EUROPEAN INTERBANK LIQUIDITY MANAGEMENT GUIDELINES

Revision 2015

By
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For enquiries :
TargetWG@ebf-fbe.eu

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Scope of the Guidelines

The following Guidelines are intended to cover individual euro payments made through TARGET2 and other same day high value euro payment systems. They are not intended to supersede regulations applicable to those payment systems, nor Guidelines or rules agreed by payment/clearing systems, nor any bilateral agreement. Monitoring observance of these Guidelines is left to market forces. Accordingly, these Guidelines do not give rise to any legally enforceable rights or obligations.

Although the terms “bank” and “ interbank” have been retained, these Guidelines are intended to apply, where applicable, to all payment service providers as defined by the Payment Services Directive.

Implementation

These revised Guidelines are to be implemented as from 25 June 2015 and replace all previous versions of these Guidelines.

Core Principles

The European Interbank Guidelines on Liquidity Management apply without prejudice to existing EU and National law. Compliance with applicable law remains the responsibility of individual institutions.

The objective is to establish a market standard in the euro area, equally applicable to all parties, in order to enhance market discipline with regard to liquidity management.

The basic principle behind these Guidelines is that no bank should be unduly enriched or injured by the operational procedures or error of another bank.

In case of negative interest rates, the interest compensation should be considered as zero (0) unless agreed otherwise bilaterally.

1st Guideline

a) Euro payments related to interbank transactions including, but not restricted to, the payment leg of money market, foreign exchange and derivative transactions which are traded before the value date (i.e. on date X-1 or prior) should be sent on value date (i.e. Day X) with suffi cient liquidity coverage as early as possible in the day and no later than 12.00 CET-time.

b) Commercial payments received from the ordering party before the value date (i.e. on date X-1 or prior) should be sent on value date (i.e. Day X) with sufficient liquidity coverage as early as possible in the day and no later than 12.00 CET-time.

2nd Guideline

a) Euro payments related to interbank transactions including but not re stricted to the payment leg of money market, foreign exchange and derivative transactions which are traded on the value date **on or be fore 10.00 CET-time**, should be sent on the value date, with sufficient liquidity coverage as soon as possible and, at the latest, before 12.00 CET-time.

Euro payments related to interbank transactions traded on the value date **after 10.00 CET-time**, should be sent on the value date, with sufficient liquidity coverage as soon as possible and, at the latest, two hours after the transaction has been agreed, or before 17.00 CET-time, whichever is earlier.

b) Commercial payments received from the ordering party on the value date should be sent on the value date with sufficient liquidity cov erage as soon as possible and, at the latest, two hours after the pay ment is received, or before 17.00 CET-time, whichever is earlier.

c) Euro payments related to interbank liquidity position squaring trans actions (for accounts with Eurosystem NCBs) which are traded on the value date at 15.00 CET-time or later should be sent on the value date with sufficient liquidity coverage as soon as possible and, at the latest, two hours after the transaction has been agreed, or before the cut-off time of 18.00 CET-time, whichever is earlier.

3rd Guideline

In accordance with the 2nd Guideline, Sending Clearing Banks are expected to ensure that all payments other than liquidity-squaring transactions are sent at the latest by 17.00 CET.

a) If the Sending Clearing Bank has pre-agreed a late payment with the Receiving Clearing Bank and this arrives on the agreed day, no com pensation is due. However, if a pre-agreed Late Payment does not ar rive on the agreed day, the Sending Clearing Bank will pay special compensation, based on a minimum of EONIA plus a fixed flat ad ministration fee of EUR 100. (See Q and A 14)

b) If the Receiving Clearing Bank gives same day value for a non pre-agreed Late Payment (or is obliged to do so by law or guidelines), the Sending Clearing Bank will pay special compensation to the Re ceiving Clearing Bank on request based on EONIA less the ECB De posit Rate, plus a 100 EUR administration fee. (See Q and A 14)

Scope and nature of the European Liquidity Management Guidelines

The objective of these Guidelines is to enhance market discipline. The Guidelines are in no way intended to impinge upon Guidelines and/or rules already agreed in either cross-border or domestic systems, nor on any bilateral agreement concerning the processing of payments.

It has to be noted, moreover, that these Guidelines are not binding in nature: there exists no authorised body monitoring compliance. Instead, the evaluation of compliance with the Guidelines and any measures to be taken in cases of divergent practices are left to market forces. Accordingly, these Guidelines do not give rise to any legally enforceable rights or obligations.

A. LIQUIDITY MANAGEMENT THROUGHOUT THE DAY

The first two Guidelines concentrate on liquidity management in the course of the day, trying to establish a European approach for sending individual same day euro payments in the various systems offered to member banks across the euro area. A synchronised schedule for sending euro payments throughout the day will clearly alleviate liquidity gridlock in different systems since payments themselves will bring liquidity to the market and assist coverage for subsequent payments.

