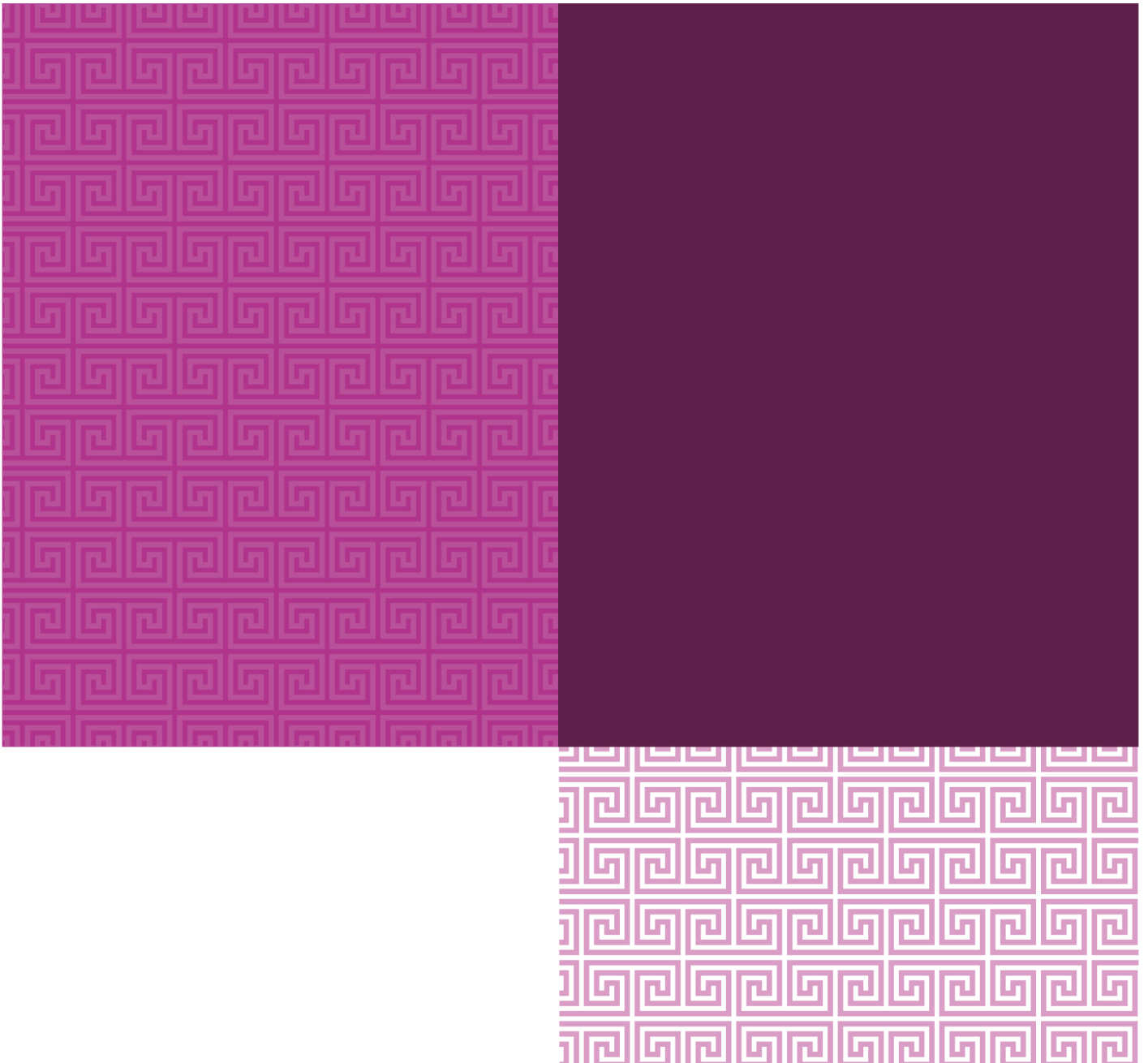




Update on synchronisation engagement

June 2019





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In August 2018, the Bank published a Call for Interest (CFI)¹ on delivering proposed synchronised settlement functionality as part of the RTGS Renewal Programme. We wanted to understand what demand exists in the market for synchronisation in sterling central bank money and to assess in more detail the potential associated design implications for the renewed RTGS service. Earlier in 2019, we hosted two workshops to bring interested parties together to explore these topics in more detail. This document summarises the outputs from those engagement activities and highlights our next steps. Alongside this update, we have also set out our latest thinking on synchronisation in the “Background Guide”.²

What do we mean by synchronisation?

