EUROPEAN CENTRAL BANK
EUROSYSTEM

T2S auto-collateralisation

using cost-free intraday credit in central bank money for efficient securities settlement

1. What is T2SAC and what are its benefits?

TARGET2-Securities auto-collateralisation (T2SAC) is one of the liquidity-saving features of T2S – the single technical platform that the Eurosystem provides to Central Securities Depositories (CSDs), enabling safe, efficient and harmonised settlement of securities transactions against central bank money. T2SAC can be described as an automatic liquidity booster that helps eligible T2S parties settle securities transactions seamlessly during the whole T2S settlement period.

It offers **free, intraday liquidity** – provided by Eurosystem national central banks (NCBs) – allowing T2S parties to settle securities transactions without incurring costly delays or penalties[1]. This functionality is triggered when a buyer of securities has insufficient funds available in its T2S dedicated cash account (DCA) to settle a securities transaction. T2SAC works in two ways:

- **on-flow:** the securities being purchased are used as collateral for the credit;
- **on-stock:** securities already held by the buyer are used as collateral for the credit.

The key benefits of using T2SAC are as follows.

- **Instant liquidity when needed:** T2SAC automatically provides liquidity to settle transactions that would otherwise not settle due to insufficient liquidity, thus facilitating early settlement and increasing the speed of intraday settlement. This resolves potential gridlocks and reduces the number of failed instructions leading to penalties.
- **Less need for prefunding:** daytime and night-time settlement become smoother, with minimal or no prefunding of T2S cash accounts. For example, it can ensure successful night-time settlement even with limited liquidity in the cash accounts.
- **Higher settlement efficiency:** T2SAC leads to a smoother settlement cycle, ensuring greater efficiency by building on and working alongside other T2S optimisation mechanisms. In particular, T2SAC is expected to facilitate a smoother transition to the T+1 standard securities settlement cycle in the EU as of October 2027.

2. Who can use T2SAC?

T2S parties must meet three conditions to be eligible to use T2SAC:

1. They must be a TARGET participant and hold a main cash account (MCA) and a T2S dedicated cash account (DCA).
2. They must have (at least) one securities account at a T2S-participating CSD.
3. They must be eligible for TARGET intraday credit according to the rules set out in the **TARGET guideline**[2].

[1] This document does not cover the "T2S client auto-collateralisation" functionality, which allows banks participating in T2S to extend intraday credit for securities settlement in T2S to their own client

[2] https://eur-lex.europa.eu/eli/guideline/2022/912/2024-12-01

3. How does T2SAC work?

The default type of T2SAC is known as "on-flow", meaning that the securities being purchased are automatically moved to the respective collateral receiving account (see Section 4 below). This occurs when there are insufficient funds to complete the delivery versus payment settlement, and all the relevant T2SAC criteria (such as the eligibility of the counterparty and the assets being purchased) are met. T2S parties (counterparties) need only ensure that sufficient liquidity is available in the cash account to cover the "haircut" applied to the collateral valuation.

If the asset being purchased is not eligible as collateral, or if its collateral value is not sufficient to cover the shortfall needed to complete the settlement, T2S will automatically detect and use "on-stock" securities as collateral, thus ensuring that the collateral transferred to the collateral receiving account provides sufficient credit – while maintaining a minimal surplus – to the DCA in order to settle the transaction.

Credit obtained through a T2SAC operation must be repaid by the T2S end-of-day cut-off time for intraday credit reimbursements. T2S automatically creates reimbursement instructions with "on-hold" status for repaying the credit after each T2SAC operation. Counterparties can choose to release these instructions during the day, thus freeing up the collateralised security for other uses. T2SAC may occasionally involve "automatic substitution", where a new T2SAC operation replaces the previous one if a counterparty needs the previously collateralised securities for a new settlement, without any intervention by the counterparty. T2S will release and settle all reimbursement instructions by the end of the business day at the very latest, utilising liquidity from the counterparty's DCA(s) to the fullest extent possible.

4. Collateralisation procedure and eligible assets

There are three different procedures, all set up by NCBs, for moving collateral in the context of T2SAC:

- **repo:** the collateral is moved to a collateral receiving account held by the counterparty's home central bank (HCB);
- **pledge:** the collateral is moved to a collateral receiving account held by the buyer counterparty but pledged to the NCB;
- **pledge sub-account:** the collateral is kept in the buyer counterparty's main securities account but is blocked (reserved) in favour of the NCB.

To facilitate a level playing field among counterparties and maximise accessibility to eligible assets, the Eurosystem offers several arrangements – known as mobilisation channels – whereby collateral can be moved for T2SAC operations.

The following mobilisation channels are available for T2S parties:

- **domestic CSD:** assets issued and held at a CSD located in the same country as the HCB;
- **CSD links:** assets held by a counterparty at an (issuer) CSD and mobilised at another (investor) CSD via eligible links between the securities settlement systems;
- **correspondent central banking model (CCBM):** assets issued at a CSD located in a country different from that of the HCB, using another NCB as a custodian;
- **direct access:** assets issued at a CSD located in a country different from that of the HCB, using a securities account owned by the HCB, if such an account has been opened by the HCB.

T2SAC via the domestic CSD and via CSD links is the default mobilisation channel. In this case, T2S will automatically use as collateral securities that are issued at the domestic CSD or available at the domestic CSD via links to an issuer CSD. For the CCBM and direct access channels, the only difference is the location of the collateral receiving account. Instead of a securities account held by the HCB at the domestic CSD, collateral is moved to an account owned by another NCB (CCBM) or to an account held by the HCB at a foreign CSD (direct access).

From an operational standpoint, counterparties using T2SAC are not required to take any additional steps. When the static data and configurations are set up in T2S (including the accounts of both the HCB and the counterparty used, the earmarking of assets for potential use on-stock, and the minimum/maximum amount of credit extension), the collateralisation process is carried out automatically, and the counterparty will therefore benefit from the available liquidity for settling the purchase of the security.

Want to use T2SAC?

Counterparties that are interested in using T2SAC are encouraged to **contact** their HCB.
https://www.ecb.europa.eu/mopo/coll/coll/ncbpractices