

# Co-existence of TIPS with other instant payment services

The Eurosystem launched a public market consultation from 9 January 2017 until 24 February 2017 on the user requirements of a potential new Eurosystem service, the TARGET Instant Payment Settlement service (TIPS). This note addresses questions raised during the consultation concerning the co-existence of TIPS with other instant payment services.

## Will there be interoperability between TIPS and other instant payment services?

Interoperability<sup>1</sup> is a means to an end: increasing reachability. It allows a PSP to participate in a single system, while extending its reachability beyond the participants in that system. Interoperability materialises when several systems within the same layer develop links among themselves.

It is however not possible to achieve interoperability between the clearing layer and the settlement layer. Any participant in an ACH necessarily has to have another account in the settlement layer (in its own name or facilitated by a participant in the settlement layer) to discharge its responsibilities.

Interoperability is not the only means to achieve the desired end of increasing reachability. From an ACH perspective, the absence of interoperability with TIPS does not hinder it from achieving a broader reachability thanks to TIPS.

## Can ACHs broaden their reachability via TIPS?

ACHs can assume an important role in achieving settlement of instant payments, as the ACH can become an Instructing Party. Acting as an Instructing Party would allow the ACH to have access to the Participants' accounts and to instruct on behalf of the Participants without having the direct ownership of the accounts. Naturally, this requires a contractual agreement with the TIPS Participants.

A clear benefit of the ACHs acting as an Instructing Party on behalf of the TIPS Participants is that participants in one ACH become reachable to participants in another ACH without establishing any links between the ACHs. The precondition for this is that ACH participants are either Participants or Reachable Parties in TIPS.

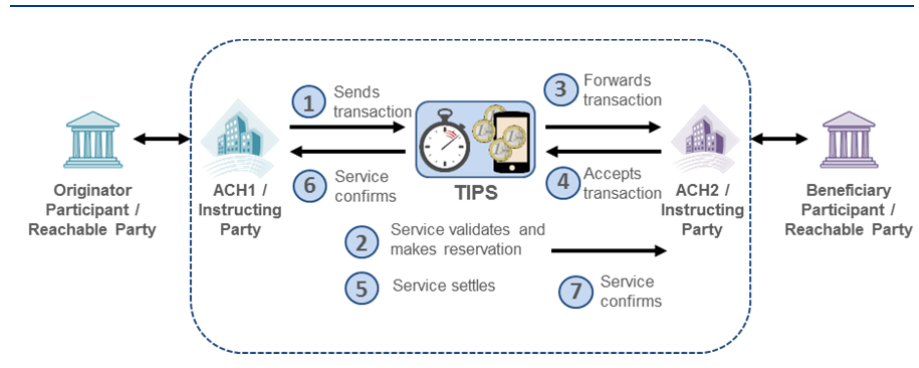
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<sup>1</sup> Interoperability is the set of arrangements and procedures that allows participants in different systems to conduct and settle payment transactions across systems while continuing to operate only in their own respective systems.

Chart 1 below shows the case where the Originator Participant authorises ACH1 to act as Instructing Party in TIPS on its behalf and where ACH2 is authorised by the Beneficiary Participant to act on its behalf, i.e. cross ACHs settlement. ACH1 and ACH2 route the payment transaction to TIPS and TIPS settles in central bank money instantly. The Participant in ACH1 becomes reachable to the participant in ACH2, without requiring that there is a link between both ACHs.

### Chart 1

#### Settlement of instant payments for Originator and Beneficiary across ACHs



The use of links between ACHs will also lead to the necessity of applying adequate credit risk management features which is not necessary when using TIPS. At least for cross-border payments, it is evident that there are significant benefits for ACHs and their participants when processing instant payments directly in a common settlement layer.

### Do ACHs need accounts in TIPS?

Under their current regulatory framework, most ACHs may not manage own funds (as a credit institution can). They can be however authorised to instruct on the accounts that their participants use in the settlement layer.

Furthermore, ACHs cannot open accounts in TIPS, since participation in TIPS is restricted to SCT Inst scheme participants. According to the SCT Inst Rulebook, only PSPs may adhere to the scheme.

ACHs which consider opening an account in TIPS may need to change their business and regulatory model.

### Can Settlement of Ancillary Systems take place in TIPS?

The sole purpose of TIPS is to settle instant payments. A TIPS account cannot serve as a liquidity pool to collateralise the activity that takes place within the ACH for

payments between its participants. The technical account in the ASI6 real-time model on the other hand is especially tailored to fulfil this function.

Therefore ASI6 will still be necessary after TIPS.

## Will TIPS offer pan-European reachability?

Without TIPS, pan-European reachability for PSPs adhering to the SCT Inst scheme is very unlikely to materialise. Full pan-European reachability would require both of the following conditions to be met: (1) Every PSP would need to become a participant of an ACH offering SCT Inst (a few ACHs have already indicated that they do not intend to offer SCT Inst) and (2) a full network of links among ACHs needs to be set up, while the business case for many of these links has been questioned.

As depicted in chart 1, TIPS is able to facilitate reachability between PSPs connected to different ACHs, even without any links between the ACHs.

TIPS is an extension of TARGET2 services and TARGET2 has more than 42.000 addressable BICs in the EEA. All PSPs which adhere to SCT Inst will most probably have a BIC which is within these 42.000. TIPS has the potential to ensure full pan-European reachability if TARGET2 participants open TIPS accounts<sup>2</sup>.

