

DeNederlandscheBank

EUROSYSTEEM

Topics: ECB projects + NL project

- 1 Instant Payments (TIPS and Instant Payments NL)
- 2 TARGET2 & TARGET2Securities Consolidation
- 3 ECMS Eurosystem Collateral Management project

Let's get digital - ECB Vision 2020

Objective for 2022:

Achieving geographical and business integration



ECB Vision 2020

How to get there?

TIPS

approved: 21 June 2017

deadline: November 2018



T2-T2S consolidation

approved: 6 December 2017

deadline: November 2021



ECMS

approved: 6 December 2017

deadline: November 2022



TARGET Services













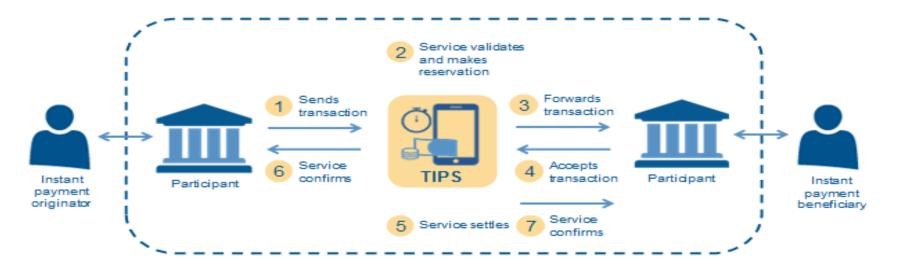




TIPS is the new service for the settlement of instant payments

TIPS will enable citizens and firms to transfer money between each other in real time, 24/7 and 365 days a year

Transaction and information flow in TIPS



TIPS has been designed as an extension of TARGET2:

- Extend access to central bank money up to 24/7/365
- Amended TARGET2 guidelines to include participation in TIPS
- TARGET2 participants may open TIPS accounts to settle instant payments
- Balance on TIPS accounts included in the calculation of Minimum Reserve Requirement on the basis of a "snapshot" triggered at the TARGET2 End-of-Day

TARGET2 technical solution could not be used for TIPS due to:



End-to-End processing time within 10 seconds Large volume of transaction and scalability requirements





Availability around the clock (no daily maintenance window) Need to deploy changes without interrupting the service



Scope of the TIPS service

Instant settlement services only



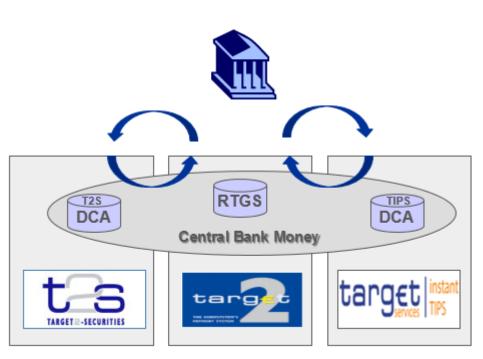


Real-time information on the status of transactions and liquidity transfers

SEPA Instant
Credit Transfer
scheme



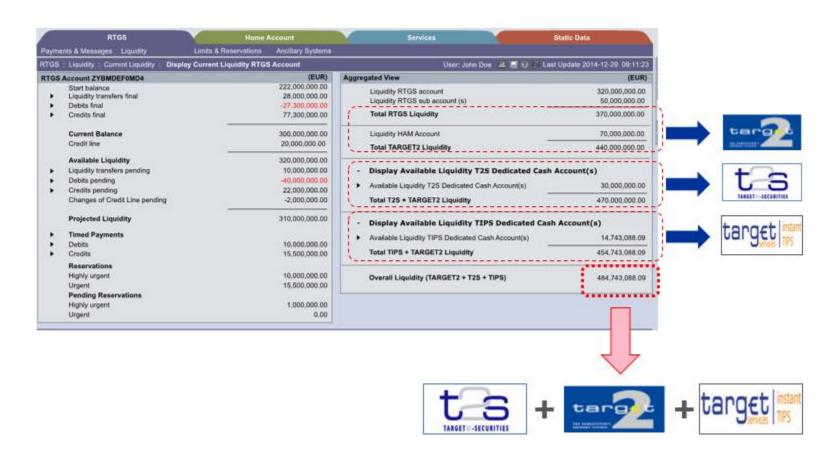
Overview



To properly manage their liquidity, participants need to:

