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Introduction to TARGET Instant Payments Settlement (TIPS)
What is TIPS?

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
What is TIPS?

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
What is TIPS?

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
What is TIPS?

Integrated TARGET Services

TARGET2 Participants

Network Services

TARGET2

TIPS

Communication Management

Settlement in Central Bank Money

Value added RTGS Services

RTGS Services

Value added

Network Services
What is TIPS?

Co-existence of Payment Services

- Access to RTGS Services
  - PSPs
- Support for Instant Payments Through Clearing
  - PSPs
  - ACHs
  - Settlement backed by CeBM
- Support for Instant Payments Through Instant Settlement
  - PSPs
  - ACHs
  - TIPS
  - Individual Instant Payment Instructions
  - Funding / Defunding

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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 \textbf{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
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
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Eurosystème Collateral Management System (ECMS)

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

- reducing fragmentation and heterogeneity within the Eurosystème
- 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 Eurosystème central banks to **manage** eligible **collateral**

Central platform providing **harmonised Eurosystème 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)
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

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**

**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

\[ \text{Minimum reserve} = \text{TARGET2 end of day balance} + \text{TIPS balance at the time of TARGET2 end of day} \]

- 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!

TIPS@ecb.int