

Special Interest Session



Sibos 2005 Copenhagen

Overview

I. Introduction

Dieter Becker

II. What TARGET2 offers?

Part 1 - Lorenzo Giammo

Part 2 – Peter Lagaert

III. TARGET2 - User perspective

Part 1 – Martine Brachet

Part 2 – Christian Westerhaus

IV. Panel discussion and Q&A



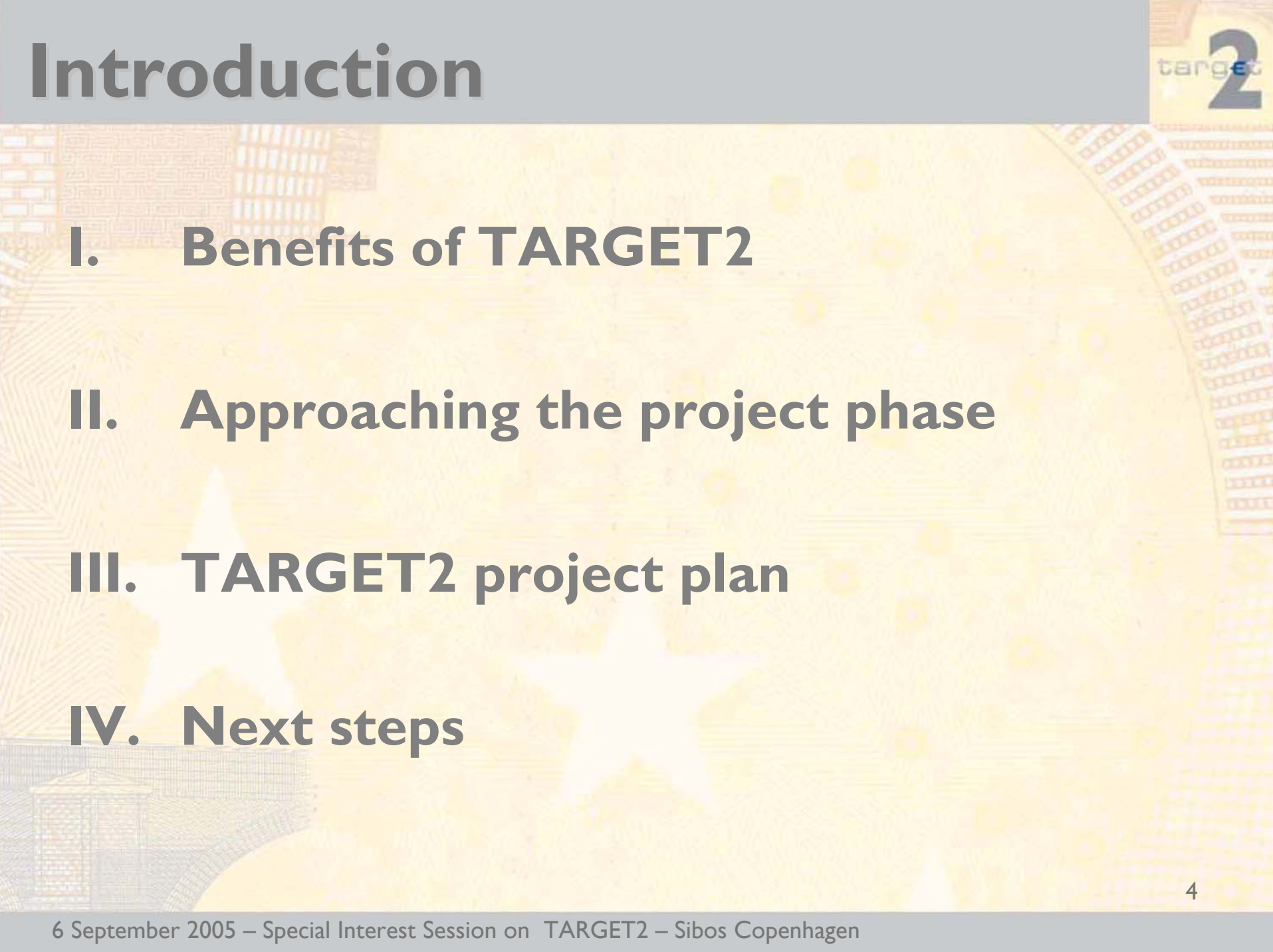
Introduction



Dieter Becker

European Central Bank

Introduction

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- The background of the slide is a close-up, slightly blurred image of a Euro banknote, showing the characteristic yellow and orange colors, the large number "100", and the European Union flag's stars.
- I. Benefits of TARGET2**
 - II. Approaching the project phase**
 - III. TARGET2 project plan**
 - IV. Next steps**

I. Benefits of TARGET2

- Economies of scale (cost savings compared with current TARGET system)
- Higher level of robustness and resilience
- Harmonised interfaces for connecting users to TARGET2
- Same level of service and price for all users, independent of their location

I. Benefits of TARGET2

- Support the banks' internal consolidation
- Liquidity management tools (on a system-wide basis) that will help banks to streamline their treasury and back office organisation and processes
- Promoting the harmonisation of interfaces with ancillary systems all over Europe

In order to gain maximum benefit from the newly created infrastructure, the Eurosystem recommends that the banks and ancillary systems acquaint themselves with TARGET2

II. Approaching the project phase

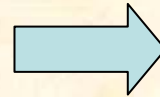


- Offer from 3CB accepted
- Cost, financing and pricing
- Contractual and other legal issues
- Governance and project structure
- Migration
- TARGET2 website

II. Approaching the project phase

System specifications:

- Pooling of intraday liquidity
- Home accounting issues
- Ancillary system settlement
- TARGET2 operational day...

