

Industry Perspective on Emerging Liquidity Risks in Instant Payments

An Industry & ECB Roundtable Discussion

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1 Instant Payments Regulation: A Paradigm Shift

Recap of the Main Regulatory Developments

2017
Launch of the Instant SEPA Scheme (SCT INST V1)



1

2020-2021
Market consultations – impact assessment



2024 Mandatory adoption of the European regulation (n°2024/886 of 13 March 2024)

3

2025-2027
Implementation of the IPR
October 2025
Generalization within the euro area



4

After 2027
Towards a new standard ?



Before the IPR:
Optional participation
→ Gradual uptake

Under the IPR:
Mandatory reachability
→ All PSPs in the EEA are within scope

Why This is a Turning Point:

- **Systemic Reach:** Universal participation becomes a regulatory requirement
- **Operational Complexity:** New technical standards and compliance obligations
- **Business Impact:** Mandated pricing parity, no amount cap, new use cases
- **Liquidity Challenges:** 24/7 sourcing and stress management

Instant Payments Regulation: Implementation Outlook

Expected Developments and Key Considerations



Facts

- IPR to gradually substitute regular SEPA Credit Transfers from 2025, with a significant rise in instant payment volumes
- Client pricing aligned with SEPA SCT since January 2025
- Removal of the EUR 100K limit from Oct 2025; new technical cap set at EUR 1 billion minus 1 cent
 - Absence of a harmonized market framework for internal limits may lead to large-value instant payments (IP), depending on client demand and bank's risk appetite
- Clients entitled to set individual limits under the new EU regulation
- IP service must be offered to all clients automatically, if the client is offered the service of regular credit transfers.



Impacts

- Increased IP adoption heighten exposure to liquidity, operational, and cyber risks – particularly outside market hours
- Complexities in liquidity allocations DCA T2, DCA TIPS, and IPS settlement layers (e.g. RT1, STET)
- Need for active monitoring and governance of IP flows

Emerging questions

- Should liquidity in DCA TIPS be treated as a dedicated buffer for instant payments?
- Does the Eurosystem liquidity framework require adaptation (e.g. MRR, DCA remuneration, RTGS operating hours)?
- Banks may need to revise liquidity risk models to reflect faster outflows under stress in order to comply with Article 5(6) of the BRRD, which requires that recovery plans “contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the institution’s specific conditions, including system-wide events and stress specific to individual legal persons and to groups.” Article 86 of the CRD includes several requirements related to liquidity risk management (including intraday liquidity)
- Possible implications for LCR and broader regulatory ratios

Remuneration of MCA and DCA

Addressing Liquidity Frictions and Operational Challenges

Proposal

- **Remunerate excess reserves**—those held above the minimum reserve requirements—in **MCA and DCA accounts at the Deposit Facility Rate** (for those PSP's which are counterparties to the monetary policy).
- Maintain the Deposit Facility in its current form as a core monetary policy instrument, preserving the existing structure to ensure continuity and predictability in policy implementation.

Rational

- **Reduce Operational Complexity:** Automating reserve calculation and remuneration across MCA and DCAs streamlines end-of-day processes and reduces time-critical risks.
- **Enhance Liquidity Stability:** Introducing remuneration on TIPS DCAs enables higher pre-funding, ensuring uninterrupted 24/7 payment execution.
- **Mitigate Systemic Risk:** Minimizing temporary liquidity withdrawals from TIPS DCAs reduces exposure to T2 disruptions and operational spillovers.
- **Align Incentives:** Eliminating remuneration asymmetries across infrastructures removes disincentives and supports balanced liquidity allocation.

ECB Feed-back

- **Policy Scope:** This is a monetary policy issue, impacting policy instruments and the overall framework. It extends beyond the scope of payment systems.
- **Implementation Feasibility:** From a payment systems perspective, any change to the calculation and implementation of current account remuneration—subject to Governing Council approval—can be executed without significant lead time.
- **Technical Readiness:** Two-tier remuneration functionality is already in place on ECB accounts, as previously applied during the negative interest rate period.

