EUROPEAN CENTRAL BANK

EUROSYSTEM

T2S auto-collateralisation: benefits, conditions and functioning

Information for Eurosystem counterparties

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1 Introduction, purpose and structure of this document

The purpose of this document is to provide Eurosystem counterparties and other stakeholders with information on the functioning and benefits of auto-collateralisation in TARGET2-Securities (T2S). T2S is a platform that the Eurosystem provides to central securities depositories (CSDs) to enable the safe, efficient and harmonised settlement of securities transactions against central bank money. T2S auto-collateralisation (T2SAC) is a functionality of T2S whereby an automated intraday credit can be extended to eligible T2S parties (CSD participants) to provide intraday liquidity for securities settlement. The focus of this document is central bank T2SAC in euro, which the Eurosystem national central banks (NCBs) provide to their eligible counterparties using this T2S functionality. This document outlines the key features and differences of client auto-collateralisation, as a credit operation performed by payment banks. Unless explicitly stated otherwise, the information contained in this document applies to T2SAC.

This public document is intended for information purposes only. It builds on and complements the general public information document describing Eurosystem collateral management for counterparties (hereinafter referred to as the Public information document on Eurosystem Collateral Management).[1] The legal framework accompanying T2SAC is available in the TARGET Guideline, the Eurosystem Collateral Management Guideline, the relevant T2S framework documents and acts, and the applicable terms and conditions that NCBs apply to their counterparties.

This document is organised as follows:

- Chapter 2 presents the key features and benefits of T2SAC.
- Chapter 3 describes the eligibility of assets and the counterparties participating in T2SAC.
- Chapter 4 provides a detailed description of the functioning of T2SAC (including its types and operational process flow).
- Chapter 5 presents the collateral mobilisation channels available for T2SAC.
- Chapter 6 sets out the technical prerequisites and static data set-up for T2SAC.
- Chapter 7 addresses client auto-collateralisation (which is not a central bank operation).
- Chapter 8 presents upcoming, already decided changes to T2SAC.

[1] *Collateral management in Eurosystem credit operations – Information for Eurosystem counterparties*, published on the ECB's website.

- Chapter 9 provides further relevant information on the use of T2SAC.

2 What is T2S auto-collateralisation – key features and benefits

T2SAC is a Eurosystem credit operation in the form of fully automated intraday credit that is triggered when a buyer of securities (a counterparty) does not have sufficient funds available in its T2S dedicated cash account (DCA) to settle a securities transaction and uses either the securities that are being purchased (T2SAC "on-flow") or securities already held by the buyer (T2SAC "on-stock") as collateral to generate the liquidity needed to settle the securities transaction.

Key features of T2SAC

- T2SAC is provided to eligible counterparties using eligible securities as collateral, which are updated daily by Eurosystem NCBs.
- T2SAC is available on T2 business days only (i.e. on business days when T2S offers EUR delivery versus payment (DVP) settlement).
- Credit provided via T2SAC is always fully collateralised.
- Counterparties receive intraday credit via T2SAC from their home central bank (HCB).
- T2SAC is granted on an intraday basis only (it may not be extended into overnight credit).[2]
- Credit obtained by means of T2SAC is interest-free and T2SAC transactions do not carry a specific fee.[3]

T2SAC is a state-of-the-art liquidity-saving feature of T2S, offered in a fully harmonised way across all T2S markets. As per the general T2S design, and at a technical level (subject to other potential limiting factors not stemming from the T2S technical design, as described further below), counterparties are able to use a single cash account for all their auto-collateralisation operations in T2S, thus allowing for the pooling of liquidity and use of collateral at European level.

The most obvious benefit of T2SAC is that eligible counterparties can easily generate liquidity to settle pending transactions. This facilitates the early settlement of securities instructions that would otherwise remain pending due to lack of funds, thus speeding up intraday settlement, resolving potential gridlocks and reducing the number of failed instructions.

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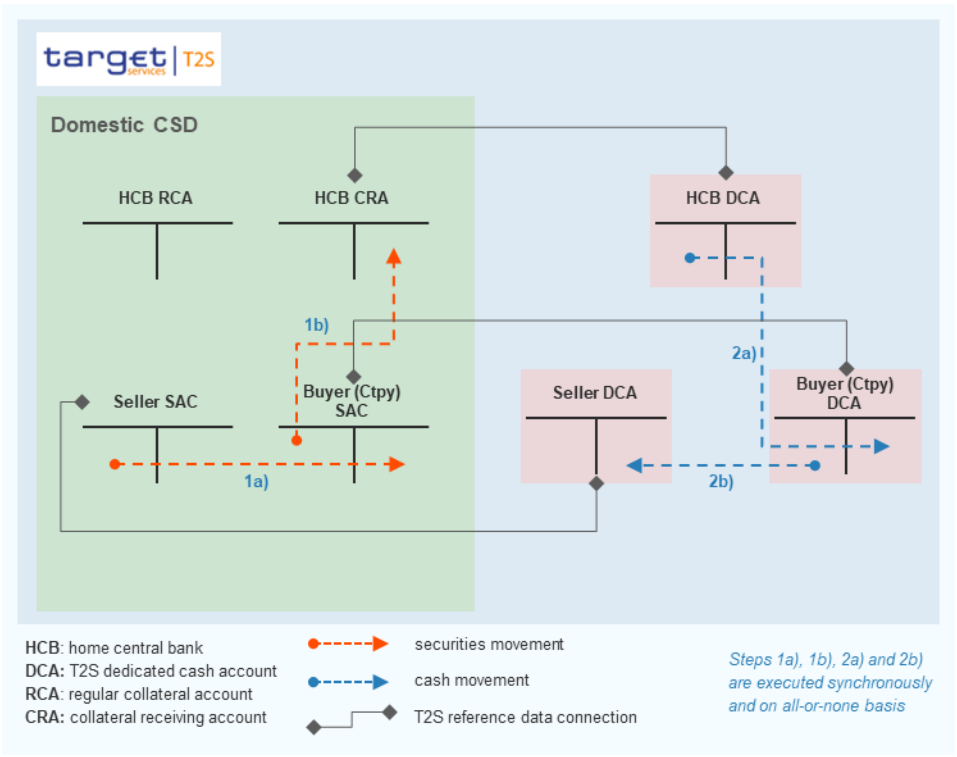
2 T2S will convert any outstanding T2SAC credit to overnight credit if outstanding at the end of the day, but this is not supposed to happen and carries a fine on the counterparty that allows this to happen. See also section on end-of-day reimbursement for more details.

3 The automated settlement instructions generated during T2SAC entail the same fee as any other settlement instruction of the same type. The current level of fees set by the T2S operator on T2S CSDs for such automated settlement instructions is zero.