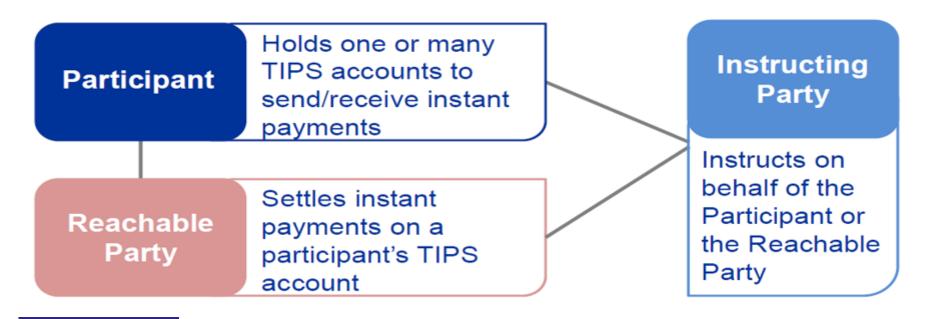
- monitor each account real-time
- get a consolidated position real-time
- push liquidity from RTGS to DCAs
- pull liquidity from DCAs to RTGS
- manage fulfilment of reserves
- control recourse to standing facilities

Liquidity management features (TARGET2 ICM)



TARGET Instant Payment Settlement (TIPS) Actors in TIPS

- Same participation rules apply as in TARGET2 as participants should be eligible for accessing Central Bank Money
- Banks established in the EEA (or outside the EEA, but acting through a branch established in the EEA) are eligible for direct participation in TARGET2, provided they are supervised by their relevant national authorities



Connectivity

- Unlike the existing TARGET2 and T2S connectivity framework, the Eurosystem will not hold any contractual obligation with the TIPS Network Service Providers (NSPs)
- TIPS Participants shall have a contract with their selected NSP(s)
- Each TIPS Participant will sponsor a compliant NSP that could be used
 - by the TIPS Participant to initiate Instant Payments directly,
 - and/or by any Reachable Party having a contractual agreement with the NSP,
 - and/or by any Instructing Party having a contractual agreement with the NSP

Pricing scheme

TIPS will be developed and operated under the principle of **full cost recovery**.

The pricing scheme is designed to facilitate **high reachability**:



No entry fees



No fixed fees



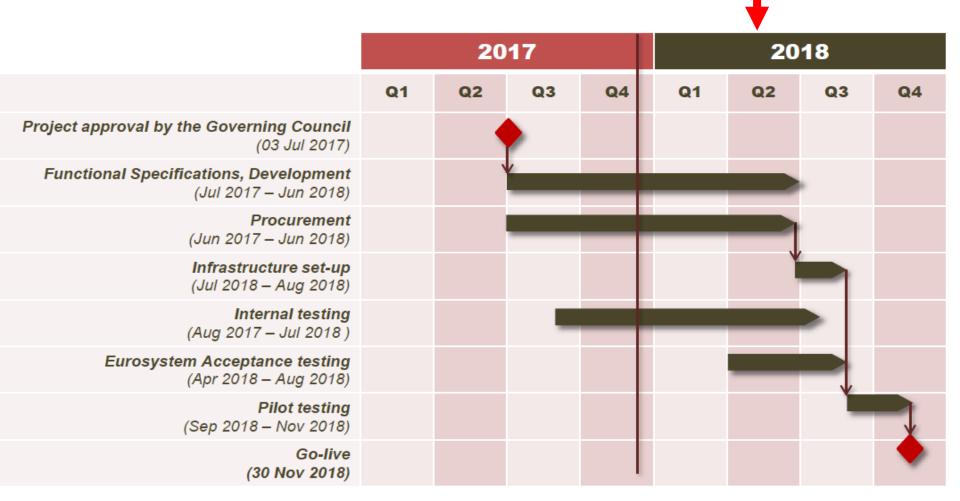
No account management/information fees



Maximum price per instruction equal to **0.20** eurocents for the first two years

