

SEPA INSTANT CREDIT TRANSFER RULEBOOK PUBLIC CONSULTATION RESPONSE TEMPLATE

COVER PAGE

The Euro Retail Payments Board (ERPB) has invited the European Payments Council (EPC) to create a pan-European instant payment solution. The EPC solution will take the form of a SEPA Instant Credit Transfer scheme (SCT Inst Scheme).

The EPC submits the draft SCT Inst Scheme Rulebook (EPC 004-16 v0.1) and the Maximum Amount for Instructions under the SCT Inst Scheme Rulebook (EPC 023-16 v0.1) for public consultation. The public consultation takes place between 12 April and 10 July 2016.

All stakeholders interested in the SCT Inst Scheme are invited to submit change suggestions to the draft SCT Inst Scheme Rulebook and the Maximum Amount for Instructions under the SCT Inst Scheme Rulebook by completing this public consultation response template (EPC 060-16) and send it to change-request.EPC-scheme@epc-cep.eu by 10 July 2016 at the latest.

The EPC will then review all received contributions during the third quarter of 2016.

The EPC expects to publish the version v1.0 of the SCT Inst scheme Rulebook in November 2016 (and the Maximum Amount for Instructions under the SCT Inst Scheme Rulebook) for implementation in November 2017. In accordance with industry best practice, payment service providers and their suppliers have a one-year lead time to address rulebook updates prior to such updates taking effect.

It should be noted that the EPC is under the legal obligation to ensure compliance of the SCT Inst Scheme Rulebook with existing EU legislations or to any new EU legislation impacting this Rulebook.

Therefore, the EPC reserves the right to make necessary changes to the SCT Inst Scheme Rulebook at all times in order to ensure that the SCT Inst Scheme Rulebook does comply with changes to existing EU legislation or with the entry into force of any new EU legislation.



1. CONTRIBUTOR DETAILS

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Data Privacy/Confidentiality:

The EPC will publish the received public consultation comments from all contributors including the name of each comment contributor and of its organization on the EPC Website.

Please state if you wish your name and that of your organization remain anonymous during the public consultation feedback review process and in the published public consultation comments report:

~~YES~~ or NO



2. PROPOSED CHANGES TO THE SCT INST SCHEME RULEBOOK (EPC 004-16 V0.1)

EBA CLEARING is, together with a community of currently close to 40 banks, shaping the design, functionality and interface specifications of its future pan-European Instant Payment infrastructure solution. The solution will support and accept for processing any payment product that complies with the instant payment scheme being developed by the European Payments Council. For that reason, EBA CLEARING and its community of banks have been analysing the draft SEPA Instant Credit Transfer Scheme Rulebook in detail. We wish to share, by way of response to the public consultation on the SEPA Instant Credit Transfer Rulebook, the main concerns resulting from this analysis.

A. Introduction

EBA CLEARING and its community of future users strongly advocate for:

- (1) a message flow that provides certainty of the status of an instant payment transaction prior to acceptance for settlement in the inter-PSP domain and the making available of funds to the beneficiary and mitigate financial risks arising under current flow;
- (2) avoiding a flow for return of funds outside the context of the clearing channel used let alone outside of the context of the scheme;
- (3) scheme based message flows that allow for technical interoperability as commanded by the SEPA Regulation;
- (4) real-time sending of recalls as individual messages;
- (5) including returns and reversals as part of the scheme based messages.

The above concerns under (1) through (3) relate to the handling of transactions that are "in-flight" for operational, technical or any other reasons, and are described in more detail under B below. The specific points on recalls, returns and reversals are described in more detail under C. below.

B. Time-out/In-flight transactions:

Main concern for EBA CLEARING and its community is the so-called maximum execution time and time-out deadline (section 4.2.3), and in particular the financial risks as well as the uncertainty on transaction status potentially arising from still "in-flight transactions" after such timeout.

