

Self-collateralisation

Department Payments and Settlement Systems

Self-collateralisation – responding to market demands

In order to meet the requirements of the market for additional central bank liquidity for the settlement of securities transactions and thus increase the efficiency of settlement procedures, the Bundesbank and Clearstream Banking Frankfurt (CBF) offer a self-collateralisation (SC) process. The liquidity necessary for this will be

made available by the Bundesbank for night-time processing and (in case of a settlement failure during night-time processing) also for daytime processing until SDS 1 (first same-day settlement of CBF at 10.00) as part of the CBF reservation process in TARGET2.

Bundesbank efforts towards increasing the efficiency of daytime and night-time securities settlement

Current status of CBF settlements

- CBF settlement using central bank money
- High degree of settlement efficiency through process optimisation

Market demands

- Efficient use of collateral
- Attractive securities settlement model for a competitive European environment

Automated provision of additional central bank liquidity for CBF night-time processing and daytime processing until SDS 1 by depositing otherwise unused securities in the hands of the Bundesbank

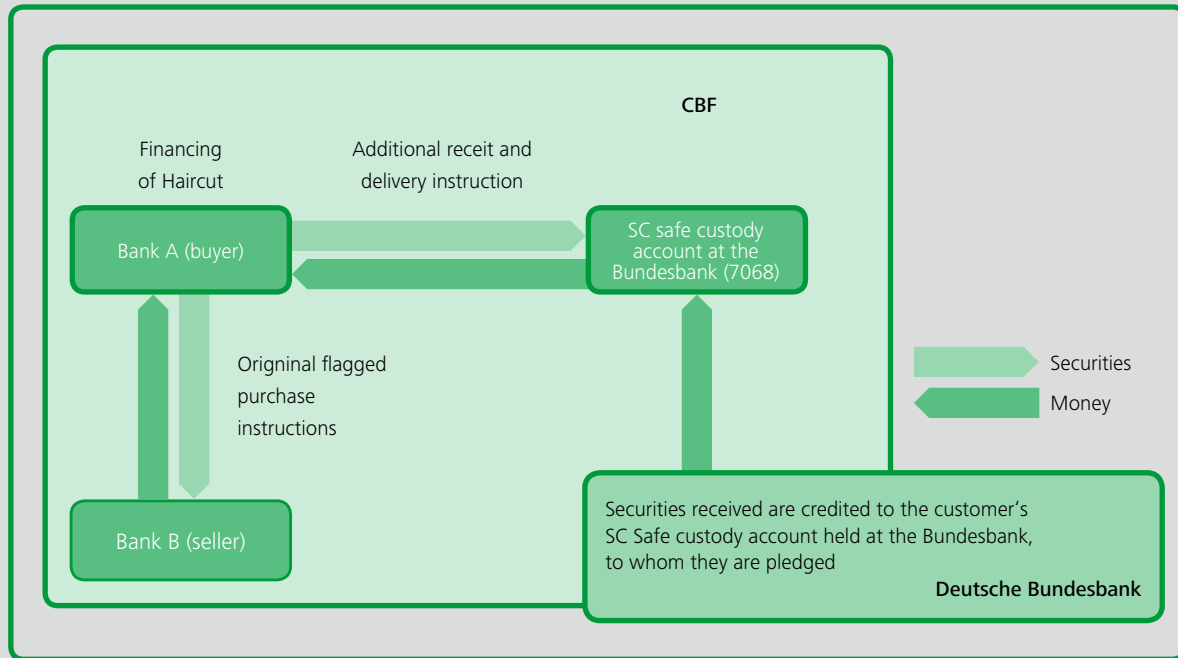
General process description

Self-collateralisation is based on the principle of banks being able to enter into a refinancing transaction with the Bundesbank stemming from self-collateralisation in the form of intraday credit in order to purchase certain securities within night-time processing and in daytime processing of CBF until SDS 1. For this it is not necessary to provide liquidity in advance.

To this end, banks flag the security categories of the purchase instructions (Receipt versus Payment, RVP) at CBF prior to the start of night-time processing. The Bundesbank then calculates the loan value of the securities and checks whether the counterparty and the security classes are eligible for self-collateralisation. In the course of the night-time processing or (in case of a

settlement failure during night-time processing) in the daytime processing until SDS 1, the negotiated refinancing transaction stemming from self-collateralisation is value-dated on a payment-versus-payment (PVP) basis. The Bundesbank takes receipt of the papers as collateral while the counterparty is given the countervalue amount (minus a haircut) as intraday credit. To a certain extent purchases of securities finance themselves – after deducting the haircut. Technically speaking, the procedure is similar to a repo transaction. In legal terms, however, it represents a granting of credit taken out against a pledge in the Bundesbank's favour. If the collateral received by the banks is not drawn upon before 18.00 on the value date, the intraday credit automatically transforms into an overnight loan.

