

CONDITIONS FOR AUTO-COLLATERALISATION OPERATIONS

Definitions

For the purposes of these conditions, the following definitions shall apply:

- (1) "Auto-collateralisation" means intraday credit granted by the euro-area NCB in central bank money triggered when a T2S DCA holder has insufficient funds to settle securities transactions, whereby such intraday credit is collateralised either with the securities being purchased (collateral on flow), or with securities already held by the T2S DCA holder (collateral on stock). An auto collateralisation transaction consists of two distinct transactions – one for the granting of auto-collateralisation and one for its reimbursement – and may also include a third transaction for any eventual collateral relocation. For the purposes of Article 16 in the *Terms and conditions for the opening and operation of a dedicated cash account in TARGET2-Bundesbank (TARGET2-BBk)*, all three transactions are deemed to have been brought into the system and deemed to be irrevocable at the same time as the transaction for the granting of the auto-collateralisation;
- (2) "available liquidity" means the credit balance on the T2S DCA less the amount of any processed reservations of liquidity or blocking of funds;
- (3) "T2S Dedicated Cash Account (T2S DCA)", means an account held by a T2S DCA holder, opened in TARGET2-BBk, and used for cash payments in relation to securities settlement in T2S;
- (4) "credit institution" means either: (a) a credit institution within the meaning of point (1) of Article 4 (1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council¹ that is subject to supervision by a competent authority; or (b) another credit institution within the meaning of Article 123 (2) of the Treaty that is subject to scrutiny of a standard comparable to supervision by a competent authority;
- (5) "branch" means a branch as defined in point (17) of Article 4 (1) of Regulation (EU) No 575/2013;
- (6) "close links" means close links within the meaning of Article 138 of Guideline (EU) 2015/510 ECB/2014/60²;
- (7) "insolvency proceedings" means insolvency proceedings within the meaning of Article 2(j) of Directive 98/26/EC of the European Parliament and of the Council³;
- (8) "event of default" means any impending or existing event, the occurrence of which may threaten the performance by a counterparty of its obligations under the *Terms and conditions for the opening and operation of a dedicated cash account in TARGET2-Bundesbank* or any other rules (including

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27 June 2013, p 1).

² Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (OJ L 91, 2 April 2015, p 3).

³ Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (OJ L 166, 11 June 1998, p 45).

those specified by the Governing Council with respect to Eurosystem monetary policy operations) applying to the relationship between that entity and any of the Eurosystem CBs, including:

- a) where the counterparty no longer meets the access criteria and/or technical requirements laid down in the *Terms and conditions for the opening and operation of a PM account in TARGET2-Bundesbank (TARGET2-BBk)* or where its eligibility as a counterparty for Eurosystem monetary policy operations has been suspended or terminated;
- b) the opening of insolvency proceedings in relation to the counterparty;
- c) the submission of an application relating to the proceedings referred to in point (b);
- d) the issue by the counterparty of a written declaration of its inability to pay all or any part of its debts or to meet its obligations arising in relation to intraday credit;
- e) the entry of the counterparty into a voluntary general agreement or arrangement with its creditors;
- f) where the counterparty is, or is deemed by the Deutsche Bundesbank to be, insolvent or unable to pay its debts;
- g) where the counterparty's credit balance on its PM account and/or T2S DCA or all or a substantial part of the counterparty's assets are subject to restricting measures, attachment, seizure or any other procedure that is intended to protect the public interest or the rights of the counterparty's creditors;
- h) where participation of the counterparty in another TARGET2 component system and/or in an ancillary system has been suspended or terminated;
- i) where any material representation or pre-contractual statement made by the counterparty or which is implied to have been made by the counterparty under the applicable law is incorrect or untrue; or
- j) the assignment of all or a substantial part of the counterparty's assets.

Eligible counterparties

- 1 The Deutsche Bundesbank, hereinafter referred to as "the Bank", shall offer auto-collateralisation facilities to the 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 both a T2S DCA and a PM account with the Bank and are not subject to restrictive measures adopted by the Council of the European Union or Member States pursuant to Article 65(1)(b), Article 75 or Article 215 of the Treaty, the implementation of which, in the view of the Bank, after informing the ECB, is incompatible with the smooth functioning of TARGET2.
- 2 Auto-collateralisation shall be limited to intraday only. No extension to overnight credit shall be possible.

