

OUTCOME

8th meeting of the Advisory Group on Market Infrastructures for Payments

Wednesday, 4 December 2019, 09.30 – 13.00, European Central Bank,
Sonnemannstrasse 20, 60314 Frankfurt am Main

1. Welcome and adoption of the agenda

Outcome:

The Chair welcomed the participants and informed them of recent changes in ECB representation with Ulrich Bindseil appointed as Director General for Market Infrastructure and Payments (DG-MIP) and the new chair of the AMI-Pay and the AMI-SeCo. Dimitri Pattyn was appointed as Deputy Director General in DG-MIP and Holger Neuhaus was appointed as Head of the Market Innovation and Integration Division.

The members agreed on the agenda.

2. Debriefing

AMI-Pay participants will be updated on relevant developments in the field of payments

Outcome:

The European Commission (EC) representative highlighted that the new EC official started its work on 1 December and that Vice-President Dombrovskis will continue to be responsible for financial services policy. He also provided an update on ongoing initiatives in the field of payments, covering the PSD2/RTS implementation by Member States also including the related work by the European Banking Authority (EBA) on strong customer authentication as well as the requirements on open banking (implementation of application programming interfaces, APIs, for the Payment Services Directive 2 requirements on access to payment accounts). He also highlighted the revised Cross-Border Payments Regulation (the scope of

which has been extended regarding the equality of charges) entering into force in December 2019 with additional transparency requirements applying on cost of currency conversion as of April 2020.

Furthermore, the ECB debriefed participants on the meeting of the European Forum for Innovation in Payments (EFIP) at the end of November which issued a call to all stakeholders to work towards pan-European reachability for instant payments as well as on the outcome of the Euro Retail Payments Board (ERPB) meeting¹ held on the same day where the ERPB (inter alia) encouraged P2P mobile payment solutions and proxy lookup service providers to join the SEPA mobile proxy look-up scheme, reiterated its call to the supply side of the payments industry to implement instant payments and ensure pan-European reach and welcomed the EPC's work to start the development of a request-to-pay scheme.

3. Feedback from SIBOS

Outcome:

Meeting participants shared their key take-aways from SIBOS 2019 where cross-border payments, migration of wholesale payments to ISO20022, innovative technologies and instant payments were in the focus. Participants noted that the proof of concept to perform SWIFT gpi instant payments in TIPS showed a business value in blending the traditional correspondent banking channels with instant infrastructures. It was highlighted that a different scheme from SCT^{inst} is needed for this and the ECB indicated that there is an on-going discussion within the TIPS community whether the new scheme should be closer to SCT^{inst} or to the way in which TARGET payments are processed. The promise of new technologies in making cross-border payments more efficient were also a highlight of the discussions. It was noted that AML-KYC requirements will continue to represent a challenge in this area.

4. Instant payments

4.1. Update on instant payments implementation

Outcome:

The ECB indicated that Eurosystem initiatives have significantly facilitated pan-European reachability, but it is also recognised that these have not been sufficient to ensure full reachability so far. The Eurosystem is now focusing on how to ensure pan-European reachability for euro instant payments, in alignment with the letter from the European Commission to the EPC, and will engage in a dialogue with the market on

¹ <https://www.ecb.europa.eu/paym/groups/erp/erp/html/index.en.html>

how to do so. Many participants highlighted key challenges in relation to the interoperability between clearing and settlement mechanisms (CSMs). It was highlighted that currently providing pan-European reach has a cost for payment service providers (PSPs) in terms of pre-funding requirements and the implied fragmentation of liquidity pools.

Meeting participants gave an overview of the key trends in implementing instant payments. Overall, participants recently experienced high growth rates in instant payment volumes. The dynamic take-up suggests that instant payments in euro have the potential to become the norm in the medium term. On the demand side it was noted that mobile-initiated payments are a key driver of volumes in many communities, while many corporate clients are requesting value-added services to be built on instant payments before considering to migrate their payments. There was a broad consensus that request-to-pay services have a great potential to generate additional demand.

Processing times were reported converging to levels significantly below the maximum level expected in SCT^{inst} scheme rules. In the meantime the ratio of R-transactions has significantly decreased recently which suggests that the overall quality of implementation of euro instant payments by PSPs and CSMs in Europe is high. Although fraud related to instant payments has not increased, several participants highlighted that they are actively working on prevention measures in order to prevent fraud from significantly affecting their instant payments products in the future.

