

FINAL

7 April 2017

OUTCOME OF THE 5TH MEETING OF THE TASK FORCE ON TARGET INSTANT PAYMENTS SETTLEMENT

09 March 2017 – 09:30 to 16:00

*To be held at the premises of the European Central Bank, Sonnemannstraße 20,
meeting room C2.01*

(A light buffet will be served on the balcony on the 2nd floor at 13:00)

1. Introductory Remarks

The Chairperson will make introductory remarks.

The Chairperson opened the meeting by commenting on the successfully completed market consultations on the TIPS user requirements (URD) and the volumes expectations. For the URD, more than 1100 comments have been received. On the volumes expectations around 70 institutions, representing more than 1400 branches in total, have replied. The feedback received from respondents was that it has been difficult to estimate the expected volumes and make this kind of strategic decision in this short time. However, despite the uncertainty so far the business case of TIPS may be ensured.

A member of the ECB team provided a few details on the findings on the volumes expectations. Overall, the respondents of the market consultation expect that on average 13 to 23 percent of all non-cash payments will be converted into instant payments in the future. A member of the TF replied that it will be very interesting to see the deviation in the figures and compare it to the general expectations within this field. The next AMI-Pay telco will provide more details on this topic.

The Chairperson continued with highlighting that the potential service provider (3CB/4CB) is working on the offer. The final offer will be submitted by end of March. Also, following the successful events of TIPS on Tour around Europe, the Danish central bank has expressed an interest in hosting the event. The event will take place in Copenhagen on 29 March 2017.

Finally, the Chairperson informed the TF that a TF member has proposed to present his view on the co-existence between the TIPS settlement model and clearing models used by ACHs with

the aim to ensure a common understanding of the term interoperability. The TF agreed to add the presentation to the agenda, as the last topic of the day.

2. Update on the URD

The Task Force will receive an update on the input received during the market consultation. The TIPS team will present the main scope elements stemming from the market consultation which could be taken into account into the TIPS URD as well as those that could not be taken into account. The Task Force will further discuss the main open scope related topics stemming from the market consultation.

Background documents:

- *Consolidated overview of comments received*
- *Presentation on URD and scope related topics*

ECB presented an overview of the scope changes to the URD that have been incorporated due to the market consultation. Regarding the **floor and ceiling** a TF member asked if camt.004 messages are expected to be used. The Chairperson confirmed.

It was explained that the possibility of having alerts for reaching a floor/ceiling on the TIPS accounts and CMBs was added to the TIPS URD. Another TF member asked if a pop-up alert indicating a breach of the floor/ceiling could be considered in the GUI for monitoring purposes (instead of only receiving a notification). Another TF member expressed that there was no need for a pop-up alert, but maybe colour coding could be used to indicate any balances breaching the floor or ceiling. The Chairperson replied that the aim of the floor/ceiling notification would be to enable the banks to automate the process on their side in a straight through manner, i.e. to initiate a liquidity transfer either in TARGET2 or TIPS, based on the alert. If the functionality is available in the GUI, the processing would instead be manual. In addition, as TIPS would be operating 24/7/365, it would mean that the user of the GUI would potentially need to be ready to act on GUI alerts at least for the CMB, throughout the same time frame to ensure proper management of the TIPS account. It was clarified that in TARGET2 alerts are displayed in the GUI and that in particular for the case of insolvency, an alert could be helpful. The Chairperson stated that given all the good comments received in the meeting it could be interesting to investigate further on this topic. However, in that case it should be assessed by the TARGET2/T2S Consolidation project.

Regarding the CMB, it was asked how the floor and ceiling notification is related to the CMB headroom and in particular, if a notification on the floor could be useful. It was stated that it could be useful to have a notification outside the opening hours of TARGET2.

TIPS accounts and CMBs now have **opening dates and closing dates**. As discussed in the WGT2, an improvement has been incorporated in the URD by allowing an outbound transfer of liquidity after the closing date of an account if its balance is not zero. A TF member asked who will transfer the liquidity to the account in TARGET2 after the closing date. The Chairperson clarified that this is handled by the responsible Central Bank. Also, a member of the TF questioned the need for a closing date. The Chairperson clarified that the closing date is foreseen to be used in case of termination of an account for any reason (e.g. a merger or discontinuation of the use of the TIPS service).

It was confirmed that on the closing day, in case of liquidity on the account by the end of the business day, the balance will still be reflected in the TIPS snapshot and included in the General Ledger file. The balance will also be taken into account for the minimum reserve calculation. Nevertheless, TIPS will no longer provide reports to the Participant beyond the closing date.

