

# TARGET2

**THE EUROSYSTEM**  
THE CENTRAL BANKING SYSTEM OF THE EURO AREA

## Overview

### I. The way to the here and now, and future developments

Dieter Becker (European Central Bank)

### II. TARGET2 and foreseeable trends towards financial integration

Andreas Dostal (Oesterreichische Nationalbank)

### III. The changeover to and the running of the SSP

Jochen Metzger (Deutsche Bundesbank)

### IV. TARGET2 user perspective

Patrick Poncelet (European banking Federation, TARGET Working Group)

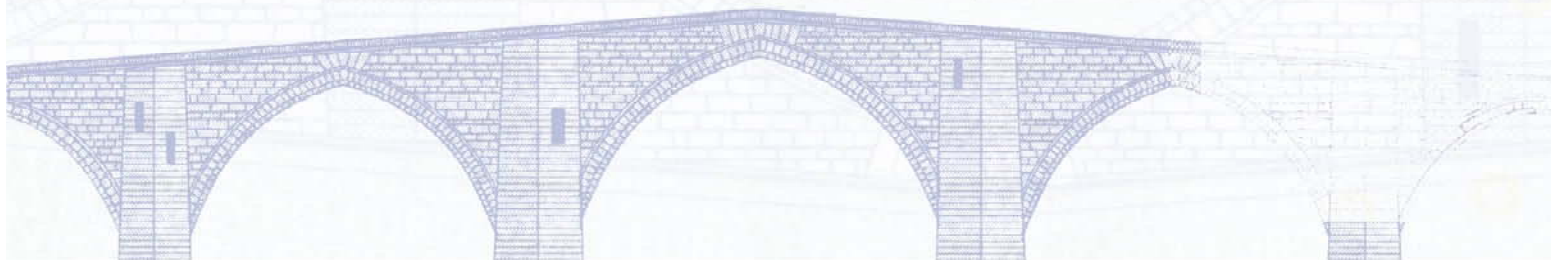
### V. Panel discussion and Q&A



# TARGET2: The way to the here and now, and future developments



Dieter Becker  
European Central Bank



# The way to the here and now



## Business principles

16 December 2002 - TARGET2: principles and structure. Public consultation

1. Settlement of predominantly systemically relevant, large-value euro payments in central bank money
2. Compatible with the existence of other systems processing payments in euro
3. No limits to any payment users wish to process in real time in central bank money
4. Three classes of payments (i) obligatory (i.e. monetary policy and settlement of ancillary large-value systems); (ii) payments that the Eurosystem considers desirable to be processed via TARGET; and (iii) other payments at the choice of users

# The way to the here and now



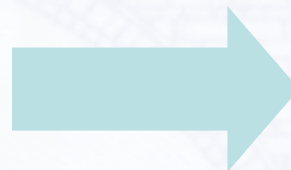
## Project evolution as mirrored at Sibos

- **2003:** Rationale for TARGET2 and proposal for a single shared platform (SSP)
- **2004:** Project governance and organisation, main features envisaged for TARGET2
- **2005:** Detailed system specifications, and principles for pricing, testing and migration
- **2006:** Preparations for the go live and the operational phase, final participation and pricing frameworks

# The way to the here and now

target  
2

**2007: 19 November**



target  
2

- single interfaces leading to harmonised services at a single price
- flexible enough to accommodate future customer needs
- highly efficient, resilient and competitive
- pan-European liquidity management
- able to handle euro area enlargement, etc

***An RTGS system  
ahead of its time!***

# Future developments



## Long term vision for TARGET2: backbone for the euro wholesale payments business

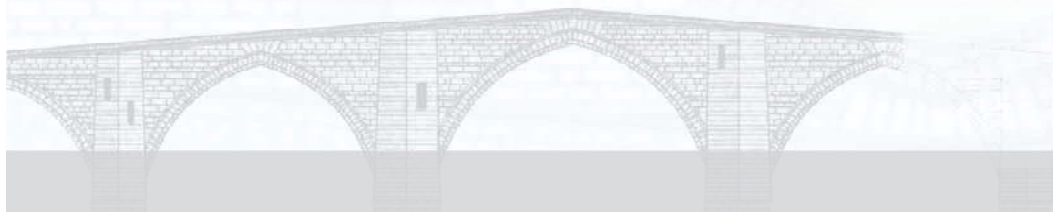
- Move towards a truly integrated platform for the euro area
- As the trigger and, at the same time, the anchor to other Eurosystem projects around further integration i.e. TARGET2-Securities and CCBM2
- As an infrastructure to facilitate the further integration of European financial structures