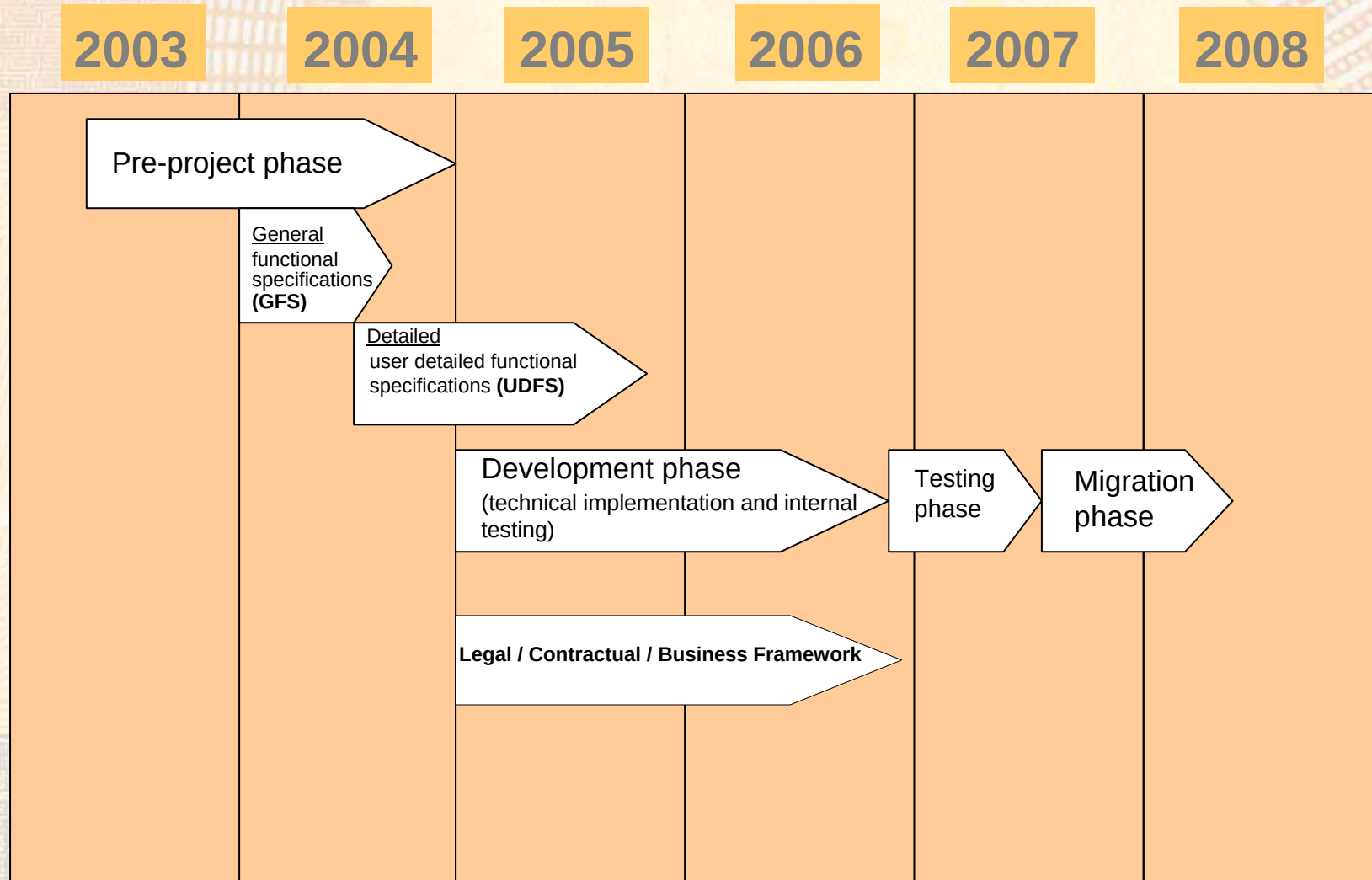


User Detailed Functional Specifications (UDFS)

Publication of UDFS:

- **April 2005:** Books 1 and 2 (version 1.1)
- **May 2005:** Book 4 – XML messages (version 1.11)
- **August 2005:** Books 1 and 2 (version 1.22), and book 4 (version 1.2) and XML schema files
- **November 2005:** Books 1, 2 and 4 (version 1.3)

III. TARGET2 project plan



IV. Next steps

- Completion of TARGET2 legal, contractual and business framework
- System development and technical implementation
- Testing:
 - Concept
 - Calendar
- The connection of new EU countries
- Continue ongoing dialogue with users

What TARGET2 offers? (I)



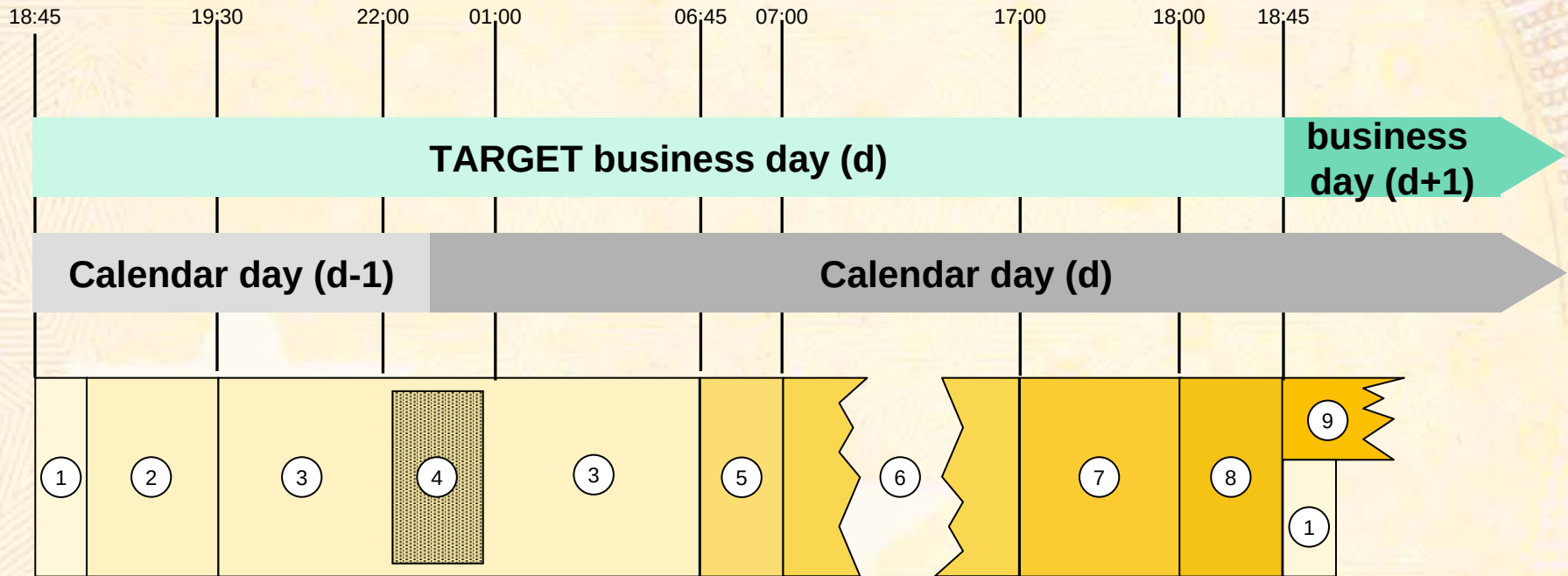
Lorenzo Giammo

Banca d'Italia

What TARGET2 offers? (I)

- I. TARGET2 operational day**
- II. Pooling of intraday liquidity**
- III. SWIFT interfaces with TARGET2**
- IV. Interaction with ancillary systems**
- V. Information and Control Module (ICM)**

