

TARGET2 info session

30 October 2020

DeNederlandscheBank

EUROSYSTEM



Agenda

10:00 – 10:05 Introduction

10:05 – 11:05 Consolidation Project update

11:05 – 11:50 TIPS update

11:50 – 12:00 Closing remarks

Consolidation Project update

Marcel Otten

DeNederlandscheBank

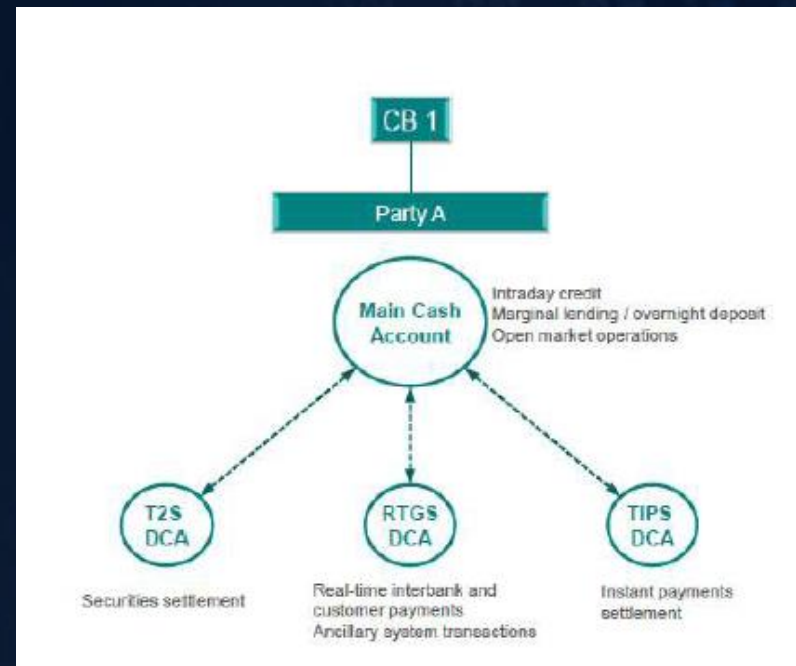
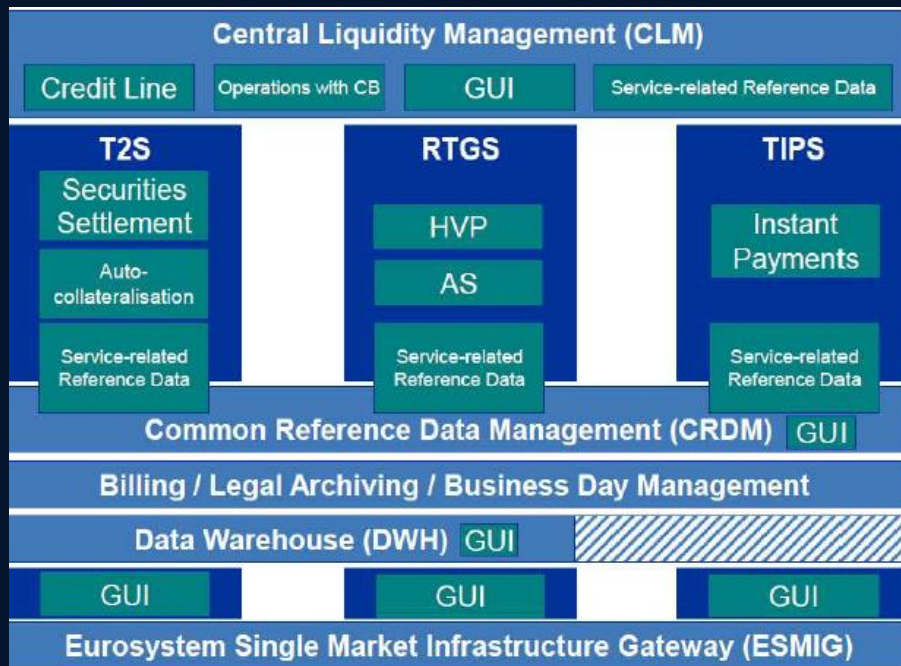
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Objectives

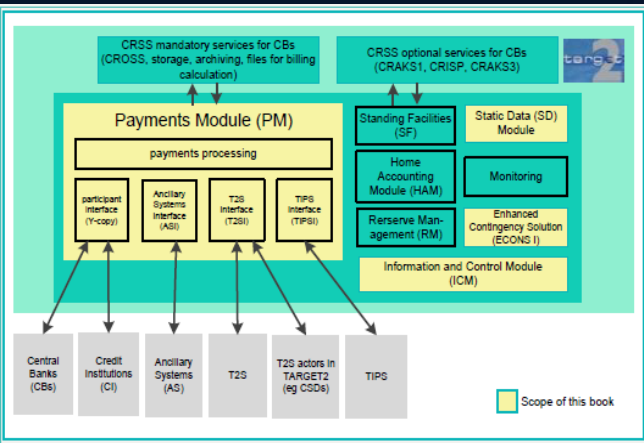
- Improved efficiency.
- Optimised liquidity management.
- Easier access to services via harmonised interface, including alignment of messaging standards.
- Enhancement of RTGS services.
- Reduced operational costs.