# Future developments



## Still, is there a need for changes?

- Accommodate changes not included in the original scope of the SSP because of a lack of time
- fine tuning after testing phase and upon the first experience in production, based on user feedback
- external factors (e.g. SWIFT releases, move to XML)
- Further improve the resilience for the critical business



# Future developments



## User involvement

- As in the project phase, the users should be involved in future developments that have an impact on them
- Users may express their views and make proposals concerning all issues of relevance to them on their own initiative, or based on consultation
- Due account needs to be given to the weight of individual users in terms of payment values and volumes
- At the same time, possible specific needs of the smaller credit institutions and ancillary systems to be appropriately reflected



# Future developments



## Timing

- In the course of 2008: possible adaptation upon experience from testing and in production, based on user feedback
- Any major changes as part of a new release of the system presumably by the end of 2009

# TARGET2 and foreseeable trends towards financial integration



Andreas Dostal

Oesterreichische Nationalbank

# The Eurosystem



***As provider* of central bank services that are also conducive to financial integration**

- **TARGET** (4 January 1999)
- **TARGET2** (19 November 2007)
- **CCBM2**
- **TARGET2-Securities**
- ...

# The euro and TARGET



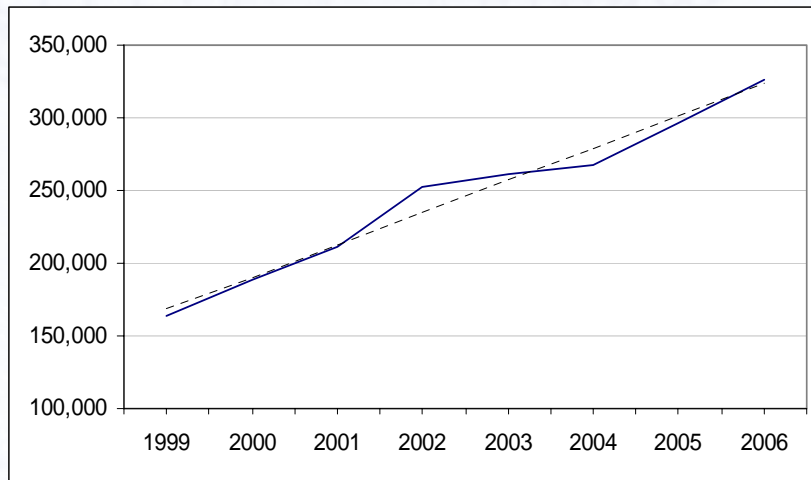
## *As triggers for financial integration*

- Rapid integration of European financial infrastructures closely related to the establishment of TARGET (January 1999) at the same time as the introduction of the euro
- In return, the introduction of the euro provided a strong boost to the integration of wholesale payments market and services
- While in 1998 there were still 18 large value payment systems (LVPS) in the euro area, now there are only 4 including TARGET

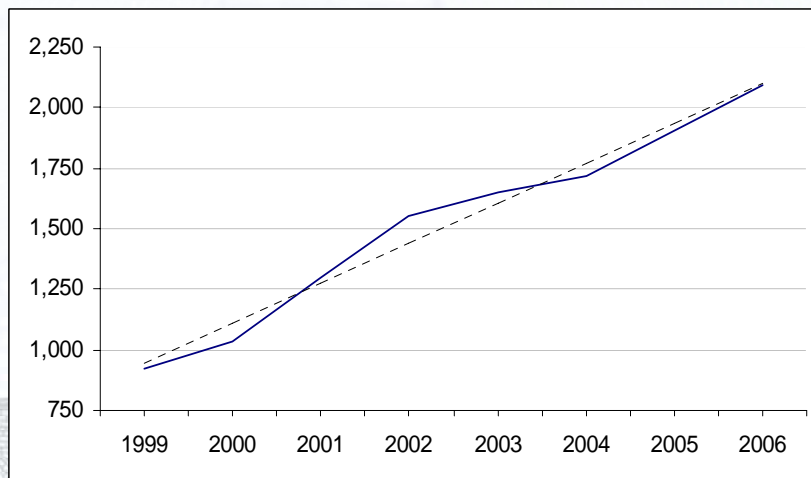
# TARGET contribution to integration



Number of payments (daily average)



