



EUROPEAN CENTRAL BANK

EUROSYSTEM

Cross-currency settlement based on TIPS platform

Foreign Exchange
Contact Group (FXCG)

25 November 2021

target | TIPS
services



ECB: exploring cross-currency payments in TIPS

TIPS is **on-boarding** the Swedish community with go-live date 23 May 2022. This paved the way for an investigation on the possibility to settle cross-currency instant payments in TIPS.

The Governing Council of the ECB in June 2021 expressed the opinion that such investigation **should continue** as it is in line with the Eurosystem's strategic objectives.

MIP NEWS

Work on cross-currency instant payments in TIPS moves forward

23 June 2021

The European Central Bank (ECB) and Sveriges Riksbank continue investigating how [TARGET Instant Payment Settlement \(TIPS\)](#) could support the settlement of instant payments between the euro and the Swedish krona.

Work to enable a cross-currency capability in TIPS began in October 2020, when the ECB and Sveriges Riksbank [announced their collaboration](#) to explore whether the platform could process transactions between the euro and the Swedish krona. The next step in the investigation is to define the operational model and legal set-up of a potential cross-currency settlement feature in TIPS.

The Governing Council of the ECB believes that the investigation of a cross-currency settlement functionality in TIPS should continue as it is in line with the Eurosystem's strategic objectives. Improving cross-border payments beyond the European Union is a key goal of the [Eurosystem's retail payment strategy](#) to better support European businesses and individuals who make and receive payments overseas. Currently, consumers and businesses face high costs of sending or receiving payments to or from a country outside of the euro area. Central banks around the world are exploring initiatives to make cross-border payments more accessible to the end user. The cross-currency investigation in TIPS contributes to this effort and deepens the understanding of the practical challenges to be addressed when implementing cross-border payment initiatives.

ECB: exploring cross-currency payments in TIPS



ECB, Sveriges Riksbank and Banca d'Italia investigate how **TIPS can support cross-currency payments** between euro and Swedish krona

The investigation explores the **operational model, the legal set-up and the economic viability** of a potential cross-currency settlement feature in TIPS

This investigation assumes more relevance in consideration of the fact that the **Danish** and the **Norwegian** central banks have meanwhile expressed their readiness to engage in formal discussions with the Eurosystem for possibly **joining TIPS**

Key Benefits



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



Increase **efficiency** and **competition** in Europe



Reduce the degree of **fragmentation** in the cross-currency payments landscape



Provide European **innovation** under European **governance**



Strengthen the **international role** of the euro

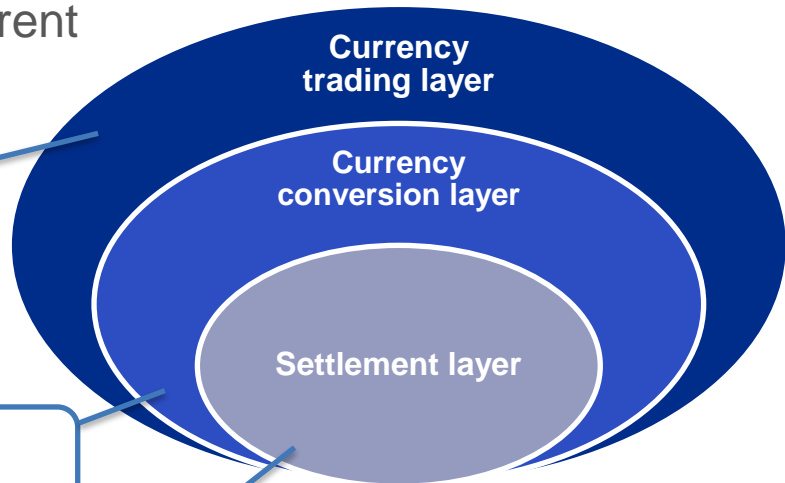
Lifecycle of a cross-currency payment: from currency trading to settlement

TIPS will be enhanced with technical/functional changes that can be categorised into different **layers**.

How the exchange rate is defined prior to introduce it into TIPS. As part of this layer, it could be implemented a **Central Exchange Hub (CEH)** in which the PSPs can select the preferred FX rates.