T2SAC significantly reduces the need to prefund T2S DCAs during both daytime and night-time settlement. For example, it enables night-time settlement to run successfully even when there is no liquidity available in the cash accounts. This leads to higher settlement efficiency and a smoother settlement cycle. More timely DVP transactions allow market participants to plan the use of their resources more effectively while reducing the overall costs (including penalties) associated with failed deliveries. In addition, T2SAC builds and works together with other T2S settlement optimisation mechanisms to maximise its impact on settlement efficiency. European securities markets stand to benefit from T2SAC, not only because of its state-of-the-art technical implementation, but also thanks to its cross-border reach, natively supporting cross-CSD settlement in T2S. In particular, T2SAC is expected to facilitate a smoother changeover to a T+1 standard securities settlement cycle in the EU from October 2027 onwards.

Figure 1

Overview of securities and cash movements in a T2SAC transaction (domestic case, simplified overview)



3 Eligibility of counterparties and assets for T2SAC

3.1 Eligibility of counterparties for T2SAC

T2SAC is offered to counterparties who meet all of the following conditions:

1. they are participants in TARGET and hold a main cash account (MCA) and a T2S dedicated cash account (DCA);

2. they have at least one securities account managed in T2S (held at a T2S-participating CSD);

3. they are eligible for general TARGET intraday credit in accordance with the rules set out in the TARGET Guideline (i.e. credit institutions established in the EU or the European Economic Area that are eligible counterparties for Eurosystem monetary policy operations and have access to the marginal lending facility, as well as other entities to which NCBs may grant eligibility under the TARGET Guideline).[4]

TARGET participants that are 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 on the Functioning of the European Union, the implementation of which, in the view of the relevant HCB and after informing the ECB, is incompatible with the smooth functioning of TARGET, shall not be eligible for T2SAC.

The relevant HCB may decide to limit, suspend or terminate access to T2SAC, in accordance with and consistent with the same rules governing limitation, suspension or termination of the same entity from general TARGET intraday credit.[5]

3.2 Eligible assets

Eligible collateral for T2SAC consists of the same marketable assets that are eligible for use in Eurosystem monetary policy operations, and is subject to the same valuation and risk control rules as those laid down in the *General Documentation on Eurosystem monetary policy implementation procedures*.[6] The list of such eligible assets is published daily on the ECB's website.

Furthermore, eligible collateral for T2SAC:

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4 Guideline (EU) 2022/912 of the European Central Bank, Annex I, Part II, Article 10.

5 Eligibility does not mean automatic access. Eligible counterparties must contact their HCB and request operational access to T2SAC and also complete the relevant configuration steps with their CSD before they can use T2SAC. See Chapter 6 for more details.

6 See Part Four of Guideline (EU) 2015/510 (ECB/2014/60).

- may be limited by the HCB through an ex ante exclusion of potentially closely linked collateral, or through an ex ante exclusion for other reasons (e.g. taxation);
- may be limited by the HCB depending on the availability of eligible CSD links for the use of T2SAC from the domestic CSD via such links (for cases where the CCBM is not used, see Chapter 4 – *Mobilisation channels for T2SAC*);
- may be subject to certain discretionary choices to exclude eligible collateral as granted to the euro area NCBs under decisions issued by the Governing Council of the ECB.

HCBs make available to their counterparties the set of eligible collateral they accept for T2SAC purposes in cases where this set of collateral deviates from the list of eligible assets published on the ECB's website (see Chapter 9 – *Links to further information relevant to the use of T2SAC*).

4 The functioning of T2SAC

4.1 Types of T2SAC

T2SAC operations can be classified according to the way the collateral is selected (on-flow vs on-stock collateral) and according to how the securities account holding the collateral is used ("collateralisation procedure").

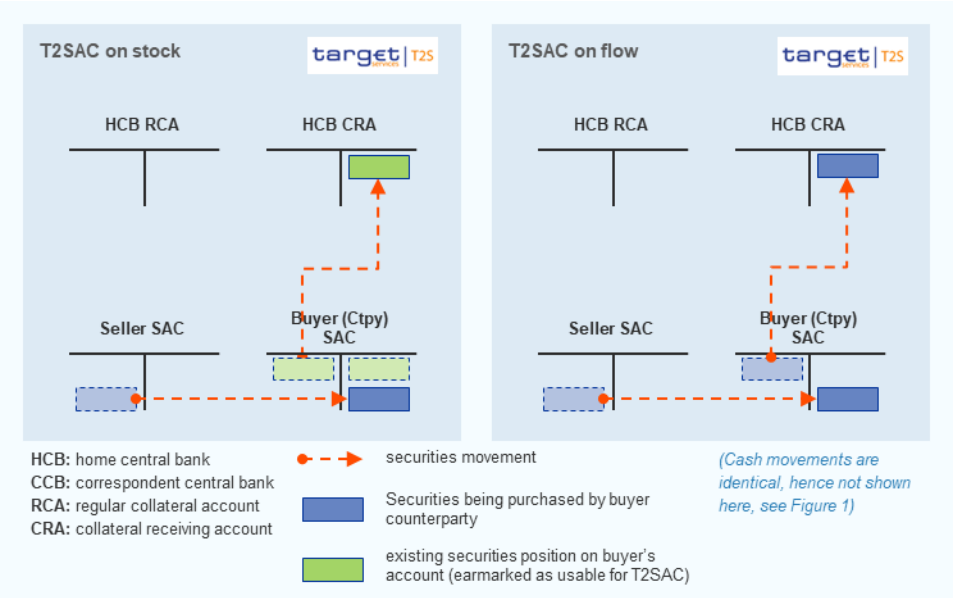
4.1.1 Types of T2SAC according to the way the collateral is selected

- **T2SAC "on-flow":** here, the securities about to be purchased are used as collateral by immediately moving them to the respective collateral receiving account. This is the default form of T2SAC and is the first option attempted when T2S detects insufficient funds with which to complete the DVP settlement, and where all other criteria for granting T2SAC credit are met (counterparty and asset eligibility). As Eurosystem collateral is subject to risk management (valuation) haircuts, the buyer counterparty also needs to have sufficient funds in their DCA to cover a possible "haircut" on the collateral value.

- **T2SAC "on-stock":** if T2SAC on-flow is not possible, or if the collateral on-flow is insufficient to cover the shortfall in the buyer counterparty's DCA, and T2S detects that the buyer has free eligible securities already held in their securities account (earmarked as available for T2SAC), and provided also that all other criteria for the granting of T2SAC credit are met, T2S will use the eligible securities already held in the account ("on-stock") as collateral and move them to the collateral receiving account. T2SAC "on-stock" can also be triggered when the securities being purchased in the underlying transaction are not eligible collateral (e.g. equities) for Eurosystem intraday credit and therefore cannot be used as on-flow collateral.[7]

[7] For both on-flow and on-stock T2SAC operations, the originating transaction is settled jointly with the auto collateralisation transactions that are also generated. This way, the transaction lacking sufficient cash can be settled without changing the originating transaction. The jointly settled additional T2SAC transactions guarantee that neither the NCB nor the counterparty have any uncollateralised exposure towards the other. This also means that on-flow transactions are technically first settled into the counterparties SAC while being immediately transferred after into the NCB collateral receiving account.

