Initial considerations on T2 pricing policy
The objective of TARGET2 pricing, as defined by the Eurosystem, is to achieve full cost recovery.

TARGET2 is on the path to achieve its cost recovery objective by the time of the service’s decommissioning (November 2021).
Background & Key Assumptions

Transition from TARGET2 to T2

Payment Modules

86 million billable transactions in 2018

8%

92%

PM accounts
HAM accounts
PHA accounts

CLM MCA accounts
RTGS DCAs

Monetary policy and other Central Bank services related transactions
Interbank and customer payments; ancillary system transactions
Background & Key Assumptions

Key policy assumptions of future T2 pricing

- CLM is directly servicing monetary policy implementation and, therefore, its costs shall not be recovered
- T2 Pricing model is based on achieving full cost recovery for RTGS (in contrast to TARGET2, no «Public Good Factor» will be applicable for RTGS)
- Wide market participation and broad access to central bank money settlement: pricing should ensure high level of participation in T2 by both big and small «players»
- T2 pricing policy should be simple and straightforward, easy to explain
- Cross-subsidisation of other services operated by the Eurosystem (such as T2S and TIPS) is prevented
- Address different business models, such as pricing of ancillary systems
- Starting point: today’s TARGET2 pricing with its variable, degressive and fixed elements, while leaving room for introducing innovative pricing
### Overall evolution of the entire Euro large value payments market settlement volumes (in terms of average annual growth rate)

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Optimistic scenario</th>
<th>Neutral scenario</th>
<th>Pessimistic scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 2019 and 2021 (short-run)</td>
<td>1.36%</td>
<td>-0.10%</td>
<td>-2.70%</td>
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<tr>
<td>Between 2022 and 2026 (medium-run)</td>
<td>2.03%</td>
<td>-0.19%</td>
<td>-3.01%</td>
</tr>
<tr>
<td>As of 2027 (long-run)</td>
<td>2.12%</td>
<td>-0.79%</td>
<td>-3.39%</td>
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- NSGs which replied cover circa 98.5% of the TARGET2 market (in terms of 2018 volumes)
  - NSGs’ inputs concern their respective communities and were accordingly weighted
- Some of the NSGs envisage a shift of large-value payments volumes to instant payment solutions but no concrete figures are yet available
- The NSGs’ inputs concern the entire market; therefore the migration of a critical mass of volumes to T2 could enable the Eurosystem to meet the cost recovery objective under the neutral or, even, the pessimistic scenario
Main pillars of future T2 pricing policy

- All CLM related transactions would be free of charge;

- New «super-band» or «super-bands» for RTGS participants with very high number of transactions would be introduced in Option B of the core pricing scheme (degressive tariff structure). This «super-band» or these «super-bands» could be priced at a level that would be lower than today’s core pricing scheme lowest price (EUR 0.125);

- All ancillary systems fixed & transaction prices would be adjusted upwards;

- Other than the above adjustments, T2/RTGS would follow today’s TARGET2 pricing structure.
Rationale for the consideration to increase ancillary systems prices

The considered upward adjustment in ancillary systems’ prices can is based on the two following reasons:

1. **T2/RTGS**: **finality to all ancillary systems’ payments**, i.e. not just the ones that are settled in the books of T2/RTGS.
   
   a. **Revised SIPS regulation** (ECB/2017/2094): more stringent conditions on T2 contingency measures, compared to TARGET2.
   
   b. These contingency measures also favor other SIPS-like systems (e.g. CLS).

2. **T2/RTGS**: **additional features specifically designed for ancillary systems’ settlement** due to their criticality as system participants (e.g. urgent priority settlements)

3. **Additional monitoring from CBs** required (e.g. closer follow-up whenever settlement problems arise, often involving multiple banks; thus stakes are higher).
Disclaimer on possible review of the T2 pricing policy

- As a reminder, a key assumption of the proposed T2 pricing policy is the annual growth rate of the volumes settled in RTGS.

- However, it is still uncertain (see also less optimistic scenarios from the AMI-Pay feedback) on what the actual evolution of the TARGET2 and T2/RTGS volumes will actually be. Further monitoring and analysis is needed before a medium-term trend could be deduced, but it is likely that an unfavorable, cost-recovery-wise, RTGS volumes growth rate may materialise.

- For this reason, the Eurosystem is considering to propose that, while the T2 pricing should remain unchanged for a period of 2 years after go-live, in case the T2/RTGS volume growth remains structurally low, a revision of the T2 pricing may be proposed thereafter.