To paraphrase: the draft SCT Inst Rulebook foresees that within 20 seconds after the Originator Bank's (OB) time stamp, either a positive or a negative confirmation message about the SCT Inst Instruction has to be sent back to the OB. After these 20 seconds, any transaction shall be rejected by any party in the chain (except the OB, section 4.2.3 C). The positive or negative confirmation



message then has to reach the OB within 5 seconds after this message has been sent to the OB. From the draft Rulebook we understand that this time window should be sufficient to cover all exceptional processing situations. However, the risk still remains that after the 25th second the OB has not yet received a confirmation message regarding the SCT Inst Instruction (the “**in-flight transaction**”). For these cases, the SCT Inst Rulebook foresees under 4.2.3 D. a “no news, good news” approach:

- the OB shall make the assumption that the SCT Inst Instruction has been successfully processed and has to provide settlement certainty for this SCT Inst transaction to the Beneficiary Bank (BB).
- An action of cancelling the SCT Inst Instruction can only be taken by the OB when receiving a negative confirmation (the rationale of the Rulebook is to avoid the BB facing open settlement position).

In consultation with our community, we have identified that three possible interpretations could arguably co-exist of how the clearing and settlement layer could be requested by the OB to deal with in-flight transactions in line with the Scheme. For completeness sake, we list the common stages leading up to the point in the processing where the options materialise:

- OB validates SCT Inst Instruction (time-stamp)
- Sending to and receipt by the CSM of the SCT Inst instruction
- Validation by the CSM, including, a reservation (or debit) made on the position of the OB, preventing the latter to use the reserved/debited funds for other transactions
- Forwarding the SCT Inst instruction to the BB and update of the transaction status in the CSM to “in-flight”.

Absent any confirmation within 25 seconds, different implementations could be envisaged based on different risk appetites:

1. a “*wait & see*” approach by queueing “in-flight” instructions and only settle them when confirmation is received
2. a “*no news good news*” approach by settling “in-flight” instructions according to settlement schedule, and leaving it up to the OB in case of “negative confirmation” to obtain funds unduly transferred directly from the BB in a separate flow not foreseen by the scheme
3. a “*no news bad news*” approach by rejecting/time-out “in-flight” instructions while, in our reading of the current draft of the Rulebook, the OB would maintain the obligation to make the funds available in case a positive response is received later in time.

EBA CLEARING advocates for a harmonised implementation of the Rulebook in support of technical interoperability.



Within our user community there appears to be no support for the “**no news, good news**” approach (option 2), especially given that the case may arise where the instruction has settled but where the BB would reject the transaction after settlement. In this scenario there is **a financial risk on the OB**, which has to claim back the settled amount. The OB could send a recall but the original transaction is irrevocable and therefore returning the funds is not guaranteed. The absence of incentives on the side of the BB to comply with Scheme timing obligations and the fact that the Scheme does not support the claim back by the OB to the BB adds to disfavoring this option especially in a pan-European and/ or multi-CSM context.

In a “**wait & see**” approach (option 1), unconfirmed instructions will be kept “queued”, so as to maintain the risk *status quo* and required settlement certainty under the Rulebook. However, leaving transactions in a potentially indefinite “pending” status is also for our users not acceptable as for such transactions it:

- **hinders the “instant” perception** of the scheme by end-users and thus limits its use;
- creates **liquidity traps** which would further require manual interventions and thus operational risks to enable clearing of the “trapped” transactions.

The remaining “**no news bad news**” approach (option 3) would constitute a strict enforcement of the “hard” time out-deadline by any party in the chain after 20 seconds. However, in case there is no certainty of the status of the transaction (“no news”), the **BB** could be **exposed to credit risk** in case of rejection by any party in the chain further to the “making available of funds” to the beneficiary.

Looking for alternatives, which should be valid both from a risk and a product perspective, our community considers that the financial risks and uncertainty arising from the current work flow must be managed and can be managed by adding one additional message from the (CSM of the) OB to the BB:

- in the normal happy flow, the BB would send its confirmation to the OB (the OB itself in case of a bilateral clearing channel, or its relevant CSM). As additional step, this party confirms the execution of the transfer at inter-PSP level and sends then a simultaneous acknowledgment to the OB and BB. The “making available of the funds” by the BB and other information duties of the OB/BB take place thereafter; and
- in the exceptional time-out flow, the principle is the same: absent the BB’s confirmation within the time-out deadline, the OB or a party in the chain designated by the OB (e.g. CSM possibly interoperable with a CSM of the BB) shall reject the message by informing simultaneously the OB and the BB.

