

Single Rulebook Q&A

Question ID	2021_6083
Status	Final Q&A
Legal act	Regulation (EU) No 909/2014 (CSDR) - only RTS 2017/390
Topic	Market infrastructures
Article	59
Paragraph	4
Subparagraph	d
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) 2017/390 - RTS on prudential requirements of CSDs (CSDR-related)
Article/Paragraph	10(1)(g), 10(2)(f), 11(1)(d), 38(14), Recital 30
Date of submission	12/07/2021
Published as Final Q&A	06/01/2023
Disclose name of institution / entity	Yes
Name of institution / submitter	CSSF/BCL
Country of incorporation / residence	Luxembourg
Type of submitter	Competent authority
Subject matter	Capacity of a CSD-banking service provider to convert into cash on a same-day basis collateral or investments through prearranged and highly reliable funding arrangements
Question	<p>What is the meaning of “same day basis” and the settlement period linked to it in Article 10(2)(f) of Regulation (EU) 2017/390?</p> <p>Furthermore, in view of cut-off times of prearranged and highly reliable funding arrangements including committed repo lines, does the notion ‘same-day basis’ strictly require the conversion of collateral or investments into cash on the same day, or is it sufficient that a CSD-banking service provider has the capacity to start the conversion process on the same day?</p>
Background on the question	For collateral to be considered of a lower quality than that referred to in paragraph 1 for the purposes of point (d) of Article 59(3), and point (d) of

Article 59(4) of Regulation (EU) No 909/2014 (CSDR), transferable securities and money market instruments are required to be liquidated “on a same-day basis”. Additionally, Article 38(14) of Regulation (EU) 2017/390 on prudential requirements for CSDs requires that a CSD-banking service provider shall be capable of accessing and converting assets referred to in Article 10 and Article 11(1) into cash on a same-day basis through pre-arranged and highly reliable arrangements established in accordance with point (d) of Article 59(4) of Regulation (EU) No 909/2014. Articles 10(1)(g), 10(2)(f), 11(1)(d), 38(14) and Recital 30 of the same regulation also refer to the convertibility of highly liquid collateral or investments into cash on a same-day basis with prearranged and highly reliable funding arrangements as referred to in Article 59(4)(d) CSDR. In view of fulfilling the requirement in Article 35(3) of Regulation (EU) 2017/390, it is unclear whether the notion ‘same-day basis’ refers to the ability of a CSD-banking service provider to start on the same day the process of addressing any liquidity gap or whether the liquidity gap should be closed the same (business) day. The question is relevant in relation to cut-off times of prearranged and highly reliable funding arrangements, such as committed repo lines, which are used to convert collateral or investments into cash on a same-day basis. After such cut-off time, the line becomes unavailable from an intraday perspective. Hence, after such cut-off time the conversion into cash of collateral or investments will only be effective on the next business day. Cut-off times of committed facilities including committed repo and FX swap lines are common market practice. Pre-arranged and highly reliable funding arrangements, committed lines of credit or similar agreements need to be accessed before a certain cut-off time by virtue of contractual terms and conditions, opening hours and market practice, in order to be answered/processed on the same (business) day, as the financial institutions involved operate in multiple time zones.

Final answer

In accordance with Article 10(1)(g) of Delegated Regulation (EU) 2017/390 (RTS on prudential requirements of CSDs), in order for collateral to be considered of the best quality, for the purposes of point (d) of Article 59(3) and Article 59(4) of Regulation (EU) No 909/2014 (CSDR), it shall consist of debt instruments that are readily available and convertible into cash on a same-day basis.

In accordance with Article 10(2)(f) of the RTS on prudential requirements of CSDs, in order for collateral, to be considered of a lower quality for the purposes of point (d) of Article 59(3), and point (d) of Article 59(4) CSDR, it shall consist of transferable securities and money market instruments that can be liquidated on a same-day basis.

In accordance with Article 11(1)(d) of the RTS on prudential requirements of

CSDs, other types of collateral to be used by a CSD-banking service provider shall consist of financial instruments for which the CSD-banking service provider has a prearranged funding arrangement with the type of creditworthy financial institution referred to in point (e) of Article 59(4) CSDR and specified in Article 38 of the RTS on prudential requirements of CSDs, which provides for the conversion of these instruments into cash on a same-day basis.

In accordance to Article 38(14) of the RTS on prudential requirements of CSDs, arrangements in order to convert collateral or investment into cash using prearranged and highly reliable funding arrangements, the CSD-banking service provider shall be capable of accessing and converting non-cash assets referred to in Article 10 and Article 11(1) into cash on a same-day basis through pre-arranged and highly reliable arrangements established in accordance with point (d) of Article 59(4) CSDR.

Therefore, despite some difference in the wording applied (“readily available and convertible into cash”, “liquidated” “provides for the conversion”, “capable of accessing and converting”) the different provisions refer to the quality of the assets, or the structure of the service, to convert the assets to be used as collateral into cash, within the same business day.

Recital (30) of the RTS on prudential requirements of CSDs, should also be considered, as it points out to two aspects: firstly, that the highly reliable funding arrangements are in place to ensure that collateral can be converted into cash even in “extreme but plausible market conditions”. That implies that waiting until the following day for the conversion into cash is not envisaged by that regulation. Second, the same regulation further requires the CSD-banking service provider to mitigate intraday risks.

Therefore, the same provisions apply also to CSD-banking service providers that operate in multiple time-zones. Such CSD-banking service providers should take into consideration of the opening hours of the local payment systems of each individual currency they operate when setting the highly reliable funding arrangements. The CSD-banking service providers should not assume that the cut-off hours are interpreted as an exception that allows the conversion into cash on the following day.

Link

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