Additionally, the first two Guidelines for the timely delivery of funds will greatly facilitate discipline in the latter part of the day, by keeping those late payments to a minimum.

* As explained, they not only concern payments related to interbank transactions (including but not restricted to the payment leg of money market, foreign exchange and derivative transactions) but also individual commercial payments.

* Furthermore, these Guidelines do not only apply to payments going through the TARGET2 system but also to any other same day individual high value euro payment systems.

* Sufficient liquidity coverage simply means that these payments should be covered, be it via eligible assets available for immediate provision of finance, a credit balance on a central bank account, agreed netting arrangement or simply by incoming payments. These recommendations only relate to the sending of a payment through a payment system, not its proper execution.

1. Transactions before the value date

The first Guideline concerns on the one hand euro payments related to interbank transactions traded before value date, and, on the other hand, commercial payments received from the ordering party before the value date. To relieve liquidity pressure in the course of the day, it encourages participants in the market to send such payments on the value date with sufficient liquidity coverage, as early as possible in the day and no later than 12.00 CET-time.

Possible operational problems on one hand, and the fact that some banks are located in another time zone on the other hand, explain the extension of the cut-off until 12.00 CET-time.

This will assist smooth movement of liquidity within any euro payment system and avoid banks retaining payments until later in the day. It is recognised that risk exposure or operational problems may temporarily prevent banks from respecting the Guideline.

2. Transactions on the value date

The second Guideline concerns on the one hand euro payments related to interbank transactions traded on the value date, and, on the other hand, commercial payments received from the ordering party on the value date:

* for euro payments related to interbank transactions, it recommends that the payment leg of such transactions should be sent as soon as possible, with a maximum time lag of two hours or by 17.00 CET-time, whichever is earlier. However, for those euro payments related to interbank transactions traded on the value date before 10.00 CET-time, it is recommended that the payment leg of such transactions should be sent as soon as possible and, at the latest, before 12.00 CET-time. This is in order to avoid any discrimination compared with the treatment of payments in respect of transactions traded before the value date.

* for euro commercial payments received from the ordering party on the value date, it also recommends that the payment leg of such trans actions should be sent as soon as possible, with a maximum time lag of two hours or by 17.00 CET-time, whichever is earlier.

* for euro payments related to interbank liquidity position squaring transactions, usually taking place after 15.00 CET-time, the cut-off time corresponds to the ECB cut-off time of 18.00 CET-time.

B. LIQUIDITY MANAGEMENT AT THE END OF THE DAY

The objective of **the third Guideline** is to impose discipline in euro payment systems for late payments, in the spirit of the ECB TARGET2 service level whose aim is to impose a cut-off time for commercial payments at 17.00 CET-time. These restrictions have been imposed by the central banks by preventing use of MT 103 (and MT 102) SWIFT messages by clearing banks in the last hour of the day in order to reserve at least one hour for clearing banks to square their end-of-day positions within TARGET2.

Clearing banks need this second period because a significant part of their position is made up of the sum of their customers' positions and the settlement of ancillary systems. It will allow them to minimise their liquidity requirements and to more accurately predict their final end of day balances, therefore reducing the possibility of poorly performing funds.

In the case where the Sending Clearing Bank pre-agrees with the Receiving ClearingBank that same day value will apply (pre-agreed Late Payments) but the funds do not arrive on the agreed day, the sending bank will be liable to pay the full cost of compensation, based on a minimum of EONIA plus a 100 EUR administration fee:

= ((amount in euro) X (EONIA) X (number of calendar days funds are outstanding))/360

In the case where the Sending Clearing Bank sends a non Pre-agreed Late payment, and the Receiving Clearing Bank gives same-day value (or is obliged to do so by law or guidelines) , the Sending Clearing Bank will have to compensate the Receiving Clearing Bank on request based on the opportunity cost (EONIA – ECB Deposit rate), calculated as if the funds did not arrive until the next TARGET working day, in addition to a 100 EUR administration fee:

= ((amount in euro) X (EONIA – ECB Deposit rate) X (number of calendar days calculated as if the funds were received on the next TARGET working day)) / 360

The notification of the counterpart should be made by telephone/Reuters or any other means agreed between the parties.

ANNEX 1

GLOSSARY

Late payment -payment which is sent at 17.00 CET-time or later.

Pre-agreed Late Payment - payment in respect of which the Sending Clearing Bank has contacted the appropriate person at the Receiving Clearing Bank to seek agreement that the payment will be given same-day value without any compensation being paid, and the Receiving Clearing Bank has agreed.

