

# **Simplifying Access to Markets Working Group**

*More accessible settlement account options*

## Solution Concept Assessment

### SOLUTION NAME: MORE ACCESSIBLE SETTLEMENT ACCOUNT OPTIONS

#### PROBLEM STATEMENT:

Certain payment systems (e.g. Bacs, CHAPS, Cheque & Credit and FPS) require (as part of their CPMI-IOSCO compliance) their direct system participants to hold a settlement account at the Bank of England. Other systems (e.g. LINK and Visa Europe) have some direct participants who do not hold, nor are eligible to hold settlement accounts.

Current Bank of England eligibility for a settlement account is guided, for PSPs, by the following criterion: that the institution is a **bank or building society** that already holds a reserve account.

Currently, no PSP that is not a bank or building society can obtain a reserve account and hence a settlement account, and thus cannot be direct system participants.

#### SOLUTION DESCRIPTION

The solutions are reliant on the Bank of England, both as supervisor of the electronic payment systems and settlement agent to these and other payment systems, and also as operator of the RTGS (Real Time Gross Settlement) System which houses the Reserve/ Settlement Accounts.

The solution is dependent on the Bank's willingness to open up settlement account access to a wider range of participants. This is largely a policy issue, in that the Bank of England needs clarity over the implications of doing this in the context of its statutory obligations, for example the obligation to act as lender of last resort, what happens if things go wrong in terms of participants' liquidity management, and how it can gain comfort around managing AML risk.

Changes may be required to the Settlement Finality Directive to include a broader range of PSPs, e.g. Credit Unions, Electronic Money Institutions (EMIs) and Payment Institutions (PIs).

There are also potentially technical issues, in that it is believed the current RTGS system operated by the Bank of England would be unable to handle a significant increase in the number of accounts.

Faster Payments and Bacs have already made changes to facilitate wider participation, in that each PSO has introduced a prefunding model, whereby each participant is required to maintain a deposit in a Reserves Collateralisation Account that is equal to or greater than that participant's Net Sender Cap. This deposit would be used to complete settlement in the event that the participant was unable to settle out of its main settlement account; making both Schemes a 'defaulter pays' model.

Prior to the introduction of prefunding in September 2015, there was a loss-sharing agreement whereby the surviving participants were required to make up any shortfall that the defaulting participant was unable to fund.

The Bank launched a one year strategic review of its RTGS in January 2016 to develop a blueprint for the future RTGS service. It expects to consult on a proposal in September 2016, with any build to take 2-4 years, i.e. delivering by 2018-2020.

An assessment of the likely future growth in the types and numbers of participants wishing to self-settle is expected to be considered as part of the RTGS strategic review, as any new solution will need to be capable of handling such growth. WG considers it essential that the Bank of England considers how whether it could support a wider range of PSPs from a policy perspective, since EMIs and PIs are not currently recognised or eligible to hold settlement accounts. If this was not to be considered appropriate, there will remain a need to ensure alternative access to settlement services via other providers.

## PEOPLE INVOLVEMENT AND ACTION

WHO	WHAT
<b>Bank of England</b>	<ul style="list-style-type: none"> <li>- RTGS review/consultation/decision by end 2016;</li> <li>- To be clear on how many credit institution/other PSP-type participants can be provided with settlement accounts ahead of the new RTGS.</li> </ul>
<b>PSOs</b>	<ul style="list-style-type: none"> <li>- Consider needs for more flexible as part of Access developments – FPS leading work with the Bank of England re EMIs.</li> </ul>
<b>SAM WG</b>	<ul style="list-style-type: none"> <li>- Feed discussion back to the Bank of England via PSF.</li> </ul>
<b>PSPs/Representative bodies</b>	<ul style="list-style-type: none"> <li>- Feed into the Bank of England based on own / sector needs.</li> </ul>
<b>Faster Payments Scheme</b>	<ul style="list-style-type: none"> <li>- Have put together a paper for the Bank of England on possible PSP settlement model, similar to the recently introduced pre-funding model for FPS – cannot distribute yet but have asked the Bank of England for permission.</li> </ul>

## LEADERSHIP

With the benefit of the Bank of England's presentation at the last WG and its solution workshops, SAM WG will provide the Bank of England with its perspective on how settlement account provision should become more flexible to accommodate different types of participant, including:

- Any necessary changes to the Settlement Finality Directive to include a broader range of PSPs, e.g. Credit Unions and Authorised Payment Institutions; and
- A request for the Bank of England to be clear on how many additional settlement participants and newer types of participant can be accommodated pending implementation of the RTGS replacement.

## COMMUNICATION

- The Bank of England will need to engage and communicate policy, regulatory and technical changes;
- Payment Operators to engage and share with their members and communities; and
- SAM WG to engage and share with its members as appropriate.

## SYSTEMS AND PROCESSES

- Bank of England to set out changes to processes and the RTGS platform in its proposals paper at end 2016.

## DEPENDENCIES

- Legislation will need to be changed e.g. Settlement Finality Directive for participants not currently recognised as credit institutions;
- Consider other dependencies – what needs to be in place before solutions can be considered feasible e.g. for a technical aggregator; and
- Bank of England would need to be designated as a Credit Institution to enable EMLs to leave client funds on deposit with it.

## COST BENEFIT ANALYSIS

Cost	Benefit
<b>Technical changes to RTGS platform to enable larger number of participants/accounts, and associated new processes</b>	Wider range of participants able to have settlement accounts and hence participate directly in payment systems
Legal and regulatory changes needed to support wider access to Bank of England settlement accounts	Legal/regulatory framework that reflects the role of Authorised Payment Institutions and allows their direct participation in payment systems
PSOs will need to amend scheme rules and participant agreements to reflect agreed changes to settlement practices arising from BofE review process	Competition is likely to increase if more institutions have access to settlement accounts in a timely and efficient manner
Changes will be needed to the legal and regulatory framework to reflect any new practices agreed from the review	

## SECURITY / RESILIENCE

- The Bank of England and the PSOs will work together to ensure that any future RTGS solution retains the appropriate level of security & resilience required.

## EXISTING OR IN-DEVELOPMENT SOLUTIONS

- The only other options are the emergence of commercial settlement providers for new direct participants that are not currently eligible for a settlement account. At least one PSP that is intending to join FPS will be looking to offer settlement sponsorship to PSPs.

## INTERNATIONAL INSIGHTS / BENCHMARKS / HORIZON SCANNING

- It would be informative to perform an international comparison of participants granted direct access to central bank RTGS platforms.

## COLLABORATIVE OR COMPETITIVE

- Collaborative industry solution with development led by the Bank of England as supervisor regulator, settlement agent and RTGS provider.

## **QUICK WIN VS SUBSTANTIAL PROJECTS**

- If the current RTGS is deemed capable of handling a significant increase in participant/account numbers, implementation of these changes could be relatively quick. However this may also be dependent on making changes to the supporting legal and regulatory framework which is likely to take longer.

## **IMPLEMENTATION APPROACH AND TIMEFRAME (OVERALL)**

- Not yet known, however new technology solutions should take into account the continued market changes and consider whether an incremental interim solution is possible which can be built out progressively. Clearly security and resilience could not be compromised in such an approach; and
- The key question is whether the Bank of England should develop the new solution in-house or commission a commercial provider. There may be models/systems in use elsewhere which offer parameter-driven options.
- Overall the Bank of England review, which is scheduled to close in January 2017, will drive any implementation plan and timescale. Once this is concluded and the direction agreed implementation plans can be agreed for all impacted parties.
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## **IMPACT: SUCCESS METRICS**

- Settlement access options being available to all potential direct participants no later than end 2020.