



EUROPEAN CENTRAL BANK

EUROSYSTEM

TIPS Project Team

Task Force on TARGET Instant Payments Settlement

**4th Task Force Meeting
17 January 2017**

TIPS User Requirements

TIPS Actors – “Central Bank”

- Definition: A **Central Bank** maintain reference data associated with an entity within their national community and is responsible for, e.g. the initial setup and maintenance of a Participant and its accounts (as well as additional account related information such as the different parties allowed to use an account or CMB on behalf of a participant)
- A Central Bank can act as a Participant, Reachable Party or Instructing Party in TIPS.
- Additionally, the transit account used for the transfer of euro liquidity from/into TIPS accounts can have only negative or zero balance.

Action	Yes/No
Manage (create/delete, linked CMB...) an account in their books?	Yes
Manage linkage between Participants and Instruction Party?	Yes
Own a transit account?	Yes
Order to transfer liquidity from/to TIPS to/from and RTGS account?	Yes
Recall a transaction that was previously settled and request the return of funds?	Yes
Block a Participant, an account or a CMB on behalf of a participant?	Yes
Receive reports?	Yes
Submit queries?	Yes
Receive raw data?	Yes

TIPS Actors – “Participant”

- Definition: **Participants** are entities which have a BIC and are eligible for participation in TARGET2 (but do not necessarily need to have a PM account); Participants own TIPS accounts (and CMBs). TIPS accounts of Participants cannot have a negative balance.

Action	Yes/No
Own an account?	Yes
Own a CMB?	Yes
Order payment transaction for instant settlement?	Yes
Order to transfer liquidity from/to TIPS to/from and RTGS account?	Yes
Recall a transaction that was previously settled and request the return of funds?	Yes
Block an account or a CMB?	Yes
Receive reports?	Yes
Submit queries?	Yes
Receive raw data?	Yes

TIPS Actors – “Reachable Party”

- Definition: **Reachable Parties** do not have TIPS accounts and have to rely on a Participant to allow them to use an account (with or without a CMB).
- Additionally, a Reachable Party can act as Instruction Party, as long as suitable access rules are set up. In this case, Reachable Parties can interact with TIPS directly (i.e. send payment transactions). Refer to slide 6 for table of actions.

Action (Reachable Party without being Instructing Party)	Yes/No
Own an account?	No
Own a CMB?	No
Order payment transaction for instant settlement?	No
Order to transfer liquidity from/to TIPS to/from and RTGS account?	No
Recall a transaction that was previously settled and request the return of funds?	No
Block an account or a CMB?	No
Receive reports?	No
Submit queries?	Yes
Receive raw data?	No

TIPS Actors – “Instructing Party on behalf of a Participant”

- Definition: **Instructing Party** is any entity that has contractual agreements with one or more Participants to **instruct on-behalf of the participant** and communicate with TIPS directly sending payment transactions or responding with Beneficiary Participant reply messages (or executing recalls and investigations).

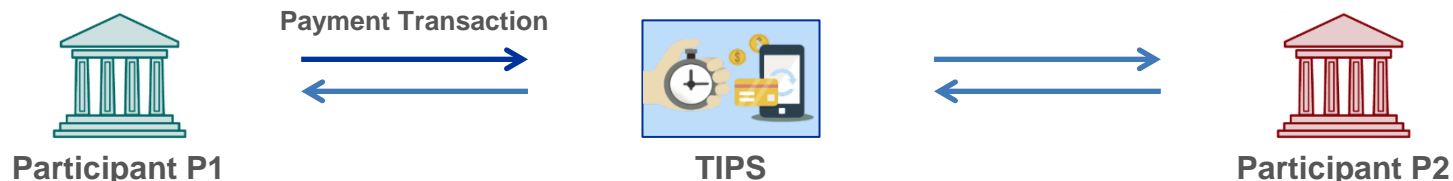
Action	Yes/No
Own an account?	No
Own a CMB?	No
Order payment transaction for instant settlement?	Yes
Order to transfer liquidity from/to TIPS to/from and RTGS account?	Yes
Recall a transaction that was previously settled and request the return of funds?	Yes
Block an account or a CMB ?	Yes
Receive reports?	Yes
Submit queries?	Yes
Receive raw data?	Yes

TIPS Actors – “Instructing Party on behalf of a Reachable Party”

- Definition: **Instructing Party** is any entity that has contractual agreements with one or more Reachable Party to **instruct on-behalf of the reachable party** and communicate with TIPS directly sending payment transactions or responding with Beneficiary Participant reply messages (or executing recalls and investigations).