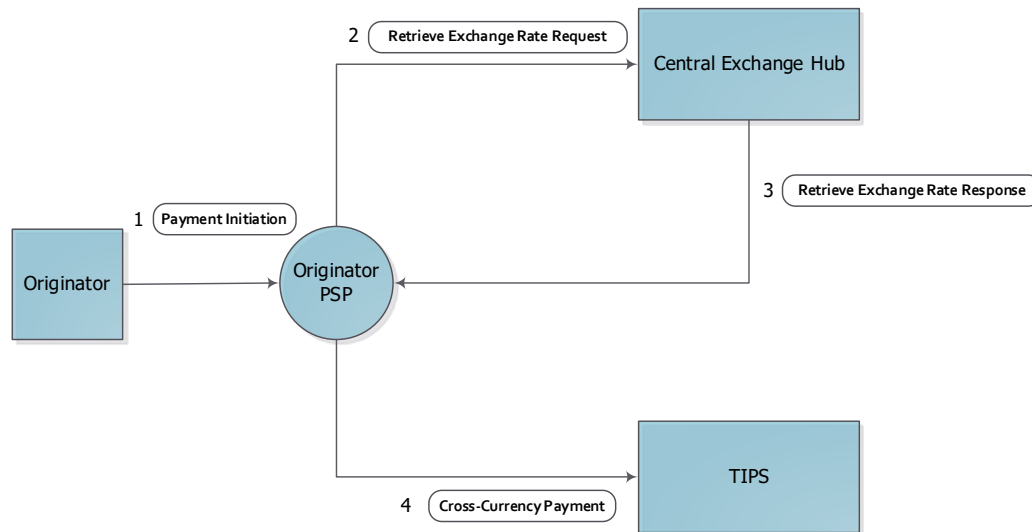
How the currency conversion rate is introduced into TIPS.

How the movement of funds is executed in TIPS.



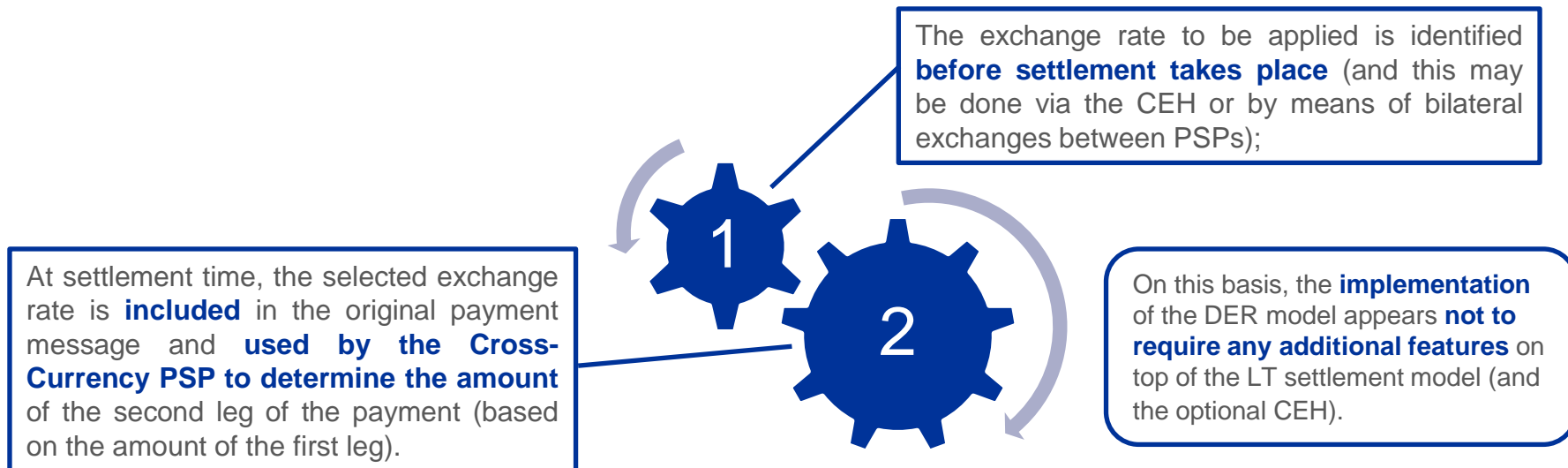
Currency trading layer: Central Exchange Hub (CEH)

The CEH 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.



