

# Auto-collateralisation

Department

General Payments and Settlement Systems

## T2S auto-collateralisation – a service provided by the Deutsche Bundesbank as part of TARGET2-Securities (T2S)

The European System of Central Banks' TARGET2-Securities (T2S) service offers its users a harmonised and centralised platform for settling securities transactions in central bank money.

Auto-collateralisation (AC) takes the form of an intraday credit granted by the central bank under T2S to help settle DvP transactions in the event of short-term liquidity shortfalls. In cases where a counterparty lacks

sufficient liquidity to finance its securities purchases, it receives an intraday credit in central bank money in T2S, with securities being pledged to the central bank as collateral for this loan.

Interest-free auto-collateralisation credit may only be provided on TARGET2 business days. 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 provided these 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 under TARGET2-Bundesbank. Users of the auto-collateralisation credit facility can complete a form to apply for a basic limit and a minimum amount for the settlement of individual AC transactions. Further information is available at Conditions for [auto-collateralisation transactions](#).

Furthermore, the counterparties are obliged to 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 depository (CSD) that is engaged in T2S. The securities pledged as collateral are booked on to the Bundesbank's SAC designed specifically for this purpose and held at CBF. This requires the securities to be transferred either directly to CBF or via an approved link between CBF and the CSD that maintains the participant's SAC.

### Eligible collateral

As collateral for auto-collateralisation credits, the Bank accepts only collateral that is ECB eligible for Eurosystem monetary policy operations (Eligible Assets Database) 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.

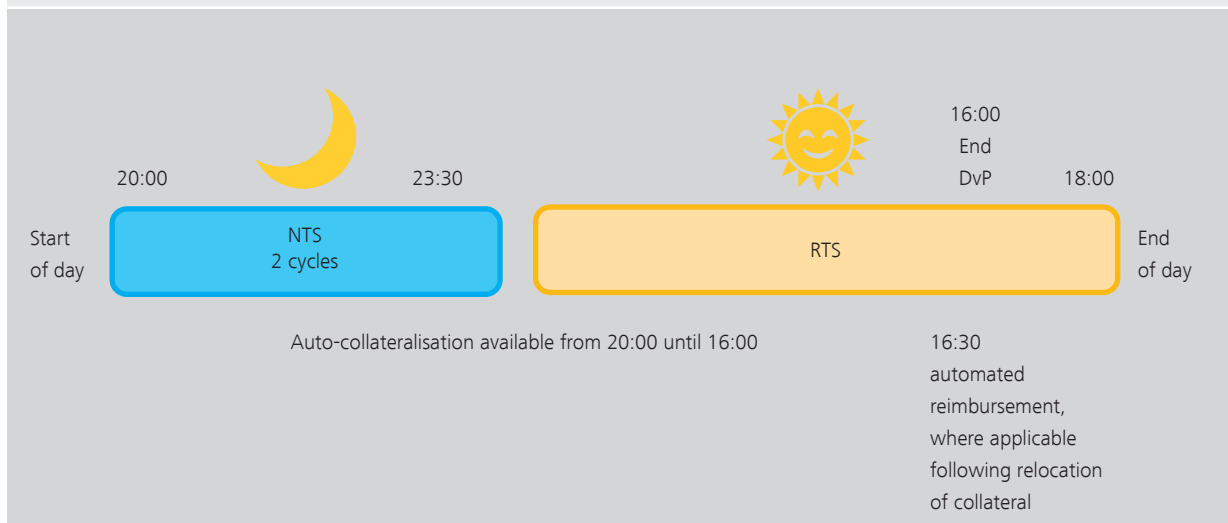
## Outline of the procedure

The auto-collateralisation service can be used during both the night, via the night-time settlement (NTS) window, and the day, i.e. from 20:00 to 16:00 (DvP cut-off) via the real-time settlement (RTS) window. If a counterparty has opted to use the auto-collateralisation facility and meets the requirements above, auto-collateralisation transactions are triggered automatically when the counterparty purchases securities but does not have sufficient liquidity on its 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 at any time via the RTS settlement window provided sufficient funds are 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 then used to finance the reimbursement. Should any transactions remain unsettled, the T2S auto-collateralisation credit is converted into a standard intraday credit in TARGET2-Bundesbank, under what is known as a "relocation of collateral". To this end, the securities used as collateral are debited from the counterparty's PM account and credited to its corresponding operational safe custody account.

### Overview of settlement windows in T2S



Technically, two forms of auto-collateralisation exist:

#### **Auto-collateralisation on flow**

Here, the paper underlying the securities transaction is used to collateralise the credit granted and booked on to the Bundesbank SAC designated for this purpose. Only the haircut that was used to value the securities needs to be available on the purchaser's DCA in the form of liquidity. Where some funds are available, but these are not enough to cover the entire purchase, credit may also be granted for a part of the purchase price.

#### **Auto-collateralisation on stock**

Securities already held by a counterparty on a correspondingly earmarked SAC are used as the necessary collateral and booked on to the Bundesbank SAC designated for this purpose. This is what happens, for example:

- if the securities purchased are not eligible for auto-collateralisation purposes;
- if the securities purchased are to be delivered to an SAC that is not earmarked for auto-collateralisation;
- where an amount below that of the haircut (on the securities purchased) is available as liquidity on the DCA.

Auto-collateralisation on stock takes precedence whenever auto-collateralisation on flow fails to work or in cases where insufficient liquidity is available.

## **■ Substitution**

If the counterparty sells a security pledged to the Bundesbank as collateral, T2S automatically exchanges (substitutes) the securities provided sufficient alternative collateral is available.

## **■ Fees**

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

Should the amount of an auto-collateralisation credit not be repaid to T2S at 16:30, necessitating its conversion into a standard T2 intraday credit (relocation of collateral), then a special fee of €1,000 will be charged to the counterparty.

## ■ Contact

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