Instant Payments and Intraday Liquidity Management

ECB Money Market Contact Group 12.06.2024

Werner Driscart Belfius, Andreas Biewald Commerzbank AG

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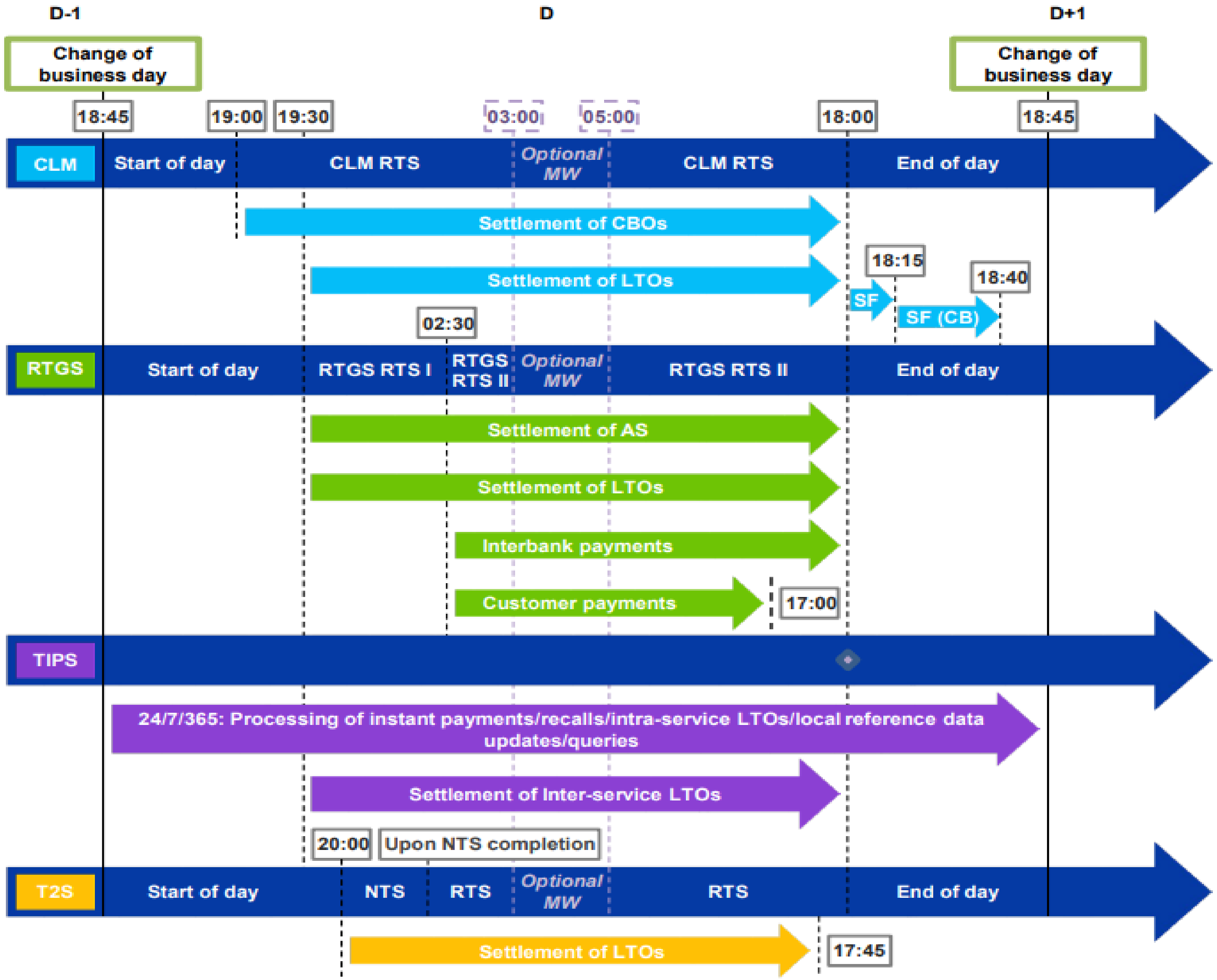
Agenda

Operational Days - TARGET Services



Status Quo

- Currently no remuneration for MCA and DCA accounts
- Liquidity has to be distributed to where it is needed (MCA <=> DCAs)
- Active monitoring via treasury liquidity management throughout the whole day
- Manual liquidity transfer orders for pooling liquidity in MCA
- Standing orders help to automate distribution of liquidity (Currently used for RTGS and T2S)
- Complex EoD procedures needed in order to achieve remuneration of reserves via standing facilities
    - EoD Snapshot in TIPS is taken around 18:05
- Active minimum reserve steering via internal calculation (TIPS DCA, RTGS DCA, T2S DCA, MCA)
- Active standing facilities usage for optimising surplus liquidity above minimum reserve requirements
    - Transfer to overnight deposit between 18:00-18:15 is only possible from MCA account
- Change of business day at 18:45
- Return of overnight deposit at start of day
- Liquidity transfers from MCA to TIPS start at 19:30 (No TIPS funding between 18:00 and 19:30 possible!)