At the heart of synchronisation is the concept of “atomic settlement”. This means that the transfer of two (or more) assets is linked in such a way as to ensure that the transfer of one asset occurs if and only if the transfer of the other asset (or group of assets) also occurs. So the outcome of synchronised settlement is either all parties successfully exchanging the assets, or no transfer taking place.

Synchronisation functionality could enable the settlement of a payment in sterling central bank money to be coordinated with the transfer of one or more other assets. The other asset(s) could either be (a) another payment in sterling central bank money; (b) funds on another payments ledger, such as an RTGS service in another currency; or (c) an asset recorded on an external asset ledger.

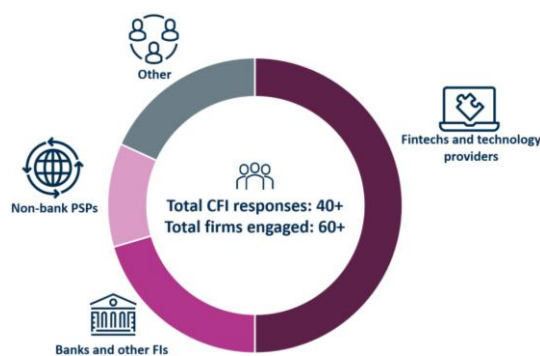
Who did we hear from?

We heard from over 60 domestic and international firms during this engagement.³ Some firms were interested in becoming synchronisation operators (SOs), others had use cases that might benefit from using the functionality, and others wanted to explore how they might be affected by its introduction and be a part of the policy development process.

¹ See <https://www.bankofengland.co.uk/news/2018/august/rtgs-renewal-programme-call-for-interest-synchronised-settlement>.

² See <https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/rtgs-renewal-background-guide-to-proposed-rtgs-functionality-synchronisation.pdf>.

³ See annex 1.



Is there a demand for synchronisation?

Our engagement suggested that there would be strong demand for synchronisation functionality. Firms described several potential benefits that synchronisation could bring across a range of different use cases, including:

- Removing intra-day exposure in securities markets where convention sees ownership of an asset transferred at a different time to the settlement of funds.
- Addressing some of the current problems associated with housing transactions by helping facilitate a more streamlined and automated payment process. This could include removing the need for intermediaries to hold funds, and instead enabling them to be moved directly from the buyer to the relevant party. And it could allow all payments associated with a single housing transaction (for example stamp duty, fees due to conveyancers, the payment from the buyer to the seller) to happen at the same time. This could improve the moving day process by bringing greater time certainty and reducing risks and delays.
- Reducing liquidity inefficiencies associated with corporate actions by reducing or removing the requirement to pre-fund, and instead allowing the earmarking and co-ordinated release of funds to facilitate the settlement.
- Allowing firms to include payment and settlement services in emerging innovative solutions to other industry problems. We heard from several firms with products that solved previous challenges – for example in the transfer and validation of data across borders. They thought that synchronisation could allow them to offer an end-to-end solution.
- Reducing some of the frictions associated with cross border payments by allowing a new way for providers to access Payment versus Payment settlement in central bank money.

What are the design implications for the renewed RTGS service?

Several firms fed back that they would like more detail on the design of the functionality and the roles various parties would play in a synchronised transaction. To explore these issues further, we held two open synchronisation workshops – one general workshop and one focussed on the housing use case, which had contributions from HM Land Registry and the Ministry for Housing, Communities and Local Government. The purpose was to bring together interested stakeholders from across the payments chain to explore (a) whether the current design of synchronisation functionality fits with the needs and expectations of industry, and (b) whether firms agreed with the roles and responsibilities of parties in the transaction that we had set out. The latest thinking on these proposals can be found in our “Background Guide”.

