BANK OF FINLAND BULLETIN

BANK OF FINLAND ARTICLES ON THE ECONOMY

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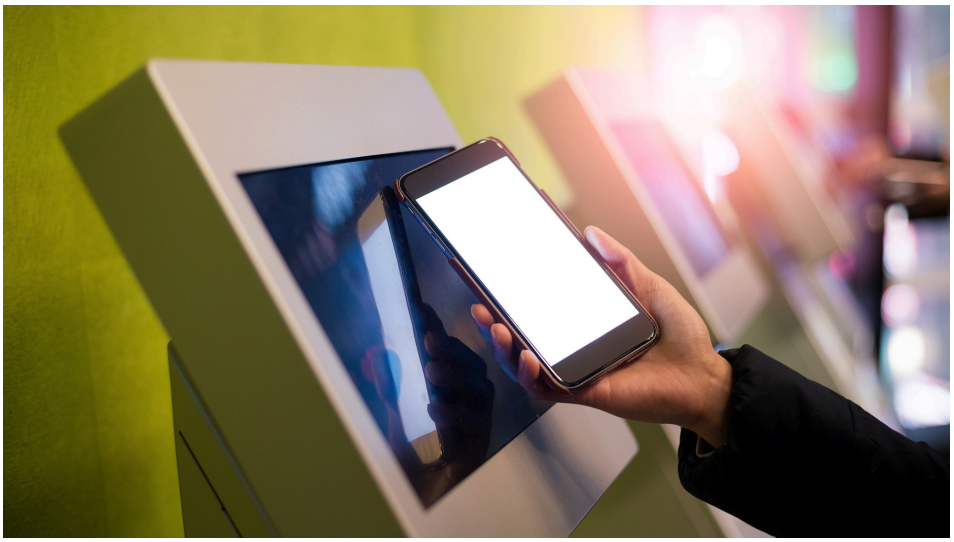
Teemu Peltoniemi
Head of Division

The Bank of Finland maintains and develops the common European financial market infrastructure and is a centre of expertise in systems for Finnish and Nordic banks. It also has several different operational roles on the financial markets, for example connected with the management of its own foreign exchange reserves and monetary policy credit operations.



The Bank of Finland develops and maintains the financial market infrastructure

Modern information systems have an important role to play in securities trading and the payment transactions between banks. At the Bank of Finland this is apparent inasmuch as responsibility for the financial markets infrastructure, such as the maintenance and development of payment systems, has increased. Such tasks and functions are derived from legislation on the Bank of Finland.

More and more financial infrastructure in Europe is being built by the Eurosystem, thus supporting the development of a common European Capital Markets Union. The

Eurosystem's common payment and settlement systems create stability for the single currency area, and jointly produced services are a more efficient way to deliver vital services to European markets.

The Bank of Finland also functions in these roles as a constructive member of the Eurosystem, a dynamic central bank bringing to the table its own input, to ensure that any joint systems established are efficient, in terms of both costs and operation.

The TARGET2 payment system moves interbank payments in real time

The Eurosystem's most important market infrastructure to date for the commercial banks active in Finland is the TARGET2 payment system, which facilitates common monetary policy implementation in the euro area by enabling the participating central banks to settle monetary policy credit operations in euros. Counterparties (i.e. banks) then use these funds to settle, for example, securities transactions and retail payments made by private customers between them. (See Record amount of credit granted to Finnish banks.)

When payer and recipient have accounts with different banks, retail payments and, for example, Finnish salaries (or, more precisely, transfers of funds between the relevant banks) are now settled via the TARGET2 system. Although payments in the Single Euro Payments Area are faster than they were before, even between private individuals, they are not yet transacted in real time in most cases.

The banks send the details of their retail customers' payments to the STEP 2 system operated by EBA Clearing, which then calculates each bank's net position in relation to the other parties. In practice, then, the bank involved in euro payment transactions always either pays funds or receives them from other participating parties. When these positions are known, the banks transfer the funds to one another (via EBA Clearing) in the TARGET2 system. In Finland, the process is such that customer payment transfers of funds to the banks received by the afternoon are cleared in TARGET2 that same day, and any payments arriving later are cleared early the following morning. After the transfers, payments are considered as final and the banks can record the transactions to the end customers in their systems. In this way, Finnish salaries and retail payments also finally appear in the accounts of private customers.

TARGET2-Securities clears international securities transactions quickly and securely

In addition to the TARGET2 payment system, the Eurosystem also facilitates securities settlement by means of the TARGET2-Securities (T2S) system, in use in central bank money in 20 countries. T2S allows the parties to a securities transaction located in different countries to receive cash (in the case of the seller) or securities (in the case of the buyer) at the same time in central bank money, which reduces settlement risk. As with TARGET2, the European banking sector is the end client of this infrastructure. Although some customers of the Bank of Finland payments system already use the T2S system for settlement of securities transactions in other central securities depositories,

T2S will be far more relevant to the Finnish market when Euroclear Finland, a central securities depository located in Finland, joins the T2S platform.