Action	Yes/No
Own an account?	No
Own a CMB?	No
Order payment transaction for instant settlement?	Yes
Order to transfer liquidity from/to TIPS to/from and RTGS account?	No
Recall a transaction that was previously settled and request the return of funds?	Yes
Block an account or a CMB ?	No
Receive reports?	Yes
Submit queries?	Yes
Receive raw data?	Yes

(1) 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

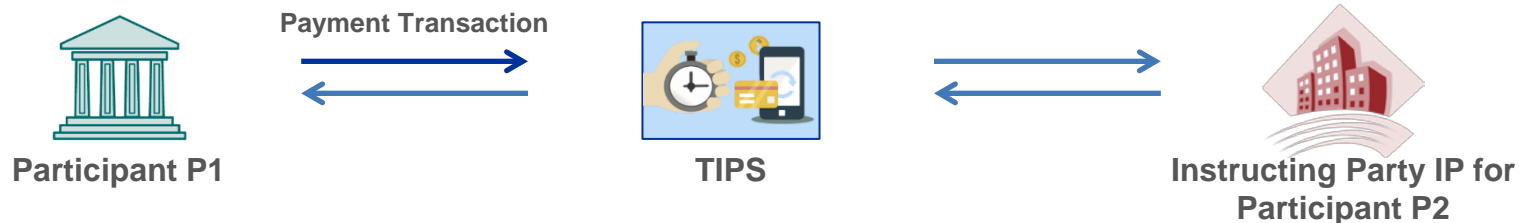
Situation:

- TIPS communicates with Participants **P1** and **P2** directly
- Both Participants use their own accounts
- Inference of accounts:
 - **BIC-P1** → **ACC1**
 - **BIC-P2** → **ACC2**

Settlement process:

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

(2) Two Participants – with Instructing Party



Participant P1 Account Structure

ACC1
BIC-P1

Payment Transaction

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

Participant P2 Account Structure

ACC2
BIC-P2

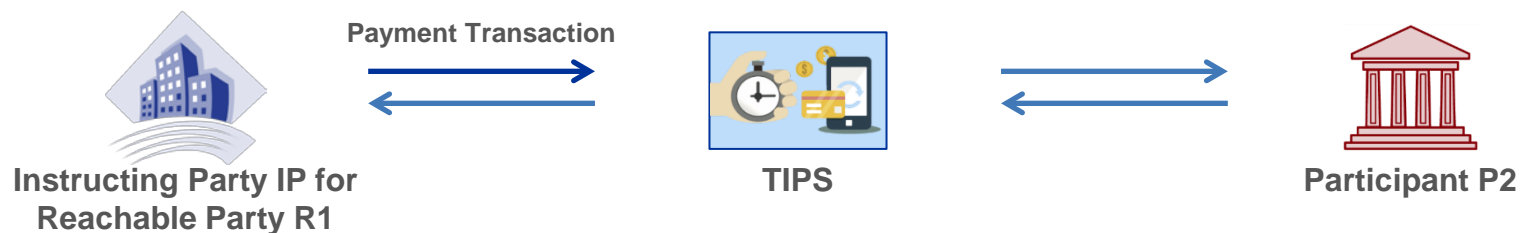
Situation:

- 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**

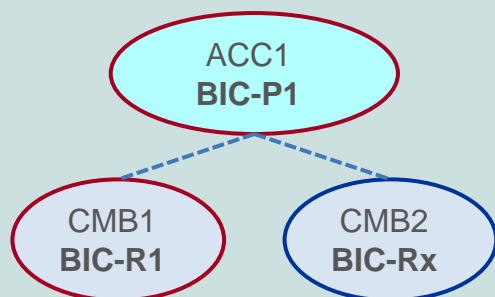
Settlement process:

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

(3) Reachable Party and Participant



Participant P1 Account Structure



Payment Transaction

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

Participant P2 Account Structure

ACC2
BIC-P2

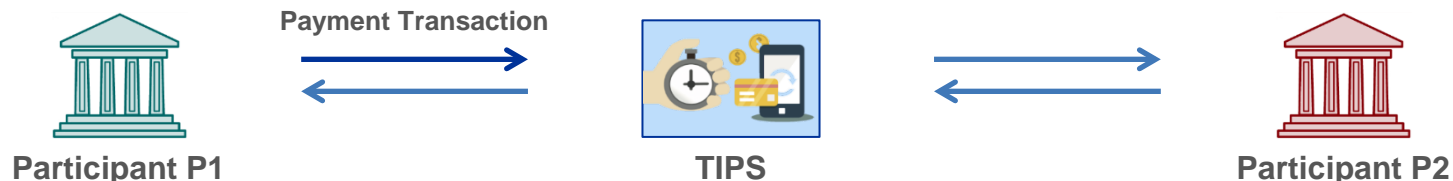
Situation:

- 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**

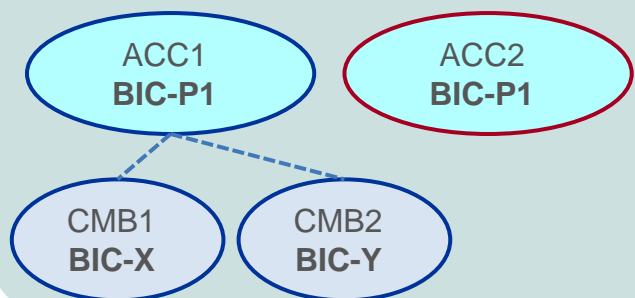
Settlement process:

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

(4) Explicit Account



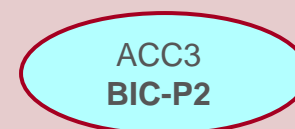
Participant P1 Account Structure



Payment Transaction

Originator BIC = **BIC-P1**
 Beneficiary BIC = **BIC-P2**
 Account/CMB = **ACC2**

Participant P2 Account Structure



Situation:

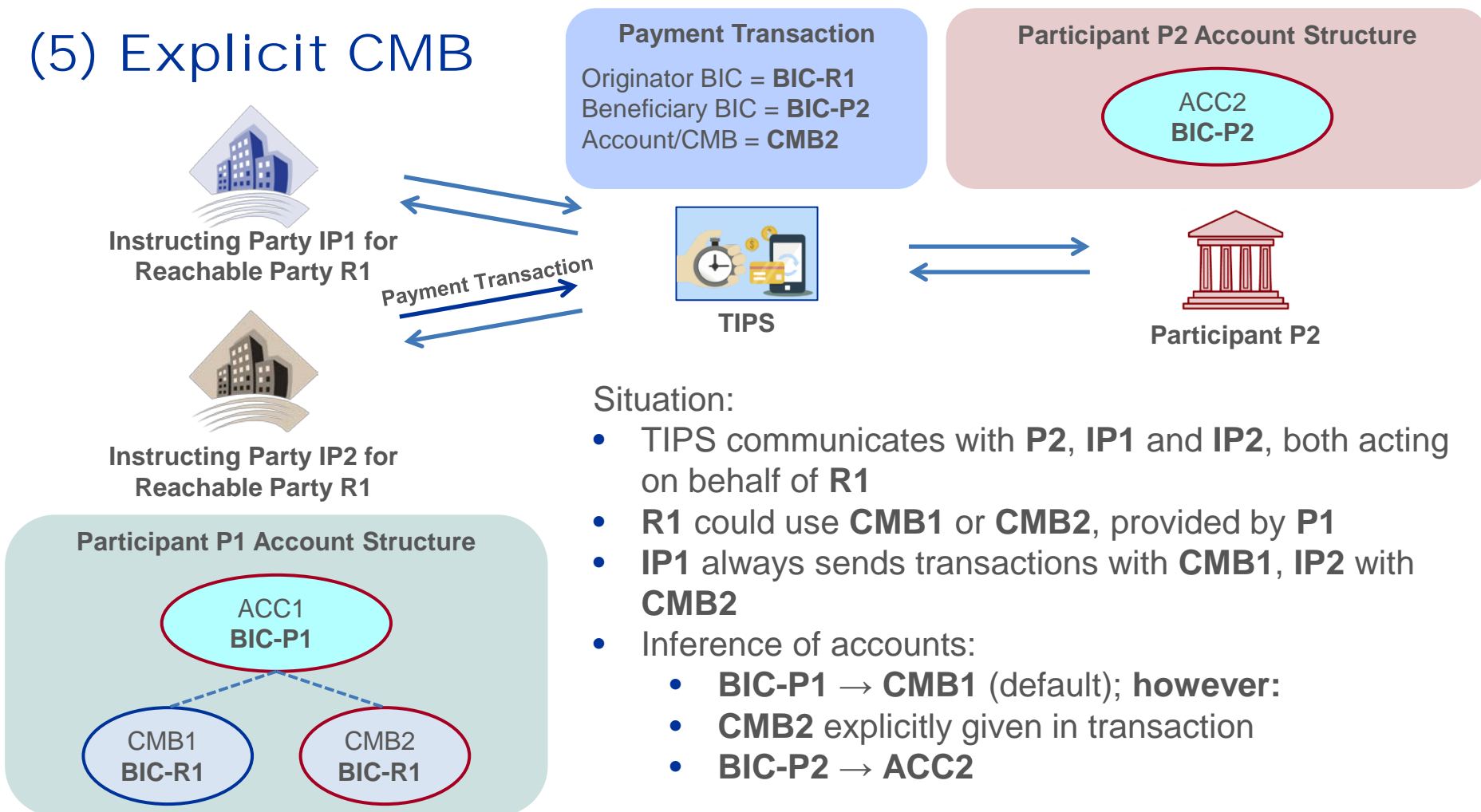
- TIPS communicates with Participants **P1** and **P2** directly
- Both Participants use their own accounts
- Participant **P1** has two accounts (**ACC1** is the default)
- Inference of accounts:
 - **BIC-P1** → **ACC1** (default); **however:**
 - **ACC2** explicitly given in transaction
 - **BIC-P2** → **ACC3**