I. TARGET2 operational day

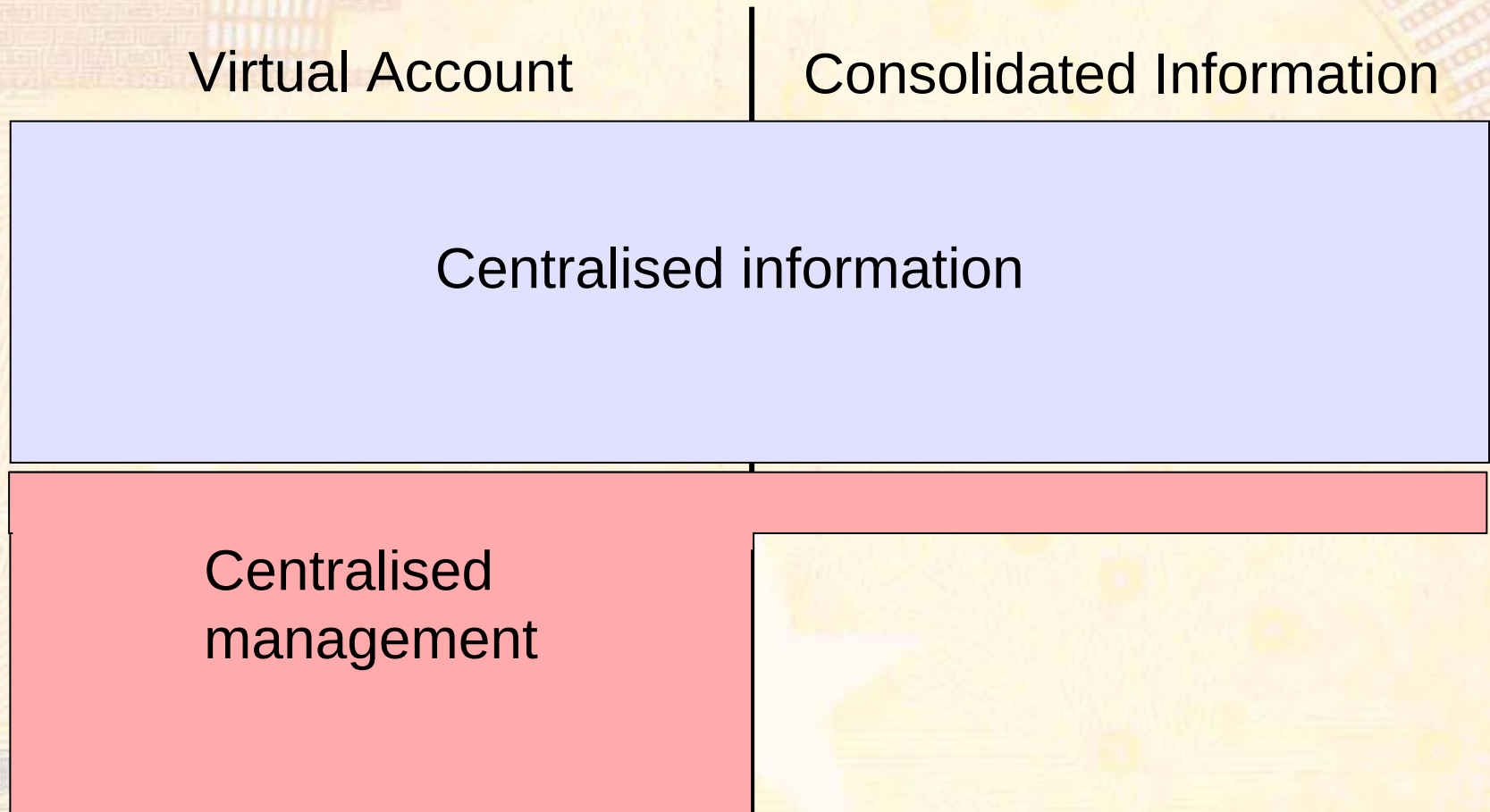


I. TARGET2 operational day

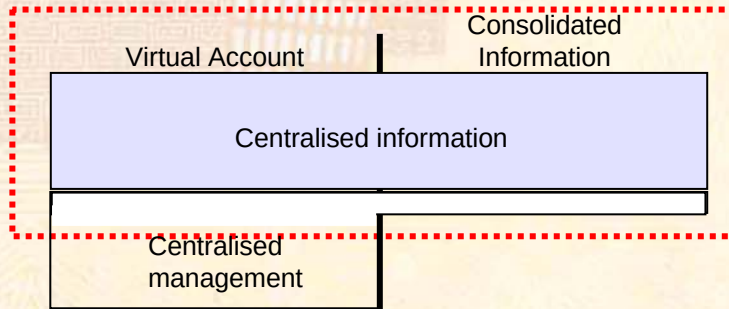
Purpose of the different phases:

- Start-of-day (1 & 2)
- Night-time processing (3)
- Technical maintenance window (4)
- Preparation for day trade phase (5)
- Day trade phase I (6)
- Day trade phase II (7)
- End-of-day (8 & 9)

II. Pooling of intraday liquidity

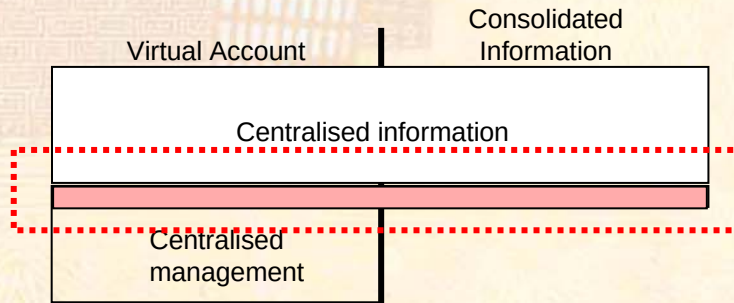


II. Pooling of intraday liquidity



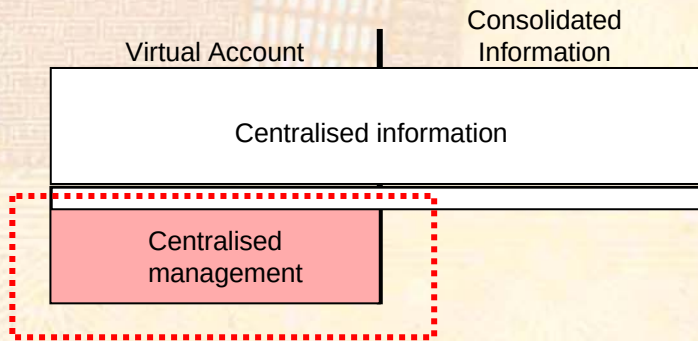
- Scope of centralised information for Virtual Account and Consolidated Information
 - Grouping of accounts
 - “Group of account” manager
 - Access to consolidated information (e.g. sum of credit lines, sum of balances, available liquidity)
 - ICM screens for single account and for Virtual Account and Consolidated Information
 - Group of account manager can access single accounts

II. Pooling of intraday liquidity



- Scope of centralised management for Virtual Account and Consolidated Information
 - Liquidity transfers by group of account manager via ICM

II. Pooling of intraday liquidity



- Scope of centralised management for Virtual Account only
 - Interactive control measures by group of account manager for single accounts belonging to the group
 - Centralised liquidity management by group of account manager
 - Single payment queue
 - Specific end-of-day procedures for levelling-out

III. SWIFT interfaces with TARGET2



- Payment Interface (mandatory for CI, optional for AS)
- Ancillary System Interface
- Information and Control Module (mandatory for CI & AS)
 - User-to-application
 - Application-to-application

IV. Interaction with ancillary systems

- Advanced cash settlement services in central bank money for ancillary systems
 - Liquidity management
 - Transaction management
 - Information management
- Standardised, SWIFT-based interface
- Six generic settlement procedures to cope with all models across Eurosystem
- Optional mechanisms to individualise and fine-tune settlement procedures

IV. Interaction with ancillary systems

Optional mechanisms

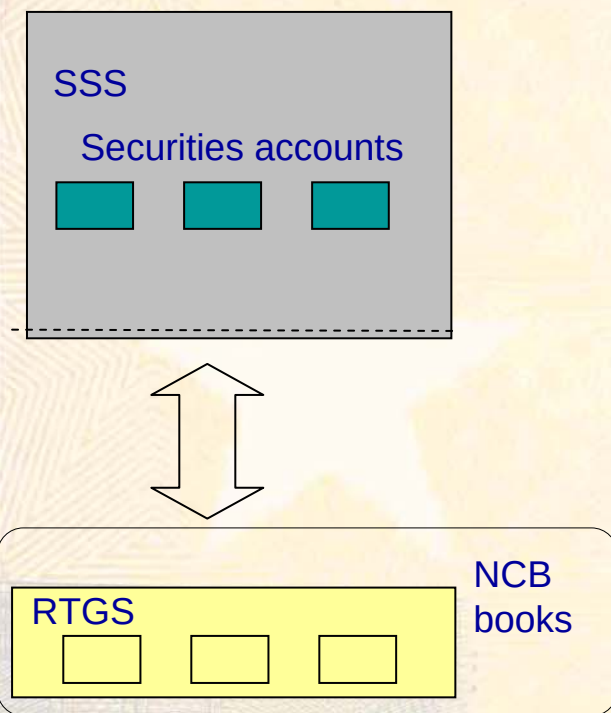
- Information period
- Scheduled time (from)
- Settlement period (till)
- Guarantee fund

