Cross-currency settlement based on TIPS platform

Foreign Exchange Contact Group (FXCG)

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TIPS is on-boarding the Swedish community with go-live date 23 May 2022. This paved the way for an investigation on the possibility to settle cross-currency instant payments in TIPS.

The Governing Council of the ECB in June 2021 expressed the opinion that such investigation should continue as it is in line with the Eurosystem’s strategic objectives.

Work on cross-currency instant payments in TIPS moves forward

23 June 2021

The European Central Bank (ECB) and Sveriges Riksbank continue investigating how TARGET Instant Payment Settlement (TIPS) could support the settlement of instant payments between the euro and the Swedish krona.

Work to enable a cross-currency capability in TIPS began in October 2020, when the ECB and Sveriges Riksbank announced their collaboration to explore whether the platform could process transactions between the euro and the Swedish krona. The next step in the investigation is to define the operational model and legal set-up of a potential cross-currency settlement feature in TIPS.

The Governing Council of the ECB believes that the investigation of a cross-currency settlement functionality in TIPS should continue as it is in line with the Eurosystem’s strategic objectives. Improving cross-border payments beyond the European Union is a key goal of the Eurosystem’s retail payment strategy to better support European businesses and individuals who make and receive payments overseas. Currently, consumers and businesses face high costs of sending or receiving payments to or from a country outside of the euro area. Central banks around the world are exploring initiatives to make cross-border payments more accessible to the end user. The cross-currency investigation in TIPS contributes to this effort and deepens the understanding of the practical challenges to be addressed when implementing cross-border payment initiatives.
ECB: exploring cross-currency payments in TIPS

ECB, Sveriges Riksbank and Banca d’Italia investigate how TIPS can support cross-currency payments between euro and Swedish krona.

The investigation explores the operational model, the legal set-up and the economic viability of a potential cross-currency settlement feature in TIPS.

This investigation assumes more relevance in consideration of the fact that the Danish and the Norwegian central banks have meanwhile expressed their readiness to engage in formal discussions with the Eurosystem for possibly joining TIPS.
Key Benefits

- Support the market in promoting a deeper level of cooperation also with non-euro central banks
- Increase efficiency and competition in Europe
- Reduce the degree of fragmentation in the cross-currency payments landscape
- Provide European innovation under European governance
- Strengthen the international role of the euro
Lifecycle of a cross-currency payment: from currency trading to settlement

TIPS will be enhanced with technical/functional changes that can be categorised into different layers.

How the exchange rate is defined prior to introduce it into TIPS. As part of this layer, it could be implemented a **Central Exchange Hub (CEH)** in which the PSPs can select the preferred FX rates.

How the currency conversion rate is introduced into TIPS.

How the movement of funds is executed in TIPS.
The CEH would be an optional feature to enable TIPS/RIX-INST Participants retrieving from a central repository the best exchange rate amongst the ones made available by different Cross-Currency PSPs.
Currency conversion layer: dynamic exchange rate (DER) model

The DER model calculates the conversion rate to be applied for a given cross-currency payment based on an *exchange rate dynamically identified* for each cross-currency payment, before the settlement process takes place.

1. The exchange rate to be applied is identified *before settlement takes place* (and this may be done via the CEH or by means of bilateral exchanges between PSPs);

2. On this basis, the *implementation* of the DER model appears *not to require any additional features* on top of the LT settlement model (and the optional CEH).

At settlement time, the selected exchange rate is *included* in the original payment message and *used by the Cross-Currency PSP to determine the amount* of the second leg of the payment (based on the amount of the first leg).
The settlement layer: linked Transactions model

The LT model revolves around the concept of Cross-Currency PSP of the two legs of a cross-currency payment.
Way forward

A comprehensive package will be brought to the attention of the Governing Council in September 2022 for a decision on whether to implement a cross-currency functionality in TIPS in view of TIPS Release 6.0 (November 2023)
Questions to the Group

1. Would the Group see an alternative to the Central Exchange Hub?

2. Should different exchange rates be envisaged according to the value of the transactions?

3. Would there be an interest of the market in a “regional” solution including only the currencies present on the TIPS platform?