
- The collateral receiving securities account can be specified during the creation (or maintenance) of the CMB for Payment Bank's client.
- Functionality is available in the U2A mode only.



- During the creation of CMB for Payment Bank client, all the limits (External Guarantee, Client-Collateralisation, Unsecured Limit) are created with a limit amount of zero.
- Payment Bank is responsible for update of these limits to enable the Payment Bank's client to use the cash from the DCA, otherwise no settlement is possible.
- Payment Bank can modify limits using:
  - A2A: ModifyLimitV05 (camt.011.001.05);
  - U2A: T2S GUI.
- Payment Bank should specify the below details (mandatory) while modifying limits via A2A mode:
  - Central Bank responsible for the account owner;
  - Credit provider and credit consumer;
  - DCA, limit type, limit amount and the limit validity from date.

# Activities G & H: Payment Bank client's securities accounts

## Activity G: Creation of securities account for Payment Bank's client

- Responsibility of the CSD of Payment Bank's client (as CSD Participant).
- Functionality is available in A2A and U2A mode.

## Activity H: Linking the Payment Bank client's securities account to the DCA

- Responsibility of the CSD of Payment Bank's client (as CSD Participant).
- The link enables the Payment Bank's client to use the securities account in conjunction with the DCA in a settlement transaction.
- Payment Bank client (in its role as CSD Participant) must provide its CSD the details of the DCA to which its securities account must be linked.
- In case of client-collateralisation functionality, the Payment Bank client must also request its CSD to link the securities account (of the Payment Bank's client) to the DCA for collateralisation purpose. This link information is used by T2S to identify the securities account used for identifying collateral on stock.
- Functionality is available in A2A and U2A.

# Activity I: Provision of static data for client-collateralisation

- Payment Bank should provide following data to T2S to facilitate client-collateralisation:
  - Eligible assets as collateral;
  - Securities valuation (i.e. closing prices as of previous day's close of business);
  - Close links (via its Central Bank).
- Payment Bank should send this data before 7:00 pm for consideration on current day (Note: Change of business date occurs in T2S at 6:45 PM). This data is valid for the entire settlement day from 7:00 PM to 6:00 PM+1day.
- Client-collateralisation process related data received after 7:00 pm will be considered effective from next business day only.

# Activity I: Provision of static data for client-collateralisation

- Payment Bank can provide these details via A2A or U2A mode:
  - Eligible Securities Creation Request (reda.025.001.01);
  - Securities valuation: Collateral Value Creation Request (reda.024.001.01);
  - Close Link Creation Request (reda.027.001.01).
- For close links data, the Payment Bank will have to request its Central Bank to set-up and maintain the data in T2S.

- What needs to be done in T2S to service Payment Bank clients?
- **Which T2S queries and reports can be used to manage Payment Bank clients?**
- What are the possible exceptions, the implications and possible resolution approach?
- Which activities would need to be considered during a day in the life of Payment Bank operations?

- **I am a Payment Bank. Which T2S queries and reports can I use to manage my clients?**
  
- Data monitored as part of “Transactions Management”:
  - Settlement instructions for client-collateralisation;
  - Settlement instructions for reimbursement of client-collateralisation.
  
- Data monitored as part of “Cash & Limit Management”:
  - Limit amounts;
  - Limit utilisation and limit utilisation journal;
  - DCA balance and postings.
  
- Data monitored as part of “Collateral Management”:
  - Valuation of the stock collateral;
  - Outstanding amount of client-collateralisation.

- I am a Payment Bank. What T2S tools are available to support my business needs for monitoring and controlling of Payment Bank client service in T2S?

Business Need	T2S Query
How can I view the client-collateralisation settlement instructions generated on a given intended settlement date?	Settlement Instruction Query (specify the ISO Transaction Code as COLI and Movement Type as <i>Receive</i> )
How can I monitor the client-collateralisation reimbursement settlement instructions in the pending status?	Settlement Instruction Query (specify the ISO Transaction Code as COLI and Movement Type as <i>Deliver</i> )
How can I view the current limit amounts set for a given client?	Query of Limits
How can I view the current limit utilisation of a limit for a given client on a specific business date?	Limit Utilisation Query
How can I view the details of the transactions that used the specific limit?	Limit Utilisation Journal Query
How can I view the list of clients (or securities accounts) authorised to use a specific DCA?	T2S Securities Accounts Links by T2S DCA



Business Need	T2S Query
How can I view the list of DCAs that can be used by a specific client (or a securities account of a client)?	T2S DCA Links by Party or Securities Account
How can I view the cash balance on a DCA? How can I view all the postings on the DCA since the start of settlement day?	T2S Dedicated Cash Account Balance T2S Dedicated Cash Account Posting
How can I view the collateral valuation of a specific asset?	Collateral Value of a Security
How can I view the outstanding client-collateralisation for a specific client?	Outstanding Auto-Collateralisation Credit
How can I view the valuation of the collateral that my client has earmarked for availing client collateralisation on a specific DCA or all DCAs?	Total Collateral Value on Stock (per DCA or at the level of Payment client)
How is it possible to view the valuation details by each security included in the collateral on stock?	Collateral Value of Securities on Stock per T2S DCA and Security
How is it possible to view the valuation details of each security by the securities account in which they are held?	Collateral Value of Security by a Securities Account

- What needs to be done in T2S to service Payment Bank clients?
- Which T2S queries and reports can be used to manage Payment Bank clients?
- **What are the possible exceptions, the implications and possible resolution approach?**
- Which activities would need to be considered during a day in the life of Payment Bank operations?

