

TARGET2 — INNOVATION AND TRANSFORMATION

BUILDING THE TARGET OF TOMORROW: TARGET2

With €1.7 trillion settled every day, TARGET is one of the two largest wholesale payment systems in the world, alongside Fedwire in the United States. The Eurosystem is now building the TARGET of tomorrow, TARGET2, which will replace the current decentralised system with a single technical platform. TARGET2 will feature new functionalities, designed to meet the future needs of financial markets.

In building this new system, the Eurosystem is pursuing three main objectives:

- First, TARGET2 is to provide a harmonised level of service on the basis of a common technical platform.
- Second, it is to follow the principle of cost recovery and have a single price structure applicable to

both domestic and cross-border payments.

- Third, it is to meet the new demands from the users, as well as those resulting from the future connection to TARGET of the new Member States that joined the European Union (EU) on 1 May 2004.

The Eurosystem is firmly committed to delivering TARGET2 in 2007, so that the first migration group can go live during the second half of that year. This timeframe will ensure that comments made by the various players are fully taken into account and that banks have enough time to prepare for testing the new system.

KEY FACTS ABOUT TARGET2

- > a single technical platform replaces the present decentralised platforms
- > flexibility to accommodate future customer needs
- > highly efficient and competitive
- > a single interface leading to harmonised services
- > pan-European liquidity management
- > the capacity to cope with euro area enlargement

TARGET2 NEWS UPDATE ON

- > pricing
- > publication of the User Detailed Functional Specifications
- > pooling of intraday liquidity
- > interaction with ancillary systems
- > how to connect to TARGET2
- > migration



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NEW FEATURES

The Eurosystem has developed the features and services of the future TARGET2 system in close cooperation with TARGET users. In May 2005 the Eurosystem published the User Detailed Functional Specifications (UDFS), which provide TARGET users with the information required to initiate the technical development and implementation work related to TARGET2.

The principal innovations of TARGET2 are as follows:

1. A single technical platform. The most important innovation is the consolidation of the technical infrastructure. TARGET2 will replace the decentralised technical structure of the current TARGET system with a single technical platform, known as the Single Shared Platform (SSP). Three Eurosystem central banks – Banca d'Italia, Banque de France and Deutsche Bundesbank – jointly provide the basis for the SSP and will operate it on behalf of the Eurosystem.

2. TARGET-wide flexible liquidity management services. There is increasing demand among payment system users for enhanced liquidity management services and liquidity-efficient RTGS¹ systems. In response, TARGET2 will offer state-of-the-art liquidity management tools, such as prioritisation of payments, liquidity reservation (also for the settlement of payments in ancillary systems), definition of sender limits and active queue management.

3. Support for timed payments. TARGET2 will take into account the increased time-criticality of payments, particularly in the context of Continued Linked Settlement (CLS), by making it possible to submit timed transactions.

4. Pooling of intraday liquidity. TARGET2 will enable euro area participants to group individual RTGS accounts held with different euro area central banks and pool the available intraday liquidity for the benefit of all members of the group of accounts. Each member can thus make payments from its own account up to the sum of available intraday liquidity on the accounts in the group. In addition, TARGET2 participants will benefit from consolidated account information.

5. Interaction with ancillary systems. TARGET2 will provide cash settlement services in central bank money for all kinds of ancillary systems, including retail payment systems, large-value payment systems, foreign exchange settlement systems, money market systems, clearing houses and securities settlement systems (SSS). The main advantage of TARGET2 for ancillary systems is that they will be able to access any account on the SSP via a standardised interface.

TARGET2 will offer six settlement models for the settlement of ancillary systems (two real-time models and four batch models), which already represents a substantial harmonisation of current practices.

6. Strengthened business continuity measures. TARGET2 will offer the highest possible level of reliability and resilience, as well as sophisticated business contingency arrangements commensurate with the systemic importance of the TARGET infrastructure.