Values (in trillion euro, daily average)



- TARGET (and TARGET2) developed by the Eurosystem for processing high value payments in real time across the EU and facilitate further integration
- Today, TARGET processes €2.3 trillion every day and is one of the largest wholesale payment systems in the world
- TARGET, instrumental for:
  - the creation of an integrated euro money market
  - the increase of efficiency of cross-border payments within the euro area

# TARGET2 and financial integration



The launch of the single technical platform TARGET2 introduces an even more uniform wholesale payment infrastructure, thus promoting further integration in the related financial markets

- TARGET2 is envisaged to further improve the European financial integration by providing:
  - A harmonised service level to TARGET2 participants ensuring a level playing field for banks across Europe
  - A single price structure for both domestic and cross-border transactions
  - A harmonised set of cash settlement services in central bank money for all kinds of ancillary systems

# TARGET2 and business integration



## Factors fostering centralisation of business:

- Potential economies of scale and scope
- Efficiency gains in speed and quality
- Integrated and dynamic market environment

## Business functions with potential for further integration:

- Asset management
- Treasury
- Wholesale and trading activities
- Back office

# Backbone to other Eurosystem initiatives



**TARGET2** as the *trigger* and, at the same time, the *anchor* to other Eurosystem initiatives around market integration:

- In the field of securities settlement: TARGET2-Securities
- In the field of collateral management : CCBM2

## By means of:

- reducing the costs of securities settlement
- contributing to the integration of European post-market infrastructures
- providing efficient and harmonised settlement services in central bank money
- contributing to harmonisation of market practices

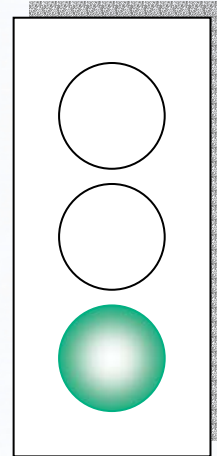


# The changeover to and the running of the single shared platform (SSP)



Jochen Metzger  
Deutsche Bundesbank

# Changeover – before changeover weekend



***Ready to go!!!***

- **Key Exchange**
- **SSP registration**
- **Download TARGET2 Directory**
- **Creation of Standing orders**
  - Limits and reservation
  - Liquidity transfers

# Changeover – during changeover weekend



- **Central Bank activities**

- Transfer of dynamic data from TARGET I components to SSP (balances on RTGS and Home accounts, credit lines, ...)

