



Instant Payment Services TIPS and RT1 Implications for Liquidity Management

Frankfurt am Main, November 28th, Michael Schneider

 **DZ BANK**

TIPS and RT1, Minimum Reserve Holding

With the introduction of TARGET Instant Payment settlement (TIPS) service from the European Central Bank on November 30th and the equivalent system Real Time 1 (RT1) run by the Euro Banking Association (EBA) we are facing some issues that we feel are either unclear, leave room for interpretation and/or discussion.

These issues are concerning the effects on liquidity, both regarding regulatory and economic liquidity and in this regard, the differences and similarities of the two systems mentioned above.

Specifically, we have identified the following issues:

Topic	TIPS	RT1
Minimum Reserve Holding	<p>As we have understood, the liquidity held on the TIPS Dedicated Cash Account (DCA) can and will count as Minimum Reserve Holding. A snapshot of that liquidity will be taken at 18:00 Central European Time?</p> <ul style="list-style-type: none">• Is that correct?	<p>As we have understood, the liquidity held on the technical RT1 account does not count as Minimum Reserve Holding, although that liquidity is held in an account that is embedded in T2 and may very well be regarded as reserves held with the central bank (central bank money).</p> <ul style="list-style-type: none">• Why does that liquidity not count as Minimum Reserve Holding?• Do you plan this in the future and in that respect plan to achieve a level playing field?

Liquidity Coverage Ratio

Topic	TIPS	RT1
<p>Liquidity Coverage Ratio (LCR)</p>	<p>As we have understood, the liquidity in the TIPS DCA may be part of the minimum reserve holdings, and thus also be considered as a high quality liquid asset (HQLA) within the LCR.</p> <p>Some market participants argue this liquidity cannot be considered as an HQLA within the LCR since this liquidity presents no stable and immediately available liquidity for the financial institution (e.g. it may be gone overnight).</p> <ul style="list-style-type: none"> • Please state how liquidity at the TIPS DCA needs to be considered within the LCR. • Please also indicate if or how a customer's vostro account will be treated differently (stable, less stable deposits?) within the LCR when that account is used as cover account for TIPS. Please differentiate between dedicated TIPS Vostro account and normal Vostro account of the client. 	<p>If the amount of liquidity in the technical RT1 account cannot count as Minimum Reserve Holding, we presume that this liquidity also does not count as HQLA.</p> <ul style="list-style-type: none"> • Is that understanding correct? • If this is correct, please indicate how this corresponds to a level playing field with TIPS (in case TIPS DCA liquidity counts as HQLA). • If this is not correct, please indicate how liquidity at the technical RT1 account needs to be considered within the LCR. • Please also indicate if or how a customer's (possibly also dedicated) vostro account will be treated within the LCR, when that account is used as cover for RT1 transactions.

Value Date And T2 Opening Hours

Topic	TIPS	RT1
Value date and T2 opening hours	<p>When a customer receives an instant payment during the weekend and on a T2 holiday, it needs to be valued on his account that very same day. A bank that offers TIPS service for that customer can only use that liquidity on the next T2 opening day. That may not matter much when TIPS liquidity counts as minimum reserve holding and therefore earns an interest equal to the main refinancing rate, but in general, this leaves arbitrage opportunities. One only needs to assume large corporations that pay salaries on a Saturday and the TIPS service offering institution needs to refinance that liquidity for three days. In addition, liquidity in different institutions might be skewed on these days; institutions might regularly be on the receiving side or vice versa.</p> <ul style="list-style-type: none"> • There might be situations coming up where an opening of T2 during the weekend and therefore trading on the money markets might be beneficial. Is this something that the ECB will look into? 	<p>The case of the value date of the liquidity during the weekends and the potential to only use that liquidity on the next T2 opening day exacerbates when using RT1. Here, the RT1 offering institution values on a T2 holiday but trades that liquidity at the next opening day of T2. In the meantime, interest on the liquidity on the technical RT1 account equals the rate of the deposit facility. This is not only a vertical arbitrage opportunity between the customer and the financial institutions but also an arbitrage opportunity horizontally between TIPS and RT1.</p> <ul style="list-style-type: none"> • In that sense, the value date problem within RT1 is at least the same as within TIPS. So, in order to avoid arbitrage opportunities, financial institutions would need the opportunity to trade liquidity even on weekends. Is this something that the ECB will look into?