Future TARGET Services

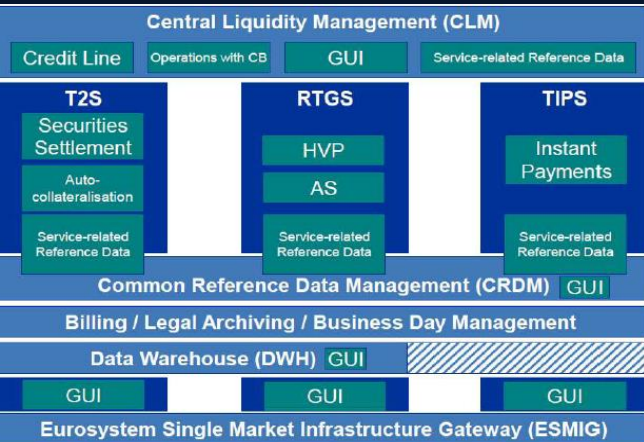


Main changes

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- All Central Bank Operations (CBO) will be handled in CLM, all participants are required to open a Main Cash Account (MCA).
- Interbank payments will be handled in RTGS, participants need to open an RTGS Dedicated Cash Account (DCA) for this.
- No separate Home Accounting Module (HAM) anymore, current Home Accounts will become part of CLM (as MCA).
- Functionality of Standing Facilities Module (SF) will become part of CLM, current Marginal Lending Accounts and Overnight Deposit Accounts will migrate to CLM.
- Functionality of the Reserve Management Module (RM) will become part of CLM.
- Static Data of T2 will be shared with T2S and TIPS, i.e. Common Reference Data Management (CRDM).
- One common communication infrastructure for T2, T2S and TIPS for both U2A and A2A-mode, i.e. ESMIG:
 - Two network service providers, i.e. SWIFT and SIA/Colt.
 - No SWIFT-specific features anymore, like RBAC.
 - Move from Y-copy to V-shape.
 - Change from MT-messages to ISO20022-messages.
- Multi-currency, but no conversion.
- Liquidity pooling/Virtual Account and related functionality will be discontinued (Consolidated Information will remain).



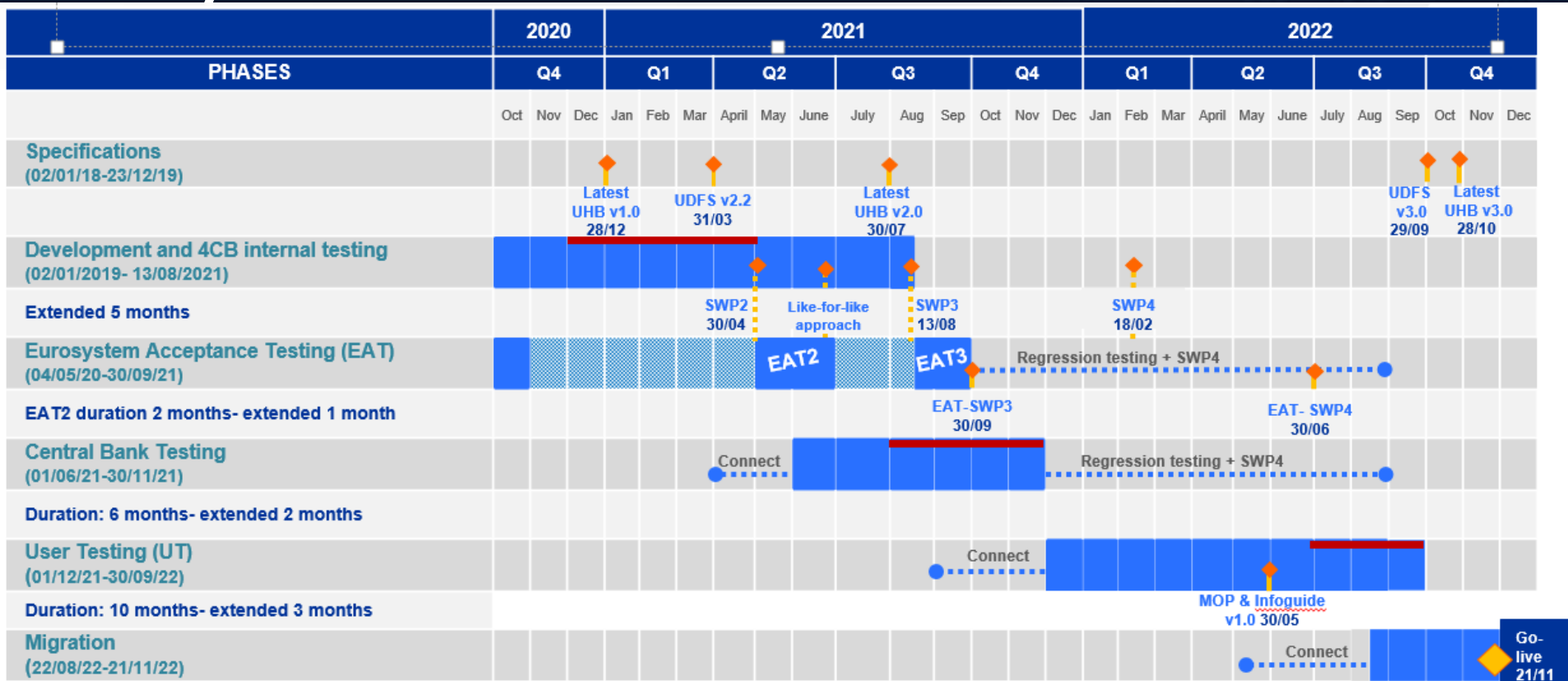
Extension of the T2/T2S Consolidation timeline by one year

On request by the banking community the timeline of the T2/T2S Consolidation has been extended by one year, the project is now scheduled to go-live in November 2022. Main reasons for this were:

- The impact of Covid-19 on the internal projects of the TARGET2-participants.
- The rescheduling of SWIFT's global migration of cross-border payments to ISO20022.