- I am a Payment Bank. The client-collateralisation reimbursement instructions of my clients are pending at the end of day. What if the pending reimbursement are released on the next business date?

How does T2S update the limit amount, limit headroom and limit utilisation if the client-collateralisation reimbursement settle after the intended settlement date?

- T2S allows the settlement of pending reimbursement after their intended settlement date. To understand the changes to the limit amount, utilisation and headroom, let us consider a hypothetical business scenario:

- At EOD**

Limit Type	Limit Amount	Limit Utilisation	Limit Headroom
External Guarantee	1000	1000	0
Client-collateralisation	500	300	200
Unsecured Credit	300	0	300

- Limit Headroom = Limit Amount – Limit Utilisation
- T2S does not automatically trigger the release of pending reimbursements at EOD unlike Central Bank collateralisation

- At SOD (on the next business date)

Limit Type	Limit Amount	Limit Utilisation	Limit Headroom
External Guarantee	1000	0	1000
Client-collateralisation	500	0	500
Unsecured Credit	300	0	300

- Since the limit utilisation is specific to a business date, all the limit utilisations are zero at the start of a settlement day.
- Settlement of pending reimbursements after intended settlement date**

Limit Type	Limit Amount	Limit Utilisation	Limit Headroom
External Guarantee	1000	0	1000
Client-collateralisation	500 200	-300 -300	800 500
Unsecured Credit	300	0	300

- This results in the limit headroom for client-collateralisation limit exceeding the limit amount and the extension of headroom to the client for the current business date. The Payment Bank may avoid this situation by adjusting the limit amount at the SOD based on the pending reimbursements for the Payment Bank's client.

- **I am a Payment Bank. The client-collateralisation reimbursement instructions of my clients are pending at the end of day. What if the asset used as collateral for client-collateralisation is due for corporate action (e.g. mandatory reorganisation) on the next business date? How should the limit amounts and collateral be managed?**
  
- At the start of next settlement date, the pending reimbursement settlement instructions may either be,
  - cancelled by T2S during revalidation of instructions, or
  - cancelled by CSD (as part of the transformation procedure).

*\* T2S Actor will not be allowed to cancel the pending reimbursement instructions.*

- The cancellation will have no impact on the limit amounts, utilisation and headroom.
- The Payment Bank will have to work with their clients regarding the reimbursement procedure, depending upon the type of corporate action.
- For example,
  - in case of redemption, the Payment Bank should transfer the proceeds to the Payment Bank client or
  - in case of ISIN conversion, the securities positions in the new ISIN should be returned to the Payment Bank client.

- **I am a Payment Bank. What if the client-collateralisation reimbursement instructions are pending because the collateral received from the clients has been used for Central Bank collateralisation (or for settlement of Payment Bank's proprietary business)?**
  
- Collateral received from client is used for Central Bank collateralisation:
  - The Payment Bank must settle the pending reimbursement instruction for Central Bank collateralisation prior to release of pending reimbursement instructions for client-collateralisation.
  
- Collateral received from client is used for Payment Bank proprietary business:
  - The Payment Bank must ensure that the client collateral is either purchased or borrowed from the market prior to release of pending reimbursement instructions for client-collateralisation.



- What needs to be done in T2S to service Payment Bank clients?
- Which T2S queries and reports can be used to manage Payment Bank clients?
- What are the possible exceptions, the implications and possible resolution approach?
- **Which activities would need to be considered during a day in the life of Payment Bank operations?**

# Day in the life of Payment Bank operations Summary

18:45-19:30	19:30-03:00	03:00-05:00	05:00-18:00	18:00-18:45
Start of day	Night-time settlement	Maintenance window	Real-time settlement	End of day

- Validate DCA / CMB set-up
- Update limits
- Transfer liquidity
- Send collateral eligible securities, securities reference prices and close links

- No specific action required
- Settlement instructions for Payment Bank's clients may fail due to insufficient liquidity
- Limited access to positions and balances via A2A

- Interface services restricted
- Other services unavailable

- Check for limits utilisation during NTS
- Check pending reimbursement cancellations
- Receive T2S generated collateral instructions and notifications for usage of DCA
- Check and release pending reimbursement (due to DVP cut-off until 16:00 latest)

- No client-collateralisation or reimbursement will be processed during this window
- Subscribe to reports or initiate A2A / U2A queries for receiving information related to client-collateralisation instructions and limits usage

