Auto-Collateralisation
Directorate General Payments and Settlement Systems
Following the migration of the German central securities depositary Clearstream Banking AG (CBF) to the technical settlement platform T2S in February 2017, the Deutsche Bundesbank is now updating the services it provides.

Auto-collateralisation is an intraday credit granted by the central bank in T2S to help settle DvP transactions in the event of short-term liquidity shortfalls. If a counterparty does not have sufficient liquidity to settle securities transactions, the central bank may grant an intraday credit in central bank money on the T2S platform in return for collateral, which is pledged to the central bank.

Interest-free auto-collateralisation credit may only be provided on TARGET2 business days. The use of the auto-collateralisation service is optional for Bundesbank counterparties.

### Eligible counterparties

The Bundesbank offers auto-collateralisation facilities upon request to those counterparties to which it provides intraday credit in accordance with Section II B number 2 of the Deutsche Bundesbank’s General Terms and Conditions on condition that such entities have at least one T2S Dedicated Cash Account (DCA) to be used solely for this procedure as well as a PM account with a credit line in TARGET2-Bundesbank. Counterparties can set a limit for the amount of auto-collateralisation credit in the application form, which can be accessed at Conditions for auto-collateralisation operations.

Furthermore, the counterparties must have at least one T2S-Securities Account (SAC) that has been earmarked for auto-collateralisation. As a general rule, the participant’s SAC can be held at any central securities depositary (CSD) that participates in T2S. The securities pledged as collateral are booked on to the Bundesbank’s SAC held at CBF. This requires the securities to be transferred either directly to CBF or via an approved assessed link between CBF and the CSD that holds the participant’s SAC.

### Eligible collateral

As collateral for auto-collateralisation credits, the Bank accepts only ECB collateral that is eligible for Eurosystem monetary policy operations (Eligible Asset Database (EAD)) for which no close links exist between the counterparty and the borrower or for which close links are, by way of exception, permissible pursuant to Section V number 3 (2) sentence 3 of the Bundesbank’s General Terms and Conditions.
## Procedure

Auto-collateralisation can be used during both the night-time (NTS) and the real-time settlement (RTS) windows, i.e. from 20.00 to 16.00 (DvP cut-off). If a counterparty has opted to use the auto-collateralisation function and meets the requirements above, auto-collateralisation transactions are triggered automatically when the counterparty purchases securities but does not have sufficient liquidity on the corresponding T2S DCA.

Each time this function is used, T2S simultaneously creates a reimbursement instruction and puts it on “hold”. The borrower can release this during the daytime settlement window if there are sufficient funds on the account.

If the borrower does not release this instruction by 16.30, an automated reimbursement takes place in T2S. Where the funds on the original DCA are not sufficient, any available liquidity on the counterparty’s other DCAs is used for the reimbursement. If any transactions still remain open, the T2S auto-collateralisation credit is transformed into a regular intraday credit in TARGET2-Bundesbank (known as a “relocation of collateral”). The securities used as collateral are debited from the counterparty’s PM account and credited to the corresponding operational safe custody account.

### Overview of settlement windows in T2S

<table>
<thead>
<tr>
<th>Time</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20:00</td>
<td>Night-time 2 cycles</td>
</tr>
<tr>
<td>02:XX</td>
<td>Auto-collateralisation available until around 3:00</td>
</tr>
<tr>
<td>3:00</td>
<td></td>
</tr>
<tr>
<td>5:00</td>
<td>Real-Time</td>
</tr>
<tr>
<td>16:00</td>
<td>Maintenance</td>
</tr>
<tr>
<td>16:00 DvP cut-off</td>
<td></td>
</tr>
<tr>
<td>18:00</td>
<td>End of day</td>
</tr>
</tbody>
</table>

20:00: Auto-collateralisation available until around 3:00
Technically, there are two types of auto-collateralisation:

**Auto-collateralisation on flow**
The paper underlying the securities transaction is used to collateralise the credit granted and is booked on to a Bundesbank SAC. Only the haircut that was used to value the securities must be available on the purchaser’s DCA in the form of liquidity. If some funds are available but not enough for the entire purchase, credit may also be granted for some of the purchase price.

**Auto-collateralisation on stock**
Securities that a counterparty already holds on an SAC earmarked accordingly are used as collateral and are booked on to a Bundesbank SAC. This is the case, for example, when the securities purchased are:
- not eligible for auto-collateralisation,
- to be booked to an SAC that is not earmarked for auto-collateralisation,
- or where an amount less than the haircut (on the paper underlying the securities transaction) is available as liquidity on the DCA.

Auto-collateralisation on stock takes place if auto-collateralisation on flow fails or if the liquidity available is not sufficient.

### Substitution

If a security that is being used as collateral is required for a sale and there are sufficient other securities available, T2S carries out a substitution.

### Fees

The Bundesbank provides central bank liquidity in the form of auto-collateralisation free of charge.

If an auto-collateralisation credit is not reimbursed in T2S by 16.30 and thus has to be transformed into a regular T2 intraday credit (relocation of credit), the counterparty is charged a one-off fee of EUR 1,000.
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