Figure 2
Schematic overviews of T2SAC on-flow/on-stock

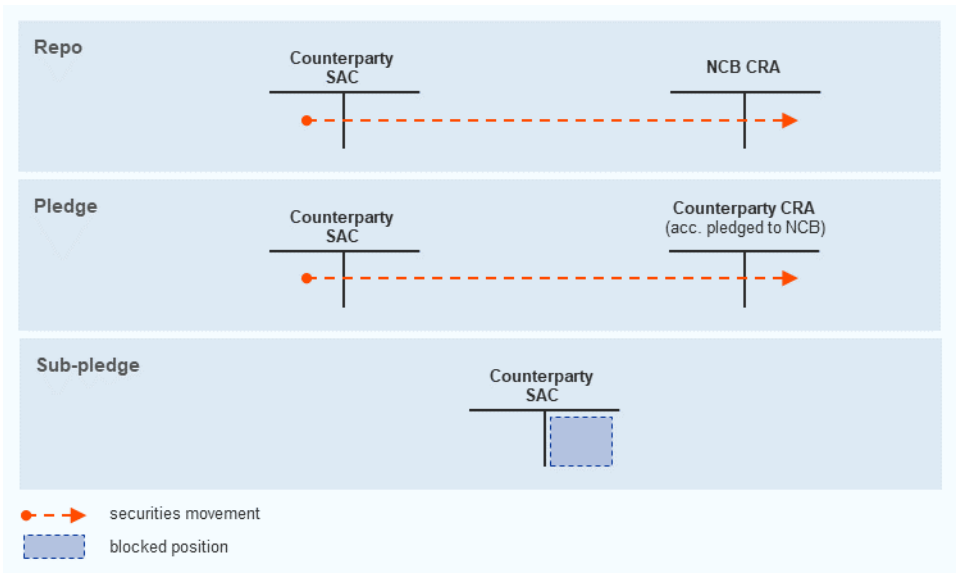


4.1.2 Types of T2SAC according to the securities account in which the collateral is held ("collateralisation procedure")

Depending on the preference and the set-up chosen by the NCB, T2S will move the collateral in T2SAC according to one of the following procedures:

- **"repo":** the collateral is moved to a separate collateral receiving securities account held by the credit-providing NCB in T2S;
- **"pledge":** the collateral is moved to a separate collateral receiving securities account held in the name of the buyer counterparty but pledged to the NCB;
- **"sub-pledge":** the collateral is kept in the main securities account of the buyer counterparty but is pledged via blocking (reserving) by T2S with the NCB as beneficiary.

Figure 3
Mobilisation of collateral in T2SAC using repo, pledge or sub-pledge



These procedures are known as “collateralisation procedures” in T2S scope-defining documents. They describe the operational process and correspond to the “booking mode” (operational technique) used by the HCB, as described in Section 4.4.7 of the *Public information document on Eurosystem Collateral Management*, and are not necessarily the same as the legal instrument the HCB uses for collateralisation within T2SAC. Table 16.5 of the same document provides an overview of the legal instruments and collateralisation procedures used by euro area NCBs.

4.2 Process flow for extending and reimbursing intraday credit in T2SAC

T2SAC has been designed to ensure full automation, security, efficiency and liquidity savings.

- T2SAC is processed automatically in T2S. Based on the pre-set static data parameters provided by the NCBs, CSDs and counterparties, all process steps (selection of collateral, settlement of intraday credit, settlement of underlying transaction, movement of collateral and reverse steps during reimbursement) are executed by T2S without any manual intervention or further external instructions from the NCBs, CSDs or counterparties.
- The cash obtained through the intraday credit extended via T2SAC is used immediately to settle the transaction that triggered T2SAC and cannot be used for any other purpose.
- T2SAC builds upon and works alongside other T2S settlement optimisation processes, such as technical netting or automatic substitution (see below).

During the T2S daytime settlement phase (RTS), T2SAC is used solely to settle the transaction(s) which initially triggered the T2SAC operation. During the T2S night-time settlement (NTS) phase, it is used to cover the net settlement amount of all pending instructions rather than each transaction individually, thereby further optimising collateral and liquidity requirements.

Figure 4
Mechanism of credit provision via T2SAC

4.2.1 Triggering and settling the credit-providing leg in T2SAC

4.2.1.1 Trigger event

T2SAC is triggered when T2S automatically detects that the eligible counterparty's DCA has insufficient funds to settle a DVP transaction, such as a securities purchase (the "underlying transaction"), in which the counterparty is the receiver of securities. The trigger event occurs during the provisioning of validated and eligible settlement instructions, i.e. the relevant settlement instructions must have passed final validation (after business validation and matching) and reached provisioning checks in T2S before T2SAC checks and execution are triggered.

4.2.1.2 Preliminary checks

T2S performs the following preliminary checks when triggering T2SAC:

- checks whether the counterparty is eligible for T2SAC and has sufficient **central bank auto-collateralisation limit** to cover the missing funds in the DCA needed to complete the underlying transaction;
- checks that the appropriate links between cash and securities accounts are present (see Section 6.1 for details);
- checks that the counterparty securities account, the collateral receiving account and the securities to be used as collateral are not subject to technical ("intraday") restrictions defined in T2S, and verifies that the CSD at which the collateral receiving account is held has defined the ISIN as eligible for settlement;

- validates the eligibility of available collateral based on the static data provided by the HCB (including determining whether close links exist between the counterparty and the issuer/guarantor of the security).

If any of the above checks fail, T2SAC will not be executed.

4.2.1.3 Automatic selection and valuation of collateral

To determine whether the potential collateral available to execute T2SAC is eligible and sufficient to cover the liquidity shortfall in the counterparty's DCA, T2S relies on three sets of static data provided by the HCB: (i) the list of eligible assets as collateral for T2SAC; (ii) the list of prices (valuation) to value such eligible assets; and (iii) the list of close links between the counterparties and the issuers of the eligible securities (i.e. identity of counterparties per ISIN which have close links in relation to that ISIN).

The (potential) collateral is valued at the prices given (uploaded) to T2S for the business day by the HCBs. Where close links exist between the counterparty and the issuer/guarantor of the security, if so-called "own-use" is allowed for the security, the valuation relies on the "own-use" price (with a higher haircut on the collateral value). Otherwise, the security is not considered eligible collateral for the counterparty concerned (i.e. its collateral value is zero).[8]

If the collateral valuation provides sufficient limit headroom to settle the underlying transaction, T2S will identify the purchased securities as potential collateral and then select the optimal securities position for T2SAC on-flow and on-stock. If the securities being purchased (collateral on-flow) are not eligible for T2SAC, or if they do not provide sufficient headroom to settle the underlying transaction, then collateral on-stock will be used to obtain the cash shortfall. If multiple securities can be used as collateral, T2S chooses the combination of securities that will deliver the required credit while at the same time providing the smallest liquidity surplus in the DCA. This ensures that no more than the necessary securities are used as collateral.