A member of the TF asked how the opening of accounts will be handled in case of going live of the TIPS service. It was clarified by the ECB team that the account may be opened in advance with a valid day as of a Monday giving the participant the possibility to push liquidity already from the Friday before. The opening of accounts will be done just shortly after 18.00, i.e. at the beginning of the new business day. The Chairperson stated that this topic should be discussed in the TIPS Contact group, in case that TIPS moves into the realisation phase.

On the discussion on the **recall process**, a member of the ECB team confirmed that a positive recall answer is just a new payment instruction (i.e. a pacs.004). Regarding initiation of recalls, members of the TF questioned the initiation of recalls up to 13 months after the settlement of the original payment transaction. It was clarified that 13 months is applicable when there is a request for recall by the Originator. 10 days is valid for recalls by the Originator Participant.

Feedback from the market consultation has shown that the **investigation process** needed to be reworked to be fully compliant with the SCT Inst scheme. Several TF members raised concerns that the status inquiry is not forwarded to the CSM of the Beneficiary Participant (or Instructing Party acting on its behalf). ECB replied that as TIPS is different from an instant clearing model where the accounts of the Originator Participant and the Beneficiary Participants can be with different ACHs, the settlement accounts for both the Originator Participant (or Reachable Party) and the Beneficiary Participant (or Reachable Party) of the SCT Inst transactions are in TIPS. Therefore, TIPS will be the sole party in the interbank space responsible for time-out requirements set by the SCT Inst scheme. Besides this, anyone (e.g. a service bureau) can be an Instructing Party. An Instructing Party interacting with TIPS will be considered at equal parlance with the Actor on whose behalf it is acting. In other words, TIPS will not consider any Instructing Party as a CSM. Hence, as TIPS acts as the settlement mechanism performing final settlement for both sides, there appears to be no value in sending

the investigation query to the Beneficiary Participant. ECB intends to discuss this issue with EPC.

Regarding **liquidity transfers**, a TF member stated that SWIFT has expressed that the usage of camt.025 in case of rejection of an outbound liquidity transfer rejected by the RGTS is not compliant with the standards on liquidity transfers as pacs.002 should be used. It was noted that this comment is not only relevant to TARGET2-TIPS but also to TARGET2-T2S and it was decided that the ECB team would notify the TARGET2-T2S Consolidation project of the issue.

On the discussion on the **minimum reserve calculation**, it was clarified that TARGET2 will not be closed before all pending liquidity transfers have been executed (and the last algorithm has run). It means that all liquidity transfers sent from TARGET2 to TIPS just before the close of the business day will be processed including returning a notification from TIPS to TARGET2. It was also clarified that the snapshot of the TIPS account balances in TIPS will be taken just after the close of the business day in TARGET2 and finalisation of all pending liquidity transfers in TIPS. This snapshot will be used for generating General Ledger files. These files are afterwards forwarded to the TARGET2 where they are used in the Reserve Management module for the calculation of the minimum reserve.

Regarding **liquidity injection** in TIPS during weekends, a member from the ECB team clarified that liquidity injections can take place before 18:00 or at the latest between 19:30 and 22:00 on Fridays, according to the opening times of TARGET2. After 22:00 Friday, it will not be possible to transfer liquidity from TARGET2 to TIPS before 01:00 Monday morning. However, as liquidity kept in TIPS is also included in the minimum reserve calculation, all available liquidity which is not needed in TARGET2 or elsewhere could be transferred to TIPS.

On the discussion on the TIPS **directory**, it was acknowledged that there is a need to have separate directories. A TF member asked about the format of the TIPS directory, whether it would be like TARGET2 or the same as what is provided by the ACHs. It was agreed to discuss further on the format of the TIPS directory in the context of TIPS Contact Group.

Another topic to be discussed in the context of TIPS Contact Group could be if TIPS should support the use of both **BIC-8 and BIC-11**. The ECB team clarified that the URD was changed so that TIPS would be able to handle incoming messages with a BIC8 or BIC11 format. In the lookup function for finding the correct account, TIPS will consider a BIC8 as a BIC8+XXX. It was suggested by a member of the TF to introduce a wildcard mechanism used in some ACHs today; which gives the banks an option to only use their BIC8 for an easier way to configure the TIPS service initially. However, a wildcard will result in more validations in TIPS for incoming messages, which will increase the processing time of the instant payments. Given the timing constraints related to the SCT Inst payments, it was considered that TIPS must prioritise efficiency and avoid additional validations during its processing as far as possible. It was understood that the request stems from the need to alleviate the burden of setting up of

accounts; thus the Chairperson proposed that possibly supporting tools could be provided to ease the set-up of accounts. This topic would be relevant for the next phase of the project. Also, a TF member wanted to know how the BIC will be linked to the accounts. A member of the ECB team clarified that TIPS will maintain a table linking the BIC to an account and another table for linking the distinguished name to the BIC for routing purposes.