The rationale for this proposal is the following:

- it eliminates the financial risk on the OB if the BB replies with a negative response after settlement as well as the exposure of the BB in case of OB’s time out message (in line with the rationale of the Rulebook);
- such additional message enables a regular clearing of “in-flight transactions” (no traps);



- there is certainty of the transaction both for the OB and the BB prior to (acceptance for) settlement in the inter-PSP domain, and both the OB and the BB are in a position to handle funds in the relationship with their customers in support of an 'instant' payment experience for the end-users and thus of the use/uptake of the scheme;
- more generally, it enables management of financial risks within the clearing and settlement layer, and avoids the need for bilateral claims to be handled between any pair of OB and BB outside the context of the clearing channel used let alone outside of the scheme;
- this additional message flow is technically possible without significant impact on the maximum execution time as defined in the Scheme or on costs. Similar instant scheme designs are in place in other jurisdictions for instant payments and considered as satisfactory for users.

C. Recalls / Returns

There are two additional topics EBA CLEARING, also on behalf of the banks, would like to bring to your attention already now: C.1) recalls and C.2) return messages.

C.1. On **Recalls**, the Scheme would benefit from a more explicit mentioning that recalls (both request and answers) should always be sent as individual messages and in real-time under the SCT Inst Rulebook. This does not suggest however, that recall replies should be processed instantly (the necessary time for investigation by OB/BB should be preserved); it solely requires the recall request and reply in the interbank space to use the messages from the Scheme. By embedding this in the Rulebook, possible diverging implementations could be avoided in support of technical interoperability and simplification of PSPs' infrastructures set up for the scheme.

C.2. The draft Scheme does not cover a **Return/Reversal** message initiated by the Beneficiary and EBA CLEARING and its community are of the opinion that adding such a STP processing flow and supporting messages would be beneficial to the Scheme.

The mere use of another SCT Inst to proceed to a "return/reversal" would trigger difficulties for Beneficiaries (e.g. obtaining transaction reference data). If a payee initiated return would be part of the scheme as an option for BB (both in case of errors or agreed reimbursement), this would enhance STP of such transactions, reduce a possible poor customer experience and help mitigate the risk of duplicate payments.

Such additional message should also be dealt with under the Scheme as single payment transactions following the routing path used for the initial SCT Inst to enable smooth reconciliation process and interoperability. We note that certain features (amount, reasons for reimbursement, or time period) of this additional message shall be further assessed to define its exact scope of use.

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We have included in the below tables a summary of the suggestions made herein.



Rulebook section nbr	Proposed new Rulebook text (in tracked changes)	Reason for change
TIMEOUT /IN-FLIGHT TRANSACTIONS		
1.4	<p>Work flow steps: we suggest amending the work flow from the moment the Beneficiary Bank (BB) has verified the SCT Inst:</p> <ol style="list-style-type: none">i. the BB sends a confirmation to the Originator Bank (OB) or a party in chain to whom the OB delegated this task (e.g. its CSM) that SCT Inst has been verified and funds can be credited;ii. this party sends an acknowledgement to the BB in addition to message sent to the OB confirming execution of the transfer in the inter-PSP space;iii. Following this simultaneous confirmation, the BB has the obligation to credit its customer and both the OB and the BB can confirm the instant payment to their customer.	<p>Under current rulebook work flow, different interpretations could co-exist of how the clearing and settlement layer could be requested by the OB to deal with in-flight transactions in line with the Scheme</p> <ol style="list-style-type: none">1. Wait & see: "in-flight" instructions are queued and only settled when confirmation is received. A scenario which could lead to an indefinite "pending" status of the transaction hindering the "instant" perception of the scheme and introducing liquidity traps.2. No news good news: "in-flight" instructions can be settled by the CSM according to its schedule. A scenario disfavoured especially given the case where the instruction has settled but where the BB would reject the transaction after settlement creating a financial risk on the OB, which has to claim back the settled amount.3. No news bad news: "in-flight" instructions are rejected/time-out at 20+5 sec. by any party in the chain while the obligation of making the funds available in case a possible information is received after the rejection remains with the OB. A scenario leading to credit risk for the BB in

