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News release

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A blueprint for a new RTGS service for the United Kingdom

The Bank of England is today setting out its blueprint for a renewed Real-Time Gross Settlement (RTGS) service that will deliver a resilient, flexible and innovative sterling payment system for the United Kingdom to meet the challenges posed by a rapidly changing landscape.

RTGS lies at the heart of the UK's payment infrastructure, as well as the Bank's mission for monetary and financial stability. On an average day, RTGS settles around £500 billion between banks – around a quarter of the UK's annual GDP – in sterling central bank money.

The renewed RTGS service is designed to: respond to the changing structure of the financial system, meet user demand for simpler and more resilient payment pathways, build capacity to interface with new payment technologies as adoption increases, ensure continued resilience in the face of evolving threats such as cyber-attacks, and support the evolution of regulatory and monetary policy tools.

Key design features of the new generation of RTGS will include:

1. **Higher resilience:** central to the renewed RTGS service is maintaining continuity of service and integrity of data across a wide range of possible scenarios, including but not limited to evolving threats such as cyber-attacks. Consistent with that goal, a renewed RTGS will continue to offer best-in-class resilience that is fully in line with international standards through dual-site operation with a third stand-by settlement platform. Strengthened contingency messaging arrangements will also be introduced.
2. **Broader access:** the Bank is seeking to increase the number and range of firms able to access RTGS directly in order to settle their payment flows. The Bank will, by early summer, finalise its framework for expanding RTGS eligibility to non-bank payment service providers, subject to appropriate safeguards. This will help to promote financial stability as well as innovation and competition in the payment market. The Bank will also streamline the approval regimes for new direct members of RTGS, and enable third-party aggregators to provide technical connectivity for smaller firms.

3. **Wider interoperability:** users will have greater flexibility to reroute payments if necessary and facilitate efficiency gains by providing the tools to enable participants to streamline their back offices. The introduction of ISO 20022 messaging, alongside similar reform in retail payments being driven by the Payments Strategy Forum, will ensure that the UK is part of the global adoption of this standard. The system will be designed to interface with Distributed Ledger Technology in future.
4. **Improved user functionality:** renewed RTGS will be designed to be technologically capable of near 24 hour operation during business days from the outset, with short settlement windows also potentially available at weekends. It will also have the capability to be upgraded to full 24x7 operation subject to future demand. In order to facilitate better access to RTGS data for participants, the Bank will introduce an external facing Application Programming Interface (API).
5. **Strengthened end-to-end risk management:** The Bank has concluded that financial stability would be enhanced if the UK's high value payment system (HVPS) adopted the 'direct delivery' model used in the overwhelming majority of jurisdictions globally. This conclusion has been endorsed by the [Financial Policy Committee](#), and responds to recommendations made by the IMF. Following transition to direct delivery, the Bank will become the HVPS scheme operator (currently CHAPS Co), alongside the Bank's existing responsibilities for operating the RTGS infrastructure. Direct delivery will give the UK a world-leading HVPS, enabling a single entity to manage risks right across the system, and building on the important progress already achieved by CHAPS Co. The Bank is working with CHAPS Co and its stakeholders to deliver a swift and orderly transition: the aim is to have heads of terms for a share purchase transaction ready by July, with the transition completed in the latter part of 2017.

In terms of the RTGS architecture, the Bank's current intention is for the majority of the enhanced functionality in RTGS to be live by the end of 2020.

Andrew Hauser, Executive Director for Banking, Payments and Financial Resilience, said: "RTGS affects everybody across the country, so it is vital that this critical piece of national infrastructure keeps pace with a fast-changing payments landscape. This blueprint sets out a vision of a renewed RTGS service that will safeguard financial stability whilst enabling innovation.

"The reforms outlined today will keep the UK at the leading edge globally by increasing resilience, broadening access and expanding functionality. Crucially, they are also designed to improve risk management across the system and ensure continuity of service."

The Bank has consulted users on the proposal to move to a direct delivery model for the HVPS. The major CHAPS participants and shareholders are supportive of the change. Tim Fitzpatrick, Chief Executive of CHAPS Co, said: "Over the past 32 years CHAPS has become known the world over as a name that can be trusted and this is thanks to the endeavours of CHAPS Co and its participants. The Bank is now well placed

to take CHAPS' system resilience up to the next level in the changing payments landscape. Our primary goal has always been to safeguard the CHAPS service for all those who rely upon it, and we are pleased to continue working closely with the Bank to achieve a seamless and timely transition - whilst maintaining the highest levels of resiliency in the interests of the scheme's stakeholders."

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Notes to Editors

- **What is RTGS?** RTGS is where financial institutions hold their sterling bank accounts. Like any account holders, they can store balances ("reserves") on these accounts, or use them to make payments. The Bank of England has been operating RTGS since 1996 to provide a safe and immediate way for banks to exchange payments. Since 2006 it has been paying interest on reserves held in RTGS, to support the implementation of monetary policy as set by the MPC.
- **Why does the Bank run RTGS?** All payment schemes require one institution to hold the settlement accounts of its members in which the settlement of obligations takes place. For systemically important payment schemes, this role is performed by the Bank as it is the agent in the economy with the lowest risk of default.
- **What payment systems use RTGS?** Currently seven major sterling payment schemes use RTGS as settlement agent. The largest flows are generated by CHAPS, the UK's high-value payment system, used for financial market transactions and other high-value flows including house purchases, and by CREST, the settlement platform for UK securities (gilts, equities and debt securities) operated by Euroclear UK and Ireland. Due to the size of these systems, transactions are settled individually in real time. For five other payment schemes focused on retail payments, individual payments are not routed through RTGS but rather the net balances that build up between members of these systems are settled periodically in RTGS, either 3 times per day for Faster Payments (used for online and mobile payments) or once per day for Bacs (used for direct debits and salaries); Cheque and Credit (used for cheque processing); LINK (used for ATM withdrawals); and Visa Europe (used for card payments).
- **Which types of institutions already have access to RTGS settlement accounts?** Settlement accounts are required by members of payment schemes. Therefore banks, building societies, broker-dealers, central counterparties and other systemically-important financial market infrastructure are already permitted access to RTGS settlement accounts. Around 180 financial institutions hold a total of around £350bn in these accounts. But the majority of financial institutions choose to access payment schemes indirectly via one of the members of the scheme and the settlement of their IOUs will occur through that member.

- **What are the current HVPS arrangements?** Currently, the payment system operator for the UK's High Value Payment System (HVPS) is CHAPS Co. CHAPS Co is responsible for managing the system's governance and rulebook and, as a central component of its responsibilities, managing risks across the HVPS. The core infrastructure for settling each CHAPS payment is provided by the Bank, in the form of RTGS.
- **What is happening to PSPs?** The Governor [announced](#) in June 2016 that the Bank intends to extend direct RTGS access to non-bank PSPs. Significant progress has been made by the Bank, working with FCA, HMRC and HM Treasury, to develop a framework for PSP access to RTGS. The Bank expects this framework to be finalised by the early summer.