3. Proposed approach for a deployment management process

A representative for the potential service provider will present a proposal for an approach, involving all actors, for managing software changes in an environment without planned downtime. The Task Force is invited to provide their input on the presented process.

Background documents:

- *Presentation on deployment management process*

In an instant payment world there is by definition no planned downtime. Given this fact, the deployment management process needs to be adjusted to the instant payment specificities. On this basis and in order to address the comments received during the market consultation on the availability and planned downtime requirements, the Chairperson has invited the potential service provider to present a process for deployment management.

The presentation showed an example of **deployment management** with no interruption of the service within a system architecture made up of different nodes processing the instant payment transactions in parallel. The presentation resulted in questions on the upgrade of the nodes, in particular on the time span for the upgrade and how to handle new and old versions of the nodes. It was confirmed by the presenter that the upgrade can be done during standard or non-standard working hours and that the upgraded node will be the active in parallel with the old node (only in the short run). It was clarified that it is up to the TIPS community to decide on the actual transition including the time span, however that it could be expected to be in the order of a few days.

A TF member asked how the service provider will ensure that the TIPS Participants only receive one message and not any **duplicates** due to parallel processing. It was clarified by the service provider that only the authorised node, i.e. the master copy, will be forwarded. The other nodes will only be forwarded in case of any failures. Procedures for avoiding duplicates will be implemented.

It was clarified by the Chairperson that based on the presented approach the planned downtime requirement currently presented in the URD will be amended to reflect that planned downtime is not needed for regular deployment management.

4. Work Plan of the Task Force

The Task Force will receive an update of the work plan.

The URD will be updated to reflect the comments received during the market consultation as well as provided during this meeting. No bigger changes in the scope will be implemented; only clarifications and general improvements. The URD needs to be ready by end of March for sending to the service provider and to start the internal ECB approval process towards end April 2017. The Governing Council will take the final decision on TIPS in June 2017. The final version of the URD will be published on the ECB homepage only after the Governing Council meeting in June. It is planned that the feedback received during the market consultation will also be published at that stage. TF members requested to have a draft version and answers to the market consultation earlier than June 2017. The Chairperson committed to check whether this request could be made possible, i.e. the publication of an updated URD version and answered market consultation at the beginning of May.

Regarding the volumes estimation, ECB might publish a consolidated summary in the context of the AMI-Pay meeting materials. Individual estimates are considered confidential and will not be published.

Regarding the TIPS TF no further meetings are planned. If needed, a telco could be organised. However, if the Governing Council decides to approve the business case of TIPS, the current aim is to establish a TIPS Contact Group to discuss relevant matters for TIPS during the realisation phase. The TIPS Contact Group would be a technical group under the AMI-Pay, discussing e.g. the questions related to the specifications and on-boarding of TIPS members and the composition could be similar to the current TIPS TF. However, a new mandate is needed for this group.

5. Any Other Business

A TF member has kindly suggested to presents his own understanding of interoperability to check if other TF members had the same understanding. The presented view was that as the scope of TIPS does not include netting, there is no netting taking place between TIPS and the ACHs; therefore, it is not possible to have interoperability between the two parties.

The presentation triggered some questions from the TF members, in particular on what is preventing the ACHs from having an account in TIPS. It was clarified that only institutions that are eligible for managing their own funds in central bank money and are SCT Inst scheme participants are eligible for having accounts in TIPS, as using TIPS account means for the Participants submitting their own transactions using their own funds. This typically requires a banking license, which most ACHs do not have.

A TF member highlighted that if it is a restriction within the framework of regulation that prevents ACHs to open accounts in TIPS, then it would be interesting to focus on the regulation as it is currently hindering innovation; therefore, it might be worth considering a change in the regulation.

Also, a TF member wanted to know how ECB would ensure the level playing field between the ASI6 real-time model and the TIPS model. ECB replied that TIPS will provide a service for credit institutions, whereas the ASI6 model provides a service for payment infrastructures, i.e. ACHs. Regarding reachability, a TF member expressed concerns about the reachability as frontrunners will be operating via the ASI6 real-time model already from November 2017 and these frontrunners will not be able to reach PSPs only active in TIPS without becoming a TIPS Participant (or a Reachable Party). Another TF member expressed concerns that we are creating fragmentation and that we will meet again in the future in order to solve the fragmentation created with these different models. The ECB remarked that without TIPS, fragmentation could even be higher as interoperability is yet to be seen. It was stressed by a TF member that the ECB should consider supporting only one of these services in the long run in order to secure reachability.

The Chairperson closed the meeting by expressing her gratitude to the TF members for the good work and many fruitful discussions.