4.2. Value dating - review of the application of the AMI-Pay non-binding market practice

Outcome:

Meeting participants confirmed that they have not encountered any issues in applying the AMI-Pay recommendation² with regards to value dating instant payment transactions. However, it was highlighted that the question of value dating instant payments between different time zones might arise and will need attention in the future when instant payments become even more common.

5. TARGET2

5.1. Update on TARGET2 operations

Document:

Presentation on TARGET2 operations

Outcome:

² https://www.ecb.europa.eu/paym/intro/governance/shared/pdf/Value_dating_SEPA_Instnt_Credit_Transfers_-_non-binding_AMI_-_Pay_market_best_practice.pdf

The ECB provided an update on T2 operations focusing on the developments of T2 volumes. There has been a slight decrease in the last 12 months in overall T2 volumes mostly stemming from lower customer payment volumes while interbank payment volumes have increased. The volume of ancillary system settlement has remained stable. Overall, the systems' cost recovery has progressed well.

5.2. End-point security

Document:

Presentation on end-point security for TARGET2 participants

Outcome:

The ECB presented how TARGET2 has reached a high level of compliance against the seven elements of the CPMI Strategy on reducing the risk of wholesale payments fraud related to endpoint security.

The two pillars for confirming TARGET2 participants' compliance against endpoint security are the i) TARGET2 self-certification arrangement and the ii) Network service provider's (SWIFT) Customer Security Programme. In terms of further increasing adherence against endpoint security, the ECB presented preliminary considerations relating to a Compliance Implementation Framework for TARGET2 participants building on i) active dialogue; ii) enhanced monitoring; iii) suspension and iv) termination of account. Furthermore, a penalty regime is also under consideration as a potential additional tool to provide incentives for compliance. The escalation framework would not be mechanically applied but the circumstances of the non-compliance would always be taken into account before any decisions on any of the envisaged steps. It was clarified that – if warranted – the escalation to / informing the banking supervisors is also a potential step.

Participants welcomed the recently introduced coordination among Eurosystem NCBs in carrying out the self-certification exercises. It was noted that further options to streamline or centralize the self-certification process could be considered in the case of pan-European banking groups.

5.3. Initial considerations on the T2 pricing policy

Document:

Presentation on initial considerations of the T2 pricing policy

Outcome:

The ECB presented the Eurosystem's initial considerations on the T2 pricing policy to be applied as of the go-live of the consolidated TARGET services. It was emphasized that the fee structure depends on the expected future volumes and hence adjustments are possible in case there is a significant deviation of volumes from those assumed at the finalisation of the pricing structure. Among the key considerations for

the future pricing policy it was highlighted that the CLM module (which is estimated to serve around 8 % of current TARGET2 volumes) would be free of charge, while the degressive tariff structure for the RTGS core pricing scheme may be complemented by “super-band(s)” that could result in lower-than-today transaction fees for participants with very high number of transactions. Furthermore, an upward adjustment of the fee applied to ancillary systems is under consideration, owing to the higher costs encountered by the Eurosystem to provide these specific services. Other than these adjustments the RTGS pricing under the consolidated TARGET services would follow today’s TARGET2 pricing structure. The objective is that T2/RTGS recovers its full costs (both development and operational) within a period of 10 years after the service’s go-live.

Participants welcomed the information and highlighted that for planning their accommodation of the new environment further details would be appreciated in due course on the fixed costs envisaged for DCAs and MCAs as well as on the envisaged pricing of confirmation messages. Furthermore some participants noted that they would welcome further information on the estimated overall RTGS costs to be recovered as well as the magnitude of the expected changes of ancillary system settlement prices. It is expected that more concrete information on the T2 pricing would be provided at the occasion of the next AMI-Pay meeting, in May 2020.

6. Any other business

Outcome:

One participant highlighted that:

- a) Existing national legal / regulatory requirements that in some cases prevent centralisation of TARGET2 payments by banking groups active in multiple jurisdictions should be further analysed with the aim to eventually overcome them if possible; and
- b) further coordination would be welcome on the interpretation of reporting requirements on community readiness for T2-T2S consolidation due to potentially differing existing interpretation among communities of such requirements