

Reporting on ASI6 Real-Time – first year in operations

1. Introduction

The Eurosystem implemented a change request in TARGET2 release 11.0 that enhanced the Ancillary System Interface (ASI) services. This introduction of ASI procedure 6 Real-time procedure (herein after referred to as ASI6 RT) addressed the requirements of the Automated Clearing Houses (ACHs) in terms of interoperability, credit risk mitigation and final settlement in supporting instant payments on a pan-European scale. TARGET2 release 11.0 was deployed on 13 November 2017 a week ahead of the go-live of the European Payments Council (EPC) SCT Inst scheme on 21 November 2017.

This report summarises the first year in operations of the enhanced procedure, the extent to which it has supported instant payment take off across Europe, an overview of future developments and operational aspects of ASI6 RT on remuneration practises and provides.

2. Use of ASI6 RT

Through ASI6 RT, settlement banks¹ can manage their positions in the respective ACHs both during the day-time and the night-time settlement phases of TARGET2, by funding and defunding the technical accounts of the ACHs they participate in.

By end of October 2018, a total of six ACHs were making use ASI6 RT in TARGET2, namely the CEC (Belgium), EKS AMS (Latvia), Iberpay/SNCE (Spain), RT1 by EBA Clearing, SIBS SA (Portugal) and STET IPU (France). RT1, EKS AMS and Iberpay/SNCE were the first ACHs to join ASI6 RT before end of 2017, whereas STET IPU, CEC and SIBS SA joined in July 2018.

Below, aggregate figures show the evolution of the total ASI6 RT traffic² in terms of settlement banks, value and volume during the first year of operations of the enhanced settlement procedure.

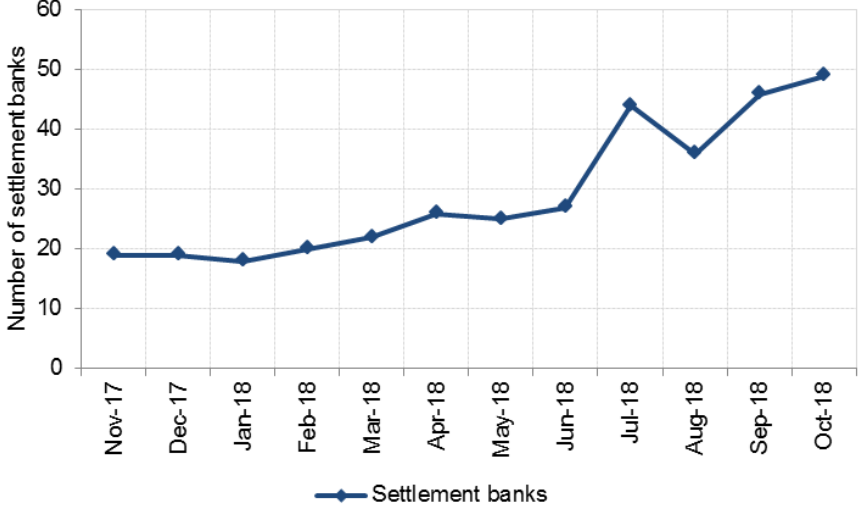
Figure 1 shows the evolution of the overall number of active settlement banks (in terms of BIC11) per month.³ As can be seen, the number has increased from 19 in November 2017 to 49 in October 2018.

¹ In TARGET2 the ASI terminology refers to settlement banks and this terminology is used throughout the present note. However, it should be noted that some of the ACHs making use of ASI6 RT may also have non-banks as their settlement members.

² In the context of the present note, the term “traffic” shall be understood as the funding and defunding transactions processed under ASI6-RT in TARGET2. It shall be differentiated from the traffic of individual SCTInst transactions processed in the books of the ACHs.

³ For the purpose of the chart, if one settlement bank participates in more than one ACH, it is counted each time.

Figure 1: monthly active settlement banks in ASI6 RT

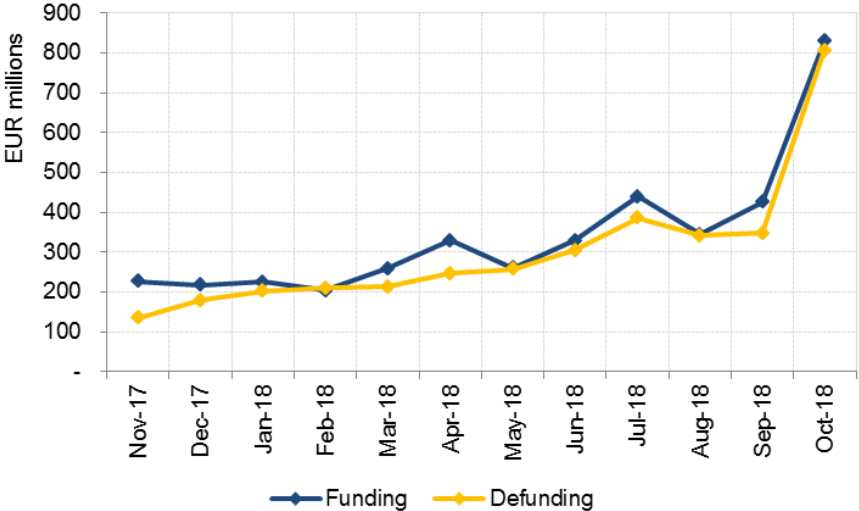


Source: TARGET2.

