



EUROPEAN CENTRAL BANK

EUROSYSTEM

Cross-currency initiative in TIPS

Market Surveys Outcome

19 May 2022

target | TIPS
services



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2 Outcome

2.a. Opportunity to participate in cross-currency initiative in TIPS

2.b. Cross-currency instant payment landscape

2.c. Comment to the possible solution

3 Way Forward

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Executive Summary

Main elements on the surveys

- Two surveys were launched by the ECB in February 2022:
 - One survey was targeting the AMI-Pay, NSGs, TSWG and TIPS-CG members
 - One survey was targeting the Foreign Exchange (FX) Contact Group
- Not exactly the same questions due to the profile of the invited participants*
- The aim of these surveys was **to gather views and input of the market participants on the cross-currency initiative in TIPS**
 - Both surveys **referred to the [technical Note on the Linked Transactions settlement model](#)** which describes the functioning of the envisaged cross-currency instant payment model in TIPS between Euro and Swedish Krona and were opened for a period of 3 weeks
 - Riksbank also launched a survey for its own market (see separate deck of slides)

Executive Summary

Main outcome

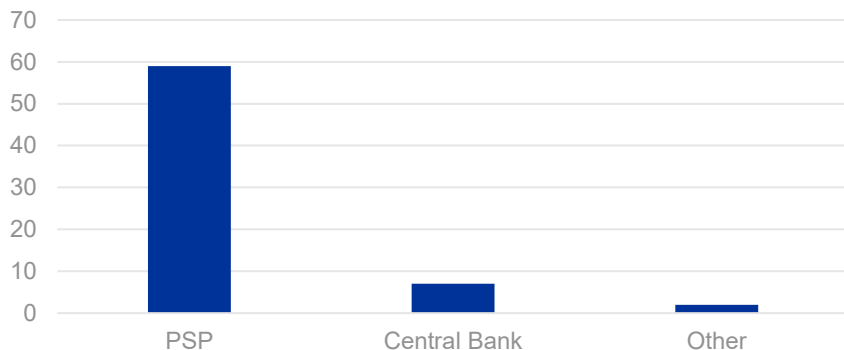
- The appetite of the survey respondents regarding the cross-currency instant payments in TIPS is quite positive.
54% of the respondents sees it with interest, 28% are neutral and only 18% has no appetite regarding this service.
- Regarding the best point in time to implement cross-currency instant payments in TIPS, the majority of the respondents who expressed themselves on this point says that, with regards to the other projects (e.g. T2-T2 Consolidation), **a two-year time is a good timeframe.**

Executive summary

Who responded to the surveys?

AMI-Pay, NSGs, TSWG, TIPS-CG Survey

→ **68 respondents:**



- Among the PSPs who responded to the survey, 84% of them indicated to be SCT Inst compliant

FX Contact Group Survey

→ **1 respondent**, but we have been informed that:

- among this group, there are only 10 PSPs and that a lot of them received the other survey
- two members of the FX Contact Group clearly indicated to have answered via the other survey
- The unique respondent is SCT Inst compliant

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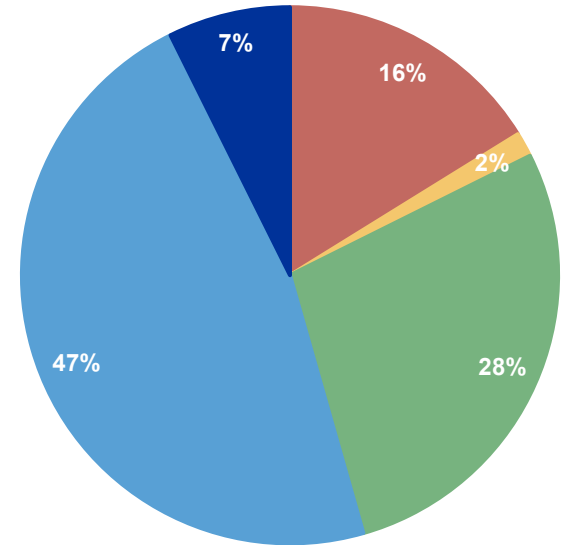
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Outcome - Interest on having instant cross-currency settlement in TIPS

