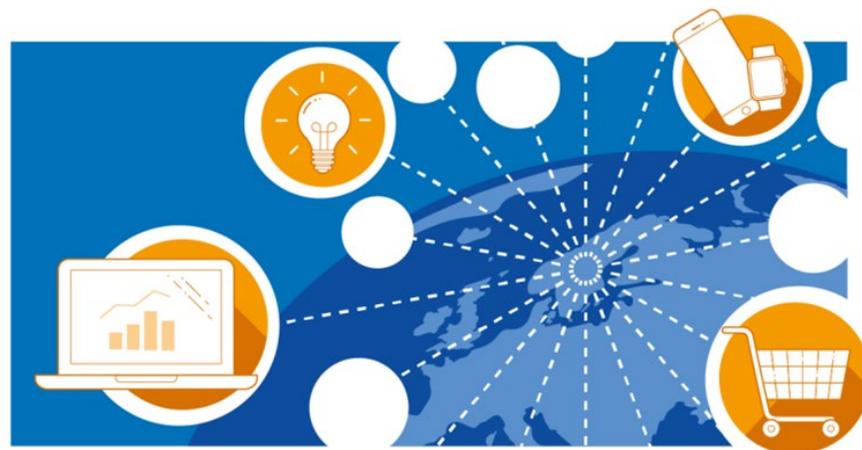


Cross-Currency Settlement of Instant Payments in a Multi-Currency Clearing and Settlement Mechanism



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Globalisation and digitalisation

- New actors
- New services
- New technical solutions
- Increasing cross-border activities
- International trade and investment
- Individuals working, travelling and studying abroad

An increasing demand for convenient, reliable and cheap cross-border and cross-currency payments

Cross-border payments in euro works smoothly but...

For cross-currency payments:

- Correspondent banking
- International card schemes
- Closed-loop systems

Often slow, opaque
and expensive
Based on commercial
bank money

Opening up for global initiatives creating separate
payment eco-systems

G20 initiative to enhance cross-border payments

A road-map presented in October 2020

- Five focus areas to achieve practical improvements
- 19 building blocks listing activities to promote cross-border payments

Future of Payments –
Building block 17, 18 and 19
Chaired by Cecilia Skingsley

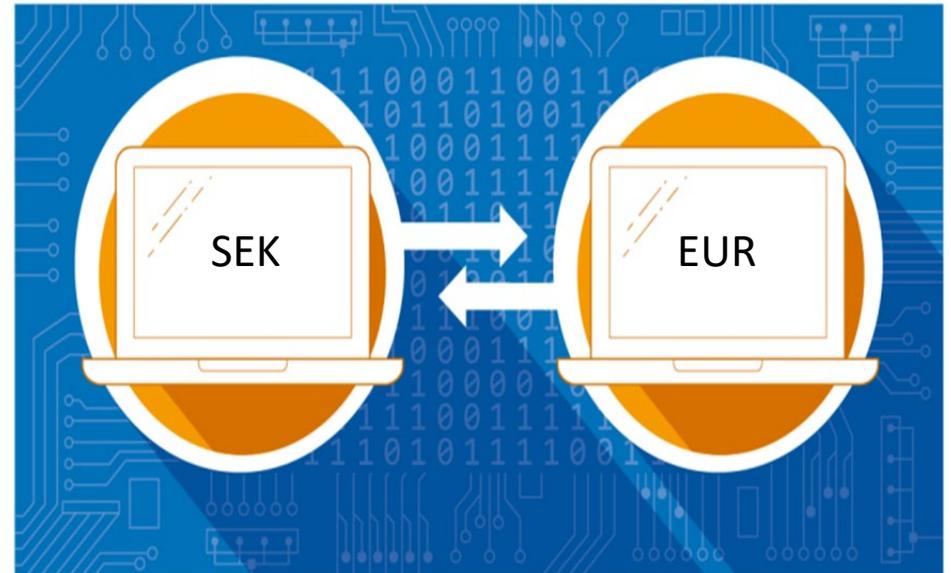
Building block 17 – exploring the potential that new multilateral cross-border payment platforms and arrangements could potentially offer to improve cross-border payments

Promoting cross-border and cross-currency payments is high on the agenda of the EU and ECB

- Enhancing the efficiency of cross-currency payments
- Increasing competition by providing an alternative to already existing solutions
- A solution based on TIPS - providing settlement in central bank money
- Strengthening the international role of the euro