# Day in the life of Payment Bank operations

## Non exhaustive list of activities

T2S Periods	Activities for Payment Bank Operations
<p><b>Start of day (SOD)</b> 18:45 PM – 19:30 PM</p>	<ol style="list-style-type: none"> <li>1. Validate the DCA set-up for the Payment Bank clients (for any new set-up or amendment of existing set-up).</li> <li>2. Update the limits amounts for External Guarantee Limit, and Unsecured Credit Limit.</li> <li>3. Update the limit amounts for client-collateralisation if applicable (e.g. client-collateralisation reimbursements are open past ISD).</li> <li>4. Transfer sufficient liquidity to the DCA for Payment Bank’s client settlements.</li> <li>5. Send collateral eligible securities and securities reference prices to T2S. All the close links must be sent to the Payment Bank’s corresponding Central Bank for set-up in T2S.</li> </ol> <p>Note: Some of the above activities can be organised to be completed during the previous day’s end of day (EOD).</p>

**Please note that the Payment Bank may perform some of the above tasks prior to previous day’s close of business and as soon as the information is available.**

# Day in the life of Payment Bank operations

## Non exhaustive list of activities

T2S Periods	Activities for Payment Bank Operations
<p><b>Night-time settlement (NTS)</b> 19:30 PM – 03:00 AM</p>	<ol style="list-style-type: none"> <li>No specific action or monitoring is required to be performed by the Payment Bank if all the activities listed during the start of day have been completed.</li> <li>Settlement instructions of the Payment Bank’s client that fail to settle due to insufficient cash on DCA or insufficient limits can be addressed during the real-time settlement period.</li> </ol> <p>Note: During the execution of a night-time settlement sequence, T2S does not respond to queries related to securities positions or cash balances in real time. Positions and balance queries requested via A2A during the NTS sequence are queued and responded after each NTS sequence. Such queries received via U2A during the NTS sequence are denied.</p>
<p><b>Maintenance window (MWI)</b> 03:00 AM – 05:00 AM</p>	<ol style="list-style-type: none"> <li>T2S will not be available during this window. No action is required during this window.</li> <li>Interface services are restricted and other services are unavailable.</li> </ol>

# Day in the life of Payment Bank operations

## Non exhaustive list of activities

T2S Periods	Activities for Payment Bank Operations
<p><b>Real-time settlement (RTS)</b> 05:00 AM – 18:00 PM</p> <p>Sub-period: <b>Real-time settlement closure</b> 16:00 PM (DVP cut-off) – 18:00 PM (FOP cut-off)</p>	<ol style="list-style-type: none"> <li>1. Check for external guarantee limit and unsecured credit limit utilisation during NTS</li> <li>2. Check for client-collateralisation limit utilisation during NTS</li> <li>3. Receive T2S generated settlement instructions for client-collateralisation (i.e. Payment Bank in its role as CSD Participant)</li> <li>4. Receive notification regarding the debit or credit of cash on the DCA</li> <li>5. Check pending reimbursement cancellations by T2S due to revalidation or by CSD due to corporate actions (Exception handling may be required for return of collateral or kind to the Payment Bank client)</li> <li>6. Check pending reimbursements and the external guarantee limit headroom</li> <li>7. Check sufficient securities available for reimbursement of client-collateralisation</li> <li>8. Release pending reimbursements for client-collateralisation</li> </ol> <p>Important: No client-collateralisation nor reimbursement of client collateralisation is possible due to DVP settlement cut-off after 16:00 PM.</p>

# Day in the life of Payment Bank operations

## Non exhaustive list of activities

T2S Periods	Activities for Payment Bank Operations
<p><b>End of day (EOD)</b> 18:00 PM – 18:45 PM</p>	<p>Since no client-collateralisation and reimbursements will be processed during this window (DVP cut-off at 16:00 PM onwards), the Payment Bank can subscribe to T2S reports or initiate queries to collect information related to usage of different limits by the Payment Bank’s clients.</p> <p>Reports (indicative list)</p> <ul style="list-style-type: none"> <li>- Statement of Pending Instructions</li> <li>- Statement of Accounts at End of Day</li> <li>- Settlement Day Cash Forecast</li> </ul> <p>Queries (indicative list)</p> <ul style="list-style-type: none"> <li>- Pending Reimbursement Settlement Instructions</li> <li>- Limit Utilisation and Limit Utilisation Journal</li> <li>- Cash Balances</li> <li>- Collateral Value of Securities</li> <li>- Outstanding Auto-collateralisation</li> </ul>



- Auto-Collateralisation Set Up
  - Section 1.2.3 - Core Reference Data
  - Section 1.2.6.7 - Credit Memorandum Balance (CMB)
- Auto-Collateralisation
  - Section 1.6.1.9.4 - Auto-Collateralisation Process
  - Section 2.3.4.5 - Additional Notification for Auto-Collateralisation
- Limits
  - Section 1.6.2.2.4 - Limits set by Payment Bank for its clients
- Liquidity Monitoring
  - Section 1.6.2.7 - Notifications, Reports and Queries
- End of Day Cash Procedures
  - Section 1.6.2.3 & Section 2.17 - EOD Cash Management
- ISO20022 Messages
  - Section 3.3.8 - “SESE” securities settlement messages
  - Section 3.3.3 - “CAMT” cash management messages





**Thank You**