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NOTE FOR CPMI - PUBLIC

RTGS Operating Hours Consultation

1. **Can the extension of real-time gross settlement (RTGS) systems' operating hours materially contribute to achieving the cross-border payments targets endorsed by the G20, especially in terms of speed? Please explain.**

The extension of RTGS hours would have a positive but limited impact on the average speed of cross-border payments, as

- **Cross-border payments mostly do not go through RTGS systems** in any of their legs, especially not in the final one where most delays apply.
  Most consumer cross-border payments and many corporate cross-border payments – initiated by both fintechs and banks - go in their final leg through domestic ACH systems and not through RTGS systems. The payee providers are normally not big banks or are not in developed countries and therefore are not reachable via RTGS systems.
  Other cross-border payments are executed within the same fintech, in national or cryptocurrencies or in stablecoins, then bypassing RTGS systems as well.
- **For those cross-border payments who go through RTGS systems** in one of their legs, **multiple additional conditions should apply concurrently for a faster payment delivery**:

✦ Processing through one or more RTGS systems during their local extended window
✦ No FX conversion, or real-time FX conversion at a same-day FX rate. Common practice instead is for spot (2-working-days) FX conversion at a daily fixing, that would make an RTGS system hour extension useless
✦ No application of float by involved payment providers
✦ The payment provider adhering to the extended RTGS system effectively extending its operating hours (while this extension is normally optional) in spite of the high costs related with such extension
✦ No selection of slower payment routing, chosen for commercial or profitability reasons

From the point of view of payment users, a quicker and more effective impact on payment speed could result from the **implementation of One-Leg-Out Instant Payment Schemes – outgoing and incoming – in jurisdictions where local instant payments are already in place and with a good local reachability.**
These schemes should follow globally coordinated rules for payment order formats, providers identification, FX conversion. The goal of these rules would be to facilitate adherence by foreign payment providers, and to ensure cost transparency for payers and payees. These rules would also facilitate instant payment systems cross-border interlinking.

The expected impact is as follows:

- A large portion of cross-border payments directed to involved jurisdictions would be accelerated.

The instant OLO leg where available would become the most convenient initial and final leg. The payment would be executed instantly at any time 24/7 in the OLO leg, and the intermediary would apply the OLO scheme rules, charging the FX fee to the ordering payment provider (and not to the payee) and forwarding the payment without amount deductions.

- All payments would become faster, at any time and in any day of the week, not only payments in certain times of the day
- Also converted payments would become fast, as OLO rules would require intermediaries to apply real-time same-day-value FX rates
- No float would be allowed within the OLO scheme
- The same fast SLA would be applied by all OLO adhering members
- The OLO scheme would require adopting the most direct cros-border routing

An instant OLO scheme implementation in a jurisdiction does not require the hour extension of the corresponding RTGS system. Instant payment systems work with amount caps that are high enough to cover the vast majority of consumer and corporate payments but are low enough to avoid any liquidity management issue for bank and corporate treasurers. The liquidity buffers needed for nights and weekends are normally small, and create no issue.

Over time, instant payment amount volumes may grow, especially from corporates during nights from Monday to Friday. The later implementation of an instant payment systems cross-border interlinking would also bring more volumes in odd hours, also from corporates. Additional liquidity during nights might then be required both for payments and for the connected (preferably PvP) FX conversions. In this scenario, a targeted RTGS hour extension, or additional RTGS liquidity cycle, could be multilaterally agreed.

2. **What additional actions would be needed by the public sector and/or private sector entities, beyond those described in the G20 roadmap (see Annex 3 of the current report), to facilitate the extension of RTGS operating hours and realise the benefits that could result from extended RTGS operating hours?**

A single global framework for instant payment OLO and interlinking would be key to ensure momentum for relatively quick rollout and reusability across jurisdictions.

Moreover, actions from regulators to promote **full local reachability and wider usage for domestic and OLO instant payment systems** would be very useful. A higher share of domestic (and crossborder) payments processed instantly – and then with instant finality - would benefit the trust in payments and among trading partners, reduce the cost of credit, shorten the supply chain cycles, facilitate a further digitalization of trade and machine-to-machine transactions.

3. **What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours? What additional domestic benefits for a jurisdiction do you perceive?**

In the current situation we would expect that payment providers adhering to an extended-hours RTGS system would not extend – in most cases - their operational windows accordingly.

Additional costs on staffing and IT would not be justified by incremental volumes and revenues, neither domestically nor cross-border.
If instead Instant OLO Schemes are jointly created by major jurisdictions and with appropriate cost transparency rules, then implementation and staffing costs would be much lower, and justified by opportunities of higher volumes and revenues.

For a payment provider, adhering to an hour extension of the high-value RTGS systems implies an hour extension of the full chain involving Treasury (liquidity management, FX position management), Cross-border Payments (processing, fraud management, AML controls, risk management, customer support, investigations, nostro replenishment) with significant impact on staffing, and changes in the related IT legacy applications (RTGS payment and non-payment settlement, cross-border payments, treasury, FX, investigations). Very limited additional revenues could be expected.

