



BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTÈME

Target Consolidation Training

Virtual Info session n°16 on Co-management for co-managers

2021-11-26

9h30 – 12h

WEBEX EVENT



Event rules

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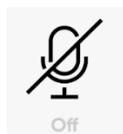
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- Make sure you respect the naming convention
 - First name = Full name (first name + last name)
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 - Email = Professional email address
- Camera off by default
- Microphone off by default
- Questions allowed in the chat or by raising hand
 - In case of too many questions, send your question to Target.conso@bcl.lu
- Do not forget to lower hand after having asked a question

Agenda

0. Welcome
1. Co-management principles
2. Co-management service levels
3. Planning



1. Co-management principles

Co-management principles

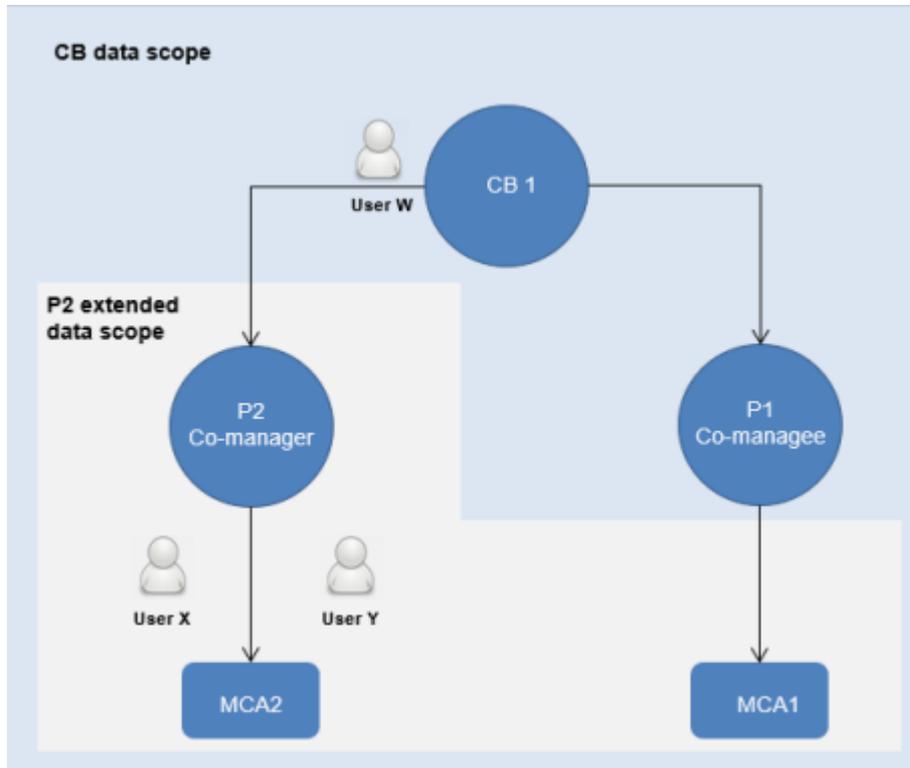
- ✓ Co-management is a CLM functionality
- ✓ It allows a participant to delegate the management of its MCA to another party.
- ✓ This set-up is possible in cross-border
- ✓ The privileges/roles assigned to CLM Co-manager users are also applicable for the co-managed account without limitations.
- ✓ Given that all banks must maintain their reserves on a MCA as from November 2022, co-management is a solution for those banks that do not wish to establish an ESMIG connection with SWIFT or SIA.



Explainer on co-management (ECB website)

https://www.ecb.europa.eu/paym/target/consolidation/profuse/shared/pdf/2021-06-14_explainer_on_co-management.pdf

Co-management principles



All CLM roles and related privileges, assigned to users X and Y of P2 will be extended to MCA1.

This is true for both A2A and U2A activities

E.g. if user X of P2 has a role including the privileges to view account balances, instruct liquidity transfers, manage reservations, etc. in CLM, X can do so for both MCA2 and MCA1.