Types of account

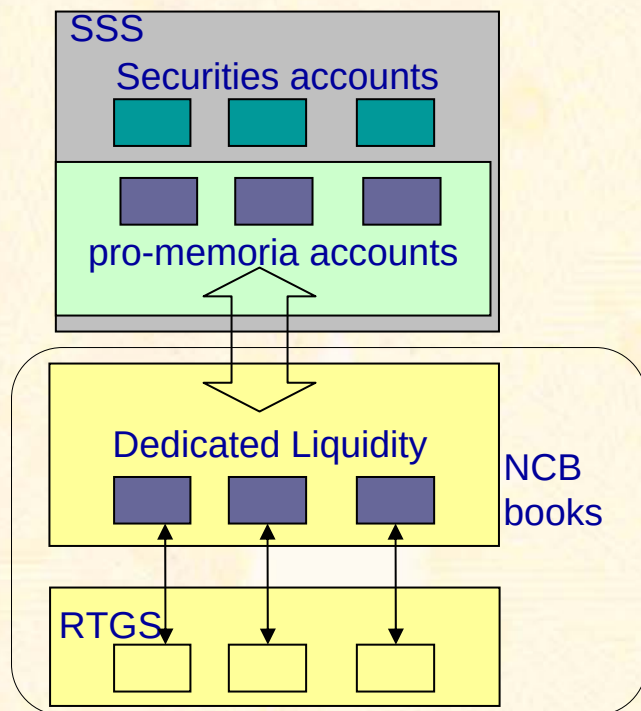
- Technical account
- Mirror account
- Sub-account

IV. Interaction with ancillary systems

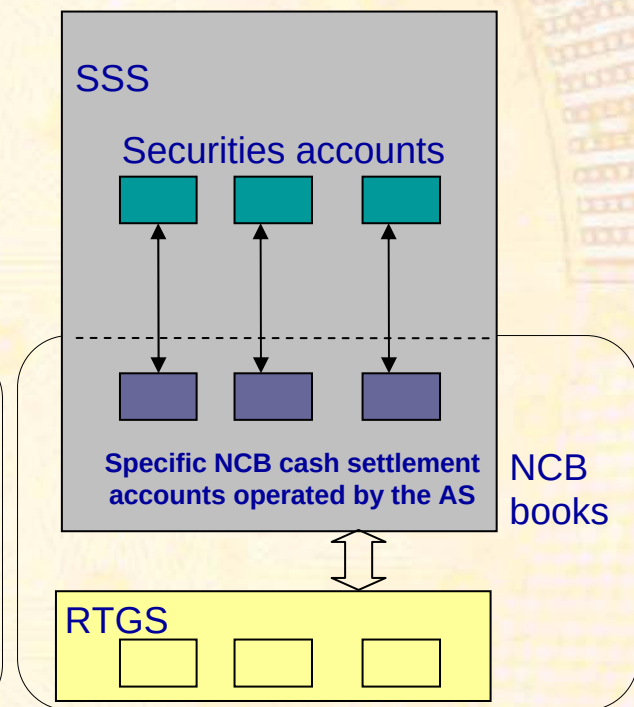
Interfaced model: Real-time settlement



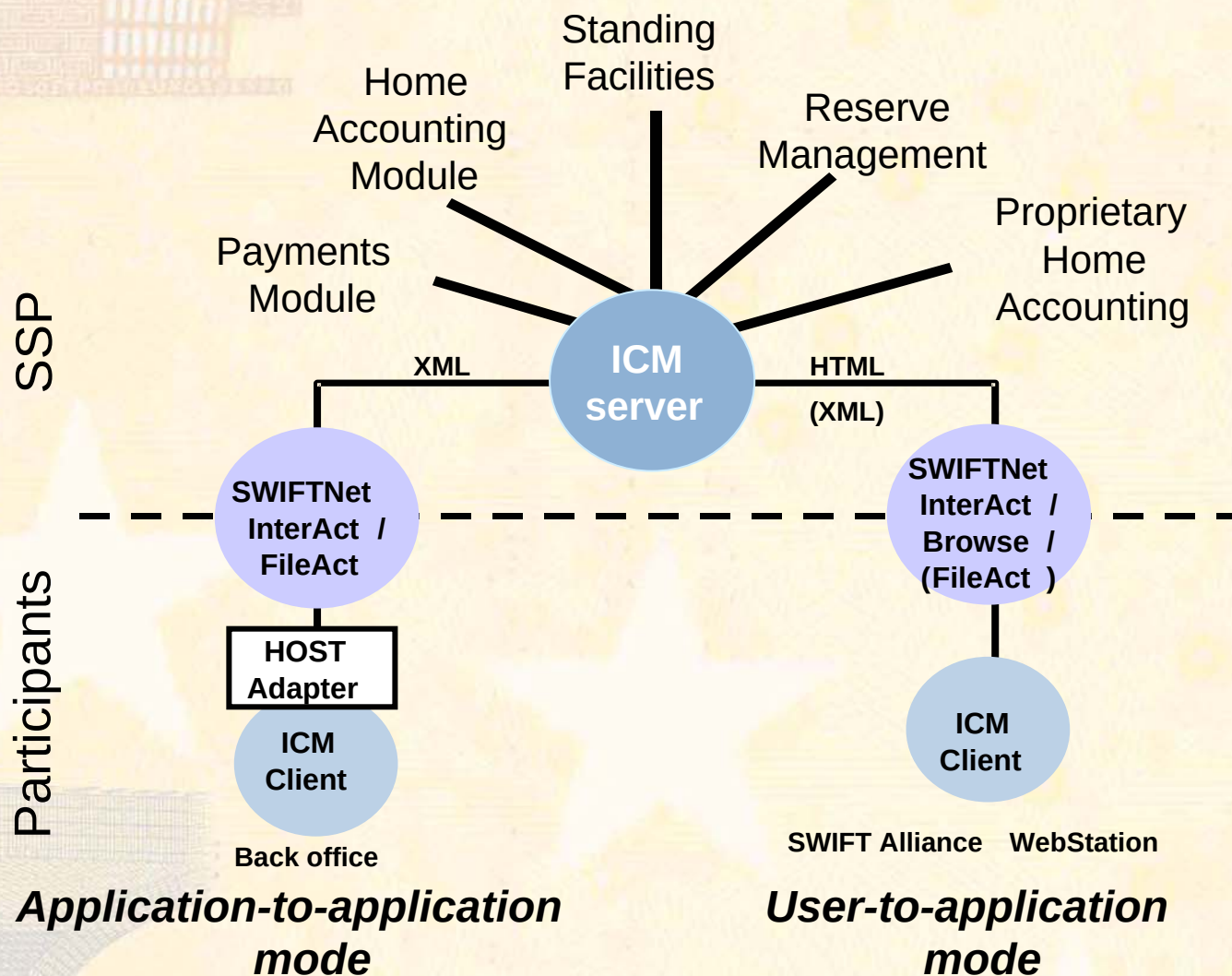
Dedicated model: Prefunding



Integrated model: Liquidity transfer (outsourcing of CB accounts/ liquidity provision)



V. Information and Control Module



What TARGET2 offers? (II)



Peter Lagaert

Nationale Bank van België - Banque Nationale de Belgique

What TARGET2 offers? (II)

I. Optional modules:

Home accounting module (HAM)

Reserve management module (RM)

Standing facilities module (SF)

II. Pricing

III. TARGET2 migration

IV. TARGET2 user testing

I. Optional module: Home accounting

TARGET I account environment:

- Account owners at NCBs are different kinds of institution:
 - Monetary financial institutions (CIs and other financial institutions)
 - Ancillary systems
 - Public treasury and government agencies
 - Correspondents
 - Others (private customers)
- RTGS accounts and/or Proprietary Home Accounts (PHA)