TIPS is in an optimal position to facilitate pan-European reachability, but it cannot guarantee it. The scope of reachability in TIPS will be determined by the Participants and the Reachable Parties in TIPS. Reachable Parties have a contractual agreement with a Participant to transmit/receive instant payments on their account.

The TIPS pricing policy will also favour a high reachability. The MIB will propose to set at zero the entry and maintenance fees. It is envisaged to have a very simple pricing policy which makes the charges to be paid to TIPS proportional to the volume of instant payments processed via TIPS.

## Will there be a split of liquidity between TIPS and other instant payment solutions?

Today, there is effectively a split of liquidity for payments processed within TARGET2 or outside of it. This will not change with TIPS tomorrow, since TIPS will be constructed as a legal extension of the TARGET2 service.

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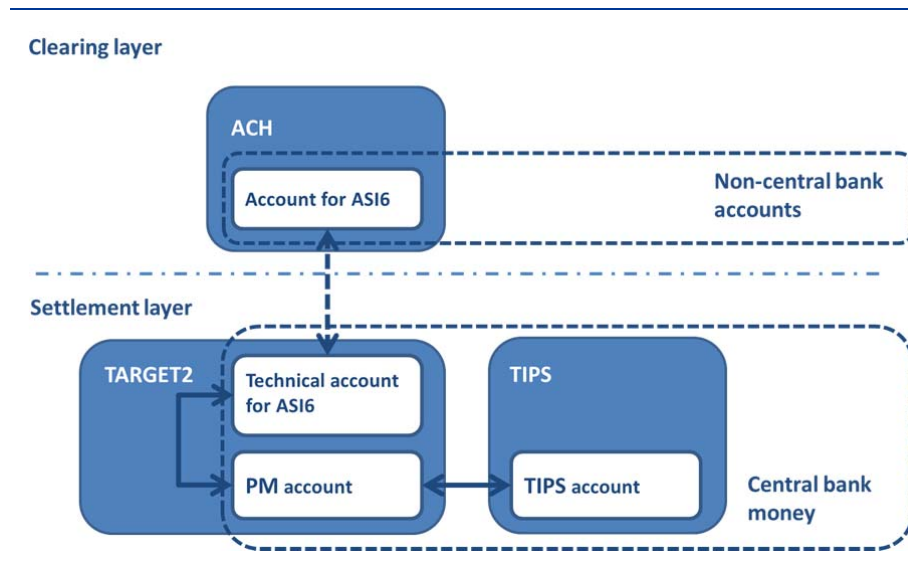
<sup>2</sup> Participation in TIPS is not mandatory.

When an instant payment is processed outside of TARGET2, the Eurosystem will provide support to Ancillary Systems through the "ASI6 real-time" (ASI6). Liquidity is reserved in TARGET2 for the Ancillary System to process the payment through the ASI6. The Ancillary System then has the capacity to adjust central bank money balances through ASI6 to reflect the outcome of its internal processing.

On one hand, the liquidity reserved in ASI6 for ACHs' internal processing cannot be used in TIPS, because it would imply that the reservation is ineffective. On the other hand, the payment capacity available in TIPS for settlement of instant payments cannot be used to guarantee the clearing process. Chart 2 reflects this.

### Chart 2

Liquidity inside and outside central bank money



### Inclusion in Reserve Management calculation: What are the criteria?

Minimum Reserves are calculated on the basis of the deposits which credit institutions hold on accounts with their NCB. An end-of-day "snapshot" will be taken.

Balances of a participant in the RTGS account and in the TIPS account clearly pertain to the Minimum Reserves definition (i.e. deposits held with the NCB). They are deposits because they are 100% available to the participant/credit institution to make payments (i.e. not committed).

Balances in the technical account of an Ancillary System are not taken into account for the calculation of the Minimum Reserves requirement. Why? First, they are not deposits. They are a guarantee for the successful settlement of an ancillary system and thus not available to the credit institution. Second, they are not in the account of a credit institution with their NCB.

This is reflected in the General Documentation on monetary policy implementation and through a Governing Council decision from June 2016 on the *Harmonisation of remuneration regime for guarantee funds held with the Eurosystem*. It is consistent with the split of liquidity explanations provided above.

### During which operating hours can TIPS/ASI6 accounts be funded/defunded from the RTGS?

The time availability to fund and defund accounts is and will remain the same in TIPS and ASI6. It depends on the time availability of TARGET2 today and of the Central Liquidity Management account in the future.

When TIPS goes live in 2018, the operating times of TARGET2 will remain the same as today, so this will limit the times in which the TIPS account can be funded/defunded. This is not too problematic because there is no opportunity cost attached to "overfunding" the TIPS account during the night/weekends/holidays. First, because it counts in the same way as the RTGS account for Minimum Reserve requirements (see above). Second, because there is no alternative use of central bank money which can be done with TARGET2 closed (apart from funding the DCA account in T2S).

During the T2/T2S consolidation project it will be assessed whether to extend the availability of the TARGET2 accounts via the Central Liquidity Management beyond the current operating hours in order to fund/defund all existing central bank money settlement services (RTGS, T2S and TIPS)

This consolidation will provide the user of TARGET2 as well as TIPS with the benefit of, e.g. consolidated tools for monitoring, reporting and billing.

#### Chart 3

Architecture after T2/T2S Consolidation project