Eurosystem milestones

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Roadmap for participants to T2-T2S consolidation

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2021

IAD7 (01/03): Testing of the internal applications started

NSP3 (31/03): NSPs selection and contract preparation completed

March
2021

IAD6 (30/06): Software development for the required adaptation changes to T2 completed

NSP4 (30/06): Network Service Providers procurement completed

June
2021

IAD8 (31/08): Testing of the internal applications completed

Aug
2021

NCO2 (30/11): Network connectivity tests completed

IST2 (30/11): Training for user testing completed

Nov
2021

UTA1 (01/12): User testing activities started

Dec
2021

NCO1 (01/09): Network connectivity tests started

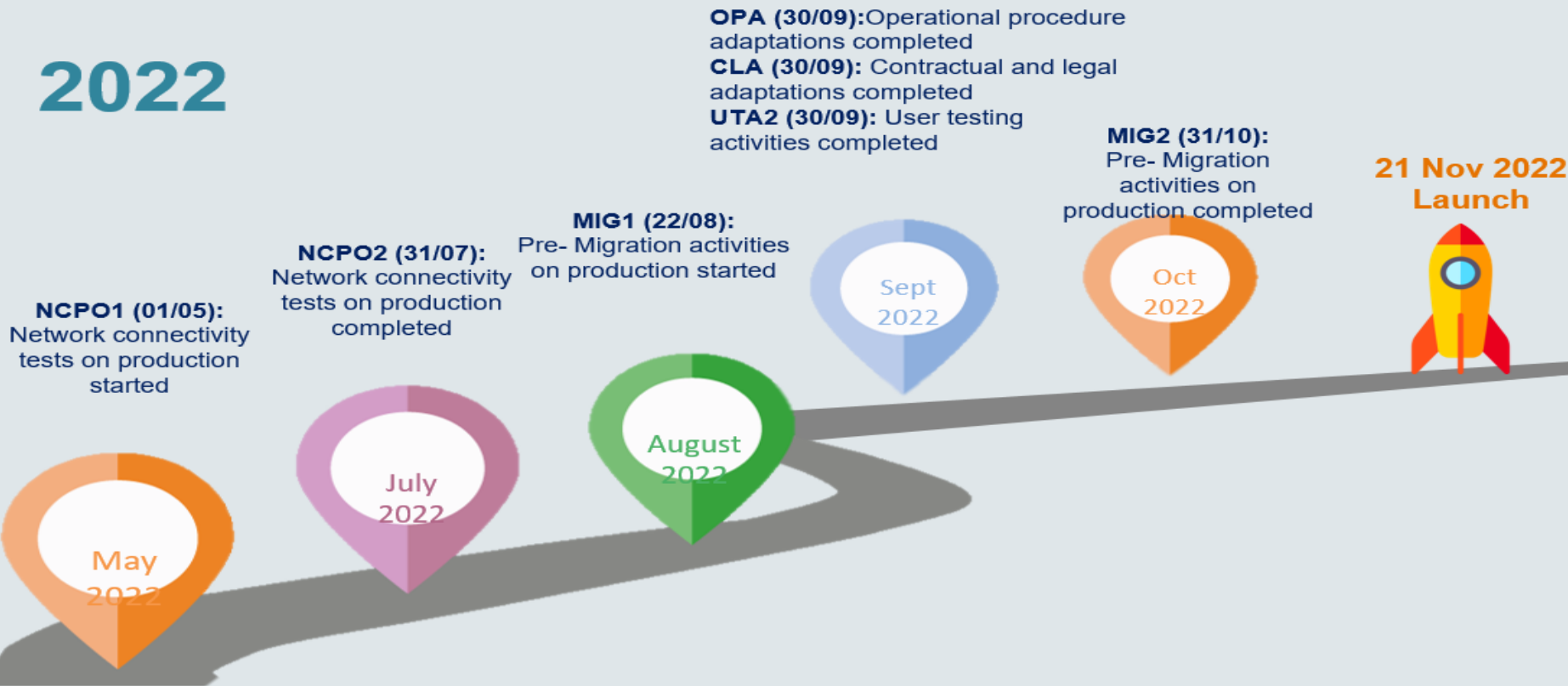
IST1 (01/09): Training for user testing started

Sep
2021

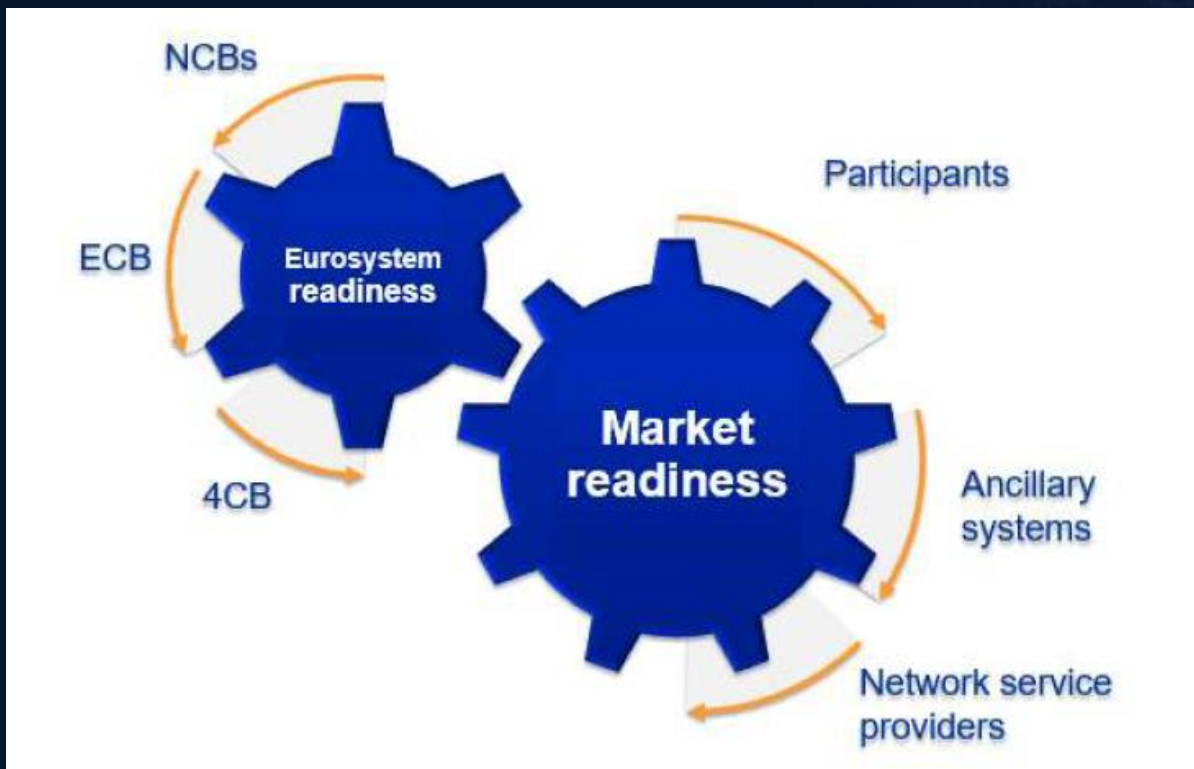
Roadmap for participants to T2-T2S consolidation

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2022



Who needs to be ready?



