



Report by the Task Force for the Next-Generation Payment Systems (Overview)

Participation of Funds Transfer Service Providers in the Zengin System

- **The Task Force for the Next-Generation Payment Systems (hereafter the “TF”) recommends that the requirements for participating in the Zengin System, whose membership qualification is currently limited to deposit-taking financial institutions (i.e., banks), be revised. The target of revision is to enable funds transfer service providers (i.e., non-banks) to apply for its membership by FY2022. Accordingly, further details on membership requirements and necessary institutional framework for expanding membership qualification will be worked out.**

1. Requirements for participation

- Non-banks which intend to participate in the Zengin System should be subject to the same terms and conditions as the existing member banks from the perspective of ensuring the stability of the payment systems. These include the application of the “collateral system” and “system for providing liquidity” required under the Zengin-Net Rules. The Zengin-Net, the Financial Services Agency and the Bank of Japan will closely cooperate and discuss the way forward for setting up a monitoring framework and standards of those non-banks from the perspective of stability of the payment systems.
- In the medium to long term, further rules and institutional frameworks, if any, that contribute to all participating entities will continue to be explored.

2. Participation method

- Two access models to join the Zengin System are expected to be implemented from the perspective of ensuring the fairness in accessibility to the payment systems. Those models are namely “Agency Participants” (directly connected non-settling participants) and “Clearing Participants” (directly connected settling participants).
- Non-banks executing settlement as Clearing Participants are likely to have a more significant impact on payment systems including the activities of the Zengin System. The requirements on their financial soundness and risk management for Clearing Participants should be more stringent compared to those intended for Agency Participants.
- Non-banks joining the Zengin System as Agency Participants will have to make an agreement with Clearing Participants who will provide settlement services on their behalf. Accordingly, terms and conditions included in the agreement are expected to be standardized.

3. Connection method

- In the short term, participants connecting to the Zengin System’s infrastructure will use the current method (i.e., connecting through relay computers). In parallel, however, a new method using an application programming interface (API) should be explored for use in the medium term. This method is expected to benefit both the existing member banks and non-banks.
- At the same time, other new information technologies and possible measures will be explored from medium- to long-term perspectives, with a view to further enhancing the efficiency gains from modernizing the whole Zengin System.






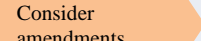
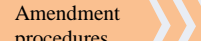
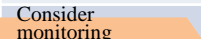

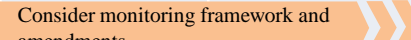
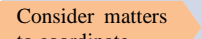
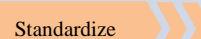
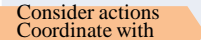
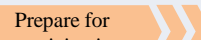
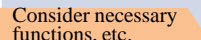
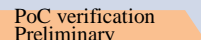
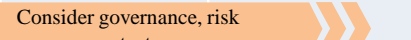
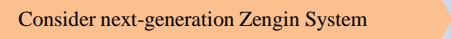
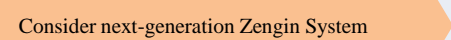
Enhancement of convenience of frequent, small-amount payments

- **The TF has concluded that the “Cotra” Project is a feasible solution for the short-term revision perspective. The project is led by five city banks aiming to build a new infrastructure for small-amount payments. The Zengin-Net and Cotra Project Team will closely cooperate and discuss the way forward in order to launch the Cotra operation in early FY2022.**
- In parallel with the Cotra Project, it is desirable to continue discussions on the frequent, small-amount payments in medium to long-term, keeping in mind the timeframe of the next-generation Zengin System upgrade.

Actions in the next fiscal year onwards

- In order to engage in in-depth discussions based on the above recommendation, the TF has decided to **establish two working groups: one is expected to address system-related issues, and the other to address rule-related issues. Working group members will look into the specifics of those issues.**

Future considerations and timeline

Actions	Considerations	WG	FY2021	FY2022	FY2023 to FY2027
Overall roadmap	(1) Participation of non-banks in the Zengin System	—		 ★	Expand participation
	(2) Enhancement of convenience of frequent, small-amount payments (<i>Cotra</i> PJ)			 ★	To launch the operation
	(3) Consideration of the next-generation Zengin System		 ★	ditto	
Establishment of an institutional framework for new participants in the Zengin System	(1) Consider partial amendments to relevant rules (e.g. Operational Procedures)	Zengin -Net (Rule WG)			
	(1) Consider matters including monitoring items	Zengin -Net (Rule WG) FSA/BOJ			
	(1) Consider participation as Clearing Participants	Zengin -Net (Rule WG) FSA/BOJ			
	(1) Consider standardizing terms and conditions included in an agreement when Clearing Participants provide the settlement service to the Agency Participants	Zengin -Net (Rule WG)			
Development/upgrading of systems for new participants in the Zengin System	(1) Consider system-related issues to be addressed to connect non-banks (e.g. identification info., function to check recipients' accounts)	Zengin -Net (System WG)			
Enhancement of flexibility of connection methods	(1) Further improve flexibility of, and enhance, connection methods (Consider an API gateway)	Zengin-Net (System WG)			Requirements definition, etc.
Realizing “ <i>Cotra</i> ”	(2) Prepare for operation of “ <i>Cotra</i> ” (including cooperation with the Zengin System)	Zengin-Net (Rule WG) <i>Cotra</i> PJ			
Consideration of the next-generation Zengin System	(3) Consider institutional framework-related issues associated with upgrading to the next-generation Zengin System	Zengin -Net (Rule WG)			
	(3) Consider further improving efficiency of the Zengin System (e.g. usability of new technologies)	Zengin-Net (Rule WG)			
	(3) Consider system-related policies on upgrading to the next-generation Zengin System	Zengin-Net (System WG)	