**Most activities will be done by the central banks**

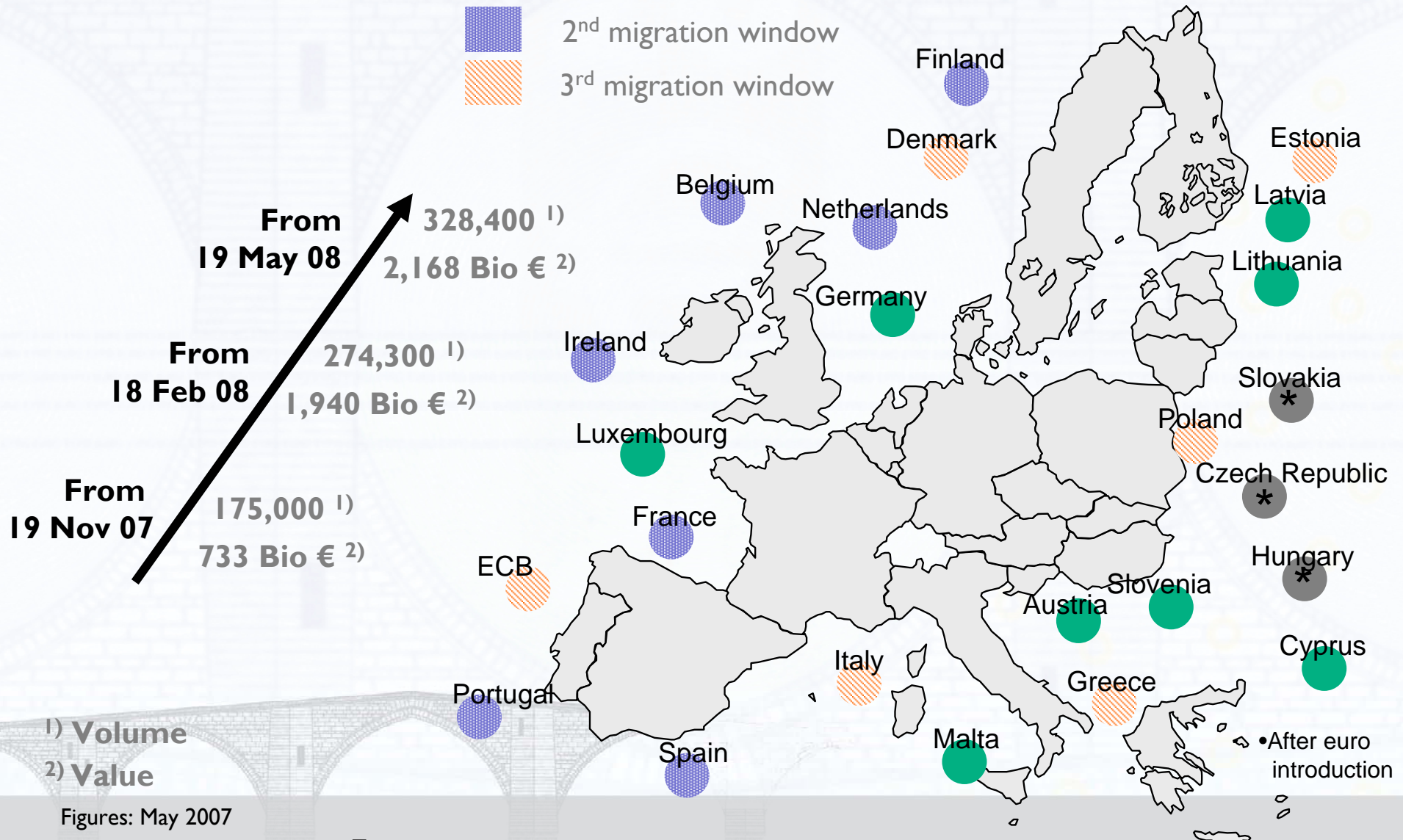
**Involvement of users will be defined**

**on local level**

# Migration



- 1<sup>st</sup> migration window
- 2<sup>nd</sup> migration window
- 3<sup>rd</sup> migration window