24/7 Access to Central Bank Liquidity: The Case for a Liquidity Bridge

Bridging Gaps to Enable Continuous Settlement and Market Confidence



Problem Statement

- Without sufficient pre-funding on TIPS DCAs, payment execution may be interrupted – even when liquidity is available in MCAs or via pre-pledged collateral
- This can create reputational risk and disrupt the smooth functioning of instant payments
- The current ECMS setup does not provide 24/7/365 access to central bank liquidity, preventing banks from mobilizing existing collateral or cash buffers outside the standard operating hours
- This constraint contributes to fragmentation in liquidity management and limits flexibility in managing unexpected payment needs
- A Eurosystem consultation on 24/7 is expected to begin in May 2025, but implementation is unlikely before 2027

- **A collateral-backed liquidity bridge** can ease current access limitations, allowing banks to use existing buffers outside business hours and support uninterrupted instant payments ahead of full 24/7 Central Bank access



Potential Solution

- As a tactical interim solution, national Central Banks could offer liquidity bridge mechanism
- Pre-pledged securities could be used to provide credit lines during overnight hours or weekends, allowing banks to overdraw on their TIPS accounts within the limits of the pledged collateral
- These temporary overdrafts would be covered once Central Bank operations resume on Monday morning, when the MCA is funded

24/7 Access to Central Bank Liquidity: The Case for a Liquidity Bridge

Bridging Gaps to Enable Continuous Settlement and Market Confidence



Currently available solution

- **Proposal:** tap Intraday credit line after 7.30pm CET to raise cash overnight/ weekend/ TARGET holidays and fund TIPS
- **Pro:** ability to raise cash with existing arrangements
- **Contra:** need to determine the exact amount on Friday to cover the entire weekend, operational and reputational risk if collateral is not returned by 6pm CET on the next Business Day (automatically seen as using MLF). This solution involves manual operations that are not sustainable in the long term, as they entail significant operational, reputational, and financial risks in the event of any issue arising from manual intervention. This is what we have, not what the industry needs.



Potential medium-term solution

- **Proposal:** Liquidity management window over the weekend/ TARGET holiday, e.g., 90min on Sat, Sun or TARGET holiday
- **Pro:** at least a short time window to get TIPS funded on Target closing days (Weekends, Bank holidays).
- **Contra:** any unforeseen spikes outside the window could not get funded and only Central Bank operations available and operational/ organizational impact within banks and with the ECB to support this opening



Potential long-term solution

- **Proposal:** extended working hour in T2 with fully-fledged 24/7/365 for all the services.
- **Pro:** dependent on the outcome of the consultation and adaptability of the markets (e.g., constant/ instant access at every time with expectation that interbank markets also fully functioning, i.e., also market access)
- **Contra:** also dependent on the outcome of the consultation and adaptability of the markets (i.e., expectation of an evolving process over time with potentially increased costs for the industry and ramifications on pricing/ liquidity/ payments over the weekend vs. staggered development over time towards more efficient markets)

Day Count Convention for Interest Calculation

Addressing Valuation Misalignment in a 24/7 Instant Payment World



Problem Statement

– Asymmetric Value Dating:

- Banks must apply calendar-day value dating to customers, per regulatory standards
- T2, however, follows monetary policy days, with value date switching at 18:00 CET (e.g. Friday 18:00 CET → value date Monday)
- This creates a systemic mismatch between T2 accounting and customer-facing Instant Payments, especially between 18:00 – 24:00 CET and on T2 closing days
- Cross-time-zone IPs introduce further complexity

– Structural Funding Risk:

- This mismatch results in funding gains/losses – net receivers lose value, net senders benefit
- While market-neutral, it causes material economic impact at the individual PSP level
- The issue, currently seen in IP, will intensify with IPR and may extend to all future 24/7 retail instruments
- The remuneration mismatch in Instant Payments is a structural issue. A **short-term recalibration offers immediate relief**, while a long-term infrastructure alignment is essential for a consistent 24/7 financial system



Potential Solution

Short-term Solution – Interest Recalculation (Interim Measure):

- A centralized interest calculation method could neutralize the remuneration mismatch from Instant Payments processed outside the T2 hours
- Based on DCA balance snapshots at 18:00 CET (T2 value date switch) and net IP flows up to 24:00 CET (calendar day switch)
- Offers a targeted and feasible interim solution, requiring further analysis on assumptions, technical implementations, and governance

ECB Response:

- Calculation rather complex with high nr of participants and Liquidity transfer correction.
- ECB has no legal mandate, can't oblige all participants to participate
- Requirement to align interest renumeration cross all accounts not in line with applied renumeration policy set.