I. Optional module: Home accounting

TARGET2 account environment:

- Direct TARGET2 participants vs. other account holders in PHA or Home Accounting Module (HAM)
- In HAM: "HAM" accounts and "CB's Customer accounts"
- Transactions on HAM accounts
 - Limited type of interbank transfers incl. cross-system/cross-NCB transfers
 - Settlement standing facilities
 - Minimum reserve holding
 - Transactions with NCB

I. Optional module: Reserve management

- From a technical point of view, RM is fully integrated in the SSP operational environment (SWIFTNet interface)
- RM can interact with PM, HAM and PHA
- RM does not manage any kinds of account
- Management of indirect reserve
- Pool of reserve accounts of an MFI
- Administration and interaction with RM

I. Optional module: Standing facilities

- From a technical point of view, SF is fully integrated in the SSP operational environment (SWIFTNet interface)
- SF is able to manage:
 - overnight deposit accounts
 - marginal lending “on request”, generally needed to fulfil compulsory reserve
 - automatic marginal lending, available only in connection with PM since no intraday credit is available in HAM

II. Pricing

- Objectives: cost recovery, competitiveness and broad access
- Pricing of transactions: possible dual pricing scheme with a transaction fee of between EUR 0.25 and 0.80
- Certain optional services (e.g. liquidity pooling and services related to ancillary systems) will be priced separately; pricing schemes are in preparation and aim to comply with the needs of different users

II. Pricing

- Prices for transactions on home accounts are higher than TARGET2 price
- Pricing during migration takes into account neutrality vis-à-vis banks from different migration waves
- Further details on the pricing structure will be made available in the coming months

III. TARGET2 migration



Objective

- To ensure a smooth migration from TARGET1 to TARGET2 for all involved players

How

- Migration strategy following a phased approach
- Central banks migrating together with their banking community
- Four migration groups (one reserved for contingency)

III. TARGET2 migration

Migration group allocation

Group composition aimed at minimising project risk, reducing effect on level playing field and limiting the costs for central banks and users

Group 1	Group 2	Group 3	Group 4
Austria	Belgium	Denmark	<i>Reserved for contingency</i>
Cyprus	Finland	Estonia	
Germany	France	ECB	
Latvia	Ireland	Greece	
Lithuania	Netherlands	Italy	
Luxembourg	Portugal	Poland	
Malta	Spain	United Kingdom	
Slovenia			

III. TARGET2 migration



National Migration profiles

- Allow for efficient monitoring
- Provide information on:
 - *Use of Optional Modules*
 - *Country Migration Model*
 - *Migration Group allocation*
- Available on www.target2.ecb.int and the websites of the national central banks

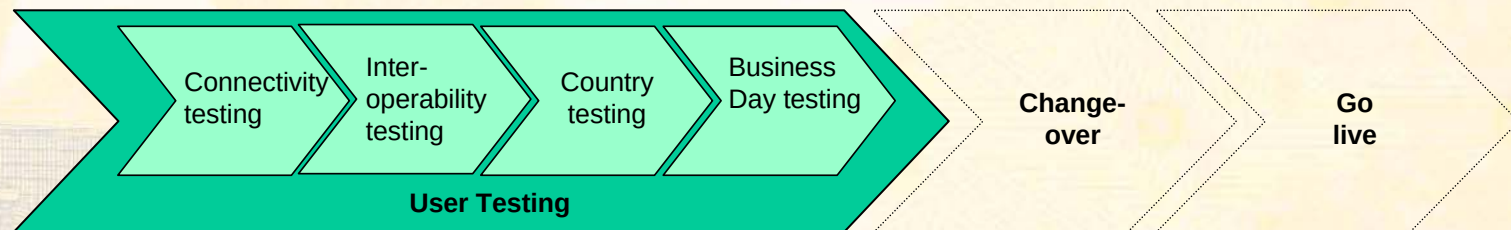
IV. TARGET2 user testing

Objective

- Check readiness from business, operational and procedural viewpoints

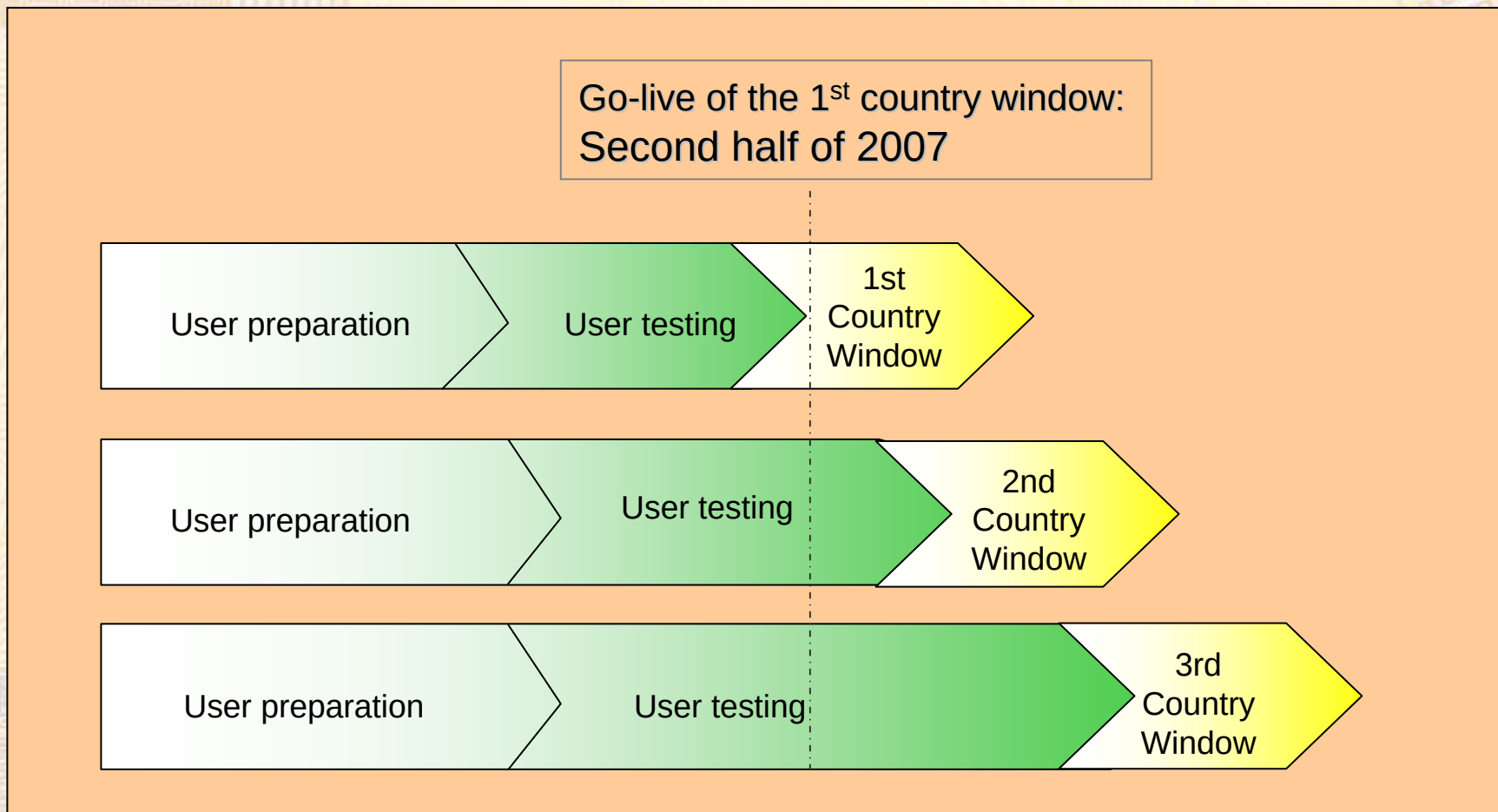
Implementation

- Usage of a separate user test environment
- Several testing phases with different purposes