The Eurosystem will monitor the interest around TIPS with its forecast volumes and might review the price per instruction downwards

Project plan overview



Project challenges



Low latency, high volumes, high availability and resilience, scalability.



24/7/365 operations (mostly unmanned): need for rethinking of ITSM processes.



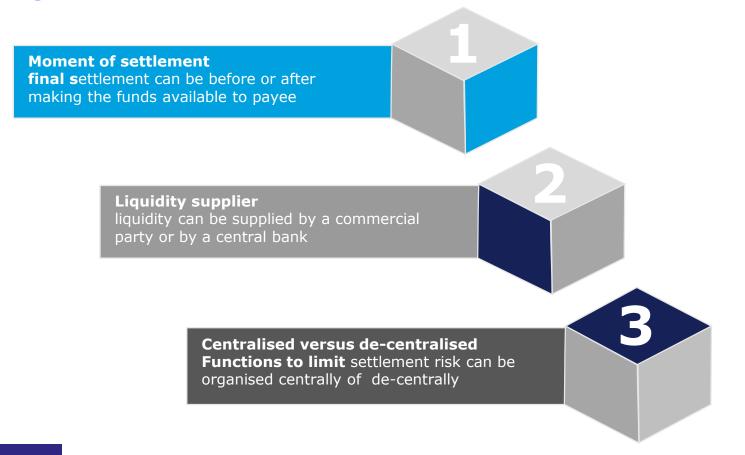
Cost containment to offer the service at an attractive price, in line with market expectations.



Time and technical dependencies with other projects (T2-T2S Consolidation).

Instant Payments NL project

Building blocks to choose a settlement model



Instant Payments NL project

Criterion	Description
National ambition	• The Dutch banking community formulated the following ambitions: (1) availability of funds within 5 seconds; (2) all year7 days a week availability and (3) implementation within four years (so no later than 2019).
SEPA standards	The model must be able to process all (chosen) products via SEPA standards, fitting within the standards as described in the SEPA Rulebooks.
Safe, reliable, future proof	The model must be safe and reliable. Moreover, it must be secured that the model can even be used after 2019, e.g. scalable to specific volumes.
Level playing field	Every entity, fulfilling separately to be determined access criteria,, must be able to settle with comparable accessibility via this model.
European connection	The settlement model must be able to connect to or replaceable by a model that will be developed on a European level in due course.
Multiple clearing processors possible	The solution must be able to work with multiple clearing processors.
Development and running costs (including liquidity costs)	As far as possible a quantitative estimation of costs for development and exploitation of the model. Specific attention for any costs related to the provision of liquidity.
Settlement risk	 A qualitative estimation of any settlement risk present (credit and/or liquidity risk) including the possibilities to mitigate or even eliminating those risks.

Instant Payments NL project

	Instant settlement	Deferred settlement				
	A system which could only be built by DNB	A system which can be built and/or supported by several parties				
	A system should fulfil specific conditions: e.g. PFMI Principle 9; ECB Oversight Regulation (designated system)					
7	No credit risk with instant settlement	There is a credit risk, because the beneficiary PSP makes funds available to the beneficiary before final settlement				
		As a leading principle for participating PSPs, credit risk for the beneficiary PSP should be full mitigated by collateral or cash				
_		Collateral has an opportunity cost, as a PSP can only use its collateral for one goal				
	During the processing of a payment transactions, the system should check the underlying limit. Reaching the limit will cause the payments to stop (liquidity risk). For both kinds of settlement a buffer is necessary: a higher settlement frequency will have a positive effect on the amount to be reserved for this buffer.					
	There is an impact on the use of liquidity because of gross settlement of the payment transactions.	There is an impact on the use of liquidity because of the necessary buffer on top of the expected position to be settled.				