Eligible collateral

- 3 For auto-collateralisation, the Bank accepts as pledged assets only collateral that is eligible for Eurosystem monetary policy operations in the form of securities pursuant to Section V number 3 (1) of the General Terms and Conditions of the Deutsche Bundesbank for which no close ties exist between the counterparty and the borrower or for which close ties are, by way of exception, permissible pursuant to Section V number 3 (2) sentence 3 of the Bundesbank's General Terms and Conditions. This collateral is subject to the valuation and risk control rules laid down in Section V number 4 of the Bundesbank's General Terms and Conditions with the proviso that, when covered bank bonds pursuant to Section V number 3 (2) letter c of the Bundesbank's General Terms and Conditions or other financial obligations pursuant to Section V number 3 (2) letter d of the Bundesbank's General Terms and Conditions are used, the additional haircut stipulated in Section V number 4 (5) letter a footnote 10 of the Bundesbank's General Terms and Conditions be applied, irrespective of whether the respective counterparty is itself the issuer of the security or closely linked, within the meaning of Section V number 3 (5) of the Bundesbank's General Terms and Conditions, to the issuer⁴. In the case of cross-border use, eligible collateral shall be mobilised through a link pursuant to Section V number 13 (1) and (3) letter a of the General Terms and Conditions of the Deutsche Bundesbank which is assessed as eligible for use in Eurosystem credit operations by the Governing Council of the ECB and published on the website of the ECB⁵. The Bank and the DCA holder agree that the Bank acquires a lien over the collateral at the time when the collateral is received on the Bank's relevant depot account ("Collateral Receiving Account") with Clearstream Banking AG.

Credit provision and recovery procedure

- 4 Auto-collateralisation may only be provided on TARGET2 business days.
- 5 Credit obtained by means of auto-collateralisation shall be provided free of interest.
- 6 Fees shall be charged for the provision of auto-collateralisation in line with the fee schedule attached as Appendix VI to the *Terms and conditions for the opening and operation of a dedicated cash account in TARGET2-Bundesbank*.
- 7 The T2S DCA holder may reimburse credit obtained by auto-collateralisation at any time during the day by following the procedure described in the T2S UDFS.
- 8 Credit provided via auto-collateralisation shall be reimbursed at the latest at the time defined in the *Terms and conditions for the opening and operation of a dedicated cash account in TARGET2-Bundesbank* and in accordance with the following process:

4 The euro-area NCBs are granted a certain amount of discretionary scope for the exclusion of eligible collateral by decisions of the Governing Council of the ECB. The Bank has not made use of this option to date.

5 <http://www.ecb.int/paym/coll/coll/sslinks/html/index.en.html>

- a) the Bank, acting via the T2S Platform, releases the reimbursement instruction which is settled subject to cash being available to reimburse outstanding auto-collateralisation;
- b) if the balance on the T2S DCA is not sufficient to reimburse outstanding auto-collateralisation, the Bank, acting via the T2S Platform, checks other T2S DCAs opened in its books for the same T2S DCA holder and transfers cash from any or all of these to the T2S DCA where reimbursement instructions are pending;
- c) if, after these steps, the balance on a T2S DCA is not sufficient to reimburse outstanding auto-collateralisation, the T2S DCA holder shall be deemed to have instructed the Bank to transfer the securities which were used to collateralise the outstanding auto-collateralisation to the securities account of the Bank and to the counterparty's custody account pursuant to Section V number 7 of the General Terms and Conditions of the Deutsche Bundesbank. The Bank shall subsequently provide the liquidity to reimburse the outstanding auto-collateralisation and shall without undue delay debit the relevant PM account of the T2S DCA holder and, if necessary, grant regular intraday credit pursuant to Section II B number 2 of the General Terms and Conditions of the Deutsche Bundesbank;
- d) the Bank shall apply a penalty fee of EUR 1,000 for each business day where one or more recourses to collateral relocation under point (c) occur. The penalty fee shall be debited from the relevant PM account of the T2S DCA holder referred to in paragraph (c).

Suspension, limitation or termination of auto-collateralisation facilities

- 9 a) The Bank shall suspend or terminate access to auto-collateralisation facilities if one of the following events of default occurs:
 - i) the T2S DCA or PM account of the entity with the Bank is suspended or closed;
 - ii) the counterparty concerned ceases to meet the requirements laid down in these Conditions;
 - iii) a decision is made by a competent judicial or other authority to implement in relation to the counterparty a procedure for the resolution of the counterparty or the appointment of a liquidator or analogous officer over the counterparty or any other analogous procedure;
 - iv) the counterparty becomes subject to the freezing of funds and/or other measures imposed by the Union restricting the counterparty's ability to use its funds;
 - v) the counterparty's eligibility as a counterparty for Eurosystem monetary policy operations has been suspended or terminated.
- b) The Bank may terminate access to auto-collateralisation facilities if another NCB suspends or terminates the T2S DCA holder's participation in TARGET2 pursuant to the relevant implementation of Article 24(2)(b) to (d) of Annex IIa of Guideline ECB/2015/15 amending the

TARGET2 Guideline, adopted on 2 April 2015, or if one or more events of default (other than those referred to in Article 24(2)(a) of Annex IIa) occur.

- c) The Bank may decide to suspend, limit or exclude counterparties' access to monetary policy instruments on the grounds of prudence or otherwise in accordance with Article 158 of Guideline (EU) 2015/510 (ECB/2014/60).
- d) The Bank may decide to suspend, limit or terminate a T2S DCA holder's access to auto-collateralisation facilities if the T2S DCA holder is deemed to pose risks on the grounds of prudence.

- 10 In addition, the *Terms and conditions for the opening and operation of a dedicated cash account in TARGET2-BBk* and, on a supplementary basis, Sections I, II B and V of the General Terms and Conditions of the Deutsche Bundesbank shall apply.