



EUROPEAN CENTRAL BANK

EUROSYSTEM



TARGET2 is the real-time gross settlement (RTGS) system for the euro, where processing and settlement takes place in real time (i.e. continuously) and each transfer is settled individually (gross settlement). Operated by the Eurosystem, TARGET2 enables transactions to be settled using central bank money and with immediate finality, and offers the highest standards of reliability and resilience.

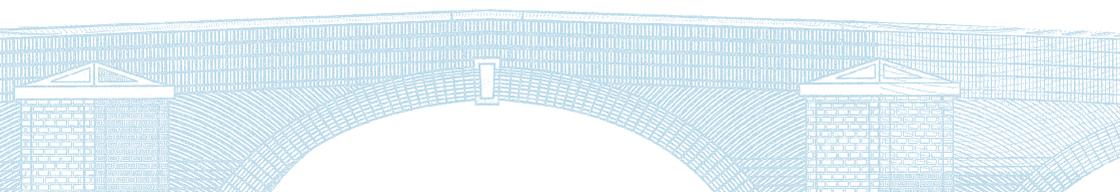
Almost 355,000 transactions totalling approximately €2.5 trillion were settled every day in 2012, an increase of 1.63% compared with 2011. TARGET2 is one of the three largest wholesale payment systems in the world and settles the equivalent of the annual GDP of the euro area in less than four days of operations – evidence of its importance and efficiency.

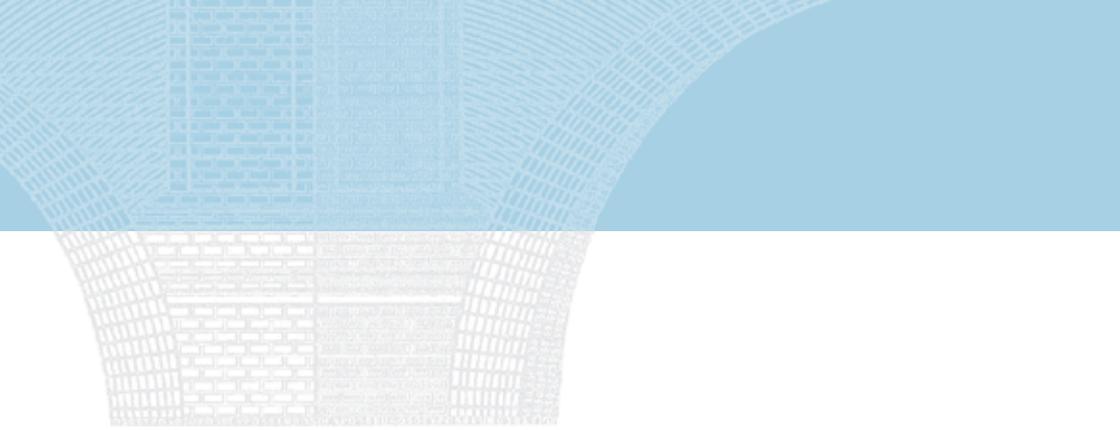


The payments settled via TARGET2 relate mainly to refinancing operations with national central banks, transactions between credit institutions and settlement in central bank money conducted by other financial market infrastructures. TARGET2 also settles customer payments and there is no upper or lower value limit for transactions. While supporting the business of its customers, TARGET2 also plays a key role in ensuring the smooth transmission of monetary policy, the correct functioning of financial markets and banking and financial stability in the euro area by substantially reducing systemic risk.

Participation

All of the Eurosystem's central banks and their banking communities are connected to TARGET2. Other EU national central banks may join TARGET2 on a voluntary basis, making TARGET2 accessible to a large number of participants from 23 EU countries.





Banks established in the EEA (or outside the EEA, but acting through a branch established in the EEA) are eligible for direct participation in TARGET2, provided they are supervised by their relevant national authorities. Furthermore, other entities can also be admitted as participants in TARGET2 at the discretion of central banks, such as financial market infrastructures, public sector bodies and investment firms.

Around 1,000 direct participants use TARGET2 to initiate payments on their own or their customers' behalf.

A number of options are available to participants as regards access to TARGET2, including direct and indirect participation, addressable Bank Identifier Codes (BICs) and multi-addressee access. All