(a) Design of synchronisation functionality

In general, firms thought that the proposed functionality would meet their business needs, but there were some enhancements that could be made. Firms noted the following issues that should be explored further:

- How **earmarking functionality** is designed. Firms wanted clarification on how earmarks could be unwound, how long earmarks could be in place for and the limits that settlement participants could place on the earmarks on their account.
- How the SO would **interface with RTGS**, including the technical detail of the connection. There was some demand for us to offer a test system to allow potential SOs to explore the interface RTGS would offer and how that could be integrated with their own systems.
- The **information** that would be available to various parties in the transaction through the process. This included how settlement participants could monitor transactions and how SOs would be informed of settlement outcomes.
- The process to manage **defaults and failed transactions** including contingency processes in the event of an outage or failure of an SO. Firms have indicated that while some degree of consideration should be given to contingency scenarios at this stage, it will naturally become a greater priority later in the development process.

(b) Roles and responsibilities

The relationship between, and the division of responsibilities across, parties in a synchronised settlement process was discussed in detail at the workshops. This included which parties would have the authority to set and view earmarks on an account, which parties are responsible for instigating each stage of a transaction and which parties would get notified about synchronised transactions. Again, firms broadly agreed with our proposals. Of particular interest to participants was:

- The relationship between the SO and settlement participants, including the level of autonomy an SO would have when earmarking funds in settlement accounts.
- The detail of how a settlement participant would grant access to the use of its settlement funds.
- The policy framework for SO access to RTGS, including the legal and regulatory considerations which an SO would need to be aware of.

Next steps

We discussed with workshop participants how best to continue engagement on this topic. Many firms were willing to continue providing feedback as our thinking develops. But firms also asked that we provide more detailed information on the functionality and the responsibilities of those connecting to it. Based on this feedback, the Bank will:

- Publish a document setting out our current thinking on synchronisation, which will be updated as the design develops. This “Background Guide” document has now been published.
- Continue with our policy and design work to explore the themes raised during this engagement. This will include work that clarifies the relationship between the SO, the Bank and the settlement participant, what earmarking will look like and other functional considerations. More work will take place at a later stage to

understand what regulatory and supervisory requirements might need to be met by potential synchronisation operators.

- Explore how we can continue to grow a community of interested organisations to discuss synchronisation functionality and understand the use cases. This will include considering the benefits of offering a test system to enable prospective participants to experiment with the functionality.

We are keen to continue to engage with new firms on this topic. For more information on how to do this and for updates on the RTGS Renewal Programme please visit our website or contact the team by emailing RTGSEngagement@bankofengland.co.uk.

Annex 1. List of firms we have engaged with.

A&T Advisory	Equiniti Group plc	Law Society	SETL Development Ltd
ADSS	European Banking Federation	Lipis Advisors	Shieldpay
Anpa Forward Ltd t/a Transpact.com	Finteum	Lloyds Banking Group	Sionic Advisors
Atomic Wire	Fiserv	M&G	Standard Chartered
Baringa	FNZ	Ministry for Housing, Communities & Local Government	Supermoney Ltd
Baton Systems	FS Management Consultants Ltd	Moneyfold Ltd	SWIFT Scrl
Blockchain Digital & Persistent Systems	GFMA's Global Foreign Exchange Division	Monzo	The Coventry Building Society
BNP Paribas	Giesecke & Devrient	Nanopay	Thirdfort Ltd
Brymer Legal	GKP Consultants Ltd	Pay.UK	Transpact
Clearmatics Technologies Ltd	HM Land Registry	Payment Systems Regulator	UK Finance
CLS	HSBC Bank plc	Property Exchange Australia Ltd	ULS Technology plc
Cobalt	InSync Labs Ltd	R3	Visigon Nordic AB
CreDec	Jigsaw XYZ	Ripple Labs Inc	Vocalink, a Mastercard company
DisLedger Ltd	JPMorgan	RISE Financial Technologies	Royal Bank of Scotland
Enact Conveyancing Ltd	KPMG	Santander UK plc	