After selecting and valuing the collateral, T2S performs final checks to ensure that the credit to be granted against the selected collateral:

- respects the headroom of the applicable central bank auto-collateralisation limit;
- allows the instruction, or all the instructions linked on an "all-or-none" basis, to be settled.

[8] In other words, securities under close links for the counterparty for which no "own-use" valuation price has been defined are not considered eligible by T2S and are hence excluded from use in T2SAC transactions for that counterparty.

4.2.1.4 Generation of settlement instructions and execution of credit provision

From a technical perspective, the automated triggering of T2SAC leads to the automatic generation of additional settlement instructions for both the credit consumer (counterparty) and the HCB.

T2S creates instructions to execute T2SAC on an all-or-none basis, together with the underlying settlement instructions, to ensure that the amount of intraday credit provided through T2SAC is automatically and exclusively used to settle the underlying instruction(s). The instructions are generated considering the type of collateralisation method selected by the HCB as set in the T2S static data (T2S Common Reference Data).

- **Cash leg of the T2SAC operation:** the debiting and crediting of cash in the relevant DCAs (HCB's DCA to be debited and the counterparty's DCA to be credited).
- **Securities leg of the T2SAC operation:** delivery of the collateral earmarked for T2SAC by:

1. debiting the relevant position in the counterparty's securities account and crediting the collateral receiving account designated by the NCB, if the REPO procedure is used;
2. debiting the relevant position in the counterparty's securities account and crediting another designated (pledged) securities account held by the counterparty, if the PLEDGE procedure is used;
3. blocking, via Settlement Restriction, the earmarked securities position in the counterparty's securities account as collateral with the NCB as beneficiary, if the SUB-PLEDGE procedure is used.

4.2.2 Reimbursement of T2SAC

All T2SAC operations may be reimbursed during the day (intraday) and, at the latest, within 30 minutes after the T2S DVP cut-off, i.e. by 16:30 CET.

Whenever T2S generates and settles a T2SAC operation, it simultaneously creates and puts on hold the reimbursement instruction for that operation, involving the exact reverse of the instructions used to settle the credit-providing leg (i.e. same amounts, same accounts, etc.).

To settle the reimbursement of T2SAC, the counterparty or T2S releases the reverse settlement instructions (cash and securities movements on a DVP basis) that were automatically generated and put on hold at the time T2SAC was triggered.

- **Cash leg of the reimbursement process:** T2S checks whether the counterparty has sufficient funds in the T2S DCA to which the credit was

granted or in another T2S DCA also held by the counterparty. If sufficient funds are available in any of these accounts, T2S uses the available funds to reimburse the auto-collateralisation credit and closes the auto-collateralisation transaction.

- **Securities leg of the reimbursement process:** by settling the reverse settlement instructions, T2S either moves the securities used as collateral back to the counterparty securities account ("repo" and "pledge" process) or removes the block on the securities positions on the counterparty's securities account ("sub-pledge" process).

4.2.2.1 Intraday reimbursement

The counterparty may initiate reimbursement of credit at any time during the day. The counterparty may release the held reverse settlement instructions generated by T2S, thus triggering reimbursement of the T2SAC operation.[9] As the released instructions are handled like any other settlement instructions, they may in turn trigger a new T2SAC (should the funds held in the DCA be insufficient to settle the reimbursement of the original T2SAC operation).

Counterparties can therefore choose the optimal timing for credit reimbursement. For example, a counterparty may choose to initiate reimbursement in order to have the securities at its disposal for another trade. This prevents securities that may be useful for other purposes from remaining blocked by T2SAC (making them unavailable for general settlement purposes while held as collateral by the credit-providing NCB).

A special case of intraday reimbursement of T2SAC is **automatic substitution**. When a settlement instruction requires securities that have already been provided as collateral for T2SAC, T2S automatically releases the reverse collateral settlement instruction. If this operation generates a further T2SAC operation, it is referred to as automatic substitution. Efficient automatic substitution is an integrated feature of the T2SAC function. The counterparty does not have to release the instruction itself when the collateral is needed for another T2S operation, thus allowing for smoother collateral management.

Finally, an automatic reimbursement of T2SAC may also be triggered by T2S during the day if the HCB reduces the **central bank auto-collateralisation limit** below the outstanding amount of credit.

4.2.2.2 Reimbursement at the end of T2S business day

At the end of the day, all credit provided to counterparties via T2SAC must be reimbursed. If there is any outstanding (not yet reimbursed) T2SAC credit, T2S

[9] Counterparties may use the same messages or GUI operations that they use (as CSD participants) to release any "Party-on-Hold" instructions in T2S.

triggers the automatic reimbursement of outstanding T2SAC at 16:30 CET. The steps for end-of-day automatic reimbursement are the same as those described above for intraday reimbursement.

If the counterparty has insufficient liquidity to reimburse the outstanding T2SAC credit, the available liquidity held in the counterparty's DCA(s) is used for partial reimbursement (including, as the case may be, only the partial return of collateral) and the remaining outstanding intraday credit provided via T2SAC is then converted into "normal" T2 intraday credit, and the relocation of collateral procedure is triggered (see section on collateral relocation below).

4.2.2.3 Collateral relocation in case of unsuccessful reimbursement at end of day

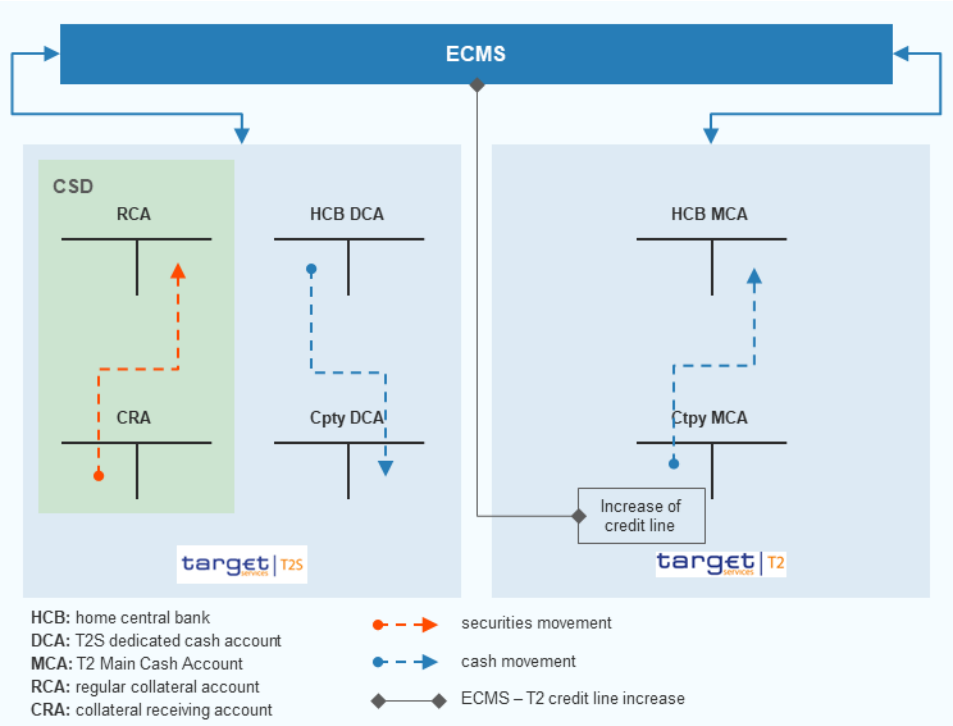
If full reimbursement is not possible due to insufficient liquidity, an automated relocation of collateral takes place and the remaining part of the T2SAC intraday credit is converted into "normal" T2 intraday credit. The process takes place through automated communication between T2S, T2 and the ECMS (short for Eurosystem Collateral Management System; the common collateral management system used by Eurosystem NCBs).