Rulebook section nbr	Proposed new Rulebook text (in tracked changes)	Reason for change
TIMEOUT /IN-FLIGHT TRANSACTIONS		
		<p>case of confirmation of the payment after the rejection further to crediting the beneficiary.</p> <p>EBA CLEARING and its community of banks consider that the financial risks and uncertainty arising from this aspect of the workflow can be managed by adding one necessary message (see proposed change).</p> <p>This additional message is necessary to eliminate the risk identified above (traps/tx status uncertainty, financial risks on OB or BB), preserve the instant product/end-users experience and is possible technically without significant impact on timing/costs (as other international examples show).</p>
4.2.3. C & 4.2.3 D	<p>Further to our proposed "normal" workflow, we suggest amending the workflow for the time-out as follows. Where the confirmation of the BB is not received in time (20 sec. time-out exceeded – step i above failed):</p> <ol style="list-style-type: none"> i. in the interbank space, no transfer order takes place or if a guarantee mechanism is used, it ceases to have effect (The actual implementation of this step depends on the settlement model applied); ii. the party which is providing the settlement certainty within the chain notifies 	<p>Under the above proposed "normal" workflow, the principle is the same for in the exceptional time-out flow:</p> <p>absent the BB's confirmation within the time-out deadline, the OB and/or a party in the chain designated by the OB (e.g. CSM possibly interoperable with a CSM of the BB) shall reject the message by informing simultaneously the OB and the BB.</p>

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TIMEOUT /IN-FLIGHT TRANSACTIONS		
	<p>simultaneously the BB and the OB that the instant payment was not successful;</p> <p>iii. further to the timeout notification, the OB is then in a position to notify the payer of the rejection within acceptable timeframe.</p> <p>Accordingly, section 4.2.3 D can be deleted.</p>	

Rulebook section nbr	Proposed new Rulebook text (in tracked changes)	Reason for change
RECALLS - RETURNS		
4.3.2.2	We suggest clarifying in section 4.3.2.2 that the Recall request and its answer provide for single cancellation requests/answers processed in real-time.	On recalls, the Scheme would benefit from a more explicit mentioning that recalls (both request and answers) should always be sent as individual messages and in real-time under the SCT Inst Rulebook. This does not suggest however, that recall replies should be answered instantly (the necessary time for investigation by OB/BB should be preserved); it solely requires the recall request and reply in the interbank space to use the messages from the Scheme in a real-time messaging exchange. By embedding this in the rulebook possible diverging implementations could be avoided in support of technical interoperability.
Returns/reversals	Adding language in relevant sections of the rulebook to enable optional use of a return/reversal message initiated by the Beneficiary or the BB on its behalf to reimburse the Originator (compare with return/reversal definitions in the SCT rulebook, exact scope of use, e.g. amount, reasons for use, duration, etc. could be assessed).	The draft Scheme does not cover a return/reversal message initiated by the Beneficiary and we are of the opinion that adding such a STP processing flow and supporting messages would be beneficial to the Scheme as neither the current recall nor the initiation of "new SCT Inst" can provide such an STP customer experience in a pan-European context. Such an additional message should also be dealt with under the Scheme as single payment transactions following the routing path used for the initial SCT Inst to enable smooth reconciliation process and interoperability.

3. PROPOSED CHANGES TO THE MAXIMUM AMOUNT FOR INSTRUCTIONS UNDER THE SCT INST SCHEME RULEBOOK (EPC 023-16 V0.1)

Section	Proposed new text (in tracked changes)	Reason for change