



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Introduction to TARGET Instant Payments Settlement (TIPS)

I

TIPS Main Pillars

2

TIPS as Part of a Vision

3

TIPS Functional Overview

Why TARGET Instant Payments Settlement?

The Eurosystem decided in September 2016 to launch an investigation phase for TIPS

- TIPS extends the availability of central bank money (CeBM) settlement to **24/7/365**, to facilitate the emergence of instant payments

The investigation phase will, among others:

- Elaborate the **user requirements** for TIPS
- Define the **business case**

Objectives of the Eurosystem:

- Euro area not to lag behind in speed of payments
- Promote **efficiency** and ensure market **integration** in the settlement of instant payments

Principles: Foundation of the Service



Same **participation criteria** as for TARGET2



Instant payments settlement in **Central Bank Money**



24/7/365 operating hours



Operated on a **full cost-recovery** basis



Supports participants to comply with the **SCT Inst scheme**



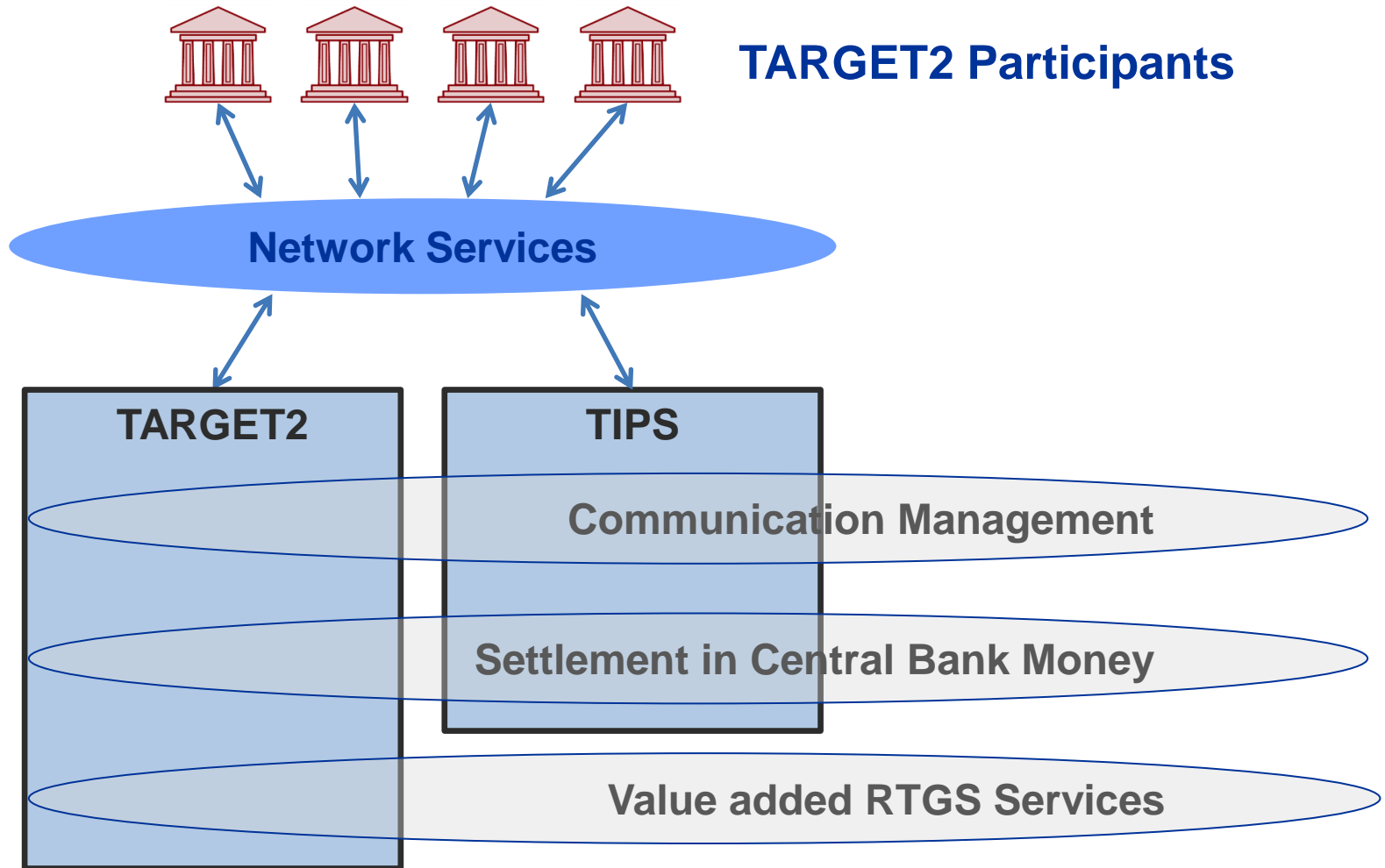
Multi-currency technical capability

Additional Principles

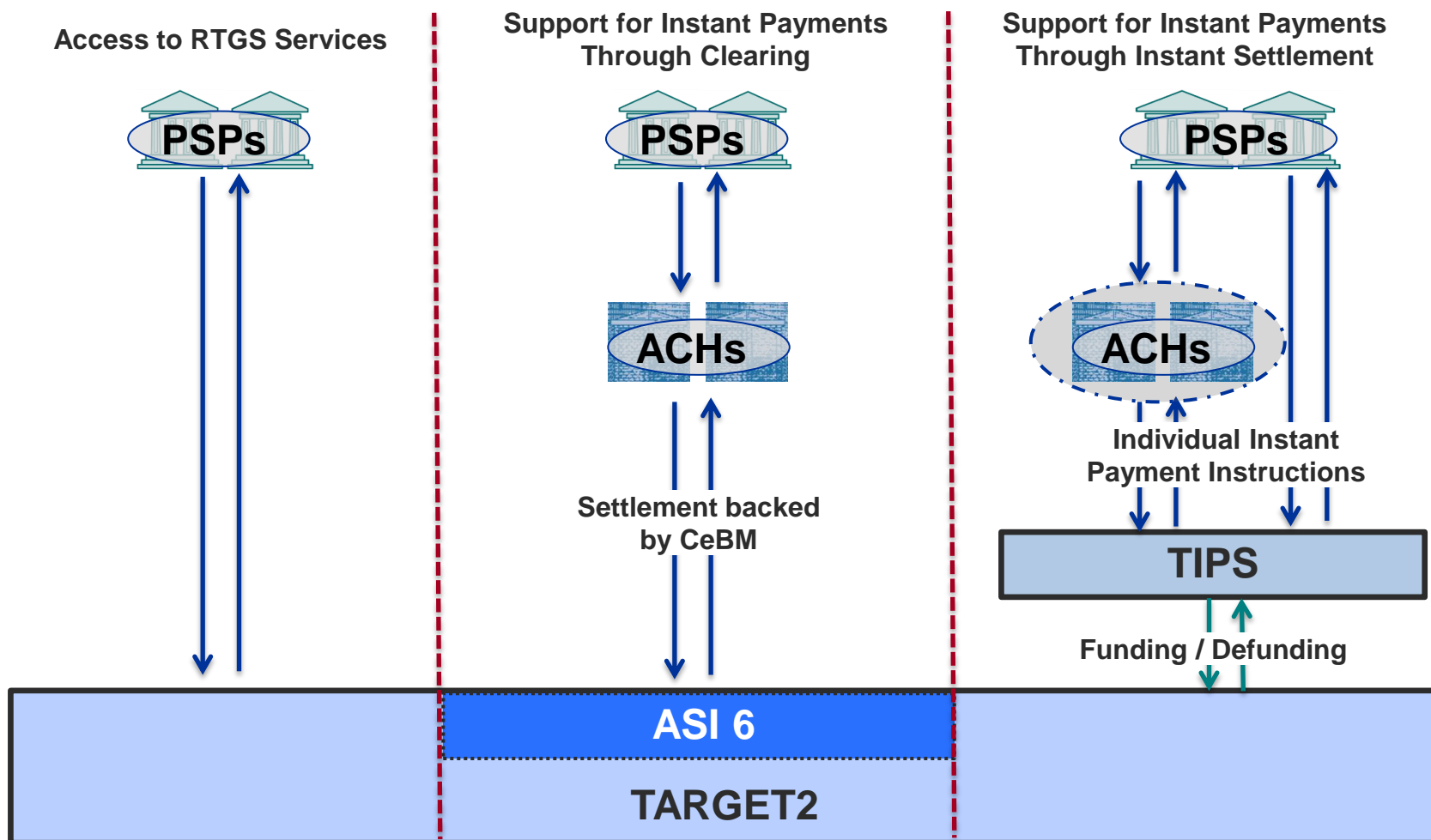
- Technical solution for providing instant payments settlement services
- Offers final and irrevocable settlement
- Participation in TIPS is not mandatory
- To be developed and operated by the Eurosystem assuming full ownership
- Lean, harmonised and standardised pan-European service