T2S moves (relocates) the required amount of collateral (i.e. an amount equal to the non-reimbursed credit) from the HCB's collateral receiving account (CRA) to its regular collateral account (RCA) and informs the ECMS.[10] From this point on, the collateral is managed in accordance with standard Eurosystem collateral management procedures, as described in detail in the *Public information document on Eurosystem Collateral Management*.

On the cash side, T2S closes the outstanding T2SAC credit by debiting the DCA of the HCB ("Central Bank Cash account"). The ECMS then instructs T2 to increase the counterparty's credit line to reflect the additional collateral received in the collateral pool (taking into account any maximum credit line that might be in place) and to simultaneously debit the counterparty's main cash account (MCA) and credit the HCB's MCA for an amount equal to the non-reimbursed funds. The counterparty is notified accordingly.

[10] This can also involve the technical booking of movements via the counterparty's securities account. If the T2SAC operation was executed via the CCBM, the collateral is moved from the CCB's CRA to the CCB's RCA.

Figure 5
Simplified overview of the collateral relocation procedure



Counterparties are expected to reimburse T2SAC during the day or to ensure that sufficient funds are available in their DCA by the automated end-of-day reimbursement of T2SAC at the latest (i.e. counterparties are not allowed to rely on the collateral relocation process, which is an exceptional process applied only when the counterparty failed to provide sufficient liquidity on time). Collateral relocation carries a fine of €1,000 per occurrence, to be paid by the counterparty.

5 Eurosystem collateral mobilisation channels for T2SAC

To maximise accessibility and ensure a level playing field among counterparties, the Eurosystem provides several procedures and arrangements whereby collateral may be mobilised for Eurosystem credit operations. These are collectively known as mobilisation channels (see Section 4.2 of the *Public information document on Eurosystem Collateral Management* for general information on mobilisation channels) and can be categorised as follows:

- **Domestic:** mobilisation of marketable assets issued and held at a CSD located in the same country as the credit-providing euro area NCB;
- **Links:** mobilisation of marketable assets using eligible links between Securities Settlement Systems (SSSs) operated by CSDs, enabling participants in one (investor) CSD to hold and mobilise securities issued in another (issuer) CSD;[11]
- **CCBM:** mobilisation of marketable assets issued in a CSD located in a country different from that of the credit-providing euro area NCB, using another euro area NCB as custodian;
- **Direct access:** mobilisation of marketable assets issued or held at a CSD located in a country different from that of the credit-providing euro area NCB, using a securities account owned by the HCB held at that (foreign) CSD.

This section describes how T2SAC can be used via these mobilisation channels.[12]

5.1 Use of T2SAC domestically and via CSD links

Domestic mobilisation via T2SAC means that, in the T2SAC operation, the securities used as collateral are issued and moved (settled) intra-CSD within the domestic CSD of the HCB (i.e. the CRA used by the NCB is held at its domestic CSD). Due to the design of T2S, which fully and automatically supports intra- and cross-CSD settlement between T2S CSDs, there is no operational difference for T2S users

[11] The Eurosystem traditionally treated CSD links as a separate mobilisation channel, however with the advent of T2S, their use has become seamlessly embedded in T2S operations and functions in the same way as purely domestic mobilisation. Links can be used by T2S in connection with all three other mobilisation channels (domestic, CCBM and direct access).

[12] Due to the existing design limitations of T2S, and until the implementation of T2S CR-784, only one of the three mobilisation channels for T2SAC can be set in the static data for a single counterparty DCA. Counterparties wishing to use more than one of these mobilisation channels in parallel will therefore need more than one DCA to set them up. Following the implementation of T2S CR-784, all mobilisation channels can be used for T2SAC by counterparties from a single DCA.

between using T2SAC domestically or via CSD links[13] once CSD links have been set up within T2S.

This is the default way of using T2SAC. Once the relevant T2SAC has been configured for a counterparty, T2S will automatically execute T2SAC operations on any securities available as collateral from the domestic CSD, either because they are issued in the domestic CSD or because they can be held there, as investor CSD, via CSD links within T2S.

5.2 Use of T2SAC via the CCBM

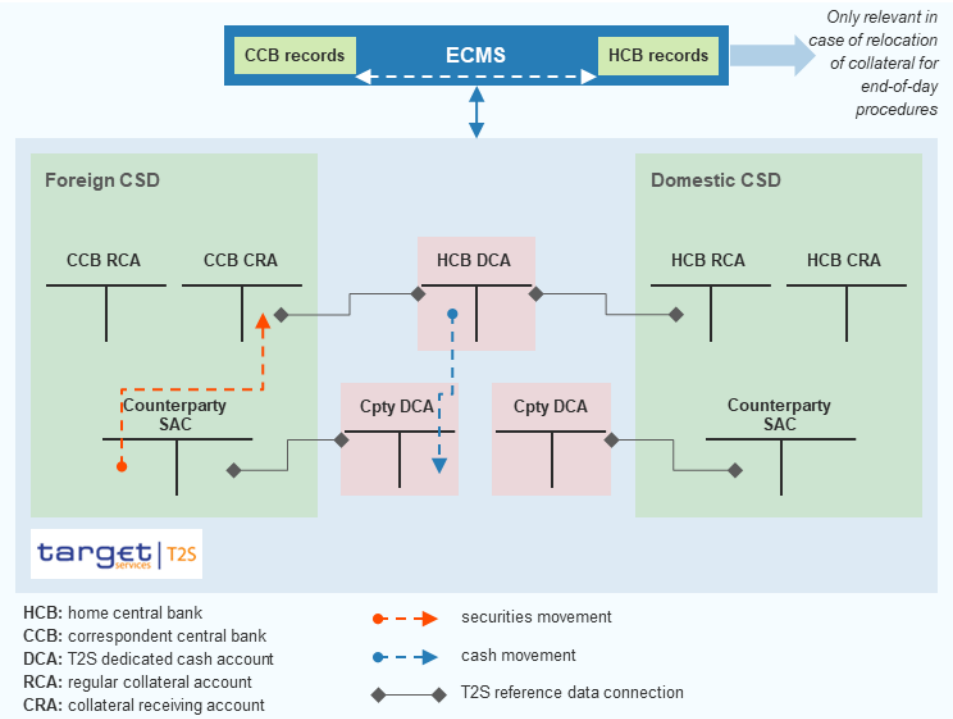
As of June 2025, with the go-live of the ECMS, the CCBM is available to counterparties for use in T2SAC operations.