Instant Payments Dutch project



representation of

- requirements
- Determine feasible ambition(s)

Building phase

Determine and build adaptations in complete payment processing chain

Determine CSM

Ensure compatibility with European developments



- Basic infrastructure complete payment processing chain
- New and existing products/services can make use of this basic infrastructure

Timing

Development		Detailing		Ві	uild		Pilot	Start	
			ı	ı	ı	ı	ı	1	1
	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	

Go live: May 2019



Instant payments NL the new normal?

- NL market adhering but also surpassing the European Payments
 Council (EPC) rulebook for SEPA instant credit transfer
 (SCT Inst) scheme (defined in 2017)
- SCT Inst standard: max 10 seconds delivery speed and max 20 seconds processing speed
- <u>IP-NL is faster</u>: 5 seconds delivery speed and 7 seconds processing speed
- IP-NL: No maximum EUR 15,000 limit

Link: Detailed information on page <u>Dutch Payment Association</u>



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1. Motivation

For more than a decade TARGET2 has been running smoothly.



However:

- the payments landscape has changed significantly
- technical opportunities have further increased
- the cost structure has been challenged

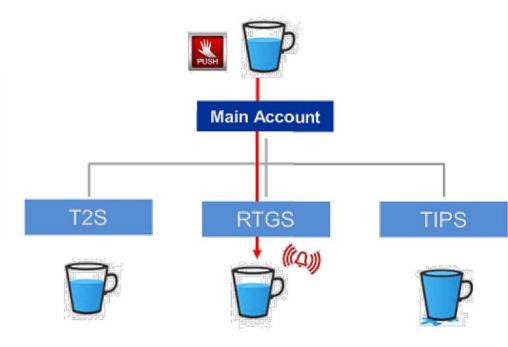


2. Objectives

- √ improved efficiency
- ✓ optimised liquidity management
- ✓ easier access to services via harmonised interface
- ✓ enhancement of RTGS services
- ✓ aligned use of messaging standards
- ✓ reduced operational costs

3. Features

Dashboard for central liquidity overview



3. Features

Multi-currency RTGS services

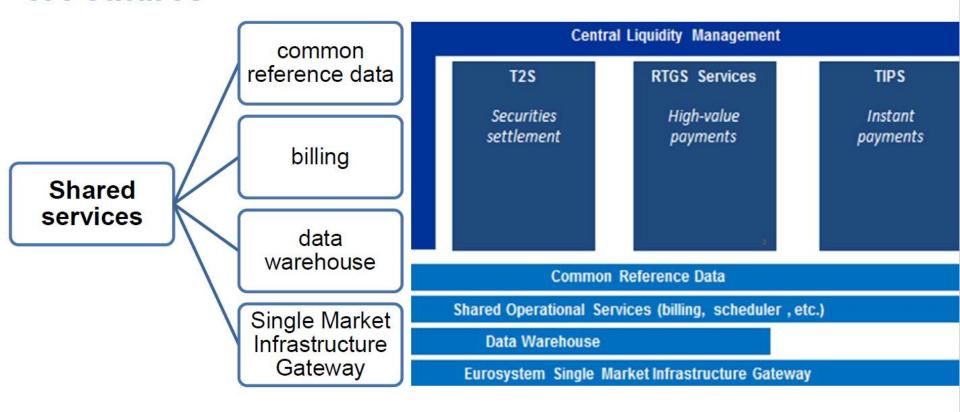
(no conversion)

Multi-network service providers

Longer operating hours



3. Features



3. Features

Migration to ISO 20022

go-live planned for November 2021,

3 years after the delivery of message specifications to the market

go-live to be performed in a big-bang approach



3. Timeline

Realisation phase:



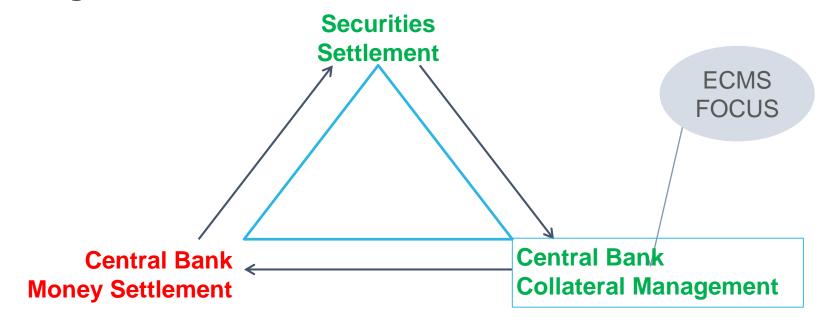
^{*} covering preparation and execution in equal proportions

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Fundamental drivers of the Eurosystem

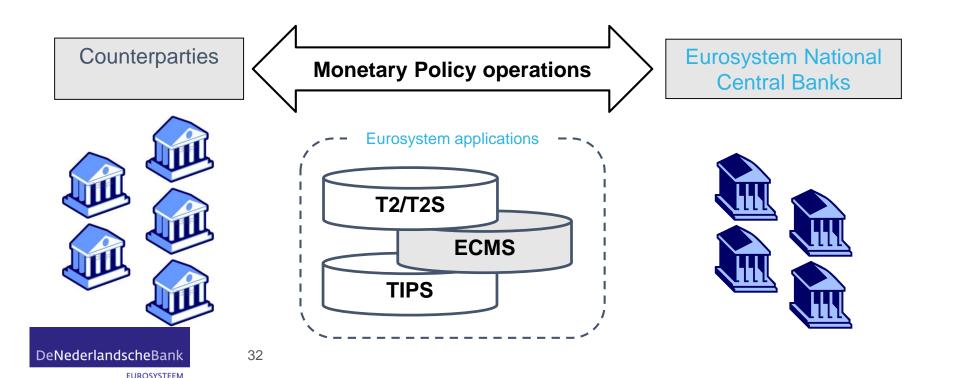
 The key function of Eurosystem market infrastructures is to ensure the exchange of securities, collateral and liquidity between financial market counterparties with liquidity being the fuel to effectively facilitate the exchange:



Eurosystem Collateral Management System?

A single ECMS for managing **eligible assets as collateral** in Eurosystem monetary policy operations.

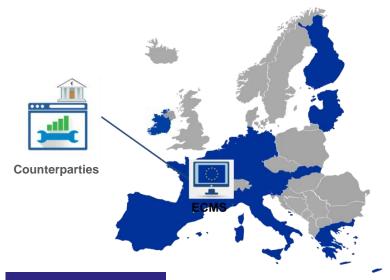
The ECMS would include to the largest possible extent **harmonised functions** and **services**.



Introduction

Current situation different local systems used for managing eligible assets mobilised as collateral in Eurosystem monetary policy operations.





With the ECMS, there will be a **single system** for managing those assets as collateral in Eurosystem monetary policy operations.



Harmonisation: feeding into ECMS

- Ongoing harmonisation work is important for the market and the ECMS:
- **✓** Sub-stream 1: Tri-party Collateral Management
- ✓ Sub-stream 2: Corporate Actions, Taxation Forms, Non-Euro Collateral Management
- √ Sub-stream 3: Bilateral Collateral Management, Margin Calls
- **June 2018**

By 30

- **✓** Sub-stream 4: Billing Processes, Cut-Off Times
- ✓ Sub-stream 5: Collateral Dynamic and Static Data
- Harmonisation proposals: sufficient level of detail → What are the business processes.
- ECMS can also be a driver for harmonisation → weight of the Eurosystem as a user can contribute to harmonise market practices

Harmonisation: Timeline

Certainty on harmonisation proposals required during the specification and development phase which started in January 2018.