**From 19 May 08**  
 328,400 <sup>1)</sup>  
 2,168 Bio € <sup>2)</sup>

**From 18 Feb 08**  
 274,300 <sup>1)</sup>  
 1,940 Bio € <sup>2)</sup>

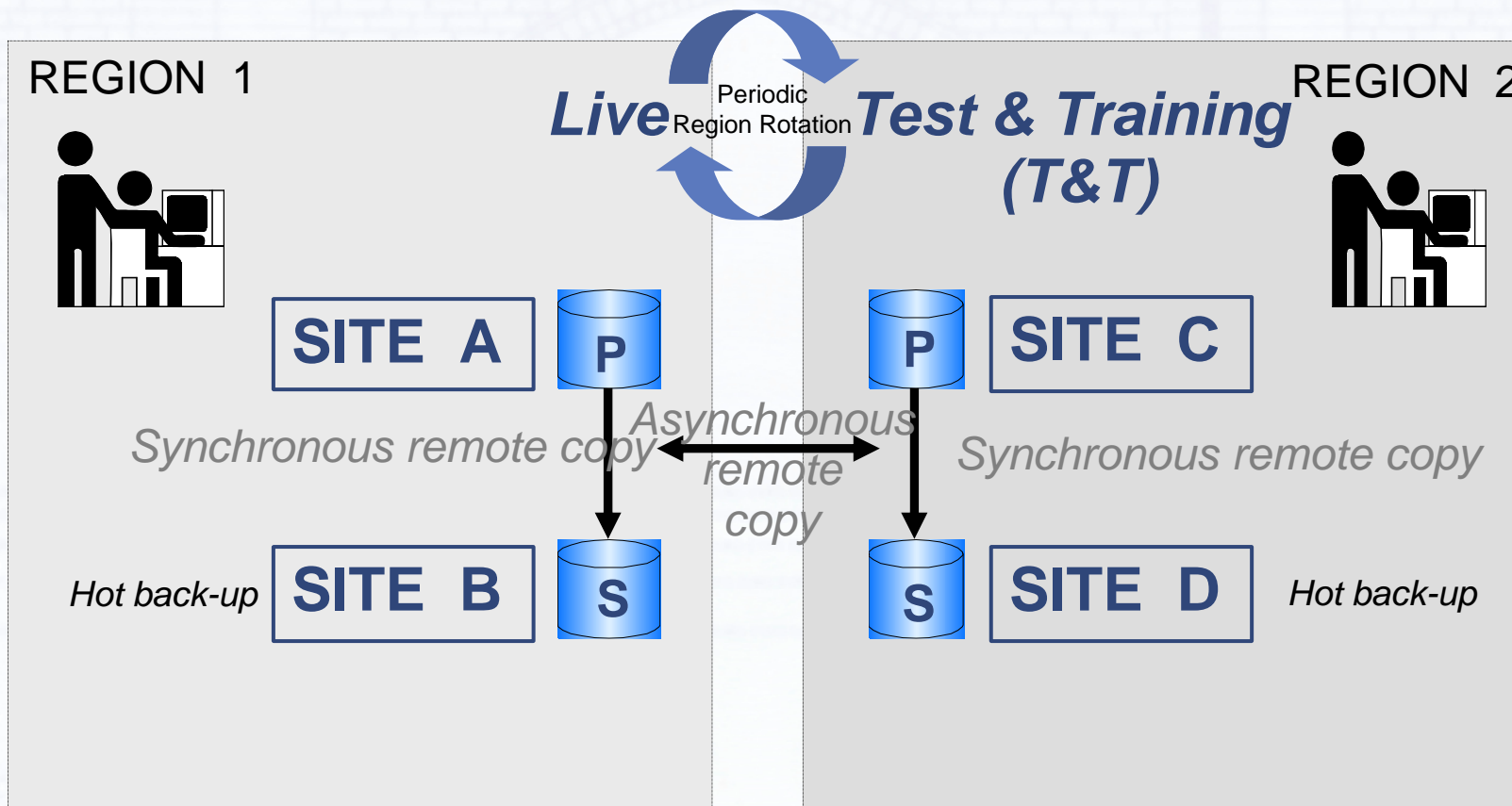
**From 19 Nov 07**  
 175,000 <sup>1)</sup>  
 733 Bio € <sup>2)</sup>

