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European Central Bank

TARGET Instant Payment Settlement Connectivity Workshop

TIPS Explained

Rome, 5 July 2017
Principles: Foundation of the service

- Same participation criteria as for TARGET2
- Instant payment settlement in central bank money
- Operated on full cost recovery
- Support compliance with SCT Inst scheme
- Multi-currency technical capability
- 24/7/365 operating hours
Additional principles

- Technical solution for instant payment settlement services
- Offers final and irrevocable settlement
- Participation in TIPS is not mandatory

- Developed and operated by the Eurosystem
- Lean, harmonised and standardised pan-European service
TIPS as extension of TARGET2

- TIPS has been designed as an extension of TARGET2
- TIPS will extend access to central bank money up to 24/7/365
- TARGET2 participants will also be able to open TIPS accounts for the settlement of instant payments
- The balance held on TIPS accounts will be included in the calculation of the Minimum Reserve requirement on the basis of a “snapshot” triggered at the TARGET2 End-of-Day
- TARGET2 Guidelines will be amended in order to cover the participation in TIPS
Co-existence of payment services

Access to RTGS services

PSPs

Support for instant payments through **instant clearing**

PSPs

ACHs

Settlement backed by CeBM

ASI6

TARGET2

Support for instant payments through **instant settlement**

PSPs

ACHs

TIPS

Funding  Defunding

TARGET2

TARGET2
Integrated TARGET services

TARGET2 Participants

Network Services

TARGET2

- Communication management
- Settlement in Central Bank Money
- Value added RTGS services

TIPS

- Communication management
- Settlement in Central Bank Money
- Value added RTGS services
TIPS Explained

Market involvement in the past

• The Eurosystem decided in September 2016 to launch the investigation phase to assess the market needs for the service
• Task Force on Settlement of Instant Payments
• Market consultations on the User Requirements Document for TIPS and Volume Expectations (closed 24/02/2017)
• TIPS on Tour to present the service to European market representatives
Market involvement in the future

• A TIPS Contact Group will be set up as a technical group
• Its objectives are to provide the MIB with information and advice on
  – planning
  – user testing
  – change management
  – release management
### TIPS Explained

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#### Investigation phase
- **January ’17**
  - Submission of first draft *User Requirements Document* (URD)
- **January – February ’17**
  - 7 weeks of Market consultation on the URD
- **June ’17**
  - Decision to develop the service

#### Realisation phase
- **July ’17**
  - Start of realisation phase
- **May – June ’18**
  - Start of Eurosystem internal system testing
- **August – September ’18**
  - Start of pilot testing involving users
- **November ’18**
  - Go-live
TARGET Instant Payment Settlement Connectivity Workshop

Contractual Framework
Actors in TIPS

- Same participation rules applied in TARGET2 (i.e. eligibility for accessing Central Bank Money) are also valid in TIPS

- **TIPS Participant**
  - Hold one or many TIPS accounts to transmit/receive instant payments

- **Reachable Party**
  - Settle instant payments on a participant’s TIPS account

- **Instructing Party**
  - Instruct on behalf of the TIPS Participant or the Reachable Party
Contractual Framework

Contractual agreements framework (1/5)

**TARGET Instant Payment Settlement (TIPS)**

- **TIPS Participant (TP)**
  - TP <-> Eurosystem Agreement to hold TIPS accounts
  - TP <-> NSP Agreement

- **Instructing Party (IP)**
  - NSP A
  - NSP B
  - NSP C

- **Reachable Party (RP)**
  - NSP A has to be sponsored by the TIPS Participant

CBs
Contractual agreements framework (2/5)

- **TIPS Participant (TP)**
  - TP → EUROsystem Agreement to hold TIPS accounts
  - TP → NSP Agreement

- **Reachable Party (RP)**
  - RP → NSP Agreement (only if a RP is instructing directly)
  - TP → RP Agreement to use a TIPS account/CMB