What are the consequences of not being ready

A participant who is **not ready** to go-live on 21 November 2022 will:

- Not be able to settle Central Bank monetary policy operations.
- Not be able to pay or to be paid in Central Bank money.
- Be cut from ancillary system settlement in Central Bank Money.
- Need to access payment services through another counterparty.

Client Readiness Framework to mitigate risks of 'big bang'

- Regular Client Readiness Questionnaires from Central Banks to be completed by participants.
- Training sessions ('train the trainer' principle) in 2021.
- Extensive user testing in 2022.
- Several Migration Weekend Dress Rehearsals in 2022.
- Information sessions, newsletters.
- T2/T2S Consolidation Contact Group (TCCG) on Eurosystem level, with bi-monthly meetings.
- A TCCG-NL for the 'closely monitored participants' of DNB, with regular meetings linked to the TCCG.
- Bilateral meetings.
- Close cooperation with DNB-Supervision and DNB-Oversight.

Client Readiness – Reporting planning

- The reporting on milestones is envisaged to take place every quarter as of Q4 2020, aiming at ensuring a closely monitoring of the community readiness till the go-live date of the project. The cut off date is the last day of the quarter.
- The reporting will include the status of all milestones due on the quarter subject to the reporting as well as the milestones from previous reporting cycles, which were not fulfilled.
- To ensure a proactive monitoring of the readiness status, the participants will be also asked about their expectations to meet the upcoming milestones due on the next reporting quarter.

Client Readiness – next reporting

- The next readiness reporting is due by 31 December 2020.
- No new milestones are to be met for participants for the upcoming reporting period.
- However, the status on the milestones from previous reporting cycles which were not fulfilled should be reported again.

Activity	Start	End
Deadline for ECB to distribute the questionnaire to CBs	14/12/2020	14/12/2020
Deadline for CBs to submit the filled in questionnaire (including the community feedback) to ECB	15/01/2021	15/01/2021
Preparation of the Community Readiness Report and Dashboard and its approval by the governance bodies (MTRSG, TSWG, MIB)	18/01/2021	18/02/2021
Distribution of the Community Readiness Report and Dashboard to TCCG and AMI-Pay	22/02/2021	22/02/2021

A wooden signpost with two directional signs. The top sign is a light-colored wooden arrow pointing to the right, with the word "QUESTIONS" in bold black capital letters. The bottom sign is a light-colored wooden arrow pointing to the left, with the word "ANSWERS" in bold black capital letters. The signpost is made of a dark wooden pole. The background is a bright blue sky with scattered white clouds.

QUESTIONS

ANSWERS

TIPS update

Bernard de Groes

DeNederlandscheBank

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Why do we need concrete actions?



Strategic objective to have EU-based instant payment solutions for the European market



Difficult for payment service providers (PSPs) to achieve full pan-European reach

The need for action and GovC early decision

- PSPs participating in multiple CSMs indicated that they **hardly saw any chance to achieve full 100% reachability** in the near future.
- Both **market participants** and the **European Commission** signaled that the Eurosystem should act to ensure pan-European reachability.
- In its Retail Payment Strategy, the **GovC** decided to explore options to ensure pan-European reachability. The resulting package was approved for **November 2021**.

Survey conducted in January this year



AMI-Pay members were asked “how to achieve pan-European reachability for instant payments”.

The results were presented in the first ad-hoc AMI-Pay workshop on **4 February 2020**.

Main messages from the market (1/3)

Most respondents requested to **facilitate interoperability** connecting it to the possibility to pay and be paid from a **single liquidity pool**.

The Eurosystem should support the market in the implementation of an interoperability framework for instant payments, based on two pillars:

- i) it shall be enough for a PSP to participate in **one CSM** only in order to be reachable at pan-European level; and
- ii) setup an efficient settlement mechanism, allowing for the **cross-CSM settlement** processing.

Today **90% reachability** is achieved between **RT1** and **TIPS**.



We need to be able to connect to the **provider of our choice** with **1 connection** and **1 pool of liquidity** in order to reach the rest of Europe.



Main messages from the market (2/3)

Some specify further to **open accounts for ACHs / CSMs** in TIPS and position TIPS as a **central liquidity** hub.

It would be welcomed if TIPS could **revise its participation model** to facilitate both technical and business **interoperability** with other CSMs allowing PSPs participation in **one CSM only**.

TIPS should be positioned as a **super CSM of CSMs**. Adherence to TIPS should be **mandatory** for every PSP offering IP for reachability purposes, with no exclusivity.