Cash and securities flow during self-collateralisation



Allocation of tasks

Participants in self-collateralisation are required to flag the purchase instructions (RVP) for use in the self-collateralisation process in order to provide liquidity for the haircut and to return payments credited under self-collateralisation.

The **Bundesbank** takes receipt of the application forms for self-collateralisation, distributes the delivery and

receipt instructions (DVP and RVP) under observance of the powers of attorney it has been granted and provides liquidity after carrying out an eligibility check.

Clearstream Banking Frankfurt provides the necessary infrastructure for processing the self-collateralisation ("taker of securities and money settlement orders") including the function for flagging transactions.

Prerequisites for participation

The SC participant must fulfil the general eligibility criteria applicable to Eurosystem monetary policy operations (see Section V, paragraph 1 of the General Terms and Conditions of the Deutsche Bundesbank) and also

be a CBF customer. In addition, the CBF account needs to be eligible for Real Time Settlement (RTS) against payment.

Eligible securities

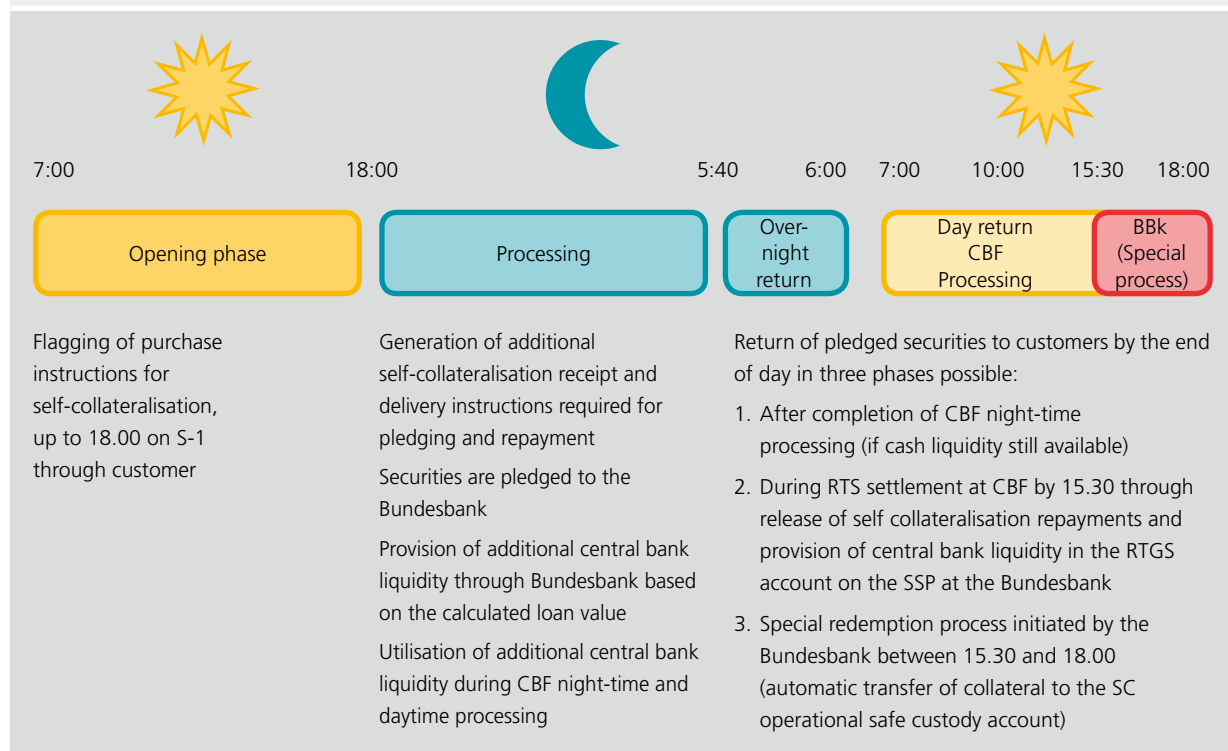
Eligible securities for SC refinancing are those permitted for collective safe custody, taken from the Eligible Asset Database (EAD) and which do not necessitate a check for indications of a close relationship between the SC participant and the issuer of the security.

These are

- Public debt securities (including new Federal Government issues)
- Debt securities issued by supranational institutions
- Debt securities issued by the European Financial Stability Facility (EFSF) and by FMS Wertmanagement
- Covered bank debt securities

Debt securities divided into series and groups are not accepted.

An overview of the self-collateralisation time-frame



Fees

As a general rule, the Bundesbank provides central bank liquidity (funds) for the purpose of self-collateralisation free of charge.

In the special event of a return via the Bundesbank due to a lack of liquidity after 15.30, a special fee of B100.00

is charged for each SC security submitted to the SC participant's safe custody account.

The fees levied by the CBF are listed on its website www.clearstream.com.

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More information on the self-collateralisation procedure is available at
www.selbstbesicherung.de oder www.selbstbesicherung.com