Co-management principles

Possible actions taken by the co-manager on the co-managed accounts:

- Receive and forward the “statement of accounts” (U2A or camt.053) – mandatory*
- Initiate liquidity transfers orders – i.e. MCA de-funding (U2A or camt.050) – mandatory*
- Initiate overnight deposit and overnight deposit reverse orders (subset of above point)
- Configure standing orders, floors and ceilings, reservations
- Submit queries to CLM to receive information on: account, balances, transactions, minimum reserve, standing facilities, marginal lending, reservations etc...
- Receive status information about inbound messages, cash transfers and task queues

* co-manage is fully responsible of its MCA, and must therefore

- (1) know the balances present on its MCA (ad minima end of day reconciliation),
- (2) be able, even though not directly, to instruct his MCA. De-funding is done in CLM by the co-manager. Funding comes from a third party account and is rather a cash corresponding activity, optionally offered by the co-manager or by any other party secured by the co-managee.



2. Co-management service levels (i.e. the co-manager role)

Co-management service levels

0. The configuration of a 'co-management' relationship is made in CRDM

➤ By the co-managee, which (non exhaustive):

- Indicates the co-manager details in the registration form sent to BCL (test + production)

➤ By the Central Bank, which:

- Creates the co-managed bank (party and accounts) in CRDM
- Declares the Party Technical Address of the co-manager at the party level of the co-managee
- Creates a Liquidity Transfer Group between the co-manager and the co-managed 's MCAs (optional, only if co-manager offers Cash Correspondent Services to the co-managed entity)

➤ By the co-manager, which can set up (non exhaustive):

- Message subscription
- Report configuration
- Standing Order for Liquidity Transfer Order <and/or> for Reservation

Co-management service levels

1. Inform the co-managed entity on the account movements and balances

Modalities to be defined according to the agreed level of support:

At minimum

Provide EOD statement of accounts to the co-managed entity.

Underlying activities:

- subscribe camt.053 in CRDM,
- Receive/download the report (A2A/U2A),
- make it available to the co-manager as per the bilaterally agreed formats and transmission channels.

Optional

Provide instant information on the account situation.

Underlying activities:

- query T2 (query all cash transfers, postings, accounts and balances),
- receive the results of the query,
- communicate the results to the co-managed entity (as per the bilaterally agreed formats and transmission channels).

Co-management service levels

2. Instruct Liquidity transfers: MCA funding

Optional

Although the availability of an adequate provision on the co-managed MCA is key to the good execution of the Central Bank Operations, bringing cash onto the MCA is **not stricto sensu part of a co-management agreement** and rather stems from a Cash Correspondent agreement:

- **Between the co-managed entity and the co-manager entity.** In this configuration, the co-manager funds the co-managed MCA from its own T2 accounts (DCA or MCA). The contractual implementation of this service is left to the appreciation of the co-manager.
- **Between the co-managed entity and a third party.** In this case the MCA is provisioned by a third party and the co-manager has no other role than informing the co-managed entity of the funds arrival (i.e. service 1 depicted earlier)

Co-management service levels

3. Instruct Liquidity transfers: MCA de-funding

At minimum

Upon instruction from the co-managed entity, the co-manager shall **transfer liquidity from the co-managed MCA onto the MCA*/DCA indicated by the co-managed entity.**

Underlying activities:

- If immediate LT: book transfer in CLM (U2A or via camt.050)
- If standing order: configure in CRDM

** if MCA to MCA transfer, the co-managed entity shall first ask its central bank to configure a LTG*

Optional

The credited MCA/DCA may belong to the Co-manager, which would somehow act as Cash Correspondent. The contractual implementation of this relationship is left to the appreciation of the parties.

Co-management service levels

4. Minimum Reserves Requirements

Two aspects: constitution, monitoring

4.1 Constitute Minimum Reserves

A co-managee subject to Minimum reserves must place an appropriate balance on its MCA.

Underlying activity

See '*2. Instruct Liquidity transfers: MCA funding*'

Co-management service levels

4.2 Monitor adherence to the Minimum Reserves Requirements

Optional

Upon request from the co-managed entity, the co-manager provides information on the MCA balance as regards the fulfillment of its minimum reserves requirements.

Underlying activities:

- Query the current minimum reserves status (U2A or A2A camt.003)
- Provide the results of the query to the co-managed entity (as per the contractually agreed format and connectivity channel)

Alternatively, the co-managee must calculate himself its adherence to the minimum reserve requirements, using the end of day statement provided by its co-manager.