Figure 2 displays the evolution of the monthly traffic of ASI6 RT in value terms since its go-live on 21 November 2017.

As can be seen, the liquidity pushed from TARGET2 to the ACHs (i.e. the sum of all funding transactions over a month) has increased from €226.6 million in November 2017 to €830.3 million in October 2018, which also represented the peak in the series. This is to be compared to the liquidity brought back to TARGET2, which also increased from €134.5 million in November 2017 to €806.8 million. Throughout the one-year period considered, the peaks of both the funding and the defunding were observed in October 2018. Moreover, it is noteworthy that for almost each month, the total funding is higher than the total defunding.

Figure 2: monthly traffic of ASI6 Real-Time in value

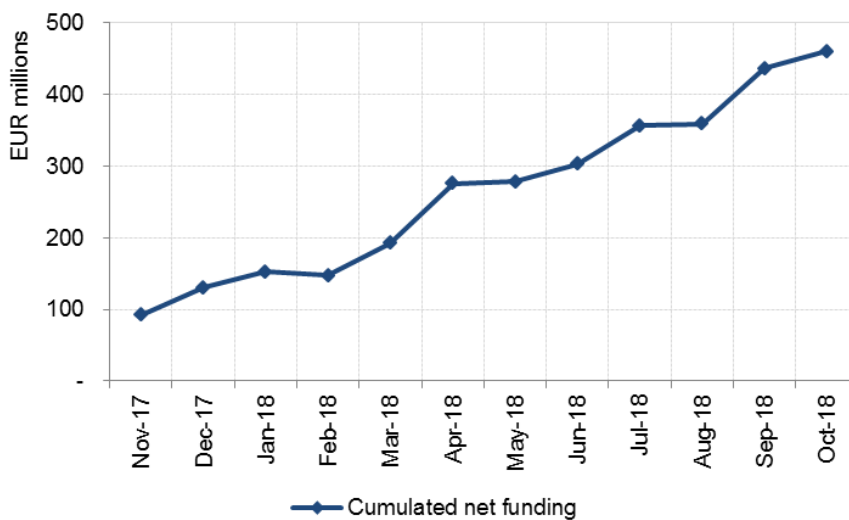


Source: TARGET2.

Figure 3 shows the cumulated net funding of the technical accounts of ACHs throughout the first year in operations of ASI6 RT, that is, the cumulated sum of the difference between funding and defunding in each month. The figure thus provides an indication of the amount of liquidity remaining on the accounts of the ACHs. The largest increases in the cumulated net funding can be observed in those months when the funding was considerably larger than the defunding, as shown in Figure 1.

The liquidity accumulated on the accounts of the ACHs has increased from €92.0 million in November 2017 to €460.4 million in October 2018. The months when net funding was highest were November 2017 and April 2018.

Figure 3: cumulated net funding of ASI6 Real-Time

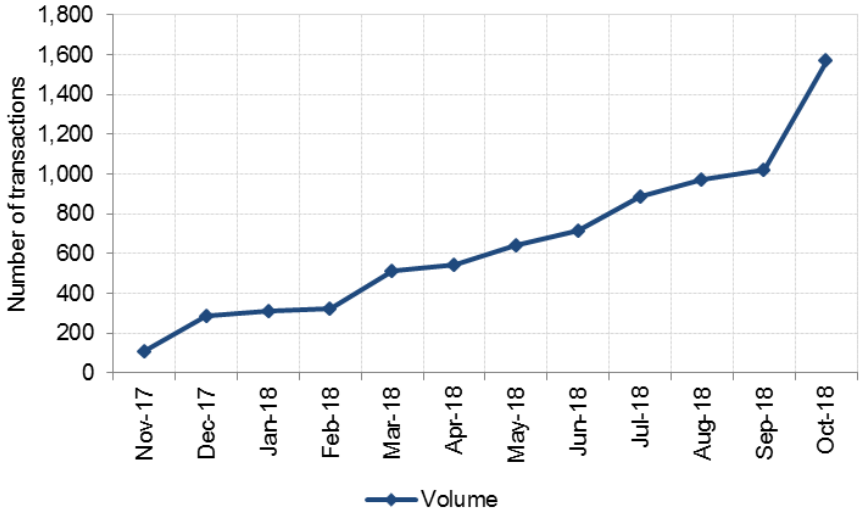


Source: TARGET2.

