

## Value dating SCT Inst transactions crossing different time zones

### 1. Background

Following several discussions on how to value date SCT Inst transactions, AMI-Pay agreed on a best practice towards this issue at its April 2018 meeting, i.e. to value date such transactions on the calendar date on which they are executed. At that same meeting it was also agreed to try to find a common approach towards the question of how to value date SCT Inst transactions that cross time zones, where the local calendar dates of the sending and receiving PSP differ. Since this issue required some further discussion, the best practice was published without guidance on this matter. It was agreed to discuss this issue in the next AMI-Pay meeting and to update the best practice if an agreement would be found. This note discusses the aspects to take into account and suggests a way forward.

### 2. Crossing time zones: the issue

The main reason behind the efforts to agree on a best practice on value dating SCT Inst transactions is the fact that in the absence of such an agreement, different approaches among PSPs could lead to different value dates being applied to the sending and receiving side of the same transaction. This in turn could lead to interest being paid on both sides or on neither side, creating arbitrage possibilities where e.g. corporate treasuries in their cash management process could make use of the possibility to receive interest twice. This might lead to unexpected cash flows for the PSPs involved.

A common approach whereby transactions are value dated on the calendar date on which they are executed ensures, for most transactions, that the value dates on the sending and receiving side match. This is not the case, however, for those transactions that cross time zones at times of the day when the local calendar dates differ between the sending and receiving PSP.

The SEPA countries are mainly located in three time zones: Eastern European Time (EET, UTC+2), Central European Time (CET, UTC+1) and Western European Time (UTC).<sup>12</sup>

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<sup>1</sup> All references to time zones refer to times of the year when standard time (i.e. not summer time) is observed.

<sup>2</sup> Exceptions are the Azores (PT) in UTC-1 and various FR overseas territories in different time zones (UTC+4, UTC+3, UTC-3, UTC-4).

### 3. Possible approaches

There are several possible approaches to this issue, each with their advantages and disadvantages.

*1. Each PSP strictly follows the (local) calendar date = value date approach*

With this approach, each PSP would treat all its incoming and outgoing SCT Inst transactions the same way. This appears intuitive for end-users: regardless of where the transaction is going or coming from, it is always value dated on the local calendar date. However, issues arise when looking beyond what is happening at one individual PSP. As mentioned above, with this approach for some transactions different value dates would be applied on the sending and receiving side, which leaves room for the aforementioned type of arbitrage. For example, a transaction sent from Spain to Portugal at 0:30 (Spanish time) would arrive at the beneficiary at 23:30 (Portuguese time) the previous day.

*2. A common cut-off time is defined when PSPs switch to the next calendar date*

This approach would ensure that the same value date is applied to both sides of a transaction, thereby removing the arbitrage possibilities that arise from differences in value dates between the sending and receiving side. This would however mean that some transactions are not value dated on the local calendar date. If, for example, midnight CET is chosen as the common cut-off time, PSPs based east of CET would, after midnight local time, still have to value date transactions on the previous day until midnight CET. PSPs based west of CET would, on the other hand, already have to switch to the next day before it becomes midnight where they are. This is therefore less intuitive for end-users than approach 1. For those PSPs that wish to extend the value date = calendar date rule to transactions other than SCT Inst (for example ATM withdrawals), there would be the additional question of whether to also apply the common cut-off rule to those transactions as well. Not doing so could lead to situations where a customer receives an SCT Inst transactions value dated the next day and then withdraws the money at an ATM with the current local calendar date (i.e. a day before the preceding incoming transaction) being applied to that ATM withdrawal. This could even lead to overdrafts, with all their associated costs.

As for the specific cut-off time that would be defined, midnight CET would seem to lead to the lowest number of transactions being value dated on a day other than the local calendar date. For end-users in CET, i.e. the majority of all end-users in SEPA, all transactions would be value dated on their local calendar date. The vast majority of the remaining end-users are located in time zones one hour behind or ahead of CET, and would therefore experience a difference between their local calendar date and the value date applied to SCT Inst transactions for only one hour each day. A cut-off time one hour earlier or later could benefit PSPs in time zones east or west of CET in the sense that it

would allow them to value date all transactions on the local calendar date. However, it would lead to a difference between value date and calendar date for one hour in CET and for two hours on the other side of CET. Other cut-off times would lead to even more transactions not being value dated on the local calendar date (see table 1, below).

