

## **Value dating SEPA Instant Credit Transfers – non-binding AMI-Pay market best practice**

The Advisory Group on Market Infrastructures for Payments (AMI-Pay) has agreed on a non-binding market best practice for value dating SEPA Instant Credit Transfers (SCT Inst). The issue of how to value date such transactions was raised by market participants in AMI-Pay because relevant provisions in the revised Payment Services Directive (PSD2) were drafted before instant payments emerged, and consequently leaves room for diverging approaches by payment service providers (PSPs).

For transactions made outside real-time gross settlement (RTGS) system opening hours the PSD2 appears to leave open two options, i.e. to value date them i) on the (calendar) day they are executed, or ii) on the following RTGS business day (which would be the central bank money value date). Should approaches of PSPs differ, there is the possibility of interest being received by both payer and payee of a particular transaction, or by neither of them. This could create confusion among end-users as well as possibilities for arbitrage and, consequently, unexpected cash flows for the PSPs involved.

In view of these potential consequences, market participants brought up this issue in AMI-Pay with the request to seek whether respective practices for SCT Inst could be harmonised. After discussing the advantages and disadvantages of different possible scenarios, AMI-Pay agreed to define a non-binding market best practice, reflecting a broadly supported market approach and providing guidance to PSPs. This way forward was also supported by the European Commission.

**This non-binding market best practice agreed on by AMI-Pay is for PSPs to value date SCT Inst transactions on the calendar date on which they are executed.** AMI-Pay considers this approach to be the most intuitive for end-users and most consistent with the concept of instant payments, since it aligns the value date with the time the transaction is sent and received, and the funds are made available to the payee. More background information about AMI-Pay as well as on the issue at stake and the scenarios that have been discussed within AMI-Pay is provided below.

### **Background information**

#### **About AMI-Pay**

AMI-Pay is a forum for the exchange of views on developments in payments. The group assists the Eurosystem in fostering payment innovation and integration across Europe, and offers advice on the

provision and modification of Eurosystem payment-related services. It is composed of representatives of banks active in the European Union and of national central banks and includes observers representing financial market infrastructure providers, industry associations and others (3CB, European Payments Council, European Commission, Eurosystem oversight function).<sup>1</sup>

### **The issue at stake**

Article 87(1) PSD2 states that ‘Member States shall ensure that the credit value date for the payee’s payment account is no later than the business day on which the amount of the payment transaction is credited to the payee’s payment service provider’s account’, while article 87(3) states that ‘Member States shall ensure that the debit value date for the payer’s payment account is no earlier than the time at which the amount of the payment transaction is debited to that payment account.’

It therefore appears that value dating instant payments on the (calendar) day they are executed would be allowed. On the payer’s side instant payments are debited immediately, thereby allowing PSPs to also value date them on that same day, while on the payee’s side only the last possible value date is defined, which means that PSPs are free to apply an earlier value date. However, depending on the interpretation of the definition of ‘business day’ in the context of instant payments, as well as what is meant by ‘the payee’s payment service provider’s account’, it can be argued that value dating on the day on which the payee’s PSP receives the funds on its RTGS account could also be allowed.

According to the PSD2, article 4(37), ‘business day’ means ‘a day on which the relevant payment service provider of the payer or the payment service provider of the payee involved in the execution of a payment transaction is open for business as required for the execution of a payment transaction.’ It can be argued that PSPs that offer instant payment services are open for business for those services every day and that therefore every day is a business day for instant payments. However, some PSPs may argue that if the RTGS system is not open they cannot perform all activities related to the execution of the transaction and that therefore days when the RTGS system is closed are not business days.

In addition, since the provision on the credit value date refers specifically to ‘the business day on which the amount of the payment transaction is credited to the payee’s payment service provider’s account’, questions have been raised regarding which account this refers to: to the PSP’s TARGET Instant Payment Settlement (TIPS) account/its account (balance) at an automated clearing house (ACH) or to its RTGS account. If it refers to the RTGS account it is clear that in the case of transactions executed outside RTGS opening hours, the funds can only be transferred to the beneficiary PSP’s RTGS account

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<sup>1</sup> Further information and documentation is available at:  
<https://www.ecb.europa.eu/paym/intro/governance/html/index.en.html>.

on the next business day.<sup>2</sup> If, however, it refers to the account in TIPS or at an ACH, it could be argued that since PSPs can receive funds on any calendar day and can immediately use those funds for onward instant payments, any calendar day should be considered a business day. An alternative argumentation takes the business day applied in those systems into account. TIPS, as part of TARGET2, changes business day on weekdays shortly after 18:00 meaning that a payment received during the weekend would be value dated (in central bank money) on the following Monday. It could therefore be argued that the payee's PSP receives the funds of a transaction executed on (calendar day) Saturday only on (central bank money value date) Monday.<sup>3</sup>