T2SAC via the CCBM is executed at an operational level in the same way as domestic T2SAC or T2SAC via CSD links, following the same steps and operational process flow as described in this document. The only difference is that, instead of a securities account of the HCB, a securities account owned by another euro area NCB (the Correspondent Central Bank, or "CCB") is used as the CRA in the Credit Memorandum Balance static data link (see also Section 6.1) with the counterparty's DCA. This ensures that T2S will automatically move the collateral in the T2SAC operation to the designated securities account of the CCB. In this case, the set-up of the relevant static data follows the operational method chosen by the CCB (see Section 4.1.2) and this will be communicated to the counterparty by the HCB. No other aspect of the execution changes. In particular, the intraday credit is still provided from the DCA of the HCB and all contacts, guidance and exchange of information continues to take place between the counterparty and the HCB[14].

[13] Once CSD links have been set up within T2S between T2S CSDs and configured as T2S CSD links, from a T2S user perspective, there is no difference between domestic settlement and settlement via CSD links. If realignments between inter-CSD technical accounts are required for cross-CSD settlement, T2S will take care of these automatically. This also means that there is no difference in the execution of T2SAC.

[14] There is no need for the counterparty to get in contact with the CCB unless, due to exceptional circumstances, the HCB advises the counterparty to do so.

Figure 6
Schematic overview illustrating key difference for T2SAC via CCBM



If collateral relocation occurs on an outstanding T2SAC operation using the CCBM due to insufficient funds held in the counterparty's DCA(s) at the end of the day, T2S moves the collateral to the regular collateral account of the CCB and the ECMS manages the collateral from that point onwards as "normal" CCBM mobilisation. No other differences exist in the collateral relocation process (see the process described in Section 4.2.2).

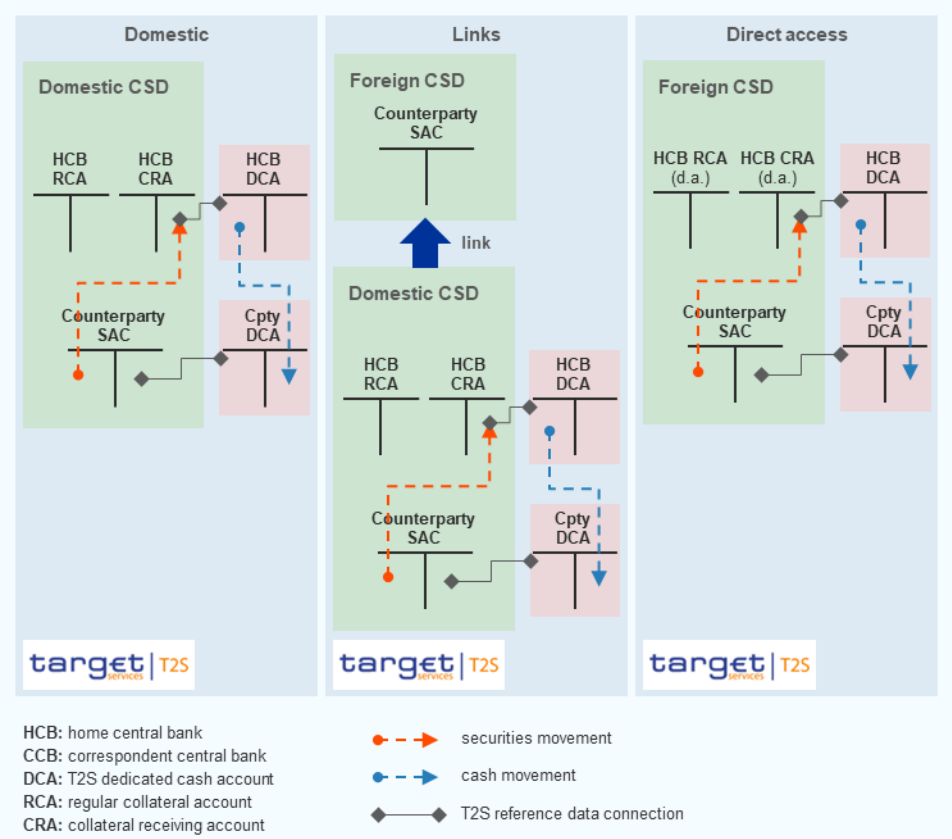
5.3 Use of T2SAC via direct access

Much like the other mobilisation channels described above, at an operational level, T2SAC via direct access is executed in the same way as domestic T2SAC via CSD links or via CCBM, following the same steps and operational process flow described in this document. The only difference is that, for direct access a securities account held by the HCB at a foreign T2S CSD (rather than one held at a domestic CSD) is used as the CRA in the Credit Memorandum Balance static data link (see also Section 6) with the counterparty's DCA.

The decision on whether to offer direct access for T2SAC to counterparties rests solely with the HCB, which will consider, among other factors, the availability of collateral for T2SAC to its counterparties via other mobilisation channels. If it decides to provide direct access for T2SAC, the HCB will inform its counterparties accordingly.

Figure 7

Comparison of T2SAC domestically, via links and via direct access – simplified overview



6 Technical prerequisites and static data set-up for T2SAC

T2SAC is provided on the basis of a set of static data and configurations in T2S to ensure that automatically triggered transactions meet the expectations of both the HCB and the counterparty. This section provides an overview of the key static data/configuration elements required for the use of T2SAC and the roles of each party in setting up and maintaining them.

6.1 Key static data parameters and configuration elements for T2SAC

6.1.1 Key static data elements

The following static data parameters must be configured in the T2S Common Reference Data in order for T2SAC to be executed between an HCB and its counterparty.

- **The NCB securities and cash accounts used to execute T2SAC:**

1. the DCA of the HCB from which credit is extended in T2SAC;
2. the collateral receiving (securities) account of the NCB to which the securities used as collateral are moved in T2SAC (for the REPO collateral management procedure);
3. the regular collateral (securities) account of the NCB to which the securities used as collateral in T2SAC are moved in case of collateral relocation.