- The views of the respondents is quite positive.
A majority sees cross-currency settlement in TIPS with interest, while around 20% has a limited or no appetite regarding this service
- There seems to be a trend depending on the size of the banks: the banks with European or even world scale tend to be rather in favour of cross-currency settlement in TIPS, whereas the banks with a smaller scale may not see the relevance for their business model



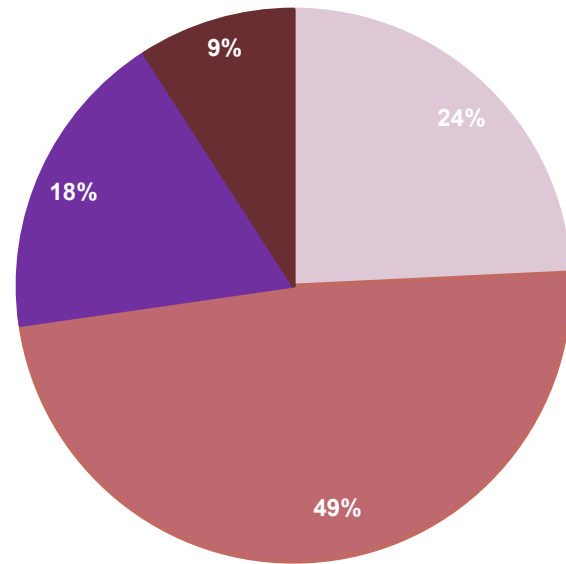
■ Not likely ■ Somewhat Unlikely ■ Neutral ■ Somewhat Likely ■ Very likely

Outcome - Interest on taking up the role of a cross-currency PSP

- **The respondents gave some input on what is important from their point of view to possibly take up the role of a cross-currency PSP:**
 - Demand coming from customers (i.e. business perspective)
 - Moderate implementation effort (i.e. architectural or technical burdens)
 - Clarification/harmonisation on operating rules (e.g. mandatory standards)
 - Reachability (i.e. widespread participation)
 - The FX Contact Group respondent mentioned the following barriers:
 - Transaction costs
 - KYC/AML costs
 - Funding cost of maintaining balances to facilitate real time settlement
- Several participants mentioned the costs associated to the implementation of this service

Outcome - Best point in time for the cross-currency service in TIPS to go-live

- For those who expressed themselves on the best point in time, **the majority of the respondents say that with regards to the other projects (e.g. T2-T2 Consolidation), 2024 (i.e. in 1-2-year time) is rather a good timeframe.**
- Some respondents stated **that this initiative should not be implemented immediately due to other priorities** (e.g. increasing the participation / reachability) **and/or due to the fact that this service will be quite complex to implement.**



■ in 1-year time ■ in 2-year time ■ in 3-year time ■ in 5-year time

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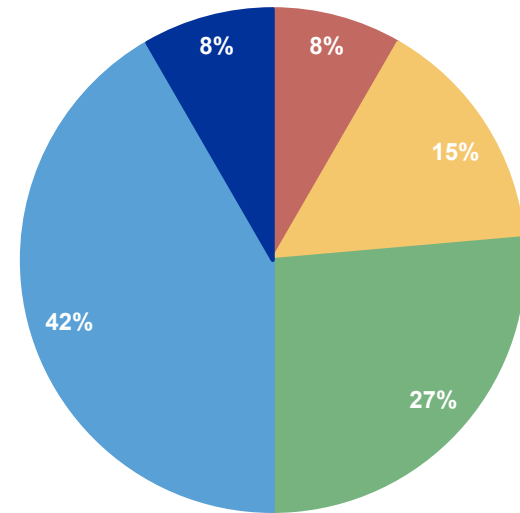
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Outcome - Interoperability/connection with other technical platforms

- A majority of the respondents state that the cross-currency service should be open to future interoperability/connection with other technical platforms, while only 23% sees it with low or very low value