TIPS (TARGET Instant Payment Settlement) makes possible instant payment in central bank money

Since November 2018, the Eurosystem has also had a role to play in instant payments,[1] as the owner and operator of TARGET Instant Payment Settlement (TIPS). TIPS is the Eurosystem's response to the growing demand for instant payment and its increased fragmentation as a result of the introduction of national solutions. TIPS allows linked banks to deliver instant payment services to their customers 24/7 throughout the year. Payments cleared via the TIPS system are confirmed as final, as they are cleared using the Eurosystem's TARGET infrastructure in central bank money in just seconds. The funds appear in the bank accounts of private individuals immediately, regardless of the time of day. It is relatively easy for banks to start using the TIPS system, as the requirements for participating are the same as for TARGET2.

So far, customers of the Bank of Finland payments system have not connected to TIPS, but the situation may well change in the next few years, as in July 2020 the ECB took decisions which will ensure pan-European reach of instant payments. There are no longer any barriers to the rapid transfer of payments as far as the infrastructure is concerned.

The Bank of Finland provides guidance and advice in the use of payment and settlement systems and gives assistance when there are problems

The role that the Bank of Finland has as the operator of the TARGET2 (payments), the T2S (securities settlement) and the TIPS (instant payments) systems entails being a point of contact and a centre of expertise for these systems in Finland. The Bank of Finland is responsible for ensuring that participating banks are properly and adequately familiarised with the systems and that they are technically and operationally ready before they are connected to them. In this way the Bank of Finland, like other central banks, can itself ensure that local actors are able to use the system in compliance with the common rules agreed for the Eurosystem.

The Bank of Finland also helps the relevant parties when they have technical problems. One of the main operational tasks is to ensure that the functions that are crucial from the perspective of the European financial markets run smoothly in all situations. This means that the Bank of Finland must be able to act in situations where, for one reason or another (e.g. data network problems), a party is unable, say, to transfer euros related to foreign exchange trade on time. In such a case, the central bank could make the payment out of that party's account on its behalf, making use of the agreed contingency procedures. The Bank of Finland is always prepared to act on another bank's behalf to

1. Instant payment refers to the electronic systems for making retail payments and which process them in real time around the clock every day of the year. Funds sent in this way are available to the recipient immediately.

avoid negative, possibly systemic, effects on the financial markets if the transaction were not carried out.

On the other hand, there can also be problems with the above mentioned systems themselves. In these cases, the Bank of Finland is responsible for making sure the local counterparties are properly informed and coordinating these situations together with the ECB and the other national central banks in the Eurosystem. These tasks fall on the Bank of Finland's own experts and the designated crisis manager who coordinate solutions to problems in Finland. They also participate in the decision-making with the ECB and the national central banks regarding such matters as extending the hours of operation of systems when there are problems.

Development of the systems continues – greater efficiency sought through combination of systems

TARGET2 has been around for a good 10 years and T2S has been in use for about five years now. The Eurosystem has embarked on a project to respond to the growing demands of the market and regulation in particular. The purpose of the T2-T2S consolidation project, planned for completion at the end of 2022, is to combine the current TARGET2 and T2S systems technically, making use and maintenance of the systems more efficient both operationally and economically. Moreover, the new system will provide new tools for the management of banks' liquidity, making for a more efficient market generally.

The goal in future is also to achieve the same sort of efficiency achieved with payment and settlement systems with collateral management of monetary policy operations. Although the guidelines on collateral in the Eurosystem have long been harmonised, every national central bank still manages securities and other assets in their own systems. The Eurosystem Collateral Management System (ECMS) will allow national collateral management systems to be replaced with a common technical solution. This centralised system aims at efficiency, and decisions on the Eurosystem's common collateral framework will no longer need to be implemented separately for 19 different national systems. The Bank of Finland is also actively involved in this project and pushes for European solutions that would make the Eurosystem more efficient overall.

The Bank of Finland also uses payment and settlement systems in its own operations

As a central bank, the Bank of Finland is also a user of the financial market infrastructure. The Bank's investment process continues after the portfolio managers have taken the actual investment decisions and agreed on the terms and conditions of any deal with their counterparties. Nor does the work associated with the implementation of a common monetary policy within the Eurosystem end when central bank loans are granted or securities are purchased under the various purchase programmes. Monetary policy credit operations, the associated collateral or purchased securities, as well as the relevant funds, must still be transferred between the Bank of Finland and its counterparties. Without reliable payment settlement systems, these other functions would be impossible. These systems are all the more important in the midst of

the pandemic, as the number of transactions related to the implementation of monetary policy has increased.

Tags

corona, instant payments , payment systems, securities settlement, collateral management

Authors

Teemu Peltoniemi
Head of Division
firstname.lastname(at)bof.fi