### **Potential scenarios considered**

Based on input provided by AMI-Pay participants as well as input received from national central banks from both euro and non-euro Member States on the current and/or preferred approaches in their countries, three possible scenarios were identified, each with its advantages and disadvantages:

1. PSPs could value date transactions on the calendar date on which they are executed, i.e. a transaction that is executed on a Saturday would be value dated on that Saturday.
2. The central bank money value date could be used as a basis for value dating. In this case it seems reasonable to value date transactions on the first possible TARGET2 business day on which the payee's PSP is able to transfer the received funds to its RTGS account (either from an ACH's technical account or from a TIPS account), regardless of whether it actually chooses to do so, i.e. a transaction that is executed on a Saturday would be value dated the following Monday.
3. It could also be left open to individual PSPs to decide on their approach towards value-dating, i.e. transactions executed on a Saturday may be value-dated by some PSPs on the Saturday and by others on the following Monday.

### *Scenario 1*

Scenario 1 seems to be the most intuitive from an end-user perspective: since the funds are sent, received and made available in real-time users would likely expect them to be value-dated at that time as well. However, this approach creates a difference between the value date applied on the end-users' accounts and the one applied on the PSPs' accounts in TARGET2, which would have financial

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<sup>2</sup> Note however that there is no requirement for PSPs to transfer received funds to their RTGS accounts at the earliest possible time (i.e. the next business day). The timing of funding/defunding of TIPS accounts and ACH technical accounts is a decision of the individual PSP. It may very well take days before received funds are transferred from the TIPS account or ACH technical account to the PSP's RTGS account, if incoming and outgoing transactions are balanced.

<sup>3</sup> ACHs may have their own approaches towards value dating that could differ from the one applied in TIPS.

consequences for the PSPs involved.<sup>4</sup> Note furthermore that the fact that the euro area spans several time zones raises the question whether PSPs should apply their local calendar date or whether there should rather be a common cut-off time that is independent of the time zone where the PSP is located.<sup>5</sup>

#### *Scenario 2*

Scenario 2, by contrast, has the advantage that the value dates on the end-users' accounts and the TARGET2 accounts would be aligned. However, it is less intuitive for the end-users since it would make instant payments not fully instant. Some PSPs argue that it is against the PSD2 focus on end-user PSP relationship and spirit of customer protection and in particular the idea that the debit and credit value dates should be the same as the booking date, which is implied but not explicitly stated in article 83(2) PSD2. In addition, some PSPs may argue that a future value date could be in conflict with the SCT Inst scheme requirement to ensure the possibility to re-use the received funds immediately.

#### *Scenario 3*

Scenario 3 is not providing any position and gives PSPs the freedom to decide on their own and/or their clients' preferred approach. However, if approaches between PSPs differ this could create confusion among end-users. Moreover, if for a specific transaction the practices of the sending and receiving PSP differ there is the possibility of interest being received by both payer and payee or by neither of them. This could therefore simultaneously create the impression that PSPs are purposefully reintroducing float and possibilities for arbitrage, if e.g. corporate treasuries in their cash management process were to make use of the possibility to receive interest twice, which might lead to unexpected cash flows for the PSPs involved. In fact, these issues were at the heart of the concerns raised in AMI-Pay by market participants.

### **Conclusion of the AMI-Pay discussion**

When discussing on the different scenarios, a majority of market participants expressed a preference for scenario 1, since in their view this is the approach that is in line with their clients' expectations. AMI-Pay therefore supported a common approach among PSPs whereby transactions are value dated on the calendar date on which they are executed.

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<sup>4</sup> These financial consequences would currently be relatively small due to the low interest rates and can be further reduced by setting transaction amount limits, such as the current SCT Inst scheme level limit of EUR 15,000 (PSP communities may however agree on a higher limit). Nevertheless, considering the likelihood that interest rates as well as transaction amount limits will increase in the future, the question whether TARGET2 opening hours, as well as value dating practices, should be expanded to seven days a week has been raised. However, as was noted in a previous AMI-Pay/AMI-SeCo discussion on T2/T2S opening hours, this would have wider ramifications, in particular on money market activity. Another alternative that has been raised by some PSPs is taking changes in TIPS balances into account for the calculation of minimum reserves remuneration on Saturdays and Sundays. This however would require a change in monetary policy guidelines.

<sup>5</sup> If PSPs apply their local calendar date, a transaction between two different time zones may still be value dated on different dates on the sending and receiving side. If, alternatively, a common cut-off time is applied that is independent of time zones, in some cases the value date applied on one side of the transaction will not correspond to the local calendar date, which may require some explanation to end-users.