IV. TARGET2 user testing

Testing activities will follow the organisation in waves



Roles and responsibilities for migration and testing

Roles	Responsibilities
Coordination of T2 Migration	Level 2 (TF on T2 Migration Issues)
➤ SSP migration ➤ Support to Level 2	3CB
➤ Coordination of national banking community migration ➤ Own migration	CBs
Own migration	ClS & ASs

TARGET2 – User perspective (I)

Plans on how to use liquidity management tools



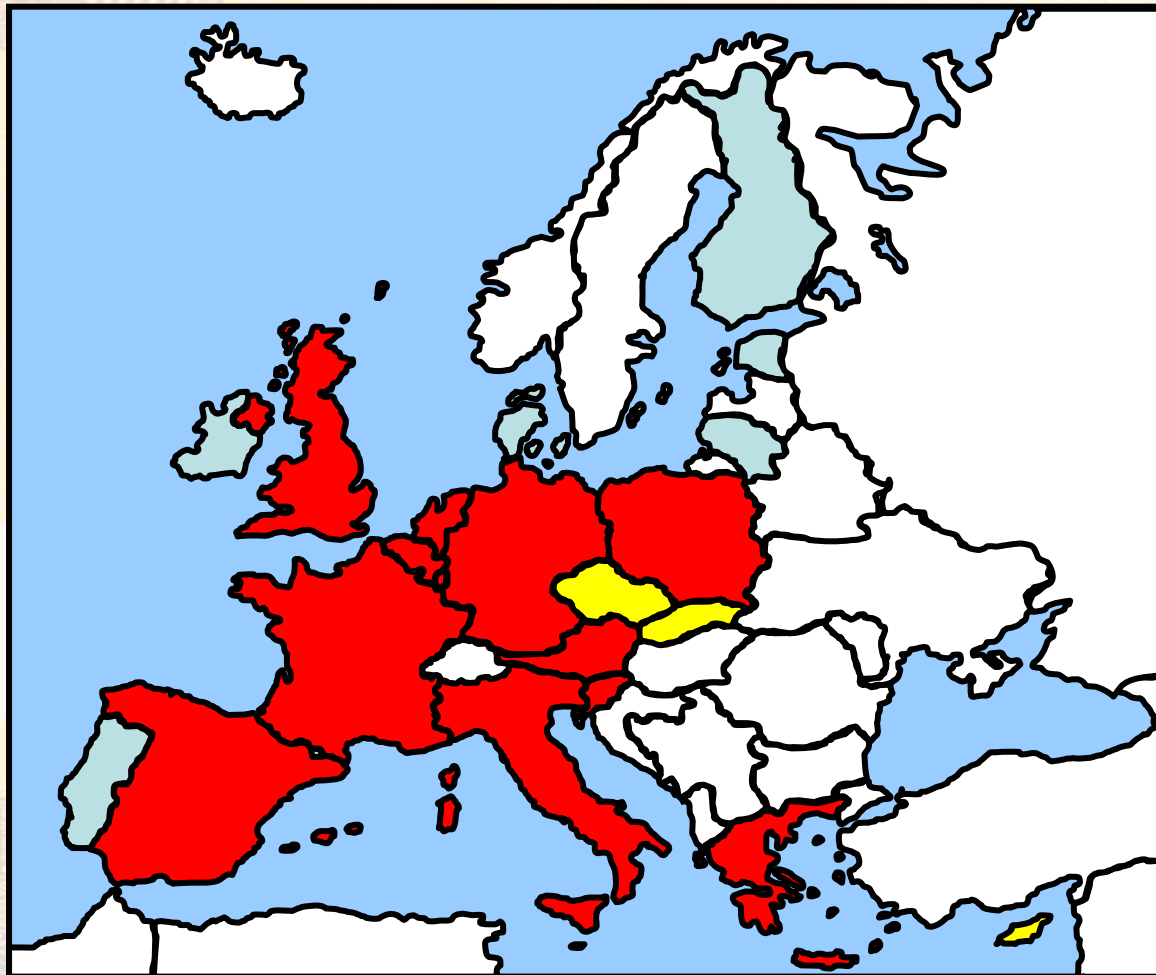
Martine Brachet

Société Générale

- I. Société Générale: TARGET2 perimeter**
- II. Current situation**
- III. What TARGET2 will change**
- IV. New liquidity management tools**

I. Société Générale : TARGET2 Perimeter

16 countries and over 50 AS



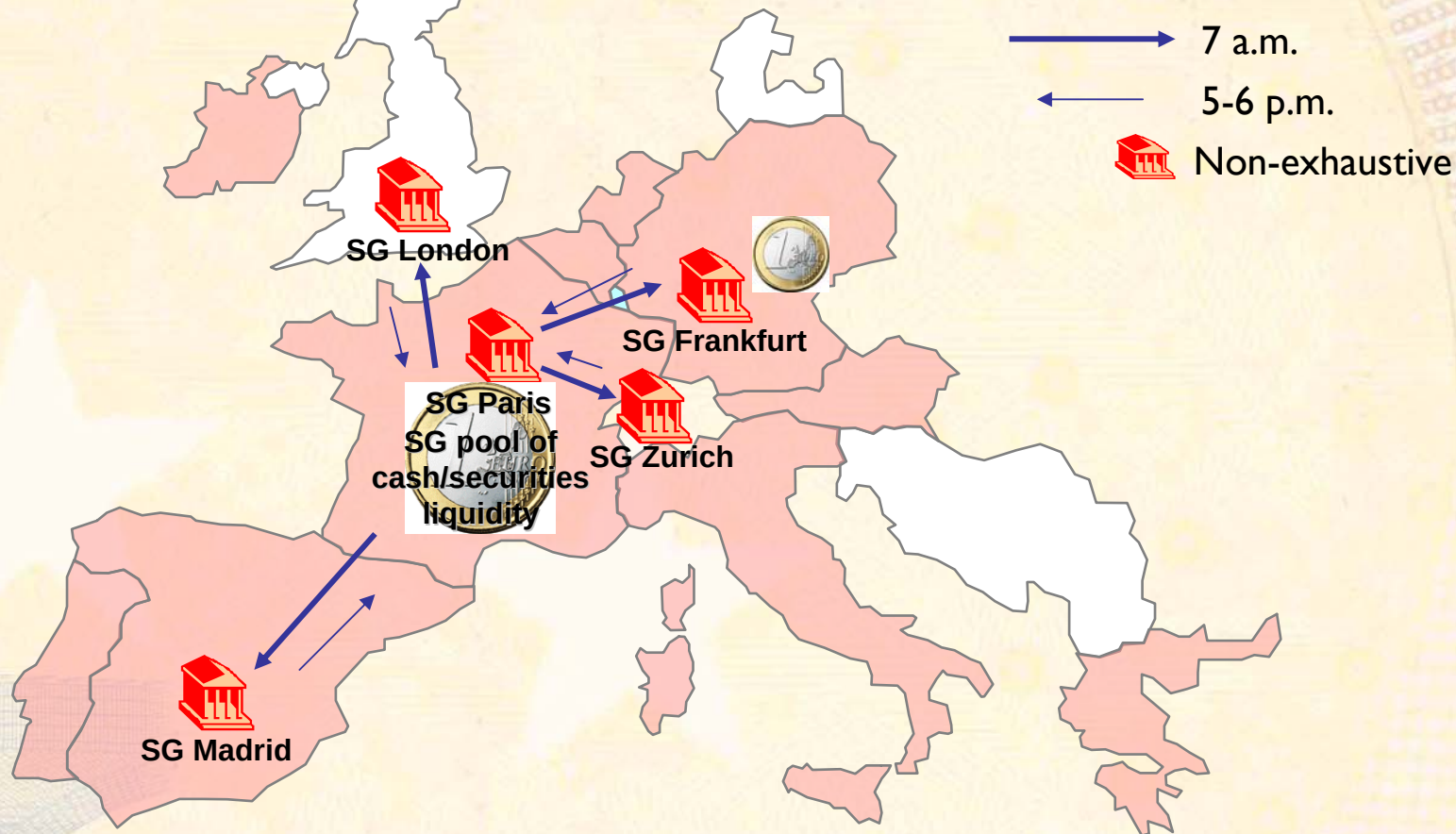
■ Initial
TARGET2
countries where
SG is present