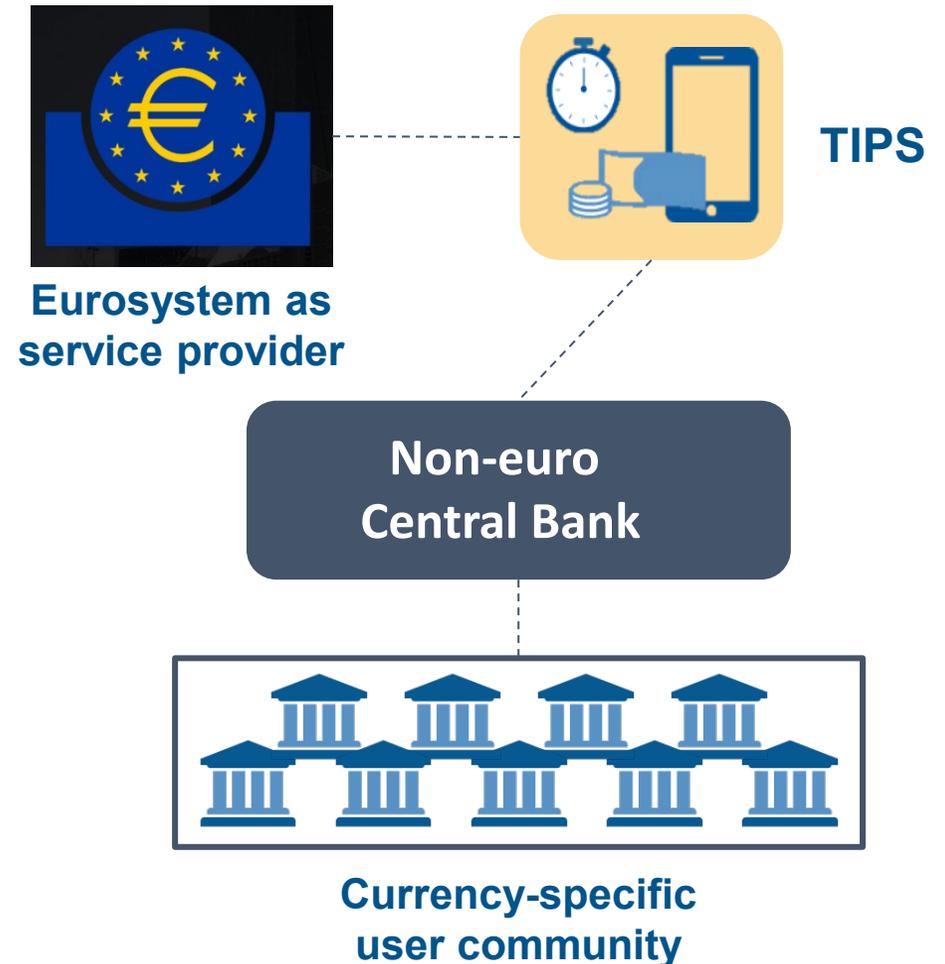
A cross-currency instant solution based on TIPS

- An European solution under European governance
- In line with efforts at both global and European level
- Has potential for additional currencies, possibly also non-EU currencies



TIPS as a multi-currency platform: Introduction

- TIPS was developed ab initio with a **multi-currency capability** being one of its **founding principles**.
- As to the **set-up**, the Eurosystem provides TIPS as an instant payment service to the non-euro Central Bank, which only allows mono-currency settlement.
- The **non-euro Central Bank** offers the service to its banking community and all banks would keep their legal relationship **exclusively** with their Central Bank.
- Non-euro Central Banks maintain **full control over their currency** and **jointly decide** on TIPS future evolution with the Eurosystem.



TIPS as a multi-currency platform: A common capability of TARGET services

- The fact that TIPS is technically capable to settle in **other currencies** than the euro is in line with the **approach already taken for T2S in the past**, and for the next generation of our **RTGS 'T2' in the future**.
- The **Eurosystem Retail Payment Strategy** has also endorsed an analysis on the possibility to enrich the TARGET services with a functionality allowing the “interlinkage of the services in euro and in other currencies on the platform”.
- This signals a **new bridge between the euro area and the non-euro countries** constituting an important contribution to the construction of Europe.