Settlement process:

1. Debit **ACC2**
2. Credit **ACC3**

Does the Task Force see a use case for this setup?

(5) Explicit CMB



Situation:

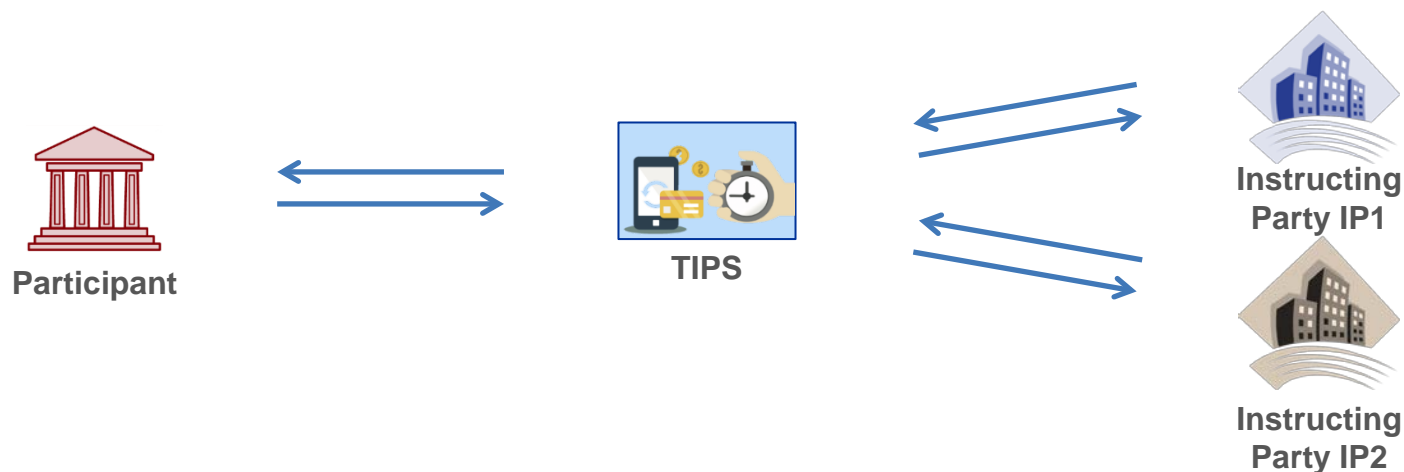
- TIPS communicates with **P2**, **IP1** and **IP2**, both acting on behalf of **R1**
- **R1** could use **CMB1** or **CMB2**, provided by **P1**
- **IP1** always sends transactions with **CMB1**, **IP2** with **CMB2**
- Inference of accounts:
 - **BIC-P1** → **CMB1** (default); **however:**
 - **CMB2** explicitly given in transaction
 - **BIC-P2** → **ACC2**

Settlement process:

1. Decrease **CMB2**
2. Debit **ACC1**
3. Credit **ACC2**

Does the Task Force see a use case for this setup?

