



## RTGS Renewal Programme: Global Liquidity Management Workshop

29 January 2018

Attendees;

HMRC	Lloyds	A&T Advisory Limited
UK Finance	Santander	Societe Generale
JP Morgan	Faster Payments	EBF
Barclays	UBS	CLS
ACI Worldwide	RBS	BNP Paribas
Virgin Money	Software-Integrators	Northern Trust
CREST/EUI	Vocalink	FS Management Consultants
TSB	SWIFT	Bank of England
Nationwide	HSBC	

### Overview

The Bank of England ‘the Bank’ has established a programme to renew its Real Time Gross Settlement (RTGS) service. In January 2018, as part of this programme, the Bank invited members of the payments community to participate in a workshop on Global Liquidity Management (GLM). The purpose of the workshop was to discuss the possibility of offering on-demand repo liquidity generation in CREST as a means to source CHAPS liquidity.

The session discussed use cases and risks as well as potential benefits relative to the current arrangements for intraday liquidity generation. The outputs of the session will be used to inform design of the new RTGS service.

The key points to emerge were:

### General discussion

- The Bank explained the existing process of generating collateralised liquidity in CHAPS. The current options are using reserve balances, posting collateral with BoE or posting Euro cash to the BoE account in Target2.
- Participants highlighted that many CHAPS members are organisations with global reach, operating in different systems and currencies. The key objective for these organisations is to tailor liquidity and collateral to where it's most needed. Real-time information across systems and efficiency of moving collateral are therefore key requirements.
- CHAPS membership is also set to expand. Future arrangements need to have the flexibility to meet varied needs. The intraday liquidity arrangements should not pose a barrier to entry.
- Increasing FPS transaction limits could result in an increase in liquidity needs, and will not necessarily occur intraday.



- Many attendees thought that a single dashboard, showing sterling liquidity positions across systems (CHAPS, CREST, retail), would be a very useful addition. It could also allow users to make liquidity movements across accounts.

### Proposal to generate liquidity via CREST

- EUI briefly explained the history of the CREST Auto-Collateralised Repo (ACR) mechanism in CREST. ACR generates liquidity by collateralising UK government securities to make up for liquidity shortfalls within CREST. It automatically creates and destroys liquidity, exactly tailored to the liquidity need in CREST.
- The Bank introduced the proposal, suggested in an earlier workshop, to utilise the CREST Auto-Collateralised Repo mechanism to generate liquidity for CHAPS. The options suggested were:
  1. **On-demand.** A member manually puts in a request for CREST liquidity via the CHAPS interface. The system then repos securities in CREST and transfer the funds to member's CHAPS account.
  2. **Automatic.** An extension of the first option would also allow members to set simple rules that then ensure liquidity is generated.
- Attendees thought that the ability to generate CHAPS liquidity via CREST ACRs on demand could be beneficial. It would give more flexibility, and utilise existing mechanisms that are proven to work well.
- If ACRs could be used to generate liquidity in RTGS, participants could keep more securities in CREST and improve the efficiency of collateral utilisation. Currently, participants need to have the majority of liquid assets in CHAPS, moving it to CREST when needed.
- The Bank could try and enable this process for those that are not members of both systems. ACRs currently can be provided to non-settlement CREST members.
- The appetite for automation of this functionality will vary across different organisations, based on the complexity of their liquidity management and level of sophistication.
- Any automated approaches would need to have strict guidelines and feature an ability to override the automated transfers. Some members suggested that automated alerts could be used instead, alerting to a potential need to move liquidity when pre-determined thresholds were reached.