Co-managee may no longer contact the BCL to know its current situation regarding minimum reserve. The BCL only contacts the co-managee in case of minimum reserves infringement (leading to penalties)

Co-management service levels

5. Constitute Overnight deposits

At minimum

Upon instruction from the co-managed entity, the co-manager shall **book / reverse an Overnight Deposit operation in CLM**

Underlying activities:

- Initiate a liquidity transfer (U2A or A2A) to transfer liquidity between the MCA and ODA (*overnight deposit account*) of the co managed entity (ODA to MCA if reversal)

Optional

- Real-time Reporting: inform the co-managed entity (as per the bilaterally agreed formats and transmission channels) on the status of the liquidity transfer; else the co-manage will check this in the End of Day Statement.

Co-management service levels

6. Marginal Lending On Request (MLOR)

It is up to the MCA holder (co-managee) to contact the BCL and ask for a 'MLOR' facility.

In that case, the BCL takes care of booking the MLOR operation (provided that the MCA holder is eligible to such an operation and holds sufficient collateral).

Optionally

The co-managed entity may wish to be informed by the co-manager of the good execution of the MLOR in real time, else it can be seen in the End of Day Statement.

Co-management service levels

7. Automatic Marginal Lending (AML)

AML is a full automated process taking place in CLM.

It will hardly occur in a co-management configuration: co-managed entities are unlikely to be RTGS/T2S/TIPS participants, thus have no settlement activity prone to lead to an overdraft.

However, specific and rare situations (e.g. participation in open market operations) might occasionally lead to a negative account balance.

No activity for the co-manager. AML bookings can be seen in the next End of Day Statement.

Co-management service levels

8. Pre-funding for bank notes withdrawals

If a co-managed bank orders notes, this bank remains the BCL contact for this activity (i.e. not the co-manager).

At minimum:

Upon instruction from the co-managed entity, the co-manager transfers liquidity onto BCL's CLM account to pre-fund the bank notes withdrawal

Underlying activities:

- See "3. Instruct Liquidity transfers: MCA de-funding"

Co-management service levels

9. Participation to Open Market Operations (e.g. Tenders)

Optionally

A co-managed entity might occasionally subscribe to open market operations (OMO).

The co-manager role is limited, as the implementation of this operation is agreed between the BCL and the co-managed entity.

Underlying activities:

See '*3. Instruct Liquidity transfers: MCA de-funding*' and '*2. Instruct Liquidity transfers: MCA funding*'

10. Reservations

A reservation is an amount of the MCA balance earmarked for the sole settlement of central bank operations.

Optionally

Configure a standing order in CRDM or book a current reservation in CLM.

Co-management service levels minimum service level

At minimum:

Activity type	Detailed Activity	Purpose
Configure co-managed entity	Configure co-managed entity's attributes in CRDM	Implement any static data needed to operate the co-management service
Inform co-managed entity	Provide MCA end of day reporting	Co-manager informs the co-managed entity about the MCA movements and holdings. Co-managed entity takes appropriate action (funding / de-funding request, OD request, ...)
Instruct Liquidity Transfers on behalf of co-managed entity	LT from co-managed MCA to third party MCA/DCA	Co-manager executes an MCA de-funding order (for any underlying motivation proper to the co-managed entity)
	LT from the co-managed MCA to the co-managed ODA (overnight deposit account)	Co-manager executes an OD constitution order
	LT from the co-managed ODA to the co-managed MCA	Co-manager executes an OD reversal order
	LT from the co-managed MCA to BCL MCA	Co-manager executes the 'cash' leg of a bank notes withdrawal order

Co-management service levels

A co-management offer may go beyond the sole mandatory aspects

The co-manager role depicted in the previous slides results from BCL's understanding of the 'Co-management' concepts expressed in the Target Consolidation UDFS.

It is not BCL's intention to limit the activities of the entities acting as 'co-manager'.

Co-managers are free to decide whether they will offer or not:

- co management optional features
- cash correspondent activities
- any other related activity stemming from existing contracts between the 'to-be' co-manager and its clients
- any other activity stemming from a new service offer which is not directly in relation with the above tasks but that could improve their efficiency



3. Planning

Planning

Testing

The co-manager should set-up the co-manage MCA during the testing phase

The co-manager should test all required flows (inside and outside TARGET) with its co-manage before the Go-live

Migration

The co-manager should ensure that the co-managee gets an early access to its MCA initial balance following the migration activities.

Contractual aspects

Implement bilateral agreement with its Co-manager ... supposed to have ben completed already

Signature of the new T2 Terms and conditions: second half 2022

Event closure

Thanks for your participation!

Target Consolidation documentation available on:

<https://www.ecb.europa.eu/paym/target/consolidation/profuse/html/index.en.html>