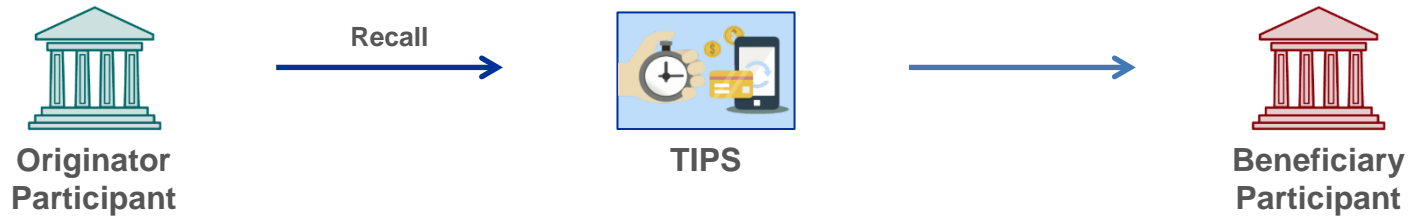
(6) Case which is not possible



Situation:

- TIPS would communicate with two Instructing Parties, IP1 and IP2, on the **beneficiary side**
- This case **cannot happen** due to message routing restrictions:
 - Only one communication partner has to be uniquely derived from the beneficiary participant BIC in order to forward the SCT Inst payment transaction

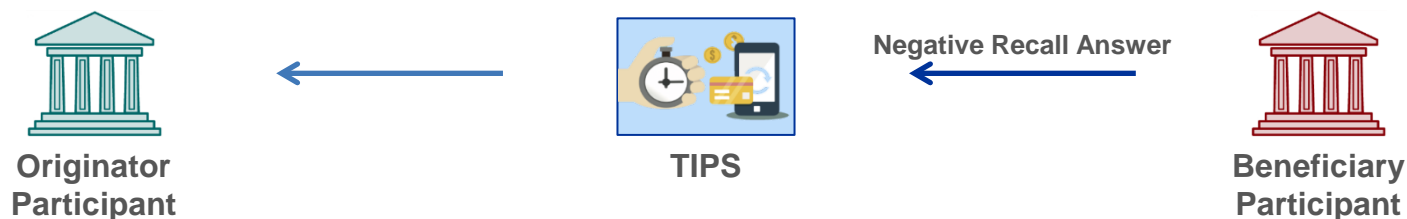
(7a) Recall



Process for recalls:

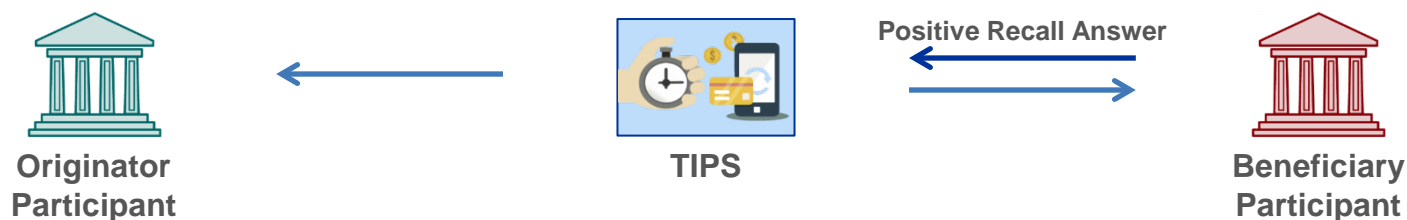
- TIPS forwards the recall to the Beneficiary Participant