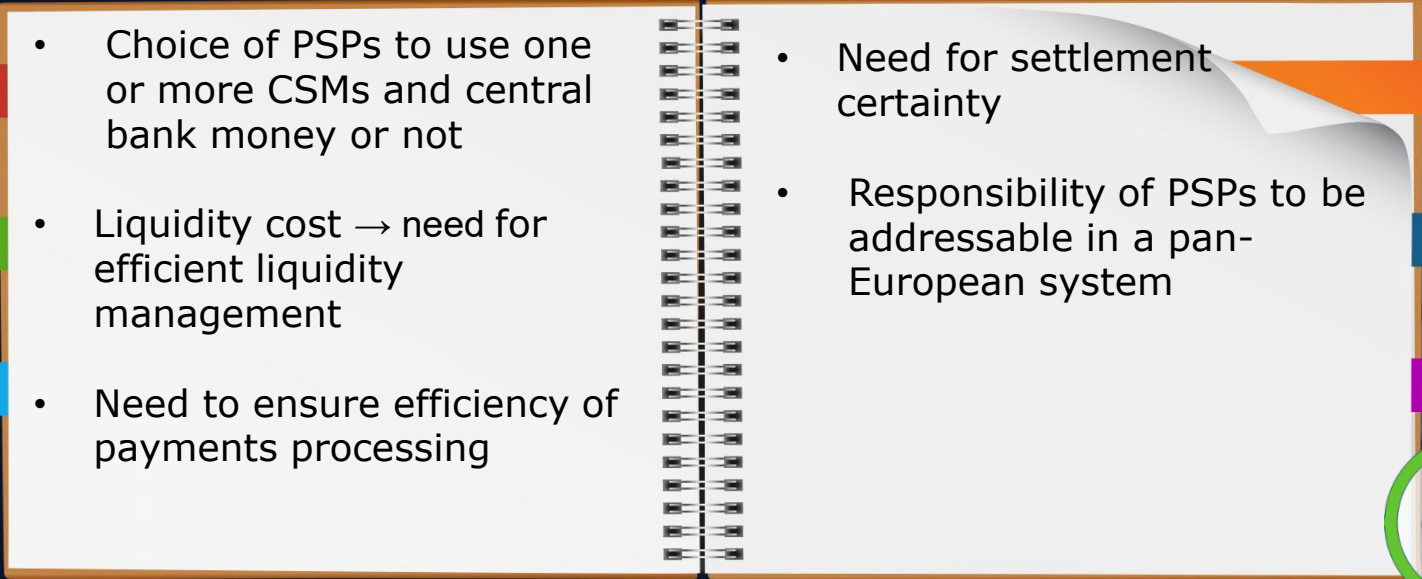


Allowing CSMs to **maintain TIPS accounts in their own (CSM) name** would help to resolve the reachability problem.



Main messages from the market (3/3)

Further **general comments** address the following topics

- 
- Choice of PSPs to use one or more CSMs and central bank money or not
 - Liquidity cost → need for efficient liquidity management
 - Need to ensure efficiency of payments processing
 - Need for settlement certainty
 - Responsibility of PSPs to be addressable in a pan-European system

The Governing Council decision



The **ECB Governing Council** decided to take significant steps to support the **full deployment** of instant payments across the euro area, in line with the objectives shared with the European Commission.

MIP NEWS

ECB takes steps to ensure pan-European reach of instant payments

24 July 2020

The ECB's Governing Council has taken significant steps to support the full deployment of instant payments across the euro area, in line with objectives shared with the European Commission.

Pan-European instant payments can be ensured by the end of 2021. All Payment Service Providers (PSPs) which have adhered to the SCT Inst scheme and are reachable in TARGET2 should also become reachable in a TIPS central bank money liquidity account, either as a participant or as reachable party (i.e. through the account of another PSP which is a participant). At the same time, all Automated Clearing Houses (ACHs) offering instant payment services should migrate their technical accounts from TARGET2 to TIPS. The Eurosystem should migrate their PSPs whether a migration window is needed for this purpose.

This will enable the following.

- > The possibility of instant payments across the currency area.

- > PSPs to comply with the SEPA regulation: PSPs which have adhered to SCT Inst will now be able to comply with their legal obligations, without depending on the actions of other PSPs or ACHs.

- > Make reachability a commodity, reflecting the fact that it is a legal requirement: Not only would TIPS benefit from 100% pan-European reachability, but all ACHs competing in the provision of instant payment services would automatically make this part of their service offer. ACHs would no longer depend on bilateral agreements to establish links, and there would be no potential credit exposure for cross-ACH transactions.

- > Remove liquidity traps: ACH accounts can be funded/defunded from central bank money accounts in TIPS at any time, unlike the current limitations imposed by the opening hours of TARGET2. This also facilitates moving liquidity from one ACH to another without any time limitation, which can be particularly valuable during long weekends.

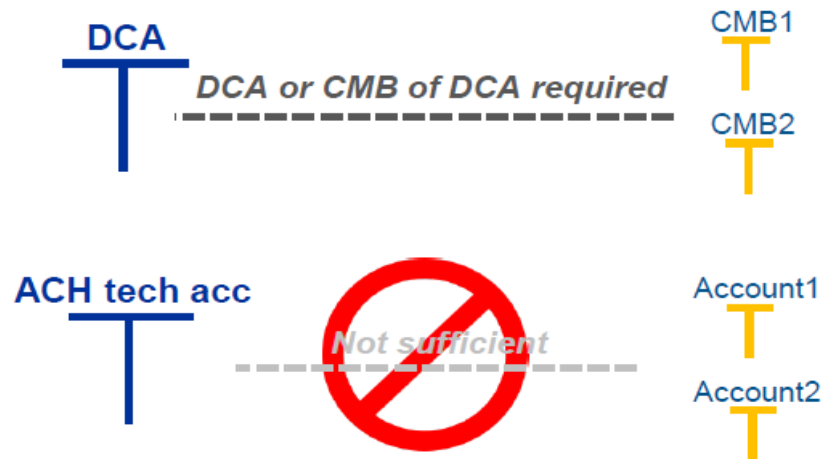
- > A competitive marketplace where each PSP may decide independently (i) where to instruct (in an ACH or in TIPS) and (ii) where to hold its liquidity and settle (in an ACH or in TIPS). The choice that one PSP makes in this respect does not condition the choices of other PSPs.

The ultimate goal is to enable European citizens to make electronic payments in euro from and to any country in real time, both in physical shops and online.