– Long-term Solution – Aligning Infrastructure to 24/7 Realities:

- Structural reform of T2 settlement cycles could eliminate the root cause of the mismatch
- Supports broader shifts towards 24/7 financial activity, including the digital euro
- Complex to implement and likely requires years; not suitable for immediate resolution

Day Count Convention for Interest Calculation

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Potential short-term solution Adjusted as per ECB response

- **Proposal:** Ensure monthly reporting and calculation cycle to understand the build up of the valuation mismatch
- **Pro:** Build up expertise and experience with reporting and calculation and ability to understand the build up of the problem in reality
- **Contra:** Will not provide a solution to redistribute the unintended P&L Effect



Potential medium-term solution

- **Proposal:** Depending the learning curve in the reporting and calculation an alternative solution can be considered.
- **Pro:** Will provide insight in possible solution to align with long term solution
- **Contra:** TBD



Potential long-term solution

- **Proposal:** Incorporate the solution in the approach to T2 adjustments to align with extended working hours
- **Pro:** Will provide a basis for other 24x7 developments like CBDC or extension of opening hours for other services.
- **Contra:** Potential delay in solving the problem could result in a P&L mismatch for some years



Problem Statement

- The IPR introduces new dynamics for liquidity and operational risk, especially under market or system stress, and pro-cyclicality is more pronounced outside T2 operating hours, on week-ends, closed days and during the night
- 3 stress scenarios were discussed: cyberattack, IT issues, bank-run
- These scenarios, provoking potentially fast and massive outflows, could put at risk banks' liquidity and spread across the Eurozone
- Such issues, whenever occurring, can be spotted at different levels: in the current setup of the Euro system, each National Central Bank monitors the accounts of its national banks. But some technical indicators are centralized at the ECB (e.g. at TIPS platform level) and followed in a consolidated manner, like Through-Put ratios or processing time of payments, which may open the door for a centralized management of Instant Payments situations globally, at the Eurozone level
- **To uphold financial stability and operational continuity** in a 24/7 environment and therefore put in place a “Cool Down Mechanism”, ahead of any further practical discussions on a new operational framework, the ECB must first ensure that any decision to limit or stop IP payments is well compliant not only with IPR, but also with other EU legislation, such as PSD2, BBRD, SRMR, CRD and SFD would have to be ensured, depending on the time at which the action is taken (going concern or the situation of failing or likely fail). Discussions are currently held on this topic by the ECB with the European Commission and will clarify whether IPR would need to be amended to include such new features or whether these could be put in place without any change to the Instant Payments Regulation.



Potential Solutions

- To enhance resilience, a new operational framework could incorporate a pre-defined, rule-based “cool down” mechanism, activated at the individual bank level or for the whole Euro zone, which would automatically either slow or stop IP payments
- A centralized “Control Tower” at the ECB could take control and manage the situation, as a complementary measure to the contingency and business continuity plans already defined and tested by the entities.
- Currently, NCBs or ECB already have the following possible actions, that could be included in an operational model:
 - ✓ At any moment, a NCB can freeze an account either for debits or credits, or both, in a few minutes only. The freeze can be either complete or partial: it is possible to leave some of the liquidity available on the account
 - ✓ There is the possibility to take part of the liquidity out of the account to protect it
 - ✓ In case of insolvency, the actions mentioned above can also be taken
- Setting limits for individual payments, as suggested by banks, would require a new feature that does not exist yet at this stage, but would be very efficient to limit risks while enabling retail payments