Multi-currency
technical capability

TIPS as a multi-currency platform: Eurosystem rationale for extending the original concept to include a cross-currency functionality



Supporting the market in promoting a deeper level of **cooperation** also with non-euro central banks



Increasing **efficiency** and **competition** in Europe



Reducing the degree of **fragmentation** in the payments landscape



Providing European **innovation** under **European governance**



Strengthening the **international role** of the euro

Preliminary legal assessment of cross-currency instant payments

Would the development of a cross-currency payments functionality in **TIPS** be consistent with the current legal **parameters** as determined when the service was launched?



At a first analysis **no showstopper** of any kind was identified. However, the inclusion of a cross-currency settlement functionality in TIPS would amount to a qualitatively new functionality.

What **adjustments or additions to the TIPS legal and contractual framework** would be required when opting for a cross-currency payments functionality?



Since the operational model supporting a cross-currency instant payments functionality in TIPS has yet to be decided upon, **no definitive account of the necessary adaptations** to the TIPS legal and contractual framework is possible at the current point in time.

Preliminary legal assessment of cross-currency instant payments (continued)

What **legal risks** arising from the development and operation of a cross-currency payments functionality in TIPS, and what **legal constraints can be already identified** when developing such a functionality?

- I. A number of new risks might materialise **depending on the operational setup**. For this reason an ad-hoc analysis from a legal perspective needs to be conducted once the detailed analysis of the operational model has been finalised.
- II. A **group of lawyers** from the Riksbank, ECB and Banca d'Italia started **assessing the possible solutions** identified by the technical work stream.
- III. A new **legal framework** supporting a cross-currency functionality in TIPS will need to be worked out also in line with **SIPS Regulation** requirements.



Way forward of the cross-currency dossier at the ECB (1/2)

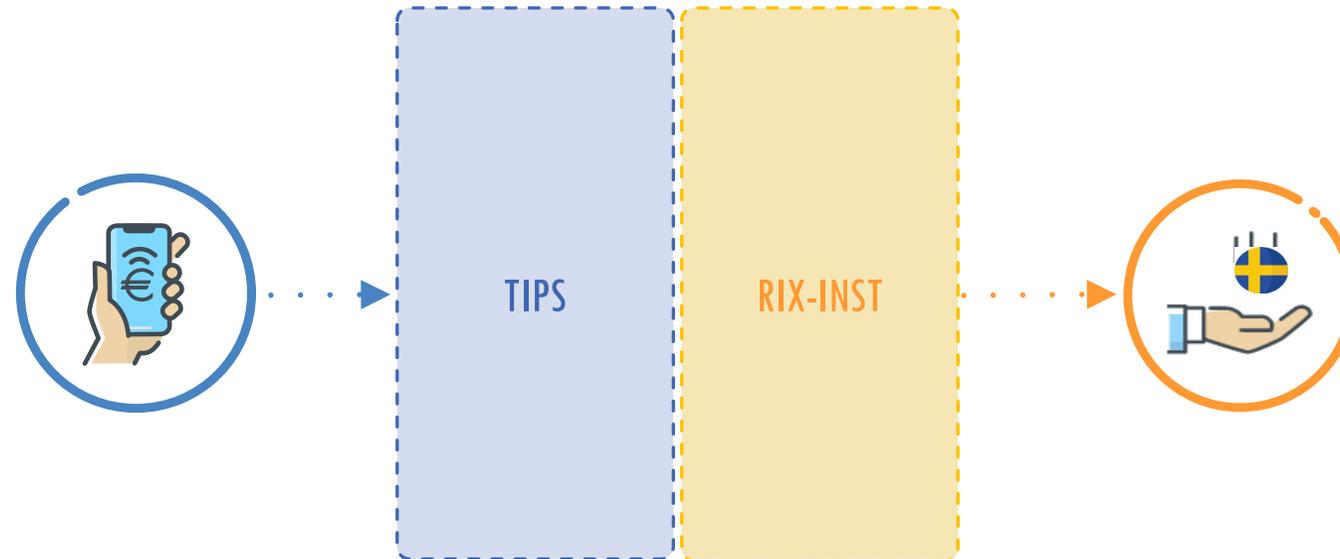
- In June 2021, the ECB's Governing Council decided that such functionality is indeed **in line with the strategic objectives of the Eurosystem**. **Sveriges Riksbank decided to continue** with the same investigations as well. The joint ECB, Riksbank and Banca d'Italia team is designing **the operational aspects of the service**.
- The related **Eurosystem cost-benefit assessment** shall go beyond the cross-currency payments between euro and Swedish Krona and include the **increased attractiveness of the platform** once the new feature is fully implemented in TIPS.
- A **market survey** will be conducted on the cross-currency dossier.

