

RULES ON AUTO-COLLATERALISATION OPERATIONS

Definitions

For the purposes of these Rules the following definitions apply:

1. **“auto-collateralisation”** means intraday credit granted by the euro area national central bank (NCB) in central bank money triggered when a T2S DCA holder has insufficient funds to settle securities transactions, whereby such intraday credit is collateralised either with the securities being purchased (collateral on flow), or with securities already held by the T2S DCA holder (collateral on stock). An auto-collateralisation transaction consists of two distinct transactions, one for the granting of auto-collateralisation and one for its reimbursement. It may also include a third transaction for any eventual relocation of collateral. For the purposes of Article 16, all three transactions are deemed to have been entered into the system and deemed to be irrevocable at the same time as the transaction for the granting of the auto-collateralisation; *(Amendment 15.4.2016)*
2. **“available liquidity”** means the credit balance on the T2S DCA decreased by the amount of any processed reservations of liquidity or blocking of funds;
3. **“credit institution”** means either: (a) a credit institution within the meaning of point (1) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council¹ that is subject to supervision by a competent authority; or (b) another credit institution within the meaning of Article 123(2) of the Treaty that is subject to scrutiny of a standard comparable to supervision by a competent authority;
4. **“branch”** means a branch within the meaning of point (17) of Article 4(1) of Regulation (EU) No 575/2013;
5. **“close links”** means close links within the meaning of Article 138 of Guideline (EU) 2015/510 (ECB/2014/60).²; *(Amendment 15.4.2016)*
6. **“insolvency proceedings”** means insolvency proceedings within the meaning of Article 2(j) of Directive 98/26/EC of the European Parliament and of the Council³;
7. **“event of default”** means any impending or existing event, the occurrence of which may threaten the performance by an entity of its obligations under the Rules for the Opening and Operation of a T2S Dedicated Cash Account in TARGET2 (T2S DCA) and the provisions of these Rules or any other rules (including those specified by the Governing Council with respect to Eurosystem monetary policy operations) applying to the relationship between that entity and any of the Eurosystem CBs, including:
 - (a) where the entity no longer meets the access criteria and/or technical requirements laid down in the Rules for TARGET2-Suomen Pankki and, if applicable, Annex VIII of the Rules of TARGET2-Suomen Pankki or the Rules on the opening and operation of a T2S Dedicated Cash Account in TARGET2-Suomen Pankki or the Rules on the opening and oper-

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

² Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (OJ L 91, 2.4.2015, p. 3).

³ Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (OJ L 166, 11.6.1998, p. 45).

ation of a TIPS Dedicated Cash Account in TARGET2-Suomen Pankki or , where its eligibility as a counterparty for Eurosystem monetary policy operations has been suspended or terminated; (*Amended 30.11.2018*)

- (b) the opening of insolvency proceedings in relation to the entity;
- (c) the submission of an application relating to the proceedings referred to in point (b);
- (d) the issue by the entity of a written declaration of its inability to pay all or any part of its debts or to meet its obligations arising in relation to intraday credit;
- (e) the entry of the entity into a voluntary general agreement or an arrangement with its creditors;
- (f) where the entity is, or is deemed by the Bank of Finland to be, insolvent or unable to pay its deb
- (g) where the entity's credit balance on its PM account T2S DCA, or TIPS DCA or all or a substantial part of the entity's assets are subject to a freezing order, attachment, seizure or any other procedure that is intended to protect the public interest or the rights of the entity's creditors; (*Amended 30.11.2018*)
- (h) where participation of the entity in another TARGET2 component system and/or in an ancillary system has been suspended or terminated;
- (i) where any material representation or pre-contractual statement made by the entity or which is implied to have been made by the entity under the applicable law is incorrect or untrue; or
- (j) the assignment of all or a substantial part of the entity's assets.