Very Low Value Low Value Moderate Value High Value Very High Value

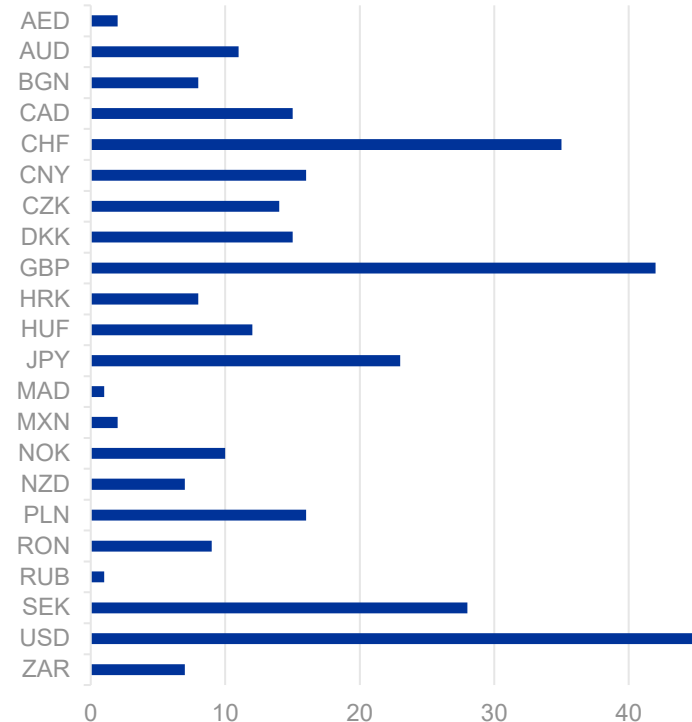
Outcome - Currencies that would bring more value

- **The top 5 of currencies** where the respondents see value for cross-currencies instant payments are:

1. USD
2. GBP
3. CHF
4. **SEK**
5. JPY

- Some respondents indicated that the focus should maybe be first on European currencies - also including closely linked currencies like CHF, GBP and NOK - to ensure full interoperability between all European currencies/countries.

And that then the next step could be to the connect all major currencies from a global perspective: USD, JPY, etc.



Outcome - Main barriers for the implementation of cross-currency instant payment solutions

- **Obstacles of different natures have been identified by the respondents.**

The most mentioned barriers can be categorised as follows:

- Different regulations, security, fraud and compliance (incl. sanction screening) frameworks
 - Application of FX rate (way it will be done on a technical and on a business perspective)
 - Interoperability of platforms and adherence
 - Small coverage of the service / reachability of respondents
 - Solution regarding the management of liquidity
- Some respondents underlined the need for harmonisation regarding the rules, the standards and need for clarification regarding the roles/governance – this is seen as essential also in view of reducing the number of rejects

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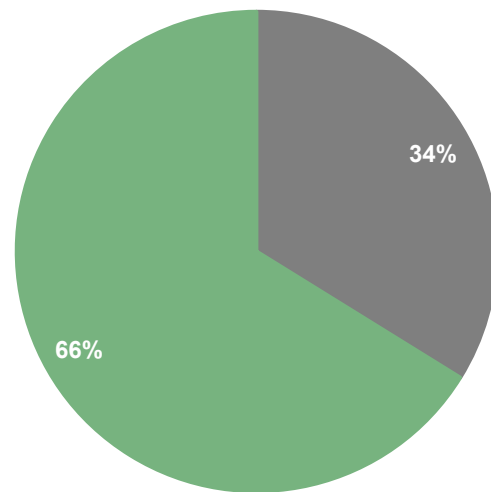
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Outcome - Settlement model described in the Technical Note

- A majority of the respondents to the survey indicated that the technical note provided by the ECB, Riksbank and 4CB describing the settlement model **is in line with their expectations**