■ Initial
TARGET2
countries where
SG is not present

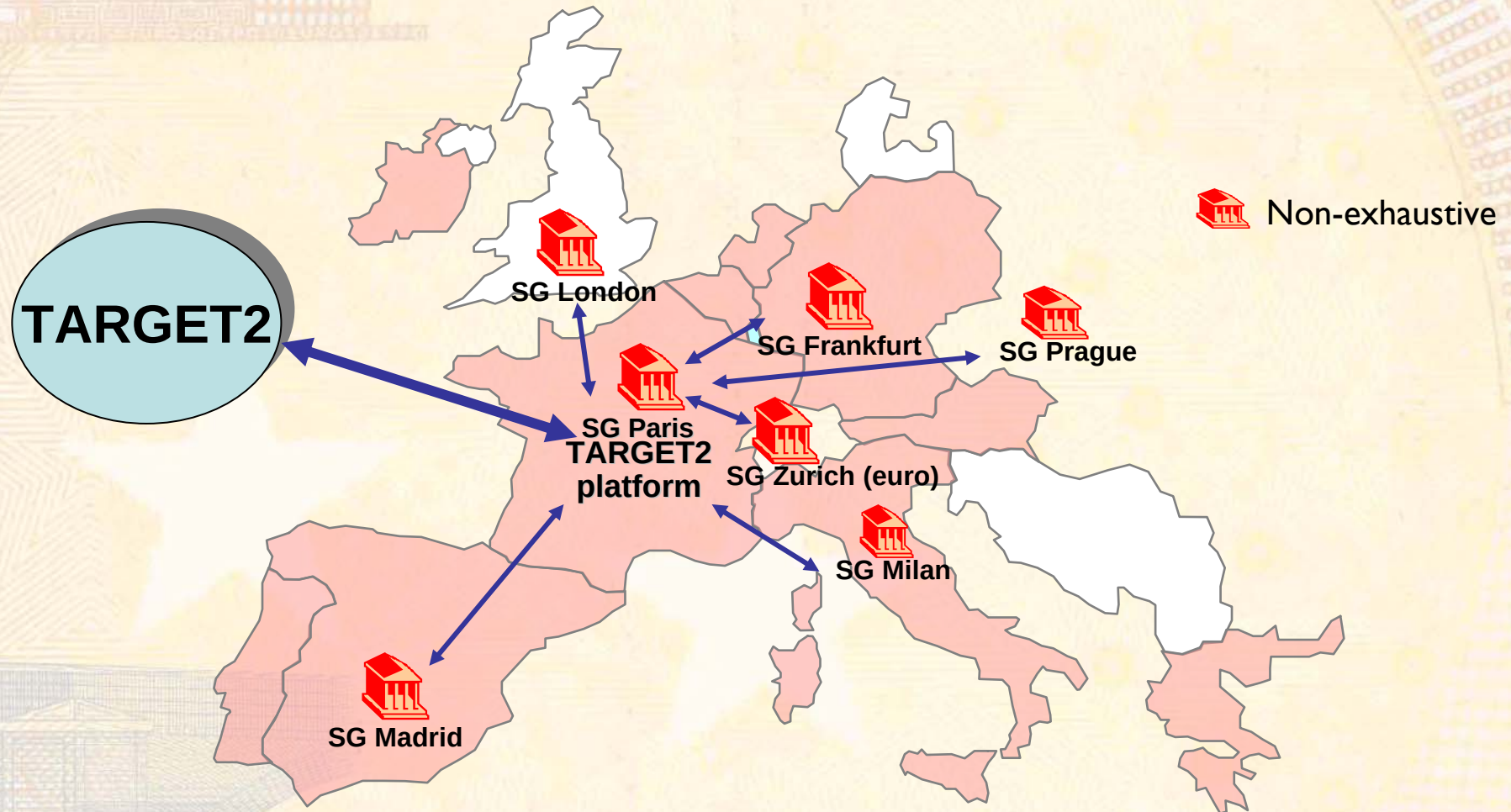
■ Future
TARGET2
countries where
SG is present

II. Current situation

TARGET I: SG central Euro liquidity pool daily dispatching



III. What TARGET2 will change



IV. New liquidity management tools

- Intraday liquidity pooling facility
 - Euro liquidity will be managed on a **single virtual account** instead of separate independent pots of liquidity within the euro area
- Complementary facilities
 - **For information**, SG Euro treasurer will benefit:
 - From a fully consolidated vision of its liquidity within TARGET2
 - And from a liquidity transfer facility to move liquidity between the different SG Group RTGS Accounts and Home Accounts

=>These new facilities will help banks save their euro intraday liquidity

TARGET2 – User perspective (II)

Opportunities for multi-country users



Christian Westerhaus

Deutsche Bank AG

Opportunities for multi-country users

- I. Key drivers for a group-wide approach**
- II. Alternatives for connecting entities (examples)**
- III. Dependencies**
- IV. Benefits for a multi-country bank**

I. Key drivers for a group-wide approach

For multi-country banks in Europe, TARGET2 is an opportunity to align internal processes.

Aspects to be evaluated are:

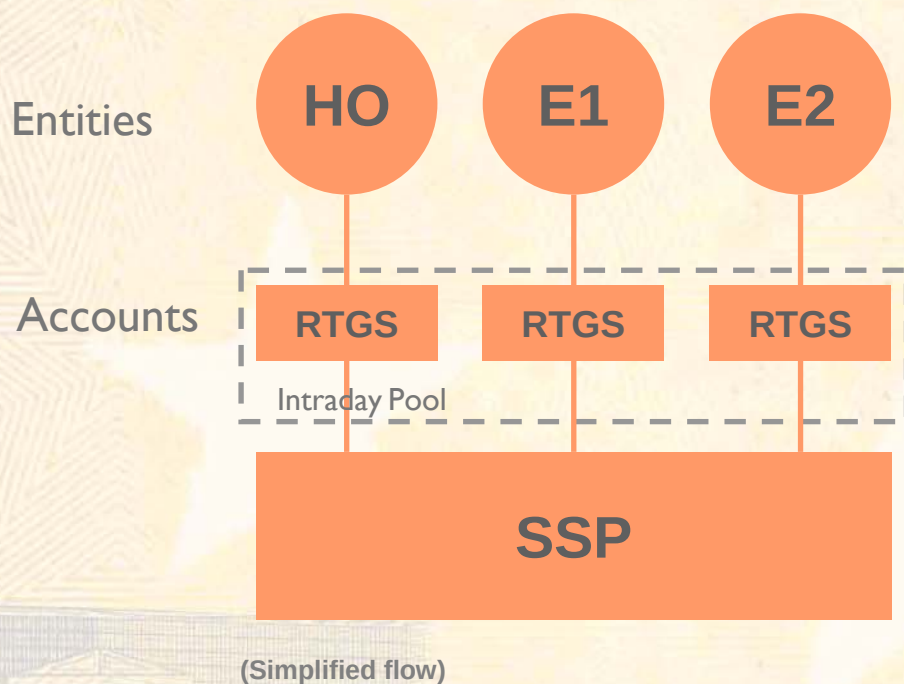
- Account Structure
 - Where to maintain RTGS accounts
 - Where to reconcile clearing items for the group
- Intraday Cash Management
 - How to steer intraday cash position and collateral for the euro area
 - How and where to settle cash positions of ancillary systems across Europe
- Technical changes
 - Where to integrate the TARGET2 directory into routing tables
 - Where to implement field content validation for outbound payment messages
 - Where to maintain infrastructure for SWIFTNet services like FileAct, InterAct and Browse