Integrated TARGET Services

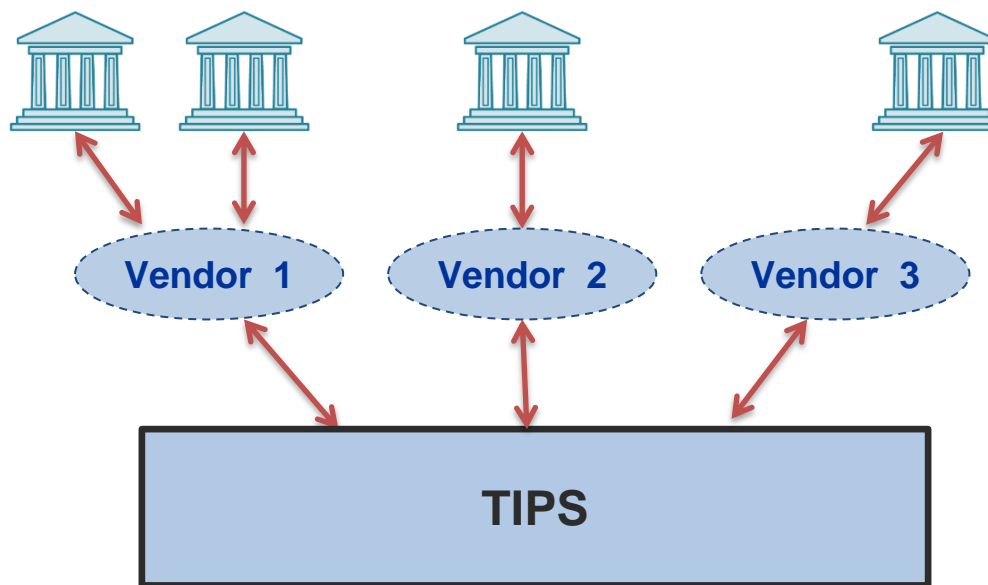


Co-existence of Payment Services



Connecting to TIPS

- TIPS will be a network vendor agnostic service
- The intention is to let TIPS Participants decide the network vendor they each intend to use, as long as this network vendor adheres to the requirements



How much will TIPS cost?

- Considering the principle of full cost recovery, we are assessing the possibilities of achieving full cost recovery with from **0.5 to 1 cent** per instruction
- We want to gather the interest of market participants in using the service at this price
- This is not at this stage a commitment, but rather an exploration of market interest

Time Plan

	2016		2017				2018			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4



- **Early January '17**
Submission of a draft User Requirements Document (URD) version to the Market
- **January – February '17**
7 weeks of consultation with the Market on the draft URD
- **June '17**
Decision to develop the service based on the results of the Investigation phase
- **May/June '18**
Start of Eurosystem internal system testing
- **August/September '18**
Start of pilot testing involving users
- **November '18**
TIPS Go-live

I **TIPS** Main Pillars

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3 **TIPS** Functional Overview

Eurosystem Collateral Management System (ECMS)

Common system for the mobilisation and management of collateral used in Eurosystem credit operations

- reducing fragmentation and heterogeneity within the Eurosystem
- allowing for efficient mobilisation and management of collateral
- contributing to the European Capital Markets Union



Back-office tool for monetary policy **counterparty operations**



Common system for Eurosystem central banks to **manage** eligible **collateral**



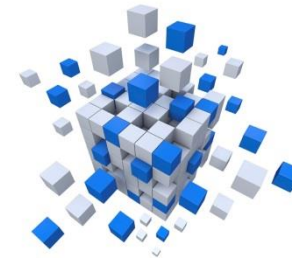
Central platform providing **harmonised Eurosystem services** to counterparties