Recap of measures (1/2)

All **PSPs** which have adhered to the **SCT Inst scheme** and are reachable in **TARGET2** should also become **reachable in a TIPS central bank money liquidity account**, **either as a participant or as reachable party** (i.e. **through the account of another PSP** which is a participant).

- Reachability in a TIPS Central Bank account is **required**.
- This implies for the PSP X the **obligation to process/accept any incoming** instant payments another PSP Y may send to the **TIPS DCA/CMB** of PSP X.



Clarification on applicability of the measure

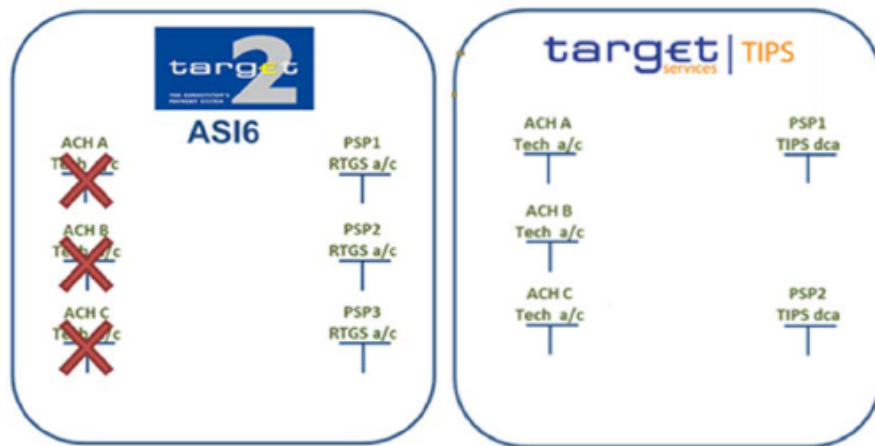
All **PSPs** which have adhered to the **SCT Inst scheme** and are reachable in **TARGET2** should also become **reachable in a TIPS central bank money liquidity account, either as a participant or as reachable party (i.e. through the account of another PSP** which is a participant).

- This applies to both **direct and indirect** SCT Inst compliant TARGET2 participants.
- Hence, it is **foreseen** that the **TARGET2 Guideline** will indicate:
 - i. that the **PM account holders** which have adhered to the **SCT Inst scheme** are **required** to hold a **TIPS DCA** or to be **reachable** via another TIPS DCA holder;
 - ii. that the **indirect participants** or **addressable BICs** which have adhered to the **SCT Inst scheme** would **only** be **registered** if they hold a **TIPS DCA** or are **reachable** via another TIPS DCA holder.

Recap of measures (2/2)

All **ACHs** offering instant payment services should migrate their **technical accounts** from **TARGET2** to **TIPS**.

- This enables the realization of a **viable interoperability framework** across European CSMs.
 - Each bank will be **reachable**, independent of the entry point for instant payment transaction (any ACH or TIPS).
- Furthermore, the measure guarantees **24/7 access** to **Central Bank money**.



Clarification on applicability of the measure

All **ACHs** offering instant payment services should migrate their **technical accounts** from **TARGET2** to **TIPS**.

- This measure formulates the **obligation** for **all ACHs** connected to TARGET2 clearing **SCT Inst** payments to **open a technical account in TIPS**.
- As a result, this measure is **not restricted to** those ACHs which already have an **ASI6-RT connection** in place.
- It **also applies** to ACHs that may use **other models** than ASI6-RT for prefunding instant payments.

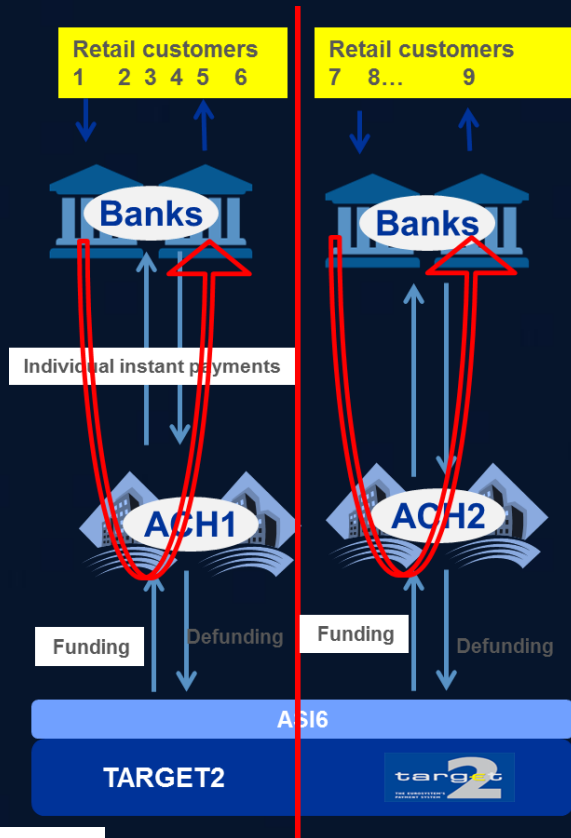
Recap of benefits

Pan-European reachability package

The package allows that all Participants are reachable across the chain, irrespective of which ACH (or TIPS) they are using for instant payments.

- All CSMs/PSPs are **pan-European**: Interoperability, **SEPA / SCT Inst compliance**.
- No need for fragmentation of banks' **liquidity pool** and removal of liquidity traps.
- Elimination of **credit risk** exposure and **instant finality** for inter-ACH transfers.
- Optimised liquidity management with **24/7** availability for funding and defunding.
- PSPs can decide to send payments either **ACH internally**, from an **AS technical account**, or using their **TIPS account/CMB**.