- 8. **"T2S Dedicated Cash Account (T2S DCA)"** means an account held by a T2S DCA holder, opened in TARGET2, and used for cash payments in relation to securities settlement in T2S; (*Amendment 30.11.2018*)
- 9. **"TIPS Dedicated Cash Account (TIPS DCA)"** means an account held by a TIPS DCA holder, opened in TARGET2, and used for the provision of instant payment services to its customers; (*Amendment 30.11.2018*)

Eligible entities

1. Notwithstanding paragraph 13, Bank of Finland shall, after Euroclear Finland migrates to T2S and further to a request, offer auto-collateralisation facilities to the entities to which it provides intraday credit in accordance with the Rules of TARGET2-Suomen Pankki, on condition that such entities have both a T2S DCA and a PM account with the Bank of Finland and are not subject to restrictive measures adopted by the Council of the European Union or Member States pursuant to Article 65(1)(b), Article 75 or Article 215 of the Treaty, the implementation of which, in the view of Bank of Finland after informing the ECB, is incompatible with the smooth functioning of TARGET2.
2. Auto-collateralisation shall be limited to intraday only. No extension to overnight credit shall be possible.

Eligible collateral

3. Auto-collateralisation shall be based on eligible collateral. Eligible collateral shall consist of the same assets as eligible for use in Eurosystem monetary policy operations, and shall be subject to the same valuation and risk control rules as those laid down in Part Four of Guideline (EU) 2015/510 (ECB/2014/60).

Furthermore, eligible collateral for auto-collateralisation:

- (a) may be limited by euro area NCBs by means of an ex ante exclusion of potential close-link collateral;
 - (b) shall, in the case of cross-border use, be mobilised through a link assessed as eligible for use in Eurosystem credit operations by the Governing Council of the ECB and published on the website of the ECB⁴;
 - (c) is subject to certain discretionary choices for the exclusion of eligible collateral as granted to the euro area NCBs by decisions of the Governing Council of the ECB;
4. Debt instruments issued or guaranteed by the entity, or by any other third party with which the entity has close links, may only be accepted as eligible collateral in the situations laid down in Part Four of Guideline (EU) 2015/510 (ECB/2014/60).

4a. Use of ineligible collateral may result in the application of sanctions in accordance with Part Five of Guideline (EU) 2015/510 (ECB/2014/60) (*Amendment 30.11.2018*)

⁴ <http://www.ecb.int/paym/coll/coll/ssslinks/html/index.en.html>



Credit provision and recovery procedure

5. Auto-collateralisation may only be provided on business days.
6. Credit obtained by means of auto-collateralisation shall be provided free of interest.
7. Fees shall be charged for the provision of auto-collateralisation in line with the fee schedule attached as Annex VI to the Rules for Opening and Operation of a T2S Dedicated Cash Account in TARGET2-Suomen Pankki.
8. Auto-collateralisation may be reimbursed at any time during the day by the T2S DCA holder by following the procedure described in the T2S UDFS.
9. Auto-collateralisation shall be reimbursed at the latest at the time defined in the Annex V to the Rules for the Opening and Operation of a T2S Dedicated Cash Account in TARGET2-Suomen Pankki, and in accordance with the following process:
 - (a) the Bank of Finland acting via the T2S Platform releases the reimbursement instruction which is settled subject to cash being available to reimburse outstanding auto-collateralisation;
 - (b) if, after performing step (a), the balance on the T2S DCA is not sufficient to reimburse outstanding auto-collateralisation, the Bank of Finland acting via the T2S Platform checks other T2S DCAs opened in its books for the same T2S DCA holder and transfers cash from any or all of these to the T2S DCA where reimbursement instructions are pending;
 - (c) if, after performing steps (a) and (b), the balance on a T2S DCA is not sufficient to reimburse outstanding auto-collateralisation, the T2S DCA holder shall be deemed to have instructed the Bank of Finland to transfer the collateral which was used to obtain the outstanding auto-collateralisation to the collateral account of the Bank of Finland. Thereafter, the Bank of Finland shall provide the liquidity to reimburse the outstanding auto-collateralisation and shall without undue delay debit the relevant PM account of the T2S DCA holder.
 - (d) The Bank of Finland shall apply a penalty fee of EUR 1 000 for each business day where one or more recourses to collateral relocation under point (c) occur. The penalty fee shall be debited from the relevant PM account of the T2S DCA holder referred to in point (c).