1) Volume  
 2) Value

Figures: May 2007

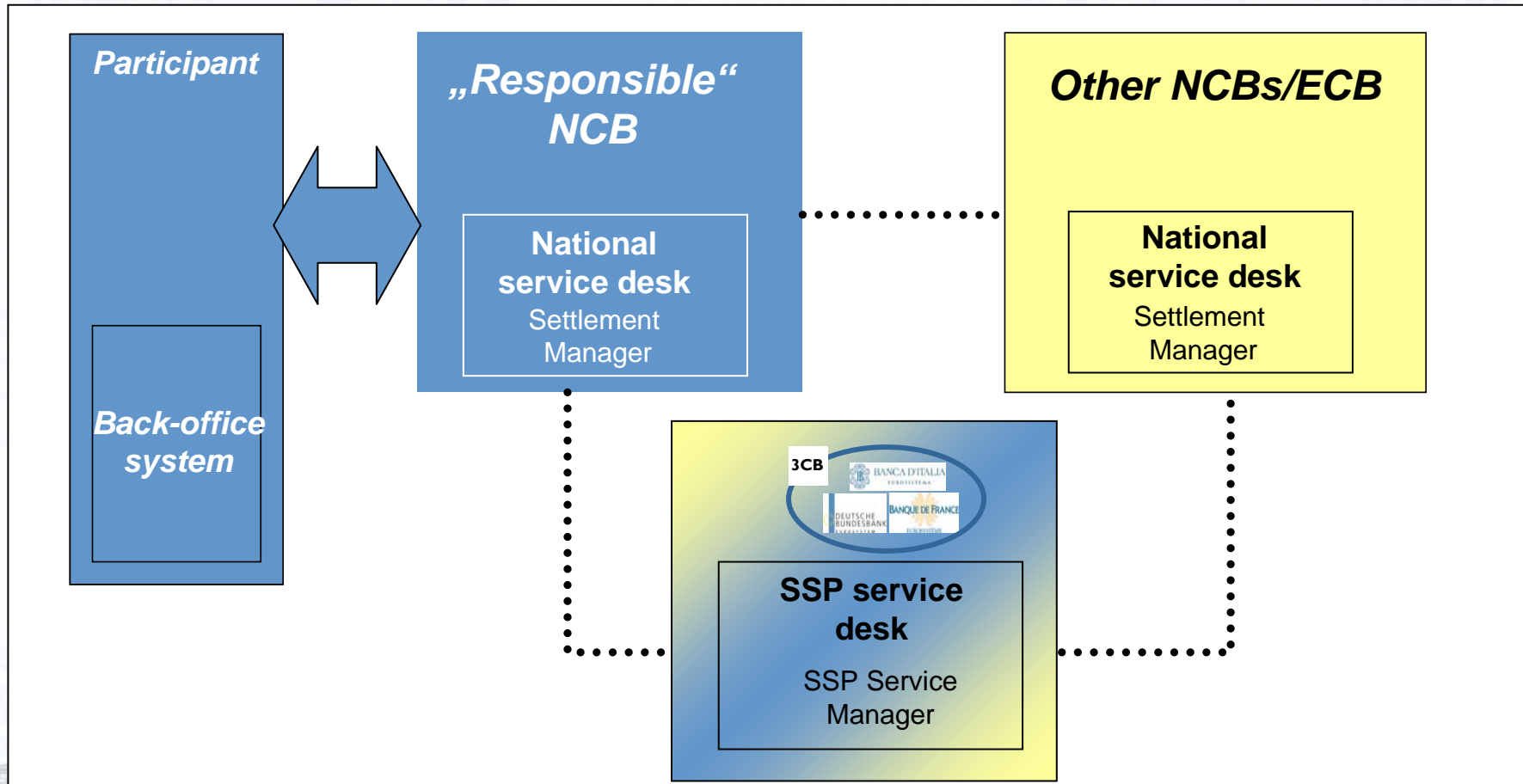
•After euro introduction

# Operational management



The third region will offer to central banks additional services, namely archiving, access to historical data, statistics and billing.

# Role of Central Banks



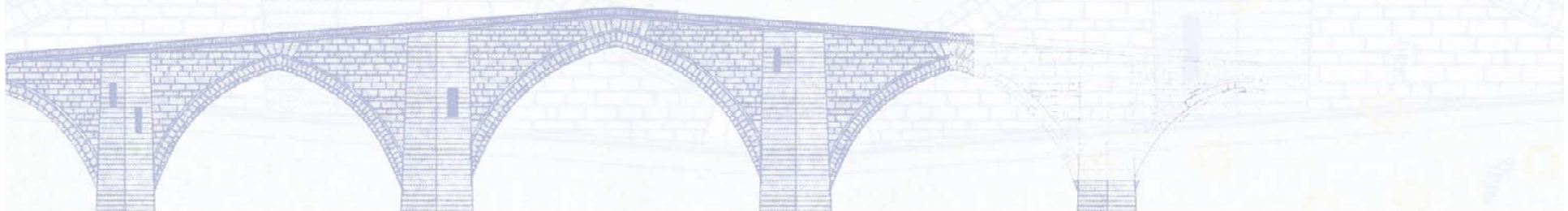
# TARGET2 user perspective



**Patrick PONCELET**

European Banking Federation

Target Working Group



# TARGET2 User Perspective - Introduction



- Current stage of user preparation for connecting to T2
- The improvements for the participants: overview of expected benefits, changes and opportunities
- Benefits for banks' customers
- Experience of cooperation with the Eurosystem
- Expectations around future cooperation: preparing for the future