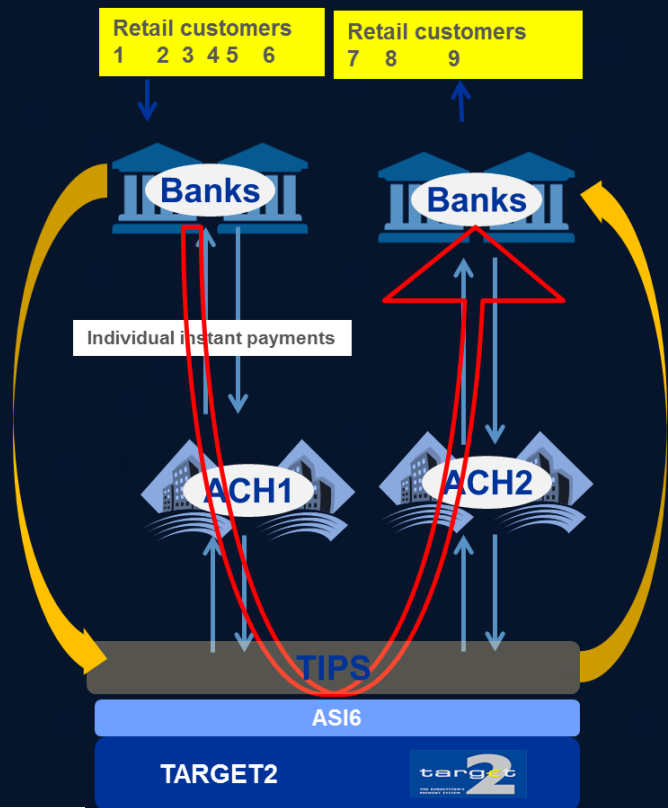
INST payments today cannot cross the line



Today, INST payments from one bank account holder to another can only settle if the accounts are both with banks connected to the same ACH.

But they do **not** work cross-ACH.

In future, account location does not matter



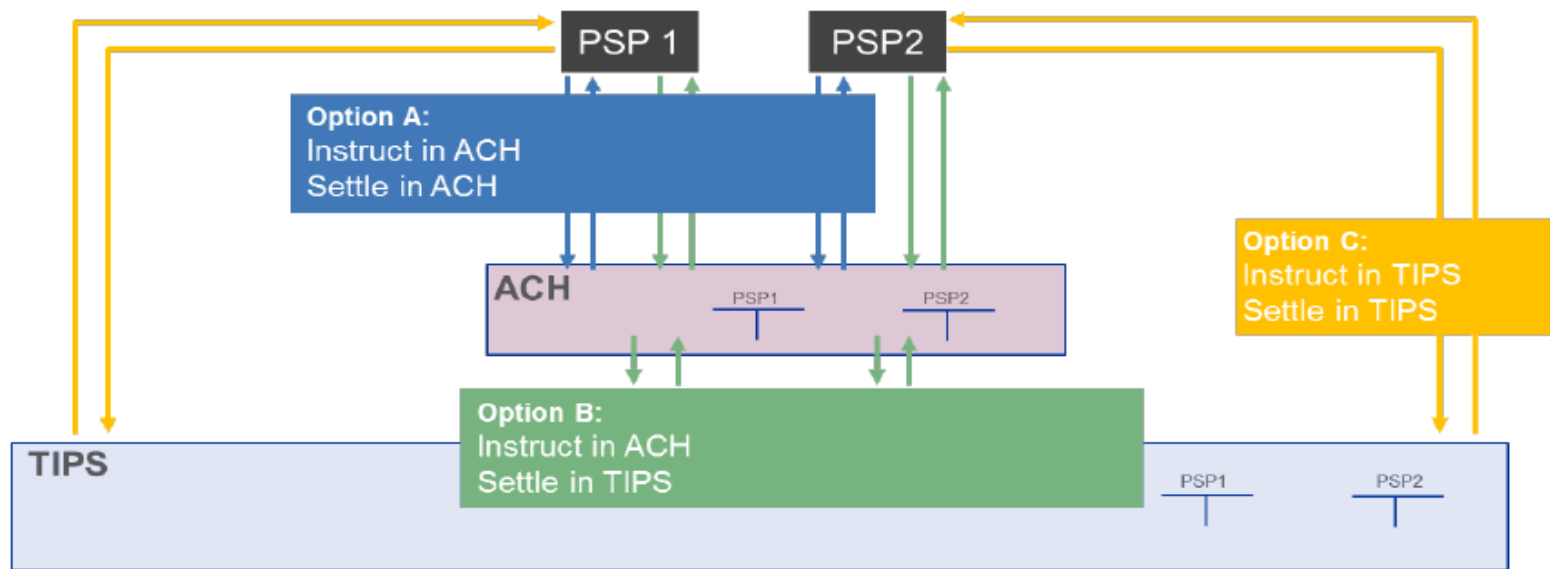
With the second measure, INST payments from one bank account holder to another can also settle **across ACHs**, because the ACHs settle directly cross-ACH payments via TIPS.

Across the entire euro area, accounts can be in **any ACH or in TIPS** and they will be able to reach each other.

The options for PSPs in future

The Options for PSPs:

- A** Instructing in an **ACH** and settling in an **ACH**
- B** Instructing in an **ACH** and settling in its **TIPS DCA**
- C** Instructing in **TIPS** and settling in its **TIPS DCA**



Novel business cases

The pan-European reachability enables several **new business cases**:

- Intra-service liquidity transfer from a **TIPS DCA** to an **AS Technical account** and **vice versa**.
- Processing of **instant payments** between two participants of two **different ACHs**.
- Processing of **instant payment** between a participant of an **ACH** and a **TIPS participant**.
- Processing of **recall answer** between two participants of two **different ACHs**.
- Processing of **recall answer** between a participant of an **ACH** and a **TIPS participant**.

TIPS connectivity costs remain stable (1/2)

- A new **connectivity set-up** to TIPS via **ESMIG** will be established with business criteria applicable between **2021** and 2031.
- In that period, a cap of **€0.0005 per message** will be set. This implies a maximum price of €0.0025 per instant payment (i.e. 5 messages).
- SIA-COLT and SWIFT published **maximum prices** for all types of fees.
- **None** of these maximum prices is **dependent on the number of TARGET services** a participant subscribes to.