- **Instructing Party (IP)**

- **TARGET Instant Payment Settlement (TIPS)**

**Participants:**
- **CBs**
- **NSP A**
- **NSP B**
- **NSP C**
Contractual agreements framework (3/5)

**TIPS Participant (TP)**
- TP ↔ Eurosystem Agreement to hold TIPS accounts
- TP ↔ NSP Agreement
- TP ↔ RP Agreement to use a TIPS account/CMB
- TP ↔ IP Agreement

**Reachable Party (RP)**
- RP ↔ NSP Agreement
- Agreement could be with a different NSP

**Instructing Party (IP)**
- IP ↔ NSP Agreement
- RP ↔ NSP Agreement

**NSP A**

**NSP B**

**NSP C**
- NSP C has to be sponsored by a TIPS Participant

**TARGET Instant Payment Settlement (TIPS)**
Contractual agreements framework (4/5)

- **TIPS Participant (TP):** TP→RP Agreement to instruct on behalf of TIPS Participant (TP).
- **Reachable Party (RP):** TP→RP Agreement to use a TIPS account/CMB.
- **Instructing Party (IP):** IP→RP Agreement to instruct on behalf.

**Contractual Framework:***

- **TARGET Instant Payment Settlement (TIPS):**
  - TP→Europystem Agreement to hold TIPS accounts.
  - TP→NSP Agreement.
  - IP→NSP Agreement.
  - CBs→NSP A, NSP B, NSP C agreements.

**Participants:**
- **TP (TIPS Participant):**
- **RP (Reachable Party):**
- **IP (Instructing Party):**
- **NSP A, NSP B, NSP C:**
Contractual Framework

Contractual agreements framework (5/5)

- **TIPS Participant (TP)**
  - TP ↔ Eurosystem Agreement to hold TIPS accounts
  - TP ↔ NSP Agreement

- **Reachable Party (RP)**
  - TP ↔ RP Agreement to use a TIPS account/CMB

- **Instructing Party (IP)**
  - IP ↔ RP Agreement to instruct on behalf
  - IP ↔ NSP Agreement could be with a different NSP

- **NSP A**, **NSP B**, **NSP C**
  - NSP B has to be sponsored by a TIPS Participant

- **TARGET Instant Payment Settlement (TIPS)**
Contractual relationship

- Unlike the existing TARGET2 and T2S connectivity framework, the Eurosystem will not hold any contractual obligation with the TIPS Network Service Providers.
- TIPS Participants have a contractual obligation with the Eurosystem for the opening of TIPS accounts.
- TIPS Participants shall have a contract with their selected NSP(s).
- Each TIPS Participant will sponsor a compliant NSP that could be used:
  - by the TIPS Participant to initiate Instant Payments directly,
  - and/or by any Reachable Party having a contractual agreement with the NSP,
  - and/or by any Instructing Party having contractual agreement with the NSP.
- TIPS Participants will be responsible for the compliance of their sponsored NSP vis-à-vis the TIPS connectivity requirements.
- An arrangement has to be put in place in case of a direct loss as a result of this sponsorship.
### Contractual Framework

#### TARGET2 Guidelines

- Harmonised Conditions are laid down in Annex II of the TARGET2 Guideline

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<td>One of the Appendices will describe the Network Connectivity aspects</td>
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**TARGET2 Guideline (ECB/2012/27)**

**Amended TARGET2 Guideline for T2S (ECB/2015/15)**

**Amended TARGET2 Guideline for TIPS to be drafted (ECB/201x/xx)**

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Compliance check

- The TIPS Participant shall ensure, on the basis of the Harmonised Conditions for TIPS, that the NSP Connectivity Solution fulfils the technical and operational requirements.

- This fulfillment shall be verified:
  - at the time of the TIPS Operator compliance check and
  - throughout the whole period of connection to the TIPS service of the TIPS Actor that has contracted with the NSP.

- The procedures for performing the compliance checks, as well as the consequences in the event of non-compliance, shall be governed by the Harmonised Conditions for TIPS.

- The TIPS Operator will monitor the compliance of the NSP to guarantee a smooth service operation of TIPS.
Thank you for the attention!

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ECB: market infrastructure and payments