Annual Payments Week 2007
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From TARGET(1) to TARGET2

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The European scenario: the CBs strategy in Europe in the nineties

The introduction of real-time gross settlement systems

The development of RTGS was one of the guidelines set in the Report ‘Minimum common features for national payment systems’ established by the Committee of Governors in 1993, as a strategy to be adopted in view of the launch of the Monetary Union and the transition to the Euro.
The European scenario: the TARGET(1) system

Structure

Participant SYSTEMS

IT

PT

BI-REL

118

EE

37

PL

GR

BCE

EPM

19

HERMES euro

37

SPGT

84

ARTIS

11

E-RIX

17

BoF

15

ELLIPS

32

KRONOS

179

SLBE

144

TBF

171

ELS, RTGSplus

21

IRIS

31

LIPS-Gross

100

TOP

37

CHAPS euro

Direct participants: 1100
Indirect participants: 2000
Branches: 45000

Out Countries
The European scenario: TARGET1, why and how?

Why did we build TARGET?

• To contribute to the smooth conduct of monetary policy and the singleness of the money market
• To increase the efficiency of cross-border payments in euro
• To improve the soundness of payment systems (reduction in systemic risk)

How did we build TARGET?

• Decentralization principle (settlement accounts held with NCBs)
• Minimum approach with regard to harmonization of national RTGS systems
The European scenario: TARGET1, why and how? (2)

- AREAS OF HARMONIZATION
  - INTRADAY LIQUIDITY
    - Free, unlimited, wholly collateralized
    - Based on overdraft or repo
    - Same kind of securities to be used for monetary policy and payment systems
  - FEES
    - Cost recovery
    - Avoid negative effects on the conduct of the monetary policy
    - Guarantee uniform conditions to participants
  - OPERATING HOURS
    - Facilitate the conduct of the common monetary policy
    - Reduce Herstatt settlement risk
The European scenario: the TARGET1 system

The main achievements

• Levelling of European monetary market rates

• Increased efficiency of the payments system: *retail payments increased from 16% of the total amount of transactions settled in TARGET in 1999, to 53% in 2006*

• In 2006 about 60% of the total amount of large-value payments in euro (90% in terms of value) were settled in TARGET (70% in terms of value and 52% in terms of volume in 1999)

• Large technical availability of the system (*99.8% in 2006, compared to 99.4% foreseen in the Target Guideline*)

• TARGET is the biggest payment system in the world: *from end 2006, on average 2,003 billion euro (314,000 in figures) settled per day (more than USA Fedwire)*
The European scenario: the TARGET2 system

Principles and structure of TARGET2
*(Decisions of the ECB Governing Council of 24 October and of 21 November 2002)*

- System based on many platforms, which will offer the same core services
- Implementation of a single shared platform (SSP)
- Possibility for single central banks to offer additional services at a domestic level
- Single fee scheme at European level for core services relative to domestic and cross-border payments; ad hoc fees for additional services
- Application of the ‘full cost recovery’ principle, attenuated to take into account the positive externalities of the system (so-called *public good factor*)
- Decentralized relationships between NCBs and the relevant banking communities
The European scenario: the 3CBs proposal for the Single Shared Platform

- Common proposal of Banca d’Italia, Banque de France and Bunsdesbank (=‘3CBs’) for the concept, development and operation of the Single Shared Platform (SSP)
- Building Block approach: compromise between ‘building from scratch’ and using an existing system
- Neutral project and operational organization
The European scenario: the TARGET2 system

TARGET2 single platform

- October/November 2002: the Governing Council decides on TARGET2 principles

- July 2003: Banca d’Italia, Bundesbank and Banque de France (3CBs) communicate to the ECB their decision to implement a new system to offer as a single platform (SSP) for TARGET2 (building block approach)

- October 2003: the SSP of the 3CBs is presented to the Eurosystem and to the banking community

- September 2004: the Eurosystem defines the common governance for TARGET2

- December 2004: the Governing Council approves the SSP of the 3CBs and mandates them to implement and operate the SSP

- January 2005: adhesion of the NCBs (with the exception of Sweden, later followed by the UK) of the SSP project
The European scenario: the TARGET2 system

The governance

Level 1
- **ECB Governing Bodies**: Strategic direction and control of TARGET2 as for legal framework, financing, core services and their fees, common methodology to record costs, risk management, migration

Level 2
- **PSSC**: Decision on matters delegated by L1 as for additional services and their fees, platform design and development, service level agreement with L3, budget, cost analysis

Level 3
- **3CBs**: Support participating NCBs, draw up administrative and technical documentation, test, migration, SSP evolution
The European scenario: the TARGET2 system

Migration

From 19 Nov 07
1) Volume
2) Value
Figures: May 2007

From 18 Feb 08
From 19 May 08

1) 328,400 2)
2,168 Bio €

1) 274,300 2)
1,940 Bio €

1) 175,000 2)
733 Bio €
The European scenario: the TARGET2 system

The Single Shared Platform

Participant Interface (Y-copy)

Ancillary systems interface

Settlement and accounting module

Reserve Management

Standing Facilities

Information and control

Home Accounting

Contingency

Standard interfaces

Other NCB applications

Internal Acc.

Collateral Management

Home Accounts

IBAN

Contingency

HMIB
The European scenario: the TARGET2 system

Single Shared Platform (SSP) components

1. **Payment module (PM)**
   - Participation
   - Operations
   - Liquidity management
   - Liquidity pooling (optional use)
   - Ancillary system settlement
   - Fees structure

2. **Information and control module (ICM)**
3. **Contingency module (CM)**

1. **Home accounting module (HAM)**
2. **Reserve management module (RMM)**
3. **Standing facilities module (SFM)**
4. **Data Warehouse (DW)**
5. **Customer Relationship Management (CRM)**
The European scenario: the TARGET2 system

SSP: PM Participation

Direct participants
- have direct access to the PM (using its own SWIFT interface or using a service bureau)
- have an RTGS account in the PM
- have access to real-time information and control measures via ICM
- … and can provide an indirect connection to the PM for other institutions as ...

Indirect participants
- send and receive payments to/from their direct participant
- are linked to one direct participant only
- have no own RTGS account in the PM, their payments are settled on the RTGS account of its direct participant
- are registered in the PM and can be indirectly addressed
The European scenario: the TARGET2 system

SSP: PM Operations

- **All RTGS payments can be processed**
  - Individual payments should be settled real-time and with central bank money
  - No limit amount
  - No processing of bulk payments

- **Processing of**
  - Credit orders
  - Direct debits
Unlike today, TARGET2 operating day will start on the preceding day in the evening.
The European scenario: the TARGET2 system

SSP: PM Liquidity management

Sources of liquidity

• Balances on RTGS accounts
• Provisions of intraday liquidity
• Offsetting payment flows (i.e. using algorithms to settle a number of queued payments)

Liquidity management tools offered to the participants

• Priorities
• Reservation facilities (highly urgent reserve, urgent reserve, dedicated liquidity)
• Limits (bilateral and multilateral)
• Timed payments
• Queue management
• Liquidity pooling
The European scenario: the TARGET2 system

SSP: Business continuity

REGION 1

SITE A
Synchronous remote copy

SITE B
Hot back-up

REGION 2

SITE C
Synchronous remote copy

SITE D
Hot back-up

Live

Test & Training (T&T)

Periodic Region Rotation