Receiving Clearing Bank - a direct participant in a same day individual euro payment system which receives payments through such system

Sending Clearing Bank - a direct participant in a same day individual euro payment system which sends payments through such system

ANNEX 2

QUESTIONS AND ANSWERS (Q&As)

Q1 - What does the third Guideline try to achieve?
A1 - This Guideline is meant to become the market standard in Euroland to give to all banks, be they small or large, which are direct participants in any same day euro payment system for individual payments, an equal starting point of 17.00 CET-time, in line with the intention of the Eurosystem to complete the liquidity management process at the end of the day.

Q2 - Do these Guidelines apply for both payments settled through TARGET2 and other same day euro payment/clearing systems for individual payments?
A2 - Yes, the wording covers both by simply referring to Sending and Receiving Clearing Banks.

Q3 - What is the relationship between the 1st and 2nd Guidelines and the 3rd which relates to the 17.00 to 18.00 CET period?
A3 - The only way in which discipline will be improved at end of day is if discipline is improved during the course of the day e.g. it is important for clearing banks:
1) To have sufficient liquidity in relation to their non- position squaring flows;
2) To present these payments to the clearing systems in a timely fashion.

Q4 - What about payment delays caused by liquidity trapped within payment systems other than TARGET 2?
A4- It is important for Clearing Banks to manage down positions in such systems towards the end of the clearing day so that liquidity does not become trapped in the vital 16.00 to 17.00 CET time period.

Q5 - Who would pursue the claim with the clearing system if a clearing system problem affected delivery?
A5- This should be done in accordance with the arrangements for the clearing/payment system concerned.
Nevertheless, these Guidelines should reduce the number of payments in the end of day window and thus reduce the risk of this being necessary.

Q6- How does a Receiving Clearing Bank identify the precise time when a payment message was sent?
A6 - Sending Clearing Banks are requested to cooperate in providing this information.

Q7- How many days will the compensation structure in the 3rd Guideline a) apply for?
A7 - From the pre-agreed value date of the payment in question to the date on which the funds are finally received e.g. if the funds were expected on Friday and were finally received on Monday, 3 days compensation will be paid.

Q8 - What are the implications of indirect membership of clearing systems?
A8 - The Guidelines are specifically designed to accommodate banks which are not direct participants in payment /clearing systems.

Q9 - Why refer to late position squaring deals rather than late Money Market deals?
A9 - Because other instruments can be used for squaring positions, like an FX swap.

Q10 - Are these Guidelines intended to be legally enforceable?
A10 - No. Nonetheless, all banks are strongly encouraged to follow them to create an orderly end of day process for the market. Evaluation of compliance with the Guidelines and any measures to be taken in case of divergent practices will be left to market forces.

Q11 - How will a bank which has a system failure late in the day be able to cope with all the calls?
A11 - There are many different situations which may arise. However, there is no reason why a Sending Clearing Bank should be able to export its problem by not being able to send late funds. Typically banks with such a failure will try to pre-agree delivery of funds on an aggregate basis with Receiving Clearing Banks.

Q12 - Are there any conflicts with the T2 Information Guide and T2 Guideline for Credit Institutions Using TARGET 2?
A12 - None have been identified.

Q13 - What is the process for a Pre-agreed Late Payment?
A13 - Due to the short time and need for positive agreement by the Receiving Clearing Bank, the Sending Clearing Bank should contact the Receiving Clearing Bank by phone or Reuters Dealing, and always directly to the appropriate contacts in the Liquidity Management and/or Treasury departments. The Receiving Clearing Bank may refuse to agree.

ANNEX 2

Q14 - Please show examples of the special compensation in accordance with the third guideline.
A14 –
1) Example where a Pre-agreed Late Payment does not arrive on the agreed day:
Pre-agreed Late Payment of EUR 150 million with an agreed day of a Friday and the payment does not arrive until the following Monday. Compensation will be a minimum of 150 million at the EONIA Rate (say 3.5%) for 3 calendar days plus the administration fee (EUR 100) i.e. minimum compensation would be ((150 million x 3.5% x 3 days) divided by 360) = EUR 43.750 plus EUR 100. An additional compensation amount may apply if the Receiving Clearing Bank could evidence additional external charges directly associated with the failure to receive the Pre-agreed Late Payment. This would be subject to bilateral agreement and/or applicable law.

2) Example where the Receiving Clearing Bank decides (or is obliged by law or guideline) to give same day value on a non-Pre-agreed Late Payment:
Receipt of EUR 120 million on a Friday where the next TARGET working day is on the following Monday. Assume EONIA as 3.5% and ECB Deposit Rate as 1.5%. Compensation will be: ((120 million x (3.5% - 1.5%) x 3days) divided by 360) plus the administration fee (EUR 100) = EUR 20.000 plus EUR 100