Suspension, limitation or termination of auto-collateralisation facilities

10.

- a) The Bank of Finland shall suspend or terminate access to auto-collateralisation facilities if one of the following events of default occurs:
 - (i) the T2S DCA, TIPS DCA or PM account of the entity with the Bank of Finland is suspended or closed; (*Amended 30.11.2018*)
 - (ii) the entity concerned ceases to meet any of the requirements laid down in these Rules;
 - (iii) a decision is made by a competent judicial or other authority to implement in relation to the entity a procedure for the winding-up of the entity or the appointment of a liquidator or analogous officer over the entity or any other analogous procedure;
 - (iv) the entity becomes subject to the freezing of funds and/or other measures imposed by the Union restricting the entity's ability to use its funds;
 - (v) the entity's eligibility as a counterparty for Eurosystem monetary policy operations has been suspended or terminated.
- b) The Bank of Finland may terminate access to auto-collateralisation facilities if another NCB suspends or terminates the T2S DCA holder's participation in TARGET2 pursuant to Article 24(2)(b) to (d) of Rules on the Opening and Operation of a dedicated Cash Account in TARGET2-Suomen Pankki, or if one or more events of default (other than those referred to in Article 24(2)(a) of the above mentioned Rules) occur.
- c) The Eurosystem may decide to suspend, limit or exclude counterparties' access to monetary policy instruments on the grounds of prudence or otherwise in accordance with Article 158 of Guideline (EU) 2015/510 (ECB/2014/60). In such cases, the Bank of Finland shall implement that decision in respect of access to auto-collateralisation facilities pursuant to provisions in the contractual or regulatory arrangements applied by the Bank of Finland. (*Amendment 15.4.2016*)
- d) The Bank of Finland may decide to suspend, limit or terminate a T2S DCA holder's access to auto-collateralisation facilities if the T2S DCA holder is deemed to pose risks on the grounds of prudence. In such cases, the Bank of Finland shall immediately notify the ECB and other euro area NCBs and connected NCBs thereof in writing. Where appropriate, the Governing Council shall decide upon uniform implementation of the measures taken in all TARGET2 component systems.

11. Where the Bank of Finland decides to suspend, limit or terminate a T2S DCA holder's access to auto-collateralisation facilities in accordance with paragraph 10(d), such decision shall not take effect until the ECB has approved it.



12. By derogation from paragraph 11, in urgent circumstances the Bank of Finland may suspend a T2S DCA holder's access to auto-collateralisation facilities with immediate effect. In such cases the Bank of Finland shall immediately notify the ECB thereof in writing. The ECB shall have the power to reverse the Bank of Finland action. However, if the ECB does not send the Bank of Finland notice of such reversal within ten business days of the ECB's receipt of notification, the ECB shall be deemed to have approved the Bank of Finland action.

Transitional provision

13. By derogation from paragraph 1, until Euroclear Finland migrates to T2S the Bank of Finland may, further to a request, offer auto-collateralisation facilities to the entities to which it provides intraday credit in accordance with the TARGET2-Suomen Pankki –Rules, on condition that such entities have both a T2S DCA and a PM account with the Bank of Finland and are not subject to restrictive measures adopted by the Council of the European Union or Member States pursuant to Article 65(1)(b), Article 75 or Article 215 of the Treaty, the implementation of which, in the view of the Bank of Finland after informing the ECB, is incompatible with the smooth functioning of TARGET2.