Consolidation of TARGET2 and T2S



Technical consolidation

- Improve **efficiency**
- Cut down **operational costs**
- Increase **cyber resilience**
- Align **messaging standards** (ISO20022)
- Integrate **newest technology**
- **Multiple Network** Service Providers



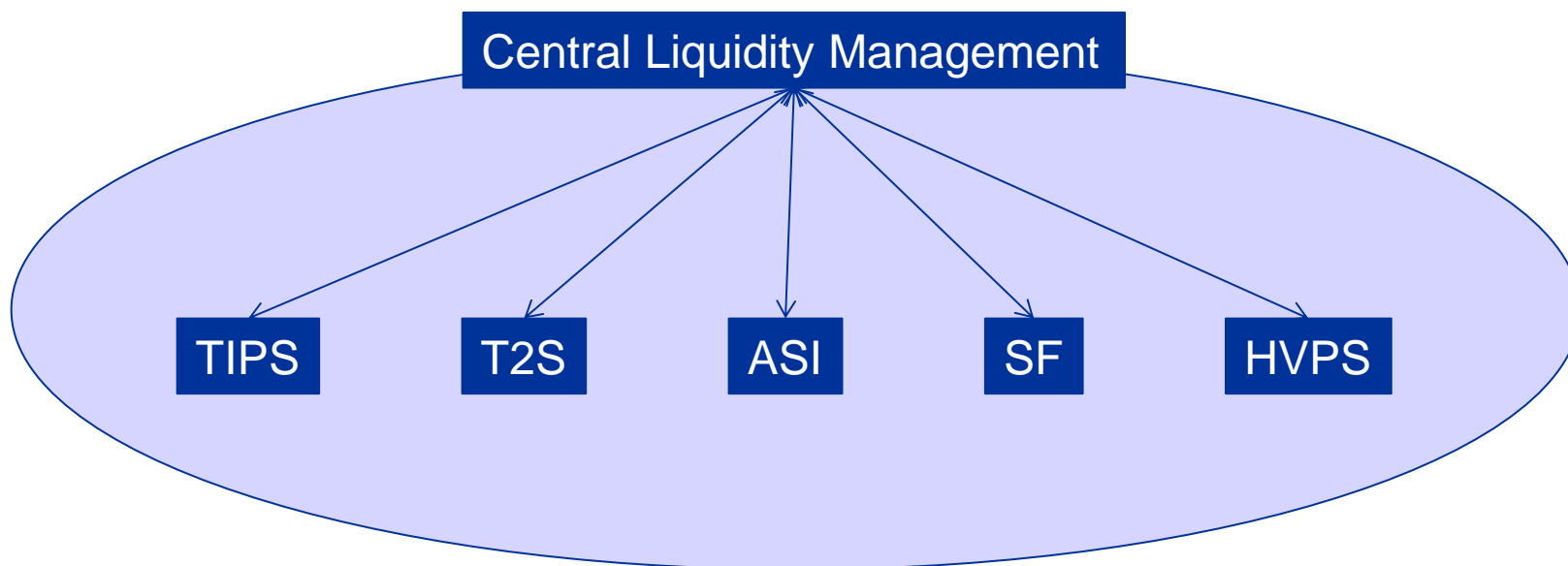
Enhanced RTGS services

- **Multi-currency** services
- **Liquidity management** services
- **Data analysis** and **business intelligence** services
- Services related to supporting **regulatory compliance**

Modularising Eurosystem Market Infrastructure

Consolidate Eurosystem Market Infrastructure into a more modular structure

- Liquidity Management
- Reference Data
- Billing



Modularising Eurosystem Market Infrastructure

Expected Benefits:

- Credit lines need to be handled only in one place, but the generated liquidity becomes available in all areas
- Clear segregation of monetary policy related activities (marginal lending, overnight deposits) from normal payment activities
- The individual, dedicated pots of liquidity can be managed by different settlement engines, thus allowing the reuse of existing components from T2S/TIPS

Impacts:

- Will require changes in the way banks interact with the market infrastructure

Consolidated Reference Data

Expected Benefits:

- Reduced maintenance effort for reference data items that are used by more than one market infrastructure services (e.g. BIC directory, accounts information, party information, users)
- Reduced duplication of information avoids inconsistencies
- Reduced number of software modules required for maintaining reference data in the different market infrastructures
- Consistent data maintenance process across different market infrastructures