The business continuity concept of TARGET2 consists of a multi-region/multi-site architecture. There will be two regions. In each region, there will be two distant sites. This will be combined with the principle of region rotation in

¹ Real-time gross settlement.

order to ensure the presence of skilled staff in both regions. During the time needed to implement such site/region alternation, appropriate contingency measures will be applied to settle systemically important payments (e.g. CLS).

7. Information and control module. TARGET2 users will have access, via the information and control module (ICM), to comprehensive online information and easy-to-use liquidity control measures appropriate to their business needs. Users of the ICM will have the flexibility to choose what information they receive and when. Urgent messages (e.g. system broadcasts from central banks and warnings concerning timed payments) will be displayed automatically on the screen.

Through the ICM, TARGET2 users will have access to the payments module (PM) and the module for static data (SD) management. Depending on the decision of the respective central bank, participants may also have access to the home accounting facility and the applications for reserve management and standing facilities.

In TARGET2, all banks in the EU – irrespective of the country in which they are located – will be offered the same high quality services, functionality and interfaces, as well as a single price structure. This will consolidate the level playing field for banks across Europe.

HOW TO CONNECT TO TARGET2

TARGET2 will offer open access to its services through a single interface, based on the latest SWIFT standards and services.

There will be two types of participation in TARGET2: direct and indirect. Direct participants will have an RTGS account in the payments module (PM) of TARGET2, with access to real-time information and control measures. They will be responsible for their own liquidity management and able to provide a link for other institutions to connect as indirect participants offering them additional services.

To connect to TARGET2, direct participants will require a direct connection to SWIFT's secure IP network via their own SWIFT interface or via a SWIFT Service Bureau. For the payments information exchange, TARGET2 will use the SWIFTNet FIN service. For the information and control services, the SWIFTNet services "InterAct", "Browse" and "FileAct" will be used.

PRICING

The Eurosystem is setting up a pricing structure for the TARGET2 core service which will eliminate the current differences in pricing between domestic and cross-border transactions, as well as increase the cost effectiveness for its users. It is currently envisaged that the price of a TARGET2 payment will range between €0.25 and €0.80. Further details on the pricing structure will be made available in the coming months.

In the same way as in today's development process, in the long run TARGET2 will benefit from and evolve with its users' expectations and requirements.



EUROPEAN CENTRAL BANK

USER TESTING AND MIGRATION

The purpose of User Testing is to ensure that users have made the necessary technical, procedural and operational adjustments ready for TARGET2. Different test phases for addressing these objectives have been drawn up with activities planned at institutional, national and migration group levels.

The migration to TARGET2 will be carried out by "country groups", allowing TARGET users to migrate to TARGET2 in different waves and on different, pre-defined dates. Each wave will consist of a group of central banks and their respective national banking communities.

The number of migration groups will be limited to four. TARGET users will only be allocated to the first three groups, while the fourth one will be reserved as a contingency measure. The migration waves will occur at intervals of approximately three months. This means that the total migration period will be limited to six months (or nine months if the fourth group is used).

IMPORTANCE OF TARGET2

Since its launch, TARGET has made a significant contribution to the integration of financial markets by providing its users with a uniform payment, clearing and settlement infrastructure. Given the wide range of services that TARGET2 will offer, the Eurosystem confidently expects to see even greater progress once the transition is complete.

TARGET2 will contribute to the harmonisation of the business practices of its users and can therefore be seen as a consolidation forerunner. Furthermore, TARGET2 is expected to facilitate the consolidation of internal processes (such as treasury and back office functions) and promote the harmonisation of ancillary systems interfaces all over Europe.

FURTHER INFORMATION ON TARGET2

More detailed information on TARGET2 can be found in the February 2005 TARGET2 Progress Report and the TARGET Annual Report 2004. All relevant documents and reports can be downloaded from the ECB's website at www.ecb.int. Information on TARGET2 is also provided on the websites of the national central banks.

Alternatively, hard copies can be ordered from any of the national central banks or from the ECB at the following address:

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For any further questions, please contact your national central bank or send an e-mail to: target.hotline@ecb.int

Composition of the migration groups (*)

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

(*) This table might be enlarged at a later stage with new Member States adopting the euro in the course of the migration period.