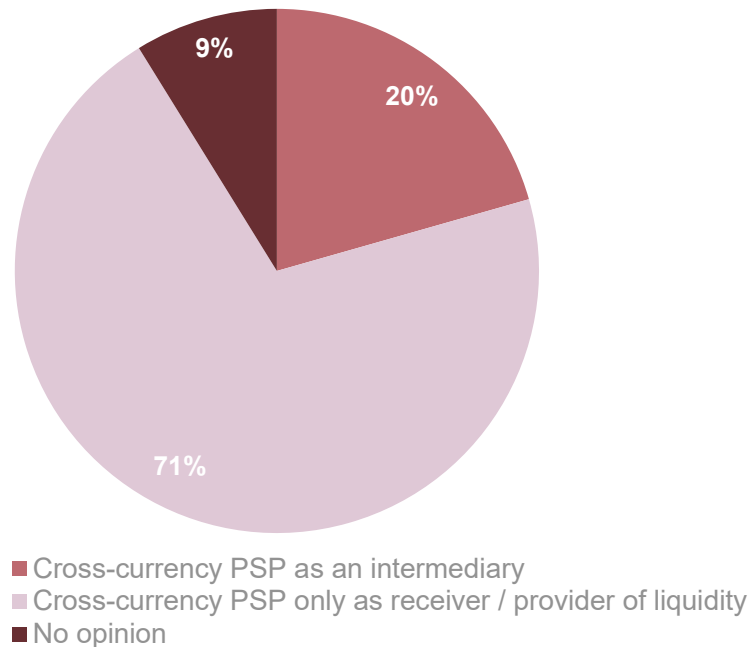
■ In line with expectations ■ Not in line with expectations

Outcome - Preference regarding the role of the cross-currency PSP

- **A substantial majority** of the respondents indicated that they would consider preferable a model whereby the cross-currency PSP would not act as intermediary in the payment chain itself **but only as a receiver / provider of liquidity**

Reminder: Under this model, the cross-currency PSP would not need to receive any information about the payer / payee nor about the purpose of the payment

- On the contrary, the FX Contact Group respondent is rather on the view that cross-currency PSP would act as intermediary in the chain



Outcome - Central Exchanged Hub (CEH)

Specific additional requirements

- Currently, the CEH is defined as follows:

the CEH would be a new optional service which allows the cross-currency PSPs to post the FX rates offered to the Originator PSPs, and the Originator PSPs to retrieve from a central repository the best available FX rate in an automated way for their transactions.

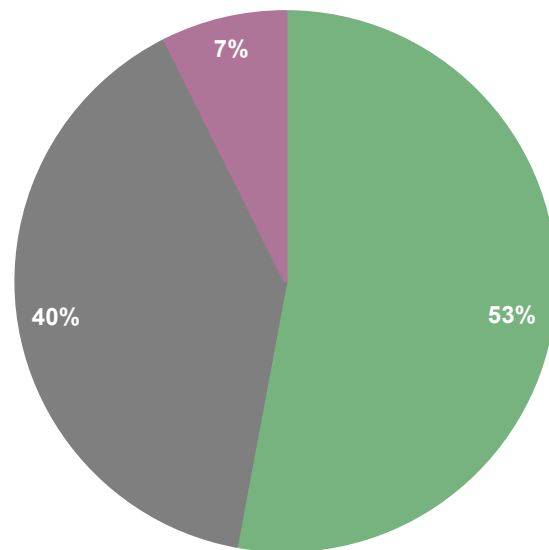
- While some respondents would appreciate more details and information to be able to assess the CEH, several respondents indicated to have specific additional requirements regarding the CEH, like:
 - Technical connection via API
 - Robust rule book specifying rules about quotes, e.g. quote sizes, quote lifetimes, quote refresh time
Some PSPs underlined that the currency conversion rate list provided by the CEH should remain valid for a sufficient period of time after the rate has been requested and provided, so that a binding overall process for the currency deal is given

Outcome - Central Exchanged Hub (CEH)

The use of the CEH

- The views of the respondents are quite split.

A slim majority would use the CEH; about 40% would see reasons to look up for solutions outside the CEH



- No reason to not using the Central Exchange Hub (CEH)
- Reasons to possibly consider not using Central Exchange Hub (CEH)
- No opinion

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Way forward

- The market has sent wide feedback, the Eurosystem and Riksbank will have to address a **number of the issues that were raised**
- The MIB during its April meeting agreed to **investigate the possibility to organise a pilot** with EUR and Swedish stakeholders:
 - The identification of the preferred settlement model will take place ahead of the possible organisation of a pilot
 - The ECB will revert back to the MIB with the results of the investigation after summer

Thank you for your attention!

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www.ecb.europa.eu/paym

 **ECB: market infrastructure and payments**