Impacts:

- Will require changes on how reference data is accessed from the different existing market infrastructures

Common Billing Module

Aggregate all billable events across different Eurosystem market infrastructures and have a consistent billing process for Banks, CSDs and other counterparties

Expected Benefits:

- Reduction of scope and thus costs for the individual market infrastructures
- Consolidated process eliminates the risk of inconsistencies in the invoicing

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TIPS Service Scope

SCT Inst scheme compliant settlement service for participants to allow the transfer of funds instantly from an originator to a beneficiary

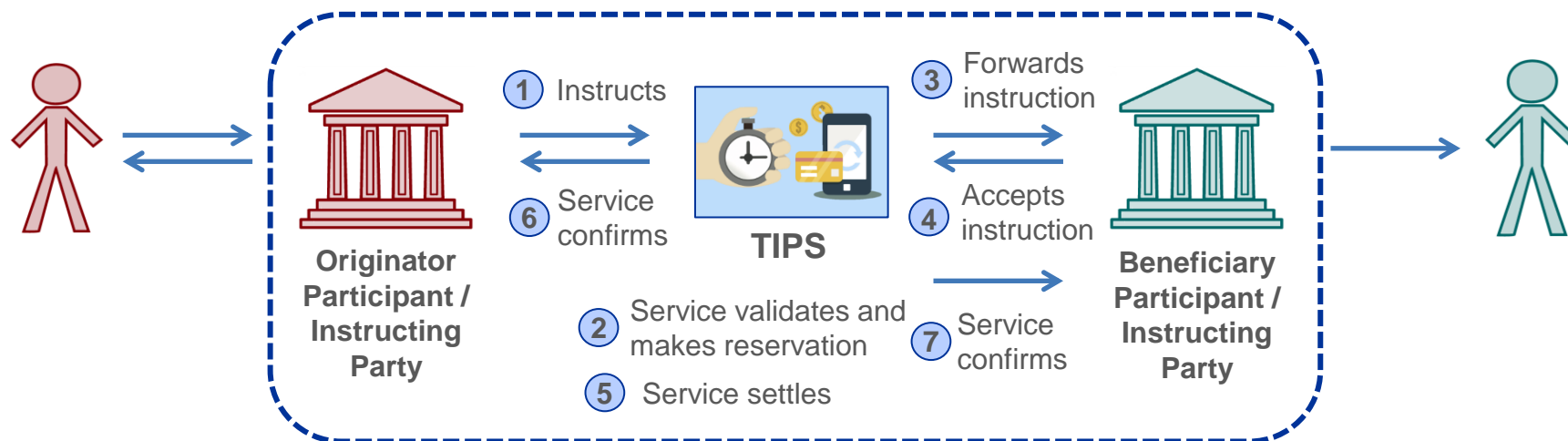
In Scope

- Routing services to forward the SCT Inst instructions from the originator participant to the beneficiary participant
- Instant settlement of the SCT Inst instructions accepted by the beneficiary participant
- Immediate transmission of status messages after settlement
- Liquidity transfers between RTGS systems and TIPS using camt.050 messages

Out of Scope

- Liquidity transfers between TIPS accounts
- Additional services (e.g. mapping of mobile numbers to IBANs)

Compliant with SCT Inst Scheme



1. TIPS receives an instant payments instruction
2. TIPS validates and reserves the amount (conditional settlement)
3. TIPS forwards the instruction for acceptance to the beneficiary participant or the party acting on its behalf
4. TIPS receives a positive confirmation
5. TIPS settles the payment
6. TIPS confirms the settlement to the originator participant or the party acting on its behalf
7. TIPS confirms the settlement to the beneficiary participant or the party acting on its behalf

Become a Participant?

