

### **Sample Aggregated Liquidity Agreement for use of the AL mode by one credit institution**

Between, on the one hand: [name and address of a credit institution] represented by [...], acting as [participant], holder of PM accounts No [...], with [insert name of CB], [participant], holder of PM accounts No [...], with [insert name of CB], [participant], holder of PM accounts No [...], with [insert name of CB], (the participants, hereinafter, AL group members)

and, on the other hand, [insert name of AL NCB] [insert name of AL NCB] [insert name of AL NCB] (hereinafter, AL NCBs)

(AL group members and AL NCBs, hereinafter collectively referred to as Parties)

Whereas:

1) TARGET2 is legally structured as a multiplicity of payment systems, each of which is designated as a system under the relevant national legislation implementing 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<sup>[18]</sup>.

2) A credit institution with several PM accounts in one or more TARGET2 component systems may, under certain conditions laid down in the respective conditions for participation in TARGET2 component systems, set up an AL group, whereby the liquidity on such PM accounts of the AL group members is aggregated.

3) Aggregation of liquidity enables the AL group members to settle payment orders for an amount exceeding the available liquidity on one PM account, provided that the total value of all such payment orders never exceeds the aggregate amount of the available liquidity on all PM accounts of the AL group members. The resulting debit position on one or more of these PM accounts constitutes intraday credit, the provision of which is governed by the respective national arrangements, subject to the modifications described in this agreement; in particular, such debit position is collateralised with the available liquidity on all PM accounts of the AL group members.

4) The effect of this mechanism is in no way to merge the various PM accounts, which, subject to the limitations described in this agreement, continue to be separately held by the AL group members.

5) Such a mechanism aims to avoid the fragmentation of liquidity in the different TARGET2 component systems and simplify the liquidity management of the AL group members.

6) This mechanism improves the overall efficiency of settlement of payments in TARGET2.

7) [Participant], [participant] and [participant] are respectively connected to TARGET2-[insert CB/country reference], TARGET2-[insert CB/country reference], and TARGET2-[insert CB/country reference] and are bound by [insert reference to the arrangements implementing the Harmonised Conditions] of [insert relevant dates],

Now, therefore, the Parties agree the following:

#### *Article 1*

##### **Effectiveness of this agreement**

This agreement and any amendment made hereto shall only be effective when the managing NCB, after having obtained any information or documents that it deems appropriate, confirms in writing that this agreement or amendments thereto comply with the requirements laid down in the respective conditions for participation in TARGET2 component systems.

## *Article 2*

### **Mutual interest of AL NCBs**

The AL NCBs have a mutual interest in providing intraday credit to the AL group members, as this promotes the overall efficiency of settling payments in TARGET2. The intraday credit is collateralised in accordance with Article 18 of the Statute of the European System of Central Banks and of the European Central Bank since the debit balance resulting from the execution of a payment order is covered by the available liquidity on the PM accounts held by the AL group members with their respective AL NCBs, which are collateralised for the discharge of the obligations owed by the AL group members to the AL NCBs.

## *Article 3*

### **Rights and obligations of AL group members**

1. AL group members shall be liable towards all AL NCBs in relation to all claims resulting from the settlement in their respective TARGET2 component systems of the payment orders of any AL group member.
2. The total value of all payment orders settled by the AL group members on their PM accounts may never exceed the aggregate amount of the available liquidity on all such PM accounts.
3. The AL group members shall be authorised to use the consolidated account information (CAI) mode, as described in [insert the reference to the arrangements implementing the Harmonised Conditions].

## *Article 4*

### **Rights and obligations of AL NCBs**

1. When the AL group member submits a payment order to a TARGET2 component system for an amount exceeding the available liquidity on that AL group member's PM account, the relevant AL NCB shall extend intraday credit that is collateralised with the available liquidity on other PM accounts held by the AL group member with its respective AL NCB or on PM accounts held by other AL group members with their respective AL NCBs. Such intraday credit shall be governed by the rules applicable to the provision of intraday credit by such AL NCBs.
2. Payment orders submitted by the AL group members which have the effect of exceeding the available liquidity on all PM accounts of the AL group members shall be queued until sufficient liquidity is available.
3. Each AL NCB may claim from the AL group members the full discharge of all obligations resulting from the settlement of payment orders of the AL group members in the TARGET2 component systems in which they hold PM accounts.

## *Article 5*

### **Designation and role of AL group manager**

1. The AL group members hereby designate as AL group manager [indicate the participant designated as AL group manager], which shall be the contact point for all administrative matters relating to the AL group.
2. The AL group members shall provide the relevant AL NCBs with any information which may affect the validity, enforceability and implementation of this agreement, including, without limitation, the occurrence of any events of default within the meaning of [insert reference to the relevant provisions in the arrangements implementing the Harmonised Conditions] or any event which may affect the validity and/or enforceability of [insert reference to the pledge, close-out

netting provisions or any other relevant provisions of the arrangements implementing the Harmonised Conditions].

3. The AL group manager shall immediately convey to the managing NCB any information described in paragraph 2.

4. The AL group manager shall be responsible in respect of intraday monitoring of the liquidity available within the AL group.

