

16 January 2017

OUTCOME

1st Task Force on Future RTGS Services

07 December 2016, from 10:00 until 17:00

held at the ECB, Sonnemannstraße 20, Frankfurt am Main, room C2.04

1. Introduction

The Chairperson will welcome the participants and open the meeting.

Outcome:

Mr Holger Thiemann, the chairperson, and Mr Mehdi Manaa, the Head of Market Infrastructure Development Division at the ECB, welcomed the participants. Mr Manaa stressed the important role of the task force in the Eurosystem preparations for the evolution of its RTGS services. He pointed out that the parallel investigation phases of the Eurosystem Collateral Management System (ECMS) and TARGET Instant Payments Settlement (TIPS) projects allow the task force to look for new solutions and be creative.

The task force participants introduced themselves during a tour de table and approved the agenda.

2. Objectives and scope

The project team will present the objectives and scope of the TARGET2/T2S Consolidation project and how the Task Force shall contribute to this project. Furthermore, the project team will introduce the methodology for producing the User Requirement Definition document.

Documents:

- *T2/T2S Consolidation – Investigation Phase Overview*
- *URD methodology*

Outcome:

The aim of the investigation phase of the T2/T2S Consolidation project is to describe the future-looking user requirements for an efficient, cost-effective and resilient RTGS system for currencies that the respective central bank has decided to bring to the system. As part of the functional convergence, the Eurosystem aims at aligning to the extent possible the common components for all their (future) services (e.g. RTGS, T2S, TIPS, ECMS). Nevertheless, it is

acknowledged that any new requirements on T2S services have to pass the T2S governance structure and therefore they must be well substantiated.

The project team clarified that, if the Governing Council approves the URDv1.0 and agrees to proceed with the realisation phase, the 4CB will detail the design-options for technical realisation and provide the specifications. The 4CB shall also justify if certain user requirements are not to be implemented.

The participants made the following observations/ brought up the following ideas:

- *The new RTGS service shall also support smaller banks, which expect simplified/cheaper solutions. The direct participation of small institutions is indispensable for the implementation of the Eurosystem's monetary policy.*
- *The principles for single gateway, which technical infrastructure readiness is outside of the mandate of this task force, shall be network-agnostic and increase competition between network providers. At the same time, the banks asked the Eurosystem to avoid the case that the banks are forced to connect via a VAN provider that they do not use already. The final solution must be secure and safe, but cost-wise acceptable for smaller banks (incl. message and one-time set-up fees).*
- *The users' requirements for liquidity management may be different depending on the user's size and which Eurosystem services the credit institution uses either directly or indirectly. The requirements shall support*
 - *allocation of liquidity for a service, a category of payments or a single operation;*
 - *payments from several dedicated allocations¹, from liquidity reservations as well as from a single allocation.*

(see further discussion under agenda item 3).
- *The credit institutions' expectation is that payment capacity shall mean a sum of cash on the Main Cash Account (MCA) and in optional dedicated allocations, the available credit line on the MCA as well as the collateral value of the securities eligible for auto-collateralisation in T2S, decreased by the outstanding auto-collateralisation in T2S.*
- *The users count upon the central banks aligning the way how they expect their payment institutions to use the RTGS services and avoid requesting payment institutions to use within some central banks' periphery optional RTGS services or local proprietary systems.*
- *The business monitoring component shall cover all RTGS services (i.e. incl. TIPS).*

¹ The term "allocation" is used in this outcome to indicate a current situation, where it is not decided yet whether and for which services the liquidity shall be allocated to a dedicated (sub-)account or reserved on an account. This decision is for the design-phase of the project.

The ECB confirmed that their intention is to pass on the achieved cost savings to end users. Furthermore, for sake of completeness, the project team is also examining the user requirements for the existing T2 services.

The project team clarified that the work on cyber resilience aspects is ongoing in two dedicated Eurosystem task forces. This topic will be first discussed among central banks before presented to the whole task force.

The task force took note of the URD methodology that the ECB project team will apply to the drafting of the URD. The project team agreed to present in the next task force meeting an example of a business process with the description and the corresponding user requirements as it shall be defined in the URD.

For background reference of the service boundaries, the ECB shall distribute the T2 and T2S principles to the task force participants.

3. Identification of expectations on services

The project team will present the initial list of business processes that the integrated infrastructure shall support. The Task Force members are invited to complement the list and elaborate on the expectations and requirements of the following components:

- 1) Central Liquidity Management
- 2) Reference Data Management
- 3) Settlement Services

Documents:

- *List of business processes*
- *Central Liquidity Management*
- *Reference Data Management*
- *Settlement Services*

Outcome:

The ECB project team presented the initial ideas on requirements for different components of the integrated infrastructure. The participants pointed out following aspects:

Central Liquidity Management

- *There is an imperative requirement for tools to monitor payment capacity during the day and to manage scarce liquidity.*
- Monitoring payment capacity: *a “single screen” overview of balances in all liquidity allocations, pending transfers and credit usage (incl. credit line; information on available as well as on outstanding auto-collateralisation position in T2S).*