- Participation rules same as those applied in **TARGET2**
- You may open either one account or many accounts to service your clients
- You may let other parties (ACHs, technical service providers) instruct on your behalf



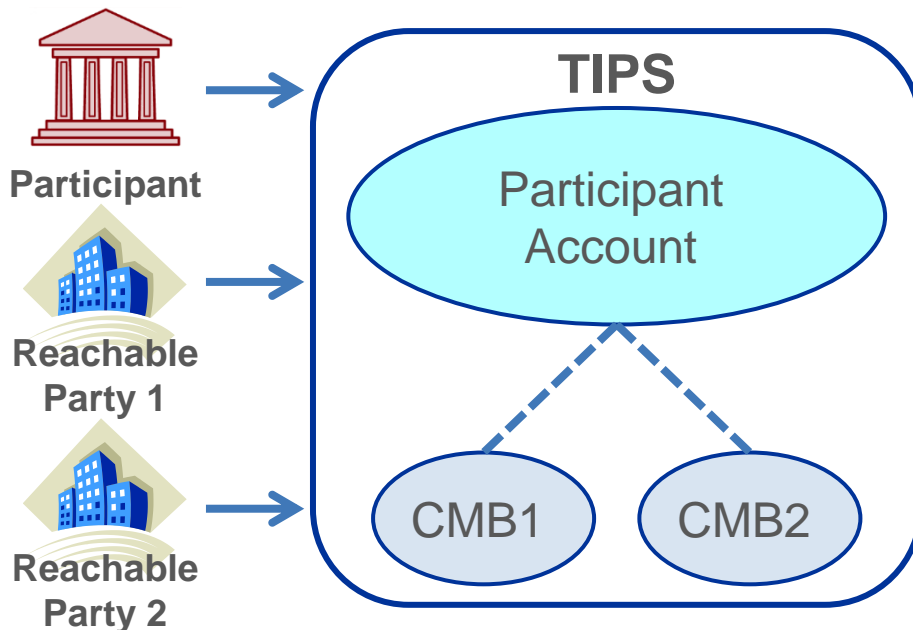
Do not want to open a TIPS account?

- Be a Reachable Party in TIPS if you do not want to open a TIPS account
- You can assume the role of an Instructing Party and connect to TIPS directly
- You can have a contractual agreement with a Participant to use its TIPS account for settlement
- Participants may set limits for clients using the Credit Memorandum Balance functionality



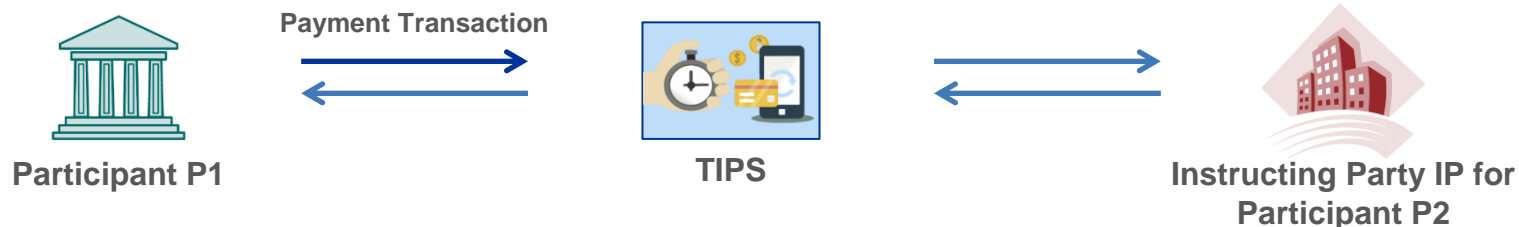
Credit Memorandum Balance (CMB) Limits

- CMBs allow Reachable Parties that do not have a cash account in TIPS, to send and receive payment instructions using a participant's TIPS account
- CMBs allow Participants to set maximum limits for Reachable Parties



- Settlement in Central Bank money
- Efficient limit management without splitting of liquidity