Way forward of the cross-currency dossier at the ECB (2/2)

- ECB/4CB and Riksbank are expected to present the **report on implementing the cross-currency settlement in TIPS** to MIB for approval in the course of 2022.
- The Decision Making Bodies of the Riksbank and the Eurosystem will need to be approached to approve **(i) the operational model/legal assessment**, and **(ii) the necessary changes to the legal and contractual framework**.

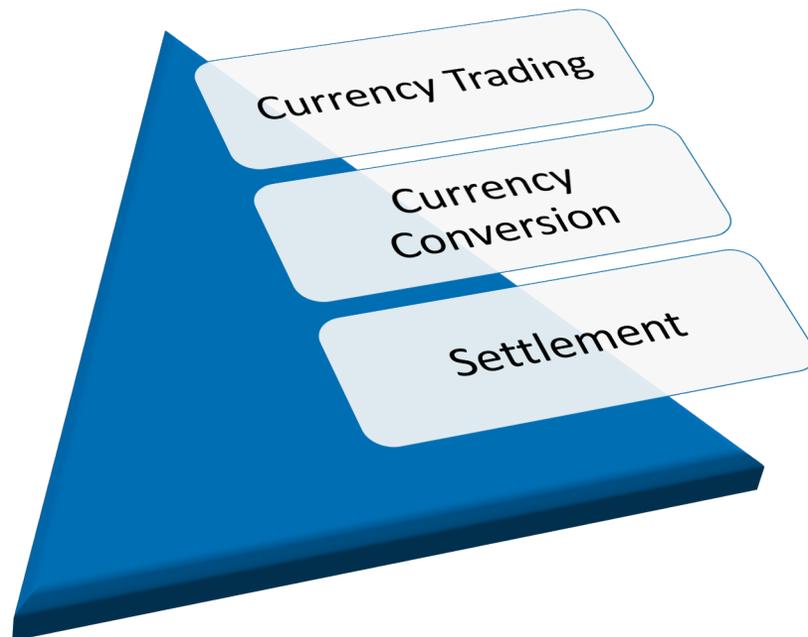
- **What do we want to achieve?**

- A cross-currency instant payment settlement service, wherein the accounts of the originator and the beneficiary are denominated in different currencies (eligible for settlement on the TIPS platform).



- **What do we need to look at?**

- Three nested layers according to which the processing of a cross-currency payment may take place on the TIPS platform.

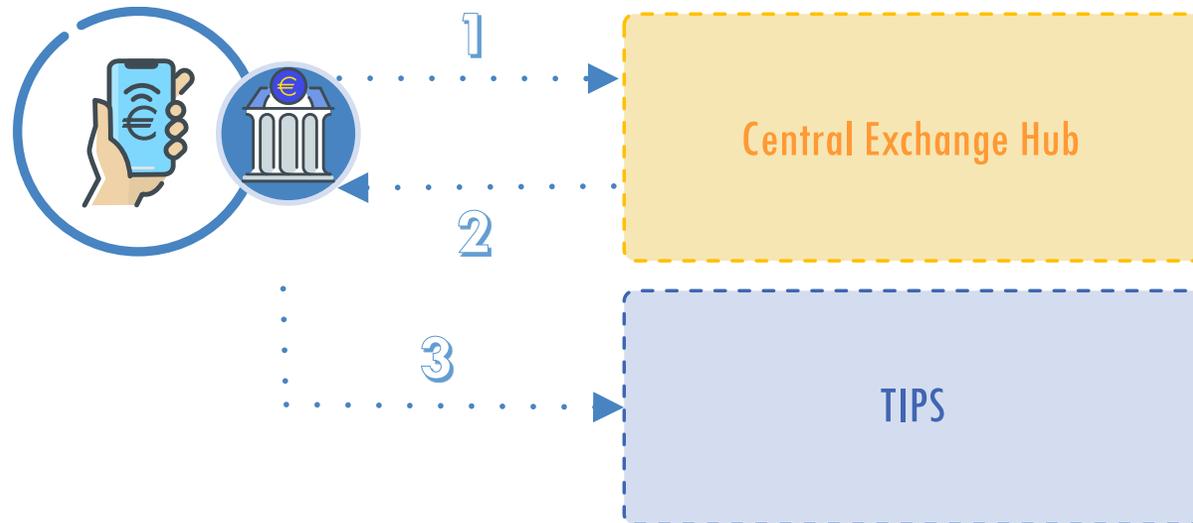


- **Currency trading:** this layer relates to the determination of the currency conversion rate for a given cross-currency payment, prior to its settlement.
- **Currency conversion:** it concerns the way a previously identified currency conversion rate is used during the settlement of a cross-currency payment.
- **Settlement:** this layer deals with the actual transactions/movement of funds between the debited and the credited accounts in a cross-currency payment.