- **The counterparty securities and cash accounts to be used to execute T2SAC:**

1. the DCA of the counterparty to which credit is extended in T2SAC;
2. the securities account of the counterparty from which receiving (T2SAC on-flow) or existing (T2SAC on-stock) securities positions can be used as collateral in T2SAC;
3. earmarking of positions on the securities account of the counterparty for potential use in T2SAC on-stock (if the counterparty does not wish all eligible securities positions to be used in T2SAC);
4. the collateral receiving (securities) account of the counterparty pledged to the NCB (for the PLEDGE collateral management procedure);

5. the regular collateral (securities) account of the counterparty pledged to the NCB, to which the securities used as collateral in T2SAC are moved in case of collateral relocation (if the NCB uses the "Retain" booking mode for normal collateral operations, as defined in the *Public information document on Eurosystem Collateral Management*).

- All cash and securities accounts mentioned in the preceding two points must be linked to each other in the T2S static data by the party eligible to set up the relevant account in T2S (NCBs for DCAs or CSDs for securities accounts). Once these links have been established, T2S automatically creates and records them in the **Credit Memorandum Balance** (CMB; see Section 6.1.2) of the relevant DCA.

- **Collateralisation procedure for transferring the collateral in T2SAC:** central banks are required to determine, in the T2S static data, their choice of collateralisation procedure (see Section 4.1.2) for the provision of T2SAC. This parameter is set by the T2S Operator at the request of the HCB. For T2SAC via the CCBM mobilisation channel, the collateralisation procedure chosen by the CCB applies.

- **Central bank auto-collateralisation limit for each counterparty:** the HCB determines the maximum amount of credit (the central bank auto-collateralisation limit) that may be extended via T2SAC to each T2S DCA owned by its counterparty. By default, this limit is set at the maximum value permitted by T2S, although it may be adjusted subsequently by the HCB as needed. The HCB may raise or lower this limit at any moment during the T2S settlement day.

- **Minimum amount of intraday credit to be extended in T2SAC:** the HCB may (but is not obliged to) set a minimum amount of intraday credit that a T2SAC operation must provide. If such a minimum amount is set, and if the shortfall in the DCA is smaller than this minimum amount, but the value of collateral available for T2SAC exceeds it, the minimum amount will be extended as intraday credit to the counterparty.

- **List of eligible securities as collateral (per HCB):** each HCB, via the ECMS, submits and maintains in T2S (with daily updates) the list of securities eligible as collateral in T2SAC for its counterparties.

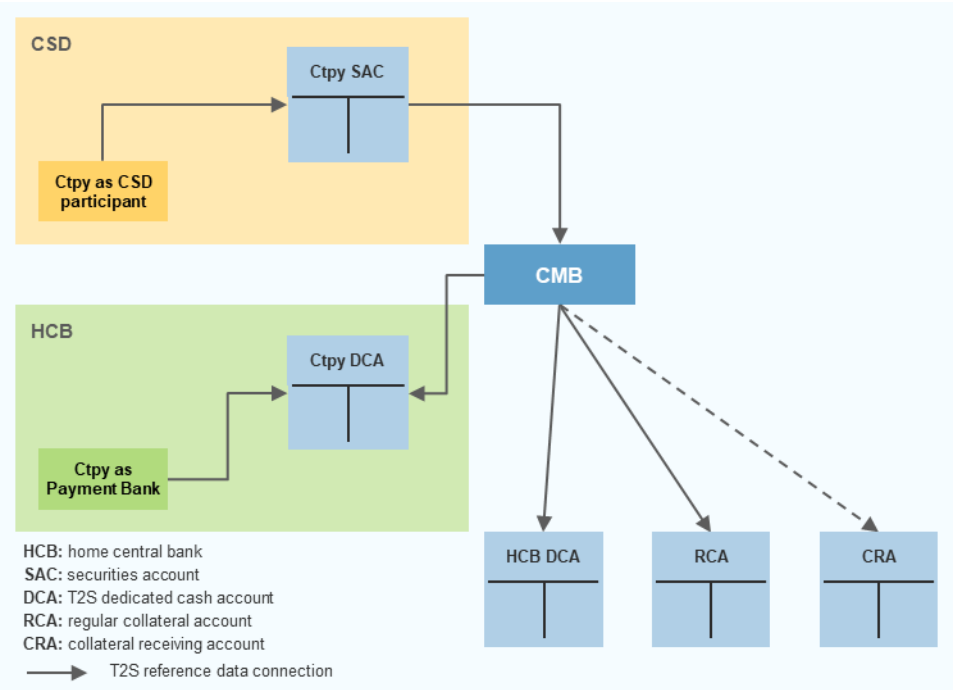
- **Prices (valuation) of eligible securities as collateral (per HCB):** the ECMS operator (via the ECMS) uploads, for each business day, the prices (valuation after haircuts) of securities eligible as collateral in T2SAC to T2S.

- **List of close links for counterparties (per HCB):** the ECMS operator (via the ECMS) uploads and maintains (with daily updates) the set of ISINs per counterparty for which the counterparty has close links with the issuer or guarantor.

6.1.2 Credit Memorandum Balance

The **Credit Memorandum Balance** (CMB) is a monitoring tool available in T2S for credit consumers and credit providers alike. It shows, at any point in time, the amount of credit provided by the credit provider (HCB) to the credit consumer (counterparty), as well as the remaining capacity to use T2SAC based on the central bank auto-collateralisation limit (central bank auto-collateralisation limit minus all outstanding T2SAC operations of the counterparty). T2S also uses the CMB as the reference data container to determine the NCB and cash and securities accounts that are used in T2SAC operations between the central bank concerned and its counterparty, by recording and providing the necessary reference links between these accounts. The CMB is created when the relevant T2S actors (NCB and CSD) configure the links between the securities accounts and the DCAs to be used for T2SAC, as described in Section 6.1.1.

Figure 8
CMB and the links between the cash and securities accounts needed to configure T2SAC



6.2 Role of the HCB and CCB

If a counterparty wishes to make use of T2SAC, it must first contact its HCB to understand the relevant terms and conditions and technical rules (e.g. collateralisation procedure, minimum and maximum amounts, and mobilisation channels) under which the HCB makes T2SAC available to its counterparties.

Only NCBs may set up DCAs and configure the links between the HCB's DCA (used to provide the intraday credit via T2SAC), the counterparty's DCA (to which the intraday credit via T2SAC will be provided), and the collateral receiving and regular securities accounts of the NCB, thus creating the ("primary") CMB for the counterparty's DCA (see Section 6.1.2).

If T2SAC is set up to use the CCBM mobilisation channel, the HCB will cooperate with the CCB in creating the necessary links between the HCB's DCA, and the collateral receiving and regular collateral accounts held by the CCB.

6.3 Role of the CSD

Only CSDs are eligible to set up and configure securities accounts in T2S. A counterparty that is a participant in a T2S CSD must contact and request that CSD to open and/or configure its securities accounts held in T2S.

The CSD holding the securities account that the counterparty wishes to use to supply the collateral in T2SAC must establish the link between the counterparty's DCA and the relevant securities account. This link is recorded by T2S in the ("primary") CMB of the counterparty's DCA (see Section 6.1.2).