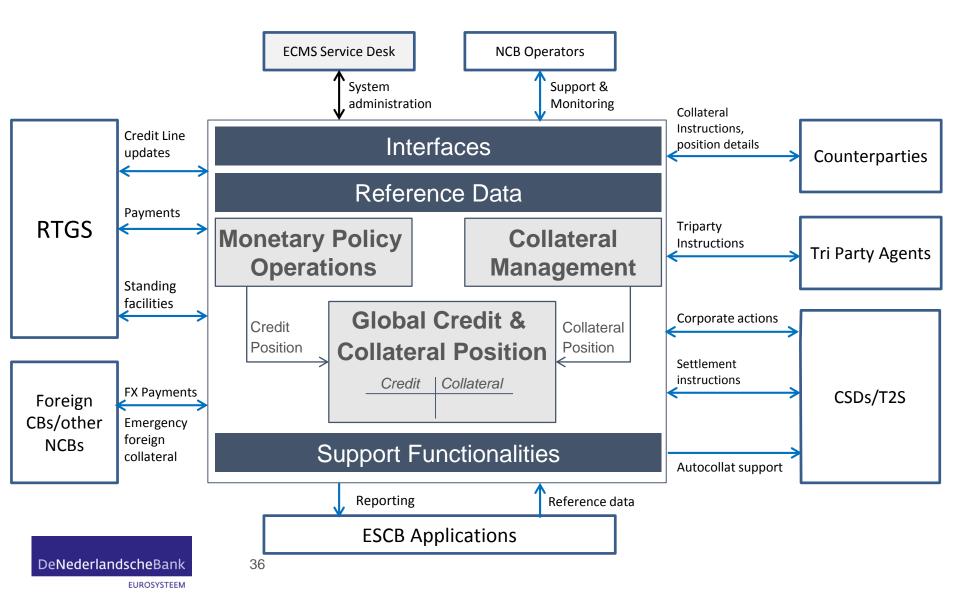
June 2018: Harmonised business processes and workflows for Tri-party and corporate actions to be presented to the AMI-SeCo.

Other sub-streams to progress in parallel.

ECMS to interact only based on harmonised processes (i.e. no national specificities) to ensure the same level playing field for counterparties and same market practices among the Eurosystem.

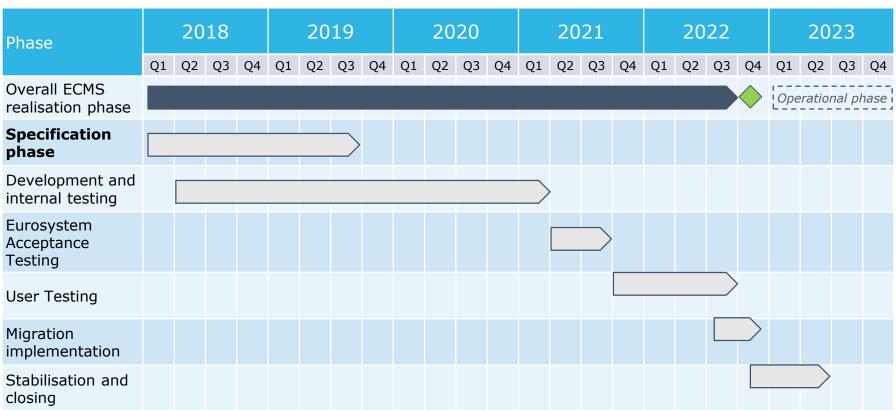
Counterparties/CSDs to implement proposals in time for ECMS golive.

Components and interaction with the market



Overall planning: High level timeline

Go-live: November 2022



Thank you for your attention!



For more information, please contact:

n.doornbos@dnb.nl