- **How do we find the optimal solution?**
 - For each processing layer, the *Service Value* of a given model stems from a combined assessment along six different dimensions of analysis.

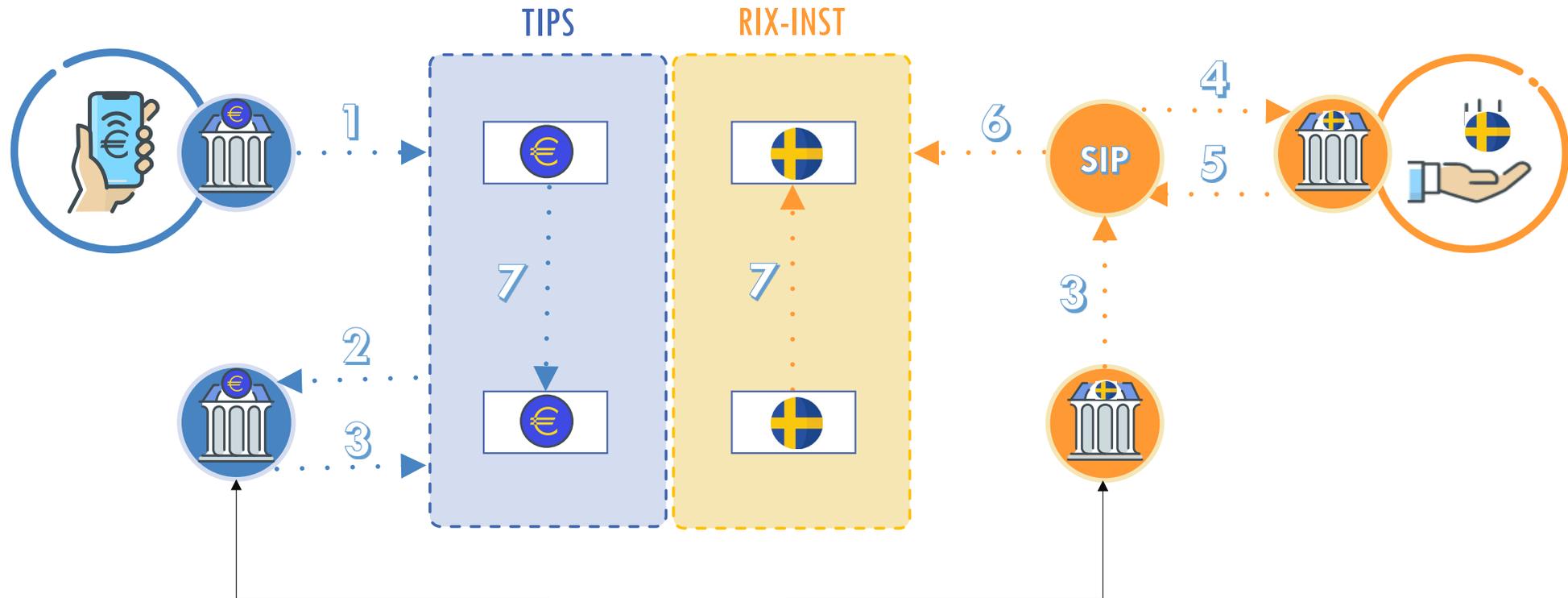


- **Focus on the Currency Trading layer: the Central Exchange Hub**
 - The Central Exchange Hub would be an optional feature to enable TIPS/RIX-INST participants retrieving from a central repository the best exchange rate amongst the ones made available by different Cross-Currency PSPs.



- **Focus on the Settlement layer: the Linked Transactions model**

- The Linked Transactions model revolves around the concept of *Cross-Currency PSP* and the synchronous settlement of the two legs of a cross-currency payment.





Many thanks for your attention