6.4 Role of the counterparty

To make use of T2SAC, the counterparty must first contact its HCB (see contact details of euro area NCBs in Chapter 9) and subsequently its CSD, following the guidance received from the HCB.

To configure T2SAC access in T2S, the counterparty must communicate the following information to its HCB[15] and its CSD.

- The DCA where the liquidity should be received, and the securities account used to supply collateral in T2SAC.
- Its preference on whether it wishes to use all positions in its securities account as collateral (for T2SAC on-stock) or only a part of such positions ("earmarking").[16] When an entire securities account is earmarked, all eligible securities in that account will be made available for T2SAC on-stock. Conversely, when securities positions are earmarked, only the securities in those positions are made available for T2SAC on-stock.

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15 Registration of T2S DCAs and relevant T2SAC settings on the NCB side takes place under the guidance issued by the HCB and in accordance with the common Eurosystem guidance set out in the *TARGET Services Registration and Onboarding Guide*, and via the submission of the relevant standardised forms (see Section 8, *Reference Data for T2S DCA Holders*, on the T2S DCA configuration form).

16 This earmarking functionality is not necessarily provided by all T2S CSDs. Counterparties wishing to use such functionality will need to check with their CSD whether this option is available.

Based on this information, and as described above, the HCB and the CSD will set up/configure the DCA and securities account(s) and create the necessary links between these accounts in the T2S reference data. When setting up T2SAC via the CCBM, the HCB will involve the CCB in the process of linking the counterparty's DCA, the HCB's DCA and the collateral receiving and regular collateral accounts held by the CCB.

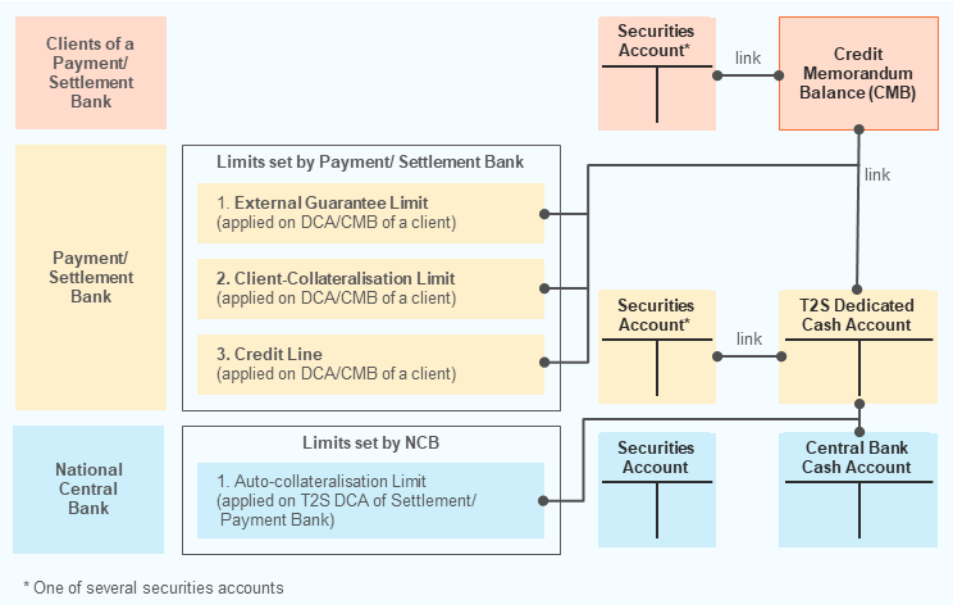
7 Client auto-collateralisation provided by payment banks – main features and differences from central bank T2SAC

T2S offers the possibility for payment banks (entities that hold a DCA and securities accounts in T2S and are authorised to extend intraday credit themselves) to extend intraday credit against auto-collateralisation to their clients in T2S. This process is known as “client auto-collateralisation” (hereinafter, “client T2SAC”). This document focuses on central bank T2SAC and does not describe client T2SAC in detail. The following points summarise the key similarities and differences between central bank T2SAC and client T2SAC:

- Client T2SAC is intraday credit that payment banks extend against collateral in T2S to their own clients.
- As T2S uses the payment bank’s DCA to execute client payments in central bank money in T2S, it does not cover/execute cash movements for T2SAC between payment banks and clients. Any such cash movements take place outside T2S. Client T2SAC provides a CMB to payment banks as a tool to keep track of the credit extended to their clients.
- Payment banks can set up and provide to T2S their own lists of eligible assets, close links and valuations to be used for client T2SAC.
- Operationally, client T2SAC is supported by the same T2S processes as central bank T2SAC, with the following differences:
    - only the REPO operational procedure is available for client T2SAC (i.e. PLEDGE and SUB-PLEDGE are not available for client T2SAC);
    - client T2SAC allows payment banks to configure additional types of limits (not available for central bank T2SAC) for use by their clients, such as the External Guarantee Limit or Unsecured Credit Limit (see Figure 9 below);
    - client T2SAC can span several business days (subject to risk tolerance and decision-making by the payment bank) and is therefore not necessarily required to be reimbursed by the end of the day;
    - roles on setting up static data naturally differ, as the payment bank is in charge of defining eligible asset lists, eligible counterparties, prices and close links, and the limits applying to use of T2SAC.

Figure 9

Overview of client T2SAC limits



8 Upcoming (already decided) changes affecting T2SAC

In April 2025, the ECB's Market Infrastructure Board, following agreement in the relevant T2S fora involved in T2S change and release management, approved T2S change request #784 (T2S-0784-SYS – Update in the Credit Memorandum Balance configuration to allow leveraging on the CCBM model) for implementation in T2S in November 2027.

This functional change will allow multiple receiving and regular securities accounts to be configured so that counterparties can use T2SAC with a single DCA, regardless of how many mobilisation channels they use at the same time for T2SAC. In other words, counterparties will be able to use a single DCA even when using, in parallel, domestic T2SAC (including links via a domestic CSD) and T2SAC through the CCBM or direct access channels.

9 Further information (documents, links, contact details) on T2SAC

9.1 Additional background documents (legal and informational)

The following documents contain additional information on the rules and functioning of T2SAC:

- ECB webpage on collateral mobilisation / subpage dedicated to T2SAC;
- TARGET Guideline;
- T2S Guideline;
- Eurosystem Collateral Management Guideline;
- General Documentation Guideline on Eurosystem monetary policy implementation;
- T2S Scope Defining Documents;
- T2S Framework Agreement;
- Public information document on Eurosystem Collateral Management.
- TARGET Services Annual Reports – further figures and insights on the use of T2SAC

9.2 Contacts at NCBs

For further information and assistance from your HCB, please see the contact details for each NCB available on the ECB's website.

- For eligibility rules and assessments
- For collateral management operations and setting up T2SAC

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For specific terminology please refer to the ECB glossary (available in English only).

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