TIPS connectivity costs remain stable (2/2)

Participants of T2 (i.e. CLM and RTGS), T2S or ECMS willing to join TIPS will NOT incur any additional one-off and fixed recurring costs if they opt for the full configuration, i.e. all components of the “A2/B2 pack”.

The “A2/B2 pack” refers to the maximum prices published by SIA-COLT and SWIFT. This publication contains the items A2 (Maximum price for a minimum set of software and hardware components) and B2 (Maximum yearly fee for utilisation and maintenance of a minimum set of software and hardware components).

Clarification on migration to ESMIG in TIPS

We have planned to **subscribe to TIPS before November 2021**. Apart from the contractual aspects, do you think something will change from the **technical** viewpoint when we will **move to ESMIG** in November 2021?

- As of **November 2021**, **TIPS** will be **reached via ESMIG** according to the technical and business requirements of the concession contract.
- Both Network Service Providers (NSP) SIA-Colt and SWIFT **confirmed** that the participants planning to **start in TIPS before November 2021**, are **not necessarily required** to implement **technical changes** in their connectivity set-up **in November 2021**.
- In practice, the participants are invited to confirm with the NSP of their choice that:
 - the **infrastructure** is the **same** thus no technical changes are needed; or
 - those technical **changes** can be **anticipated before November 2021**.

On-boarding Milestones, Planning and Documentation (1/2)

On-boarding milestones are **common** to all participants and aim to ensure their **go-live readiness** in a **synchronised** manner across all national communities.

- The **NCBs** will lead the on-boarding process in each country. The responsible NCB will collect **feedback** from their participants once the key milestone has passed.
- On-boarding milestones are to be considered by participants in their internal adaptation plans and will be **monitored** by the Eurosystem.
- The milestones will be **defined** by the Eurosystem in consultation with the market.

On-boarding Milestones, Planning and Documentation (2/2)

- As there are no software changes needed due to the measure presented first, both ACHs and TIPS participants can begin testing in TIPS **immediately** and do not need to wait for the changes in Release 4.0 to be deployed.
- The Eurosystem will **update** all of the current documentation to reflect the changes in TIPS due to the measure presented second.
- **ACHs** which are already acting as **Instructing Parties** in TIPS will have **less activities** to complete.

Overview of draft on-boarding milestones

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Q1

PSE – 31 Jan 2021

Project is set up
Form of TIPS Participation decided

NSP 1 – 1 Feb 2021

NSP Selection begins

IAD1 – 1 April 2021

Drafting of Internal Documentation begins

NSP2 – 31 Mar 2021

Completion of NSP Procurement

Q2

IAD2 – 30 May 2021

Internal documentation drafted

IAD3 – 1 June 2021

Internal development started

NCO – 1 July 2021

Network Connectivity begins

Q3

TRA – 30 Jul 2021

Training is completed

IAD3 – 31 Aug 2021

Internal development completed

Internal Testing completed

UTA – 1 Sept 2021

User Testing Begins

Q4

CLD – 31 Oct 2021

Contractual and legal documentation completed

OBP – 15 Nov 2021

Onboarding activities on production environment are ready to start

GLI – 15 Dec 2021

Go-live (first business day)

Requirements for PSPs/ACHs to get ready

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- All participants can use the **agreed milestones** to assist the performance of their **gap analysis**.
- This will **reveal**:
 - - Type of **participation** (PSE)
 - - Changes needed (if any) at **NSP level** (NSP1)
 - - **Internal development** needed (IAD 1 and IAD 2)
 - - **Training** required (TRA)
 - - **Testing** required
 - - Contractual and **Legal** requirements (CLD)
 - - **Connectivity** requirements (NCO)

Pending on the Eurosystem side

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Review of TIPS Governance

Given the effects of the decision of the Governing Council in TIPS, we are actively looking into **reassessing the TIPS Governance** in order to reflect the **new topology of TIPS Actors**.

Pricing

Pricing is still **under discussion** and we will share more information once we have more clarity and guidance from steering and **decision making bodies**.

Responsibility mapping for readiness strategy

ECB defines with the **NCBs** a **Community Readiness Framework**.

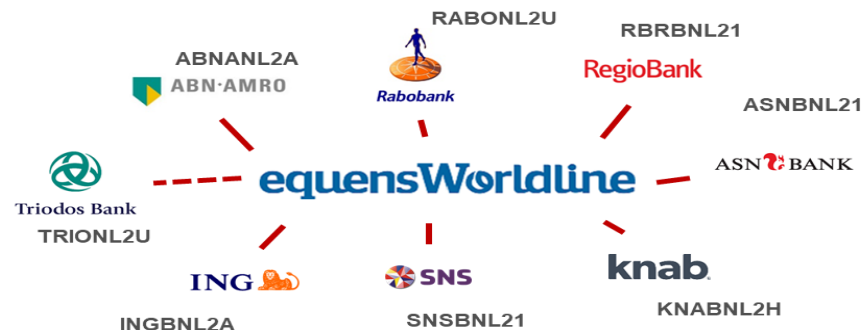
Each **participant** is responsible for ensuring its own readiness.

NCBs ensure readiness of participants in their **national community**, while **ECB** plays a **coordinating** role supporting NCBs and their market participants during the testing and migration activities.

The **4CB** (Banca d'Italia) will conduct **training sessions** and provide support for information sessions.

Current landscape in the Netherlands

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<https://www.ecb.europa.eu/paym/target/tips/facts/html/index.en.html>

Where to find more information

Websites:

- www.dnb.nl under Payments / Tasks DNB / TARGET2 and T2S
- www.target2.eu under TARGET Services

TARGET2-NL National Helpdesk:

- Telephone: +31 20 524 3564
- E-mail: target2@dnb.nl

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QUESTIONS

ANSWERS