(for Information and Control Module or A2A communication with the SSP)

 - Where to maintain Y-Copy capabilities

II. Alternatives for connecting entities

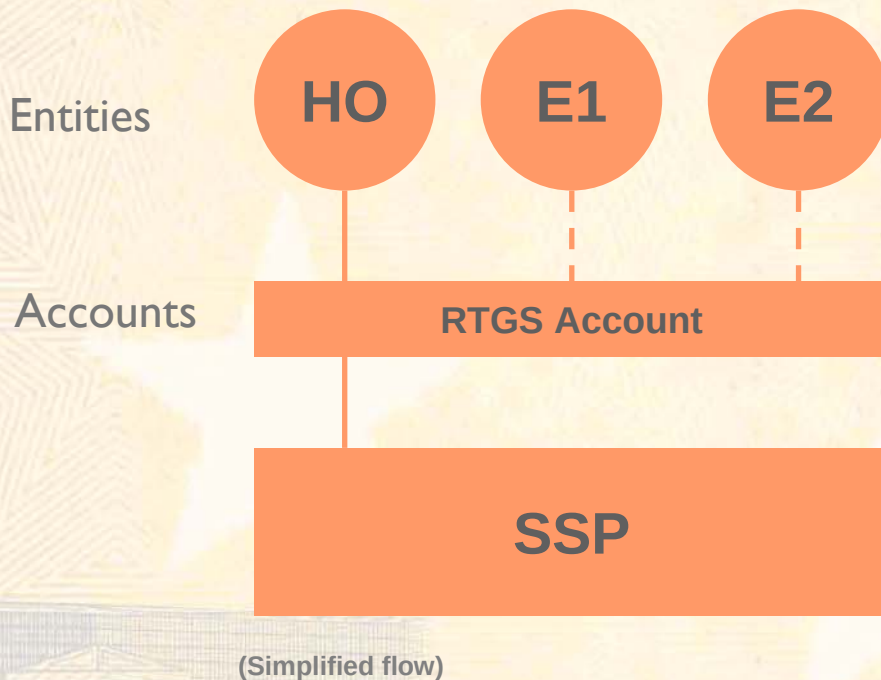
Example I: Regional connectivity



- Centralised functions in Head Office (HO)
 - Intraday cash position and queue management
- Regional functions in “n” entities
 - RTGS accounts and reconciliation
 - Collateral management
 - Ancillary System settlement (t.b.d)
 - Routing table / directory
 - Format validation
 - Y-Copy capabilities
 - SWIFT Net for ICM or A2A

II. Alternatives for connecting entities

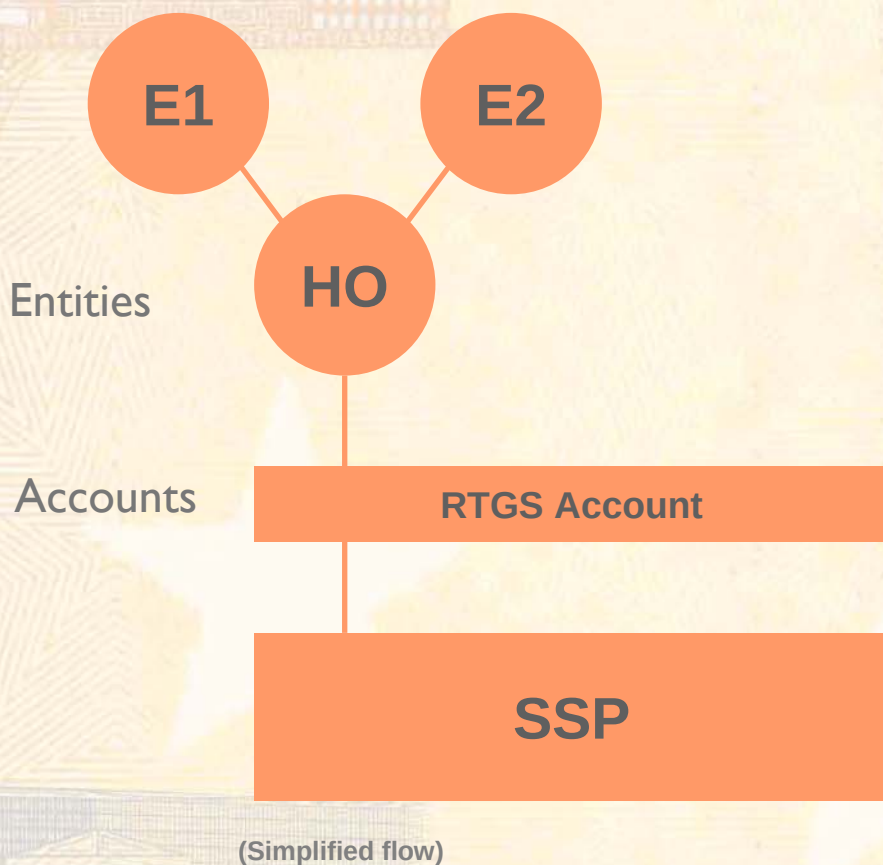
Example 2: Centralised connectivity with regional functions



- Centralised functions in Head Office (HO)
 - Intraday cash position and queue management
 - RTGS accounts and reconciliation
 - Ancillary System settlement (t.b.d.)
 - SWIFT Net for ICM or A2A
- Regional functions in “n” entities
 - Collateral management
 - Routing table / directory
 - Format validation
 - Y-Copy capabilities

II. Alternatives for connecting entities

Example 3: Consolidated connectivity



- Centralised functions in Head Office (HO)
 - Intraday cash position and queue management
 - RTGS accounts and reconciliation
 - Ancillary System settlement (t.b.d.)
 - SWIFT Net for ICM or A2A
 - Collateral management
 - Routing table / directory
 - Format validation
 - Y-Copy capabilities

III. Dependencies

- To achieve a complete evaluation of these connectivity alternatives, the following need to be known:
 - The final UDFS (User Detailed Functional Specification)
 - The legal basis for account pooling and indirect participation
 - The connectivity decision of Ancillary Systems
 - The final pricing table for TARGET2 services to include unit cost in the evaluation

IV. Benefits for a multi-country bank

In general, TARGET2 gives multi-country banks the opportunity they need for process harmonisation and centralisation in the individual payment business in the euro area.

- The clear aim is to have only
 - One point for investing
 - One point for maintaining systems and directories
 - One intraday liquidity position
- The outlined alternatives for the connectivity of entities show that there are different degrees of centralisation.
 - With each alternative, additional benefits can be gained
 - But: with each alternative, complexity increases, as does project risk
 - These complexities have to be managed for a variety of countries within very short time and in parallel to SEPA

This is the challenge for the TARGET2 project of each multi-country bank

Any questions?

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THE EUROSYSTEM
THE CENTRAL BANK SYSTEM OF THE EURO AREA

STAND NO. C241 (HALL C)

SIBOS 2005

INVITATION