Figure 4 displays the evolution of the monthly traffic of ASI6 RT in volume terms since its launch (i.e. the total number of funding and defunding transactions).

The activity has steadily increased as well over the one-year period considered. The number of transactions has grown from 107 in November 2017 to 1,567 in October 2018. The latter figure also represents the peak in the series.

Figure 4: monthly traffic of ASI6 Real-Time in volume



Source: TARGET2.

Combined with the data on value from Figure 1, the average transaction value has decreased from €3.4 million in November 2017 to €1.0 million in October 2018. November 2017 exhibits the highest average transaction value at €3.4 million, whereas August 2018 the lowest at €0.7 million.

Overall, the calculated statistics on the traffic of ASI6 RT support the observation of a gradual uptake of instant payments in the market since November 2017.

3. Future developments

In January 2018, the Eurosystem organised a dedicated workshop with the ACHs either using or planning to make use of ASI6 RT. The purpose of the workshop was to identify the differences between the services offered to ASI6 RT and TARGET2/TIPS interface in order to better align the two to the extent possible. On the basis of the conclusions reached during the workshop, the ACHs proposed three TARGET2 change requests. All three change requests were related to the service that is offered by TARGET2 to ACHs and are in no way impacting the settlement banks using ASI6 RT.

In the course of 2018, the Eurosystem performed an assessment of the proposed change requests and endorsed the implementation of two of them. The third one was eventually discarded as, meanwhile, an acceptable work-around solution had been identified.

As for the two endorsed change requests, the first one allows ACHs to view the overall balance on their technical account after each successfully settled incoming liquidity transfer. With this information, ACHs will be able to more effectively monitor the liquidity and detect any discrepancies between the balance on the technical account in TARGET2 and its mirror account in the books of the ACH.

The second change request introduces a notification message informing the ACH as to when the end of business day in TARGET2 effectively took place. The receipt of this message will increase possibilities for straight through processing on the side of the ACHs and reduce the need of manual interventions in case of a delayed closing of TARGET2. It will also help the ACHs’ to calculate the remuneration of funds on their ASI6 RT technical account (i.e. break down per settlement bank).

Both change requests are currently in the development phase and will be delivered to the TARGET2 test environment (TARGET2 CUST) on 9 September 2019 and deployed to the production environment in scope of the TARGET2 release 13.0 on 18 November 2019.

4. Remuneration practices

The technical account used for ASI6 RT is subject to remuneration rules set-up by the Governing Council of the ECB. Accordingly, guarantee fund accounts as well as technical accounts held with the Eurosystem in the context of the ASI6 RT procedure, are subject to the deposit facility rate.

In practical terms this means the following; if the deposit facility rate is higher than zero, the settlement banks participating in an instant payment system operated by an ACH using ASI6 RT should receive interest payments. If the deposit facility rate is below zero, each settlement bank participating in such a system owes interest for the funds it had deposited on the technical account.

Considering that only the ACH operating an instant payment system keep records of the individual positions held by the settlement banks in the technical account, it is its responsibility to set-up the necessary remuneration calculation and associated procedures.

Based on feedback received from the market, it appears that, today, different practices are in place as concerns the remuneration calculation method, the remuneration time period and the used remuneration payments mechanism. For instance, it was reported that some ACHs;

(for the calculation of interests due/to be paid)

- take different cut-off times for the closing balances of their respective settlement banks (i.e. not the TARGET2 closing time but midnight);
- calculate the remuneration for each calendar day and not only for TARGET2 business days;
- do not take the closing balance into account for the settlement banks' remuneration but, instead, an average balance throughout the day.

(for the settlement of interests)

- settlement banks directly pay (or are paid by) the Central Bank while, in other cases, the ACH collects or redistribute the interests;
- interest payments are paid by MT202 while, in other cases, direct debit solutions are considered.

The Eurosystem acknowledges that from a settlement bank's perspective it would be desirable and more efficient if harmonised best practices were commonly agreed and applied by all ACHs. This might be particularly true for settlement banks participating in more than one instant payment system.

With the implementation of the aforementioned changes in TARGET2 release 13.0, the Eurosystem will already support the harmonisation of such practices from a technical perspective. However, any further harmonisation across the ACHs is contingent on the willingness of each of them to apply the same remuneration calculation method, time period and reimbursement approach. While the Eurosystem could offer a coordinating role in this respect, harmonisation efforts with the ultimate objective to establish commonly agreed best remuneration practices should be primarily a market driven process.

5. Conclusions

The introduction of ASI6 RT has provided a basis for the pan-European support of instant payments by the ACHs. The first year of operations and the interaction with the user community illustrate a rising importance of instant payments and the efficiency of the ASI6 RT settlement procedure. The Eurosystem as operator of TARGET2 stands ready to further consider developments supporting the related market evolution.

As concerns the harmonisation of remuneration practices the Eurosystem stands ready to constructively accompany this work but is of the opinion that establishing commonly agreed procedures should primarily be a market driven process.