(7b) Recall Answer



Process for **negative** recall answers

- TIPS forwards the negative recall answer to the Originator Participant

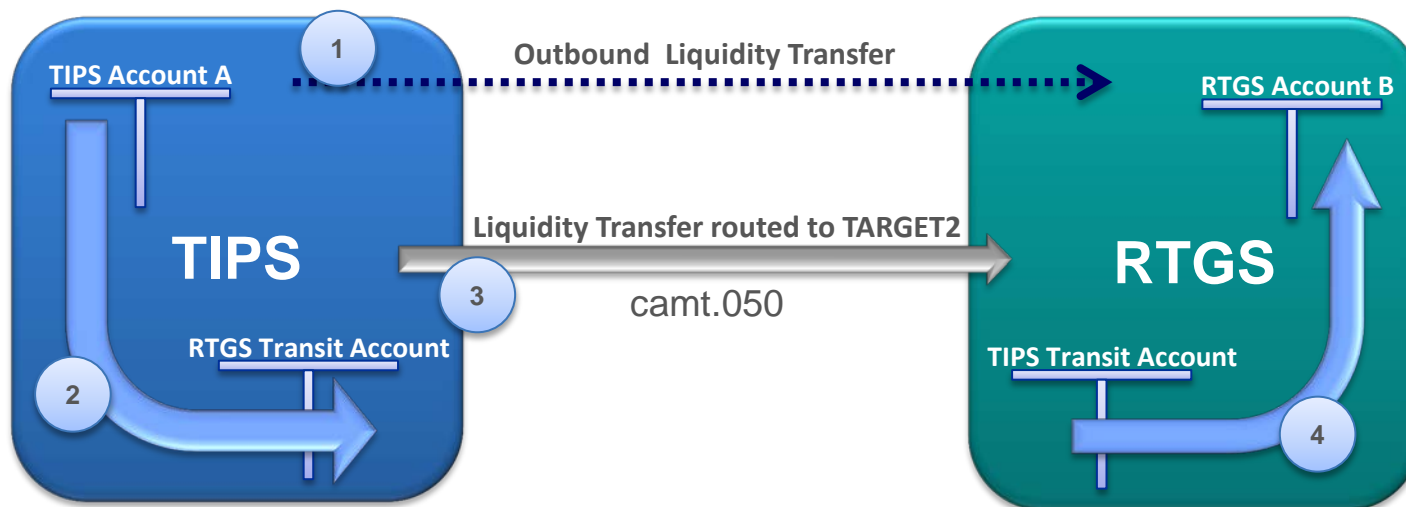


Process for **positive** recall answers:

- TIPS processes the positive recall answer by creating a new payment which reverses the original cash flow
- The new payment is settled directly (on the default accounts/CMBs), there is no reservation of funds
- In case settlement is successful both participants are informed

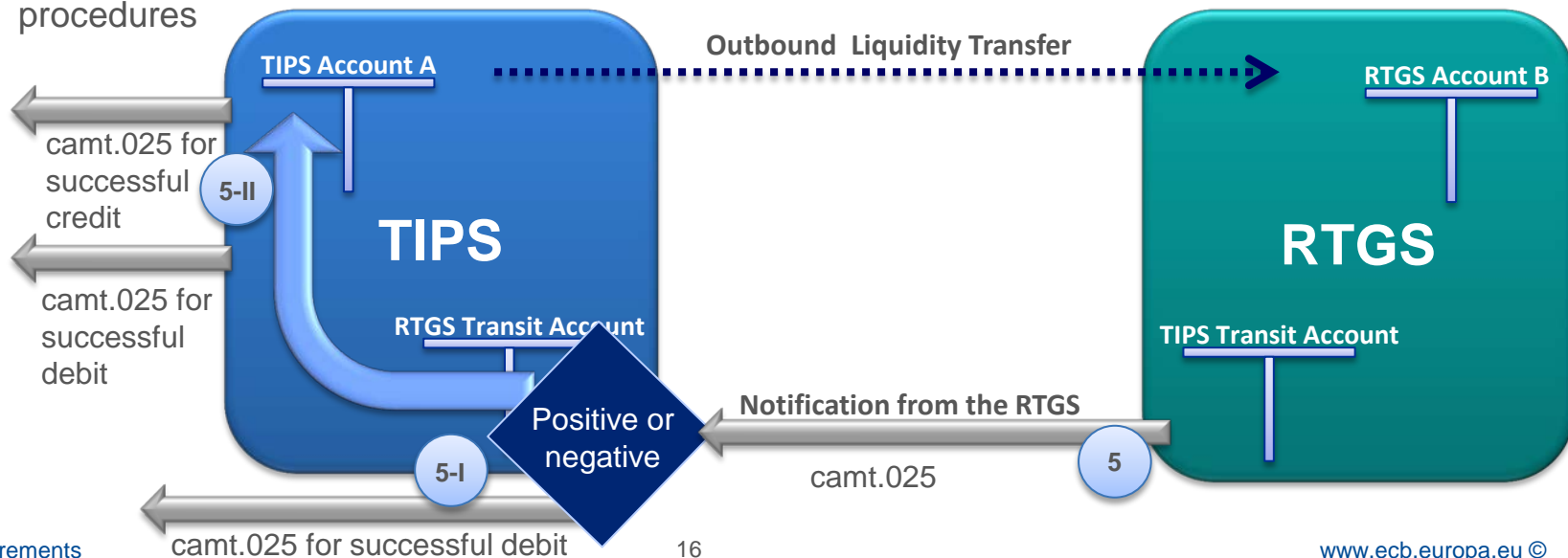
Outbound Liquidity Transfers (1/2)

