General Information (Origin of Request)
☒ User Requirements (URD)
☒ Other User Functional or Technical Documentation (SYS)

Request raised by: Working Group on TARGET2 (WGT2)	**Institute:** Central Bank	**Date raised:** 11/09/2015
Request title: Automatic Internal liquidity transfer between RTGS Transit Account and the T2S Dedicated Cash Account in case of RTGS rejection		**Request ref. no:** T2S 0563 URD
Request type: Common		**Urgency:** Normal
1. Legal/business importance parameter: Low		**2. Market implementation efforts parameter:** Low
3. Operational/Technical risk parameter: Low		**4. Financial impact parameter:**
Requestor Category: Central Bank		**Status:** Withdrawn by initiator

Reason for change and expected benefits/business motivation:

T2S Outbound Liquidity Transfers allow moving cash from the T2S Dedicated Cash Account of a participant (DCA in T2S) to an RTGS account (RTGSA in RTGS). This transfer is based on the execution of two "legs":

- A "T2S leg", debiting the participants DCA and crediting the RTGS Transit Account in T2S of the corresponding currency.
- An "RTGS leg", debiting the T2S transit account in RTGS and crediting the RTGSA.

In exceptional conditions (i.e. if the RTGS is rejecting a liquidity transfer), it could happen that the "RTGS leg" of the transfer cannot be executed, while the "T2S leg" was successfully executed. It is foreseen that such situation is managed manually, involving contacts between operating teams of T2S and of the respective RTGS to secure the resolution process.

With CR 516 ("Internal liquidity transfers between RTGS Dedicated Transit Account and DCA in T2S") the business rule LLCI008 was modified to allow manual internal liquidity transfers also between RTGS Dedicated Transit Accounts and T2S DCAs held in the same currency. The present CR aims at implementing an automatic solution for these liquidity movements.

While it is expected that, on the RTGS side, such an automatic rebooking will take place in case the liquidity transfer from T2S to the RTGS is rejected by the RTGS, the logic in T2S is different. In particular TARGET2 is systematically rebooking any failed liquidity transfers. Currently T2S is not rebooking any failed liquidity transfer.

Such an automatic rebooking feature in T2S from the RTGS Transit Account back to the debited T2S DCA in case of RTGS rejections would be an important feature. This would (because there is no manual intervention from the relevant Central Bank as owner of the Transit Accounts) significantly reduce the risk of having an imbalance on the transit accounts. Moreover the automatic rebooking is more efficient from a liquidity management viewpoint as it makes the liquidity available to the payment banks while investigating why the liquidity transfer was rejected. The automatic rebooking avoids the risk of creating a "liquidity trap" and is therefore very important for the Central Banks as liquidity trapped on the transit account would cause time-consuming investigations on DCA holders' and also on RTGS transit account holders' side. In the case of TARGET2 it is even more cumbersome as both DCA holders' and their responsible Central Banks (who are not the RTGS transit account holder) would not be able to see funds staying on the RTGS transit account.

Such immediate rebooking back to the relevant DCA (in case of RTGS rejection) will, especially shortly before the end of the day when the T2S operations are the most critical, prevent potential issues with the closure of the relevant RTGS system. As the liquidity will be rebooked immediately back to the DCA, the transit accounts will be always in line and after the automatic cash sweep the liquidity will be anyway send back to the main RTGS account linked to the DCA.

In case this change request is not implemented, liquidity remains on the RTGS transit account and this is identified by the relevant RTGS transit account holder only in the RTGS closure phase (and after the automatic cash sweep already took place and DCAs are back to zero) there will the need to identify the relevant RTGS account holder and perform the manual booking in the RTGS which could cause the delay in the closure of the RTGS system. Such delay in the closing of the RTGS might have a negative impact on the re-opening of T2S. As a consequence of the delayed closing, the RTGS will delay also with the opening and sending of funds to T2S,

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Description of requested change:

T2S should automatically generate internal liquidity transfers debiting the RTGS Dedicated Transit account and crediting the Payment Bank DCA in case of RTGS rejections for an outbound liquidity transfer order.

Moreover in case something like this happens, an alert should be raised to the T2S Operator. The alert is supposed to provide the error code of the RTGS allowing understanding why the liquidity transfer has been rejected by the RTGS.

In the occasion of not receiving any RTGS answer the operational monitoring should ensure that the T2S operator is alerted after 15 minutes.

In both cases following the alert the T2S operator shall inform the responsible Central Bank (and the RTGS transit account holder in case it differs from the responsible Central Bank) accordingly about the details of the failed transfer (e.g. T2S Reference, sending and receiving party/account, error code of the RTGS).

The alert might be raised in any tool available to the T2S operator (e.g. the operational monitoring) and the consecutive procedure should be part of the operational procedures.

Submitted annexes / related documents:

Proposed wording for the Change request:

The proposed changes will be included in URD v5.05

The requirement T2S.06.710 (Unsuccessful execution of liquidity transfer order) should be updated as follows:

Reference ID	T2S.06.710

T2S shall require a settlement status message with a reason to keep track of a failed execution of a liquidity transfer in an RTGS system. Upon receipt of the failure settlement status message from an RTGS system, T2S shall set the RTGS status of the liquidity transfer order in T2S and automatically rebook the liquidity from the RTGS transit account back to the T2S dedicated cash account.

High level description of Impact:

Outcome/Decisions:

*CRG meeting of 15 December 2015: The CRG decided to put the Change Request on hold and identified as potential candidate for Release 2.0

* CRG meeting on 6 September 2016: The CRG recommended to launch the preliminary assessment on the Change Request from 26 September 2016 to 17 October 2016 (batch 1).

* CRG telco on 13 September 2016: The CRG agreed to postpone the launch of the preliminary assessment for the time being, as the Change Request is not mature.

* 17 January 2017: The Change Request was withdrawn by the CR initiator as the reduced scope of the CR (i.e. sending an alert to the T2S operator in case of missing RTGS answer) has been incorporated in the Change Request T2S-0562-URD (Overnight liquidity balance on the T2S Dedicated Cash Account in case of contingency scenario)