



The liquidity management challenge behind Target2-Securities

Target2-Securities (T2S) will start operations on June 22nd 2015, and the migration of securities settlement in euro will be completed by February 2017 after four migration waves of the 23 European CSDs.

The impact of T2S on liquidity management should not be underrated. T2S will become the second euro market infrastructure, representing half the liquidity exchanged in Target2. In accordance, 20 banks out of the first wave's CSD participants have opted for being "A2A DCP for Cash" – i.e. implementing an application-to-application connection to T2S for managing liquidity.

Banks will have to manage new accounts with their National Central Bank(s) on which T2S will post cash legs of securities settlement. These Dedicated Cash Accounts (DCA) will be funded from Target2 accounts and intraday liquidity transfers between both systems will enable banks to fine tune the repartition of their Central Bank money throughout the daily lifecycle. The DCA will additionally be funded through T2S auto-collateralisation which will automatically mobilise eligible collateral for providing intraday credit on the DCA. Also, these DCA should enter the scope of Basel III "Monitoring tools for intraday liquidity management" reporting.

T2S will introduce changes in custodians' banking service offerings. On the one hand because T2S offers new possibilities for custodians to control credit risks that will affect the organisation of funding and collateral arrangements on the market; on the other hand because T2S enables their customer banks to settle their transactions on their own DCA. These market changes are still under construction. And that moving landscape will last longer than the migration period, since lots of actors also consider that the expected changes of the securities industry will only come after the migration is completed.

Managing liquidity in T2S firstly is to deal with its new features such as liquidity transfers, liquidity reservations, central bank auto-collateralisation and client collateralisation, in order to support the bank's own liquidity management and to implement new value-added cash services offered to its clients. For multi-local and global banks, the complexity is increased by T2S flexibility to support market-specific requirements from various CSDs.

Mitigating operational risks is performed through application-to-application connection. It enables to integrate the monitoring of positions and limits within the bank's information system and then to perform straight through processing of the new functions. For instance, in order to manage automated alerts and processes after thresholds and pre-defined times, to define client credit conditions (limits, valuation of eligible collateral), to secure predictability of the end-of-day funding requirements through close monitoring and anticipated reimbursement of central bank auto-collateralisation...

"CRISTAL for T2S" is Diamis' modular solution for T2S. It supports all T2S cash management features with native multi-CSD capability and high customisation levels through configuration. It provides secure access to T2S and a comprehensive audit trail. Its application design has proven scalability and supports high volumes at lower operation cost.

"CRISTAL for T2S" has been defined by Diamis' focus group of customers that has drawn the business requirements for the migration to T2S. Banks in our DCP User Group range from global custodians to banks participating in one single CSD. They mutualise investment – and T2S certification – in a shared CRISTAL solution for which Diamis guarantees readiness and long-term compliance with regulatory requirements at optimised cost.

About Diamis

Diamis is a leading supplier of payment and settlement solutions. Diamis provides comprehensive solutions that enable efficient processing of payments, pro-active liquidity management and access to clearing and settlement systems, with CRISTAL and MASS PAYMENTS HIGHWAY software packages.

Diamis is a joint-venture of Atos and Steria.

www.diamis.com

For further information, please contact

diamis@atos.net - +33 1 73 26 00 00