Consequences of current set-up

- Complex and time critical procedures towards every end of day, especially on last day of minimum reserve period
- Operational risk due to technical or human errors
- Reputational risk in regards to Nonfulfillment of Minimum Reserve Requirements
- Lack of liquidity for TIPS between 18:00 – 19:30 when liquidity is moved into overnight deposit
- Inconsistent treatment of funds (remuneration) in national Instant Payment Systems (e.g. STET, IBERPAY, RT1, etc.) versus funds in TIPS
    - Disadvantage in TIPS from an economical point of view
    - Zero remuneration on TIPS vs Deposit Facility Rate (ESTR from 01.12.24) on ASTA (Ancillary System technical accounts)
    - Funding of ASTA account from TIPS DCA 24/7 vs. funding of TIPS DCA from T2 only during T2 business hours

Solution

- Remuneration and minimum reserve calculation directly on MCA and all DCAs
- Avoiding complex and time critical end of day procedures
- Efficient intraday liquidity steering via choosing TIPS as main source of liquidity
- Availability of CB liquidity wherever it is needed (24/7)
- Solving competitive disadvantage (TIPS DCA vs ASTA (Ancillary System technical accounts))
    - Zero remuneration on TIPS vs Deposit Facility Rate (ESTR from 01.12.24) on ASTA
- **Establishing procedures equivalent to what was state of the art in negative interest environment**
    - Charging negative Deposit Facility Rate over all DCA accounts automatically
    - See TARGET Guideline Article 12 Remuneration of Accounts: CL2022O0912EN0020010.0001_cp 1..1 (europa.eu)
- Unlimited availability of Central Bank money via TIPS 24/7/365
- Future source of liquidity for digital Euro funding and defunding via bridge from TIPS DCA
- Future source of liquidity for Private Sector DLT initiatives, aiming for on chain wholesale payments
- Increased Instant Payment volumes (no transaction limit for single transaction) leading to higher CB cash needs in TIPS
- TIPS will become the central funding source in the TARGET Services during non T2 business hours/days (MCA=>TIPS DCA)

Conclusion

The **automatic aggregate calculation** of reserve requirements and the **automated (calculated) remuneration** of the deposit facility are low hanging fruits in making banks’ liquidity management more efficient and secure

The ECB is committed to **efficiency and innovation**, and **removing this “sand in the wheels”** seems to be a low hanging fruit which would save significant costs to banks and strengthen the liquidity architecture offered by the Eurosystem to the financial system

The **less favourable remuneration of TIPS disincentivise** settlement in central bank money, despite the general preference for the latter also expressed by central banks (e.g. from financial stability perspective)

Annex

Remuneration of Accounts according to the TARGET Guideline

Article 12

Remuneration of Accounts

1. MCAs, DCAs and sub-accounts shall either be remunerated at zero per cent or at the deposit facility rate, whichever is lower, unless they are used to hold any of the following:

(a) minimum reserves;

(b) excess reserves;

(c) government deposits as defined in Article 2, point (5) of Guideline (EU) 2019/671 of the European Central Bank (ECB/2019/7) ([2]).

In the case of minimum reserves, the calculation and payment of remuneration of holdings shall be governed by Council Regulation (EC) No 2531/98 ([3]) and Regulation (EU) 2021/378 (ECB/2021/1).

In the case of excess reserves, the calculation and payment of remuneration of holdings shall be governed by Decision (EU) 2019/1743 of the European Central Bank (ECB/2019/31) ([4]).

In the case of government deposits, the remuneration of holdings shall be governed by the provisions relating to those government deposits as set out in Article 4 of Guideline (EU) 2019/671 (ECB/2019/7).

2. Overnight balances held on a TIPS AS technical account or on an RTGS AS technical account for AS settlement procedure D, and guarantee funds, including those held on an AS guarantee fund account, shall be remunerated at the deposit facility rate.

TARGET Guideline
CL2022O0912EN0020010.0001_cp 1..1 (europa.eu)

Remuneration of AS technical Accounts Change from DFR to ESTR from December 2024

ECB confirms remuneration ceiling for euro area government deposits and adjusts remuneration of other non-monetary policy deposits (europa.eu)

Exceptions will apply particularly for non-monetary policy deposits held in TARGET for guarantee funds and prefunded accounts by financial market infrastructures (FMIs) domiciled in the European Economic Area (EEA). These deposits will be remunerated at the €STR. The Governing Council considers these exceptions necessary given the relevance of these deposits for the smooth operation of payment systems and financial stability in the euro area.

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Commerzbank Offices

Frankfurt
Commerzbank AG

DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt

Tel: + 49 69 136 21200

London
Commerzbank AG

PO BOX 52715
30 Gresham Street
London, EC2P 2XY

Tel: + 44 207 623 8000

New York
Commerz Markets LLC

225 Liberty Street, 32nd floor,
New York,
NY 10281-1050

Tel: + 1 212 703 4000

Singapore
Commerzbank AG

128 Beach Road
#17-01 Guoco Midtown
Singapore 189773

Tel: +65 631 10000

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