- Managing scarce liquidity: Functionality that allows automatic/ manual/ flexible allocation of liquidity between the MCA and the dedicated allocations (e.g. “floors”, “ceilings”, alerts on amount; the trigger may be placed on the dedicated allocation or on the MCA; both push and pull approaches; standard predefined liquidity allocations/ transfers, etc.). For technical accounting purposes, the allocation of liquidity between the different allocations shall always go via an MCA, although the user shall have the possibility to submit a liquidity allocation instruction between different allocations both in A2A and U2A mode (NB users must be able to define dedicated access rights to this U2A screen).
- The working assumption is that all liquidity on the MCA and in the dedicated allocations belonging to a credit institution in the RTGS are considered for monetary policy/ minimum reserve and there is no need for consolidating the liquidity to an account for a period (to be confirmed by the central banks).
- The users shall be able to define for each dedicated allocation a rule to turn the balance to zero (cash sweep) at a predefined time. There is a preference that no central cash sweep of all dedicated allocations shall be imposed to all users (to be confirmed by the central banks).
- While the credit line is assigned to the MCA, auto-collateralisation is on T2S DCA only.
- It shall be allowed to transfer liquidity between MCAs belonging to credit institutions of the same banking group
- The customer (currently MT103) and bank-to-bank (currently MT202) payments would settle on High Value Payments (HVP) service. The service shall support prioritisation of single payments or a type of payment; default prioritisation and one-time prioritisation defined in the instruction.
- It shall be assessed whether the liquidity allocation for AS settlement shall be distinct from the HVP one.
- The timing and sequencing of ancillary systems settlement throughout the operational day shall be carefully scheduled over a day in order to avoid gridlocks/frictions (to be discussed with ancillary systems).

Reference Data Management

- Introduce a concept of a “banking group” for (central bank) monitoring, statistics and potentially also billing purposes.
- Assess the feasibility to store for a credit institution a number of identifiers (e.g. BIC, LEI, etc.) and other attributes in the central database (i.e. a payment bank is defined in the reference data only once).

- *To be assessed, whether there is a need for country-specific attributes of credit institutions that have to be stored in the reference database as well*
- *To be assessed, whether a directory for routing purposes (equivalent to the TARGET2 Directory) is still required*
- *A single credit institution might require more than one MCA for business or operational reasons.*
- *A single credit institution might hold accounts with more than one central bank (e.g. for branches in another country).*
 - *To be assessed, how to manage and monitor parties that are not eligible for or do not have an MCA*
- *To be considered, whether the definition of the purpose of a liquidity allocation shall be up to the credit institution and may depend on the latter's business model (e.g. same allocated liquidity for High Value Payments and ancillary systems payments; or separate allocated liquidity for HVP of bank's branches). It should be allowed to allocate liquidity from several MCAs opened at the same or at different central banks to the allocation.*
 - *To be checked with the relevant Eurosystem committees, whether it shall be allowed to assign the monitoring of and managing of allocated liquidity to a credit institution that operates under a different central bank than where the MCA is opened.*
 - *To be assessed, whether it would be possible to define white list of accounts from/to which liquidity transfers should be allowed.*

Settlement Services

*Due to time constraints, the task force did not discuss the presentation on settlement services. The chairperson asked the participants to look into the questions raised in section 4 of the presentation and come back with comments and suggestions by **16 December 2016**.*

Business processes

*The ECB project team introduced the example of a business process and the initial list of business processes to be covered in the URD. The participants were invited to review the list of processes and share their views whether the list shall be complemented and/or certain processes merged or specified with the project team by **16 December 2016**.*

4. Business Day schedule

The refinement of the offered services facilitates the reassessment of the current business day schedule. The Task Force members are invited to elaborate on the expectations of the ideal

business day schedule and highlight the constraints that derive from users' internal systems and processes.

Document:

- *Business Day*

Outcome:

*The ECB project team introduced the presentation with questions and topics on the RTGS service daily schedule and calendar (to the extent a service must be accessible on T2 closing days). The task force participants are invited to come back with their views to the project team by **16 December 2016**. In order to limit the impact on other systems, the participants acknowledged that there is less flexibility for the change of date at 18:45 compared to the rest of the phases and cut-offs on a business day.*

5. Work Plan of the Task Force

The project team will present to the participants the Task Force's work plan and its meeting schedule.

Document:

- *Work plan of the TF on Future RTGS Services*

Outcome:

The task force took note of its work plan, which was considered challenging. In organisational terms, the participants asked to start the meeting on the 1st day of a 2-day-meeting as well as on Mondays at 10:30 only. A central bank representative requested to consider bringing the 2nd workshop with central banks in April one week earlier (from 11 April to week 03-07 April)².

6. Any Other Business

The participants invited the ECB to check how to inform the markets in advance of the market consultation (May-June 2017) in order to ensure good feedback from different institutions across Europe. They took note that the task force documentation is published on the website after each meeting.

² After the meeting and based on the written feedback on an alternative date (06 April 2017), the ECB decided to keep the original meeting date for the 2nd workshop with central banks (11 April 2017)