Instead, for the same payment provider, already adhering to a local instant payment system, the introduction of an OLO instant scheme would imply limited or no increase of staffing, and IT changes in some IT applications

- for receiving only providers: instant payments and AML controls
- for sending providers: also fraud management and payment order management
- for local gateway providers: also cross-border payment processing

Revenue opportunities would be interesting for banks acting as sending and as local gateway.
As indicated above, if a need arises in the future for more liquidity during nights, or possibly weekends and holidays, then special RTGS system liquidity cycles may be setup and most active providers would decide to participate to accommodate their treasury position.

4. **How well do the three identified end states capture key scenarios that individual central banks/RTGS system operators should consider as they assess current RTGS operating hours and plan for the future? What additional end states or refinements to the end states would you suggest**?

As said, changes in RTGS system hours should follow market demand for liquidity adjustments during nights, weekends, and holidays. Depending on situations, hour extensions or additional optional settlement cycles could be evaluated.

The acceleration of payment speed should be sought rather through usage and interlinking of local instant payment systems.

5. **Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving cross-border payments and managing the associated challenges?**

See above.

6. **If the RTGS system in your jurisdiction has not yet reached the end state signalled in the previous question, what time horizon (number of years from now) would you envision for reaching it?**

OLO Instant Schemes already exist in few countries, and without the needed transparency rules and format harmonization. The definition of a OLO instant standard could be defined at level of CPMI/FSB within the next 18 months, with an implementation roadmap until end of 2025.

7. **As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?**

Until RTGS systems remain isolated in their local jurisdictions, low demand for 24/7 operations is expected.

But a number of innovations push for a different scenario:

- **OLO Instant Schemes**, if connected with transparency rules and a common framework, **will increase demand for liquidity in night hours first, and then also in weekends and holidays**.
- **Instant payment systems cross-border interlinking would have the same effect**, but also this requires a global framework for formats and transparency rules
- **The launch of CBDCs would be probably less successful without the immediate availability of local and cross-border payment functionalities**, that should re-use instant payment cross-border interlinking and its FX conversion hub.

This setup for CBDC payments would also minimize the risk of emergence of a parallel FX and deposit market for CBDCs, related risk of liquidity fragmentation and damages to nondigital currency reputation. **A single FX conversion hub providing 24/7 liquidity for FX conversion among major currencies in their digital and non-digital version seems to be a necessary and urgent development**. Then, probably, also adjustments in RTGS systems hours or cycles will become necessary.

8. **Would your organisation make use of and/or benefit from extended RTGS operating hours?**

Not applicable, I am now an independent advisor, I cannot speak on behalf of my previous employer, UniCredit Group.

9. **How useful do you view the global settlement window as a concept for considering the aggregate implications of extensions to RTGS operating hours in individual jurisdictions? What alternatives or refinements, if any, would you propose in order to consider the aggregate implications of extensions to RTGS operating hours in individual jurisdictions?**

A pragmatic approach should be applied, based on demand for liquidity in specific times around the clock. Probably the first requirements will be for additional cycles in the Eastern American evening/Far East early morning, and in the Far East evening/European early morning.

10. **To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified? What additional considerations would you consider relevant?**

In general, a settlement system hour extension towards night hours and non-working days raises the risk of insufficient coverage of anti-fraud, AML, cyber-risk and payment supervision, both from the quantitative and qualitative human resources point of view. This risk is obviously higher if large-value settlement systems are involved. Also, the supervision on bank liquidity requirements and financial stability needs to be extended to longer hours.

If instead already existing low-value instant payment systems, already managed 24/7 for all aspects previously mentioned (expect the one on bank liquidity, not needed), are extended to a wider and cross-border perimeter, the only point of attention is in:

- the alignment of anti-fraud, AML and cyber-risk controls to those already applied by payment providers and regulators to cross-border payments, and
- the extension of these upgraded controls to a 24/7 operational window. Given the fully automated process of instant payments, only the anti-fraud and cyber-risk monitoring should require additional staffing at level of payment providers and regulators.

11. **What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?**

See above.

12. **To what extent do the relevant considerations differ substantially depending on the end state being considered?**

See above.

13. **For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?**

See above.

14. **In your view, to what extent will the above measures require coordinated action by industry participants and/or support/guidance from authorities, such as central banks, standard-setting bodies and supervisors (as opposed to actions by individual stakeholders)?**

Within the CPMI/FSB cross-border payments programme, the **Nexus initiative** on cross-border instant payment interlinking could be extended to the definition of a **Common Instant Payment Framework,** including guidelines impacting not only on **cross-border end-to-end instant payments,** but also on **local instant payments, OLO instant payments, CBDC (instant) payments and stablecoin (instant) payments**, on:

- **Common format features,**

- **Common payment provider identification codes, and payer/payee account identification codes**
- **FX conversion SLA and transparency rules**
- **Fee transparency rules**
- **Routing SLA**
- **Final netting into RTGS systems, including possible additional night and weekend RTGS settlement cycles**
- **Local reachability targets**

15. If you are a stakeholder of an RTGS system that has extended its operating hours in the recent past, what were the key lessons learnt?

Not applicable

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11 January 2022