In addition to these practical considerations, this approach also raises a potential legal issue regarding compliance with the revised Payment Services Directive:

- Article 87(1) PSD2 states that ‘Member States shall ensure that the credit value date for the payee’s payment account is no later than the business day on which the amount of the payment transaction is credited to the payee’s payment service provider’s account’. Any cut-off time that leads to some transactions being value dated a day after the local calendar date on the receiving side appears to go against this provision.
- Article 87(3) PSD2 states that ‘Member States shall ensure that the debit value date for the payer’s payment account is no earlier than the time at which the amount of the payment transaction is debited to that payment account.’ If ‘the time’ is interpreted as ‘the local calendar date’, any cut-off time that leads to some transactions being value dated a day before the local calendar date on the receiving side appears to go against this provision.

**Table 1 – Effects of a common cut-off time**

|              |              | PSPs located in WET   | PSPs located in CET   | PSPs located in EET   |
|--------------|--------------|---|---|---|
| Cut-off time | Midnight EET | Transactions <b>between 10 PM and midnight</b> are value dated ‘tomorrow’ | Transactions <b>between 11 PM and midnight</b> are value dated ‘tomorrow’ | All transactions are value dated on the local calendar date               |
|              | Midnight CET | Transactions <b>between 11 PM and midnight</b> are value dated ‘tomorrow’ | All transactions are value dated on the local calendar date               | Transactions <b>between midnight and 1 AM</b> are value dated ‘yesterday’ |
|              | Midnight WET | All transactions are value dated on the local calendar date               | Transactions <b>between midnight and 1 AM</b> are value dated ‘yesterday’ | Transactions <b>between midnight and 2 AM</b> are value dated ‘yesterday’ |

3. *Both the sending and the receiving PSPs value date transactions on the local calendar date of the sending PSP (or the receiving PSP)*

This approach would likewise ensure that the same value date is applied to both sides of a transaction, thereby removing the aforementioned arbitrage possibilities. If the local calendar date on the sending side is chosen, transactions would always be value dated on the local calendar date on the sending side, regardless of where the transaction is going. A sender that pays exactly on the day the payment is due would then be sure that the payee would receive the funds value dated on that

day.<sup>3</sup> On the receiving side, however, the value date applied would depend on where it is coming from, and would not always correspond to the local calendar date (see table 2, below). An end-user could receive funds that are immediately available but only value dated the next day. This end-user could then reuse these funds for another transaction that would be value dated on the local calendar date, which could again lead to overdrafts. In addition, the legal issue regarding transactions being value-dated after the local calendar date on the receiving side, as described under approach 2 applies here as well.

**Table 2 – Effects of using the calendar date at the sending PSP as a basis for value dating**

|                             |     | Location of the receiving PSP  |  |  |
|-----------------------------|-----|--|--|--|
|                             |     | WET  | CET  | EET  |
| Location of the sending PSP | WET | Transactions are always value dated on the local calendar date                     | Incoming transactions <b>between midnight and 1 AM</b> are value dated 'yesterday' | Incoming transactions <b>between midnight and 2 AM</b> are value dated 'yesterday' |
|                             | CET | Incoming transactions <b>between 11 PM and midnight</b> are value dated 'tomorrow' | Transactions are always value dated on the local calendar date                     | Incoming transactions <b>between midnight and 1 AM</b> are value dated 'yesterday' |
|                             | EET | Incoming transactions <b>between 10 PM and midnight</b> are value dated 'tomorrow' | Incoming transactions <b>between 11 PM and midnight</b> are value dated 'tomorrow' | Transactions are always value dated on the local calendar date                     |

#### 4. Feedback from the AMI-Pay NSGs

An earlier version of this note was shared with the AMI-Pay NSGs for their feedback. The feedback received was mixed, some supporting the first approach and others the second. On the second approach, however, some responses also expressed concerns regarding end-user experience, legal compliance and operational impact (and associated costs) for PSPs.

#### 5. Conclusion

An approach whereby PSPs always value date SCT Inst transactions on the local calendar date on both sending and receiving side leads to differences in value dates between the sending and receiving side of the same transaction in cases where due to time zone differences the local calendar dates of the sending and the receiving PSP differ. Possible alternative value dating approaches to avoid these differences and

<sup>3</sup> If, alternatively, the local calendar date on the receiving side would be used as a basis, this would not be the case.

the associated arbitrage possibilities, such as agreeing on a common cut-off time when PSPs across Europe would move to the next day for value dating purposes or using the local calendar date of the sending PSP as a basis for value dating on both sides of the transaction, raise both practical and legal concerns. In addition, the implementation of any alternative approach would require efforts and costs. Considering these concerns and the limited support expressed by the NSGs for the alternative approaches, incorporation of either alternative into the non-binding AMI-Pay best practice on value dating SCT Inst transactions does not seem warranted.

**AMI-Pay members are invited to discuss the analysis and to agree on a way forward.**