5. The AL group manager shall have power of attorney over all PM accounts of the AL group members and, in particular, shall conduct the following operations:

a) any ICM operations in respect of the AL group members' PM accounts, including, but not limited to, any change in priority of a payment order, revocation, change of settlement time, liquidity transfers (including from and to sub-accounts), reordering of queued transactions, reservation of liquidity in respect of the AL group, and setting and changes of limits in respect of the AL group;

b) all end-of-day liquidity transactions between the PM accounts of the AL group members ensuring that all balances of the AL group members' PM accounts are levelled out, so that none of these accounts have a debit balance at the end of the day or, where applicable, a debit balance not secured by eligible collateral (hereinafter, referred to as levelling out);

c) general instructions according to which an automatic levelling out shall be performed, i.e. defining the sequence of AL group members' PM accounts with available liquidity to be debited within the levelling out;

d) in the absence of any explicit instructions by the AL group manager, as set out in Sub-paragraphs (b) and (c), an automatic levelling out shall be performed starting with the PM account with the highest credit balance towards the PM account with the highest debit balance.

The same criteria as defined in Sub-paragraphs (c) and (d) shall be used if an enforcement event, as defined in [insert reference to the relevant provisions in the arrangements implementing the Harmonised Conditions], occurs.

## *Article 6*

### **Role of managing NCB**

1. The managing NCB shall be the contact point for all administrative matters relating to the AL group.

2. All of the AL NCBs shall immediately provide the managing NCB with any information relating to the AL group member which may affect the validity, enforceability and implementation of this agreement, including, but not limited to, the occurrence of any events of default within the meaning of [insert reference to the relevant provisions in the arrangements implementing the Harmonised Conditions] or events which may affect the validity and/or enforceability of [insert reference to the pledge, close-out netting or any other relevant provisions of the arrangements implementing the Harmonised Conditions].

3. The managing NCB shall have access to all relevant information in respect of all PM accounts of the AL group members, including, but not limited to, information in respect of any credit line, the balance, total turnover, settled payments, queued payments, as well as information on the AL group members' limits and liquidity reservations.

## *Article 7*

### **Duration and termination of this agreement**

1. This agreement shall be of unlimited duration.

2. Each of the AL group members may unilaterally terminate its participation in this agreement, provided it gives a written notice within 14 business days to the AL NCB in whose TARGET2 component system it participates and to the managing NCB. The managing NCB shall confirm to the AL group member the date of its termination of participation in the AL agreement and shall communicate such date to all AL NCBs which shall inform their AL group members accordingly. If that AL group member was the AL group manager, the remaining AL group members shall immediately appoint a new AL group manager.
3. This agreement shall automatically be terminated without prior notice and with immediate effect if the requirements for using the AL mode, as described in [insert reference to the arrangements implementing the Harmonised Conditions] are no longer met.
4. Notwithstanding the occurrence of an event described in paragraph 3, a payment order that has already been submitted by the AL group member into the relevant TARGET2 component system shall remain valid and enforceable in respect of all AL group members and the AL NCBs. [Insert if relevant: In addition, [insert reference to pledge and/or close-out netting or other relevant security arrangement] shall remain valid after the termination of this agreement until all debit positions on the PM accounts whose liquidity was aggregated are fully discharged by the AL group members.]
5. Without prejudice to paragraph 3, the managing NCB, in agreement with the AL NCBs, may at any time terminate this agreement if any AL group member is in breach of any of the provisions hereof. Such decision shall be addressed in writing to all the AL group members setting out the reasons for the decision.
6. The managing NCB, in agreement with the other AL NCBs, may terminate this agreement if the maintenance of it would endanger the overall stability, soundness and safety of TARGET2 or jeopardise the performance by the AL NCBs of their tasks pursuant to the Statute of the European System of Central Banks and of the European Central Bank. Any decision to terminate this agreement shall be addressed in writing to the AL group members, setting out the reasons for the decision.

#### *Article 8*

##### **Amendment procedure**

Any change to this agreement, including the extension of the AL group to other participants, shall only be valid and enforceable if expressly agreed to by all parties in writing.

#### *Article 9*

##### **Governing law**

This agreement shall be governed, construed and implemented in accordance with [insert reference to the law governing the PM account of the AL group manager]. This shall be without prejudice to:

- a) the relationship between the AL group members and their respective AL NCBs governed by the law of the respective AL NCB; and
- b) the rights and obligations between the AL NCBs governed by the law of the AL NCB which maintains the PM account in which available liquidity is used as collateral.

#### *Article 10*

##### **Application of [insert reference to the arrangements implementing the Harmonised Conditions]**

1. In relation to each of the PM accounts of the AL group members, the relevant provisions of [insert reference to the arrangements implementing the Harmonised Conditions] shall govern any matter not expressly governed by this agreement.

2. [Insert reference to the arrangements implementing the Harmonised Conditions] and this agreement shall be deemed to form part of the same contractual relationship.

Made, in as many copies as there are parties, the [...date....]

[signed by Parties]