Case 1/2 – Two Participants



Participant P1 Account Structure

ACC1
BIC-P1

Payment Transaction

Originator BIC = **BIC-P1**
Beneficiary BIC = **BIC-P2**

Participant P2 Account Structure

ACC2
BIC-P2

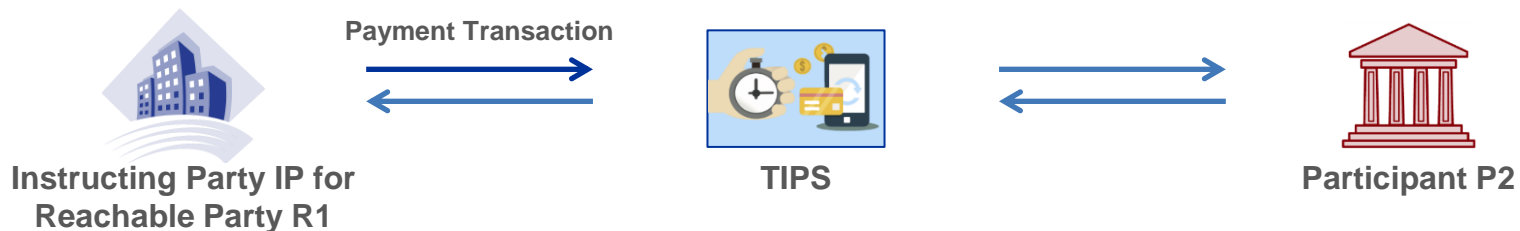
Situation:

- TIPS communicates with Participant **P1** and Instructing Party **IP** on behalf of Participant **P2**
- Both Participants use their own accounts
- Inference of accounts:
 - **BIC-P1** → **ACC1**
 - **BIC-P2** → **ACC2**

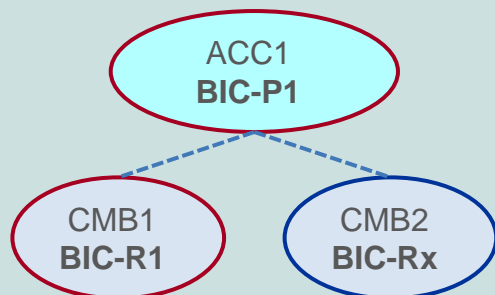
Settlement process:

1. Debit **ACC1**
2. Credit **ACC2**

Case 2/2 – Reachable Party and Participant



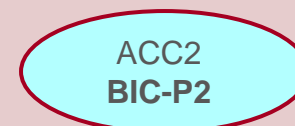
Participant P1 Account Structure



Payment Transaction

Originator BIC = **BIC-R1**
Beneficiary BIC = **BIC-P2**

Participant P2 Account Structure



Situation:

- TIPS communicates with one Instructing Party **IP** on behalf of the Reachable Party **R1** and the Participant **P2**
- **R1** uses a CMB provided by Participant **P1**, **P2** uses its own account
- Inference of accounts/CMBs:
 - **BIC-R1** → **CMB1**
 - **BIC-P2** → **ACC2**

Settlement process:

1. Decrease **CMB1**
2. Debit **ACC1**
3. Credit **ACC2**

Liquidity management

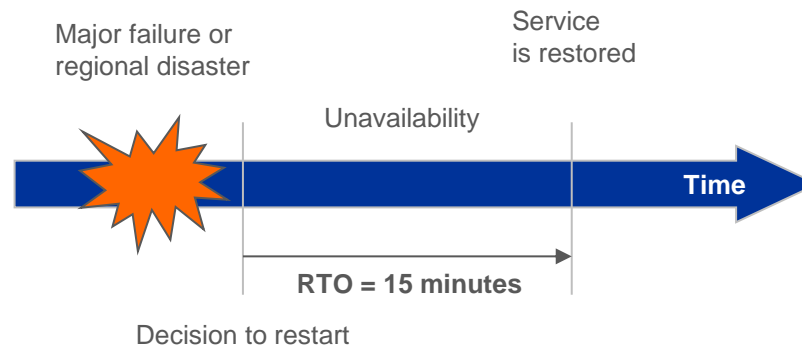
- You may use TARGET2 to fund liquidity to TIPS
- TIPS will have the same business date as TARGET2
- TIPS account balances could be counted in minimum reserve computations



- Usage of collateral and automated liquidity management could be available in the context of T2-T2S consolidation

Non-Functional Highlights

- State of the art technology architecture scalable enough to support future pan-European instant payments volumes
- Meets timing and speed requirements of the SCT Inst scheme
- Operational 24/7/365, with 99.9% availability, measured on a quarterly basis
- Advanced disaster recovery objectives: Recovery Point Objective of zero data loss and Recovery Time Objective of 15 minutes



Information Services

- Real-time statuses of transactions
- Configurable daily reports
- Statement of all transactions to support you in reconciliation
- Queries to support you in investigations
- Daily raw data to support archiving, billing, advanced queries & reports and statistics



Thank you for the attention!

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