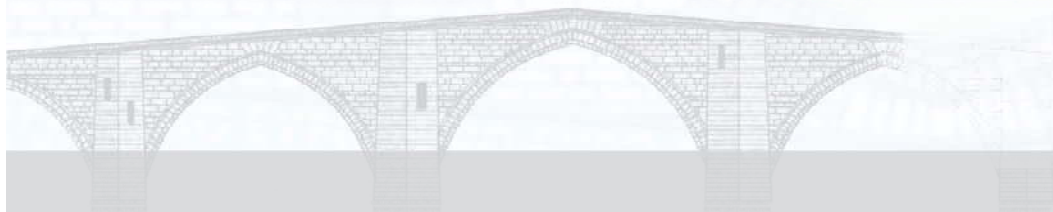
# Current Stage of User Preparation



- Less than 2 months away from the start of live operation for the first migration wave, user preparation can be considered as appropriate
- Extensive – and comprehensive – user testing has and is taking place: at all levels from individual banks and groups to connectivity with other players and parts of the system in a variety of scenarios
- The registration process is defined and teething problems have been solved



Early and extensive user involvement in the preparation phase leading to live operations (user requirements, specifications, testing, migration, ...) is a great tool for adequate user preparation

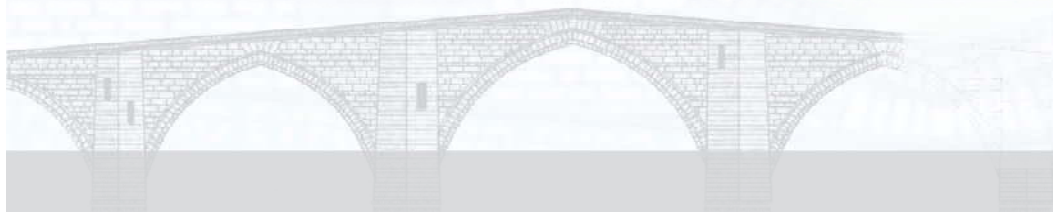


# The improvements for the Participants: Overview of expected benefits, changes and opportunities



- Enhanced operational efficiency and reliability: from distributed multi-systems architecture to a single shared platform
- Greatly improved visibility on transactions and balances thanks to real time information provision: the ICM
- Possibility to move from local management of liquidity pools to centralised, integrated liquidity and treasury management

↳ T2 heralds a new era of high-value payments systems and in the first tangible expression of the advent of SEPA



# Benefits for Banks' Customers



- Correspondent banks around the world will benefit from enhanced clearing & settlement services from their euro clearing banks, using the service capabilities of T2: payment mapping and routing (indirect participants, addressable BICs, T2 directory), real time information on transactions and balances, global European reach
- Corporate customers will benefit from increased certainty, reliability and visibility for their high-value payments execution. In turn and in conjunction with SEPA, T2 will assist in offering them an integrated euro payments market enabling corporates to streamline and integrate their treasury management, accounts payable and receivable applications with the accompanying cost reductions.



# Experience of Cooperation with the Eurosystem



- With T2, the ECB and the Eurosystem have opened up their processes to “outsiders”, to the users of their systems.  
This was a very welcome “Première” which we hope will be repeated in other Central Bank projects.
- The setting-up towards the final stage of the project of joint Central Bank/user working groups and task forces has proven, in our mind, to be very beneficial to the expected success of the project.

- The two-level structure of cooperation:

European: Target Working Group → ECB

National: National Target user groups → National Central Banks



has shown its effectiveness because of its complementary nature. Distribution of tasks would benefit from clearer definition of responsibilities



# Expectations around Future Cooperation



- Banks as users of T2 deserve to be closely involved in the decision making process through continued meaningful consultation on all relevant issues
- They expect full transparency on decisions and new developments
- The two-level cooperation structure needs to be refined as operations, strategies, decisions become more fully harmonised
- The introduction of a single platform in T2 effectively dictates some form of centralised discussion. The existing structure WGT2 < -- > TWG which has grown on an ad-hoc basis needs to be officialised and reinforced
- Change requests and T2 release management procedures post migration need to be defined and scheduled in agreement with the users

# Questions and answers

## Panel discussion

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