- The **Outbound Liquidity Transfer** from TIPS to TARGET2 is executed based on the following steps:
 1. The liquidity transfer is initiated in TIPS
 2. The liquidity transfer is validated and settled in TIPS
 3. The liquidity transfer is routed to TARGET2
 4. The liquidity transfer is validated and settled (or rejected) in TARGET2



Outbound Liquidity Transfers (2/2)

- The **Outbound Liquidity Transfer** from TIPS to TARGET2 is executed based on the following steps (continue):
 5. Upon reception of the confirmation from TARGET2 , TIPS shall either
 - I. Send the debit notification to the originator (in case of successful settlement in the RTGS) or
 - II. transfer back the liquidity to the originator TIPS account (in case of rejection in the RTGS) and notify the originator participant both with a debit notification (for the original order) and a credit notification (for the automatic reverse)
 6. In case of no response from the RTGS for a configurable timeframe (e.g after 15 minutes), TIPS shall raise an alarm to inform the TIPS operator and to trigger the required operational procedures



List of Action Points (1/2)

#	Action Point	Status
1.01	Elaborate on the Principles and potential update the Principles.	Pending Closure
1.02	Draft the first set of URD (only the few proposals agreed to be ready).	Closed
1.03	Update existing/draft new proposals based on input received at the last meeting.	Closed
1.04	Provide a description of the service the Eurosystem would like to offer.	Closed
1.05	Consider any effects on the monetary policy and analyse how liquidity can be raised in TIPS.	Closed
1.06	Prepare a glossary.	Pending Closure
1.07	Consider types of messages, version number (with regards to ISO 20022) and the precise data that is needed for communication purposes.	Closed
1.09	Consider the need of a GUI and its placement (e.g. a separate GUI in TARGET2 or in the banks' own system), the opening hours of the GUI, what is the need outside office hours and functions that is needed in TIPS or TARGET2.	Closed
1.10	Consider what kind of limits are necessary in TIPS and what kind of limit checks could be done elsewhere.	Closed
1.11	Consider what is needed with regards to reporting (how often; for which purpose e.g. reconciliation etc.).	Closed
1.12	Consider if data extraction should be push or pull.	Closed
1.14	Consider if TIPS should provide non-repudiation.	Pending Closure

List of Action Points (2/2)

#	Action Point	Status
1.15	Consider if you have any input on other topics that need to be added to the list of proposals.	Closed
2.01	Consider what functionalities that are absolutely needed in a GUI.	Closed
2.02	With regards to detection of duplicated payment instructions, please consider the time constraints (should it e.g. be 72hours or 2 minutes?). The identification of the time window for duplicate check should also take into account the EPC timeout.	Closed
2.03	Consider how frequently the directory data should be made available for the participants and who should be responsible for the updates.	Pending Closure
2.04	Consider if direct access should be given to data older than 2 months. Please consider the needed time period. Also, please consider the use case of this data access.	Pending Closure
2.05	Consider if you have any input on other topics that need to be added to the list of proposals.	Closed
2.06	Consider how much time is needed for testing and also consider if there is a need for more than one test environment. Also, please consider if a pilot testing could be introduced where only a smaller number of participants are testing the core of the scope.	Closed
3.01	Please consider the need for a default approach	Open
3.02	Please provide comment on the URD presented to the market on the 9 January 2017.	Open