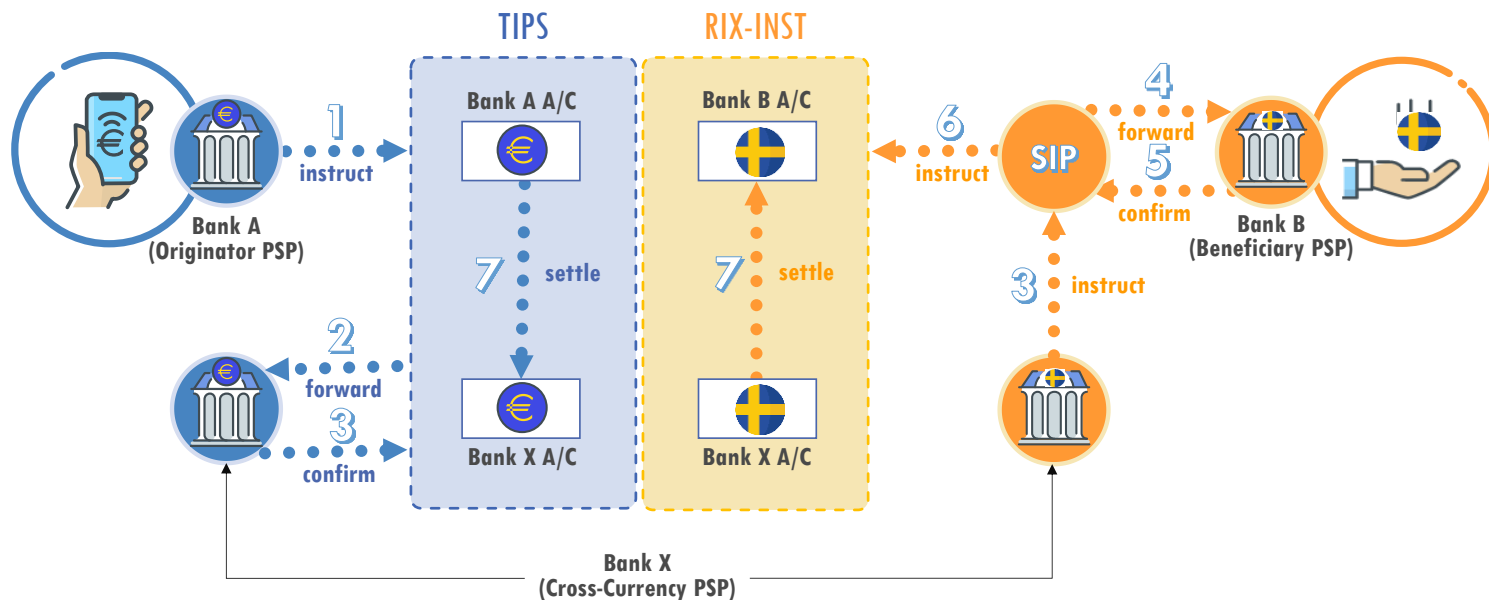
Currency conversion layer: dynamic exchange rate (DER) model

The DER model calculates the conversion rate to be applied for a given cross-currency payment based on an **exchange rate dynamically identified** for each cross-currency payment, before the settlement process takes place.



The settlement layer: linked Transactions model

The LT model revolves around the concept of **Cross-Currency PSP** of the two legs of a cross-currency payment.



Way forward

A comprehensive package will be brought to the attention of the Governing Council in September 2022 for a decision on whether to implement a cross-currency functionality in TIPS in view of TIPS Release 6.0 (November 2023)

Questions to the Group

1. Would the Group see an alternative to the Central Exchange Hub?
2. Should different exchange rates be envisaged according to the value of the transactions?
3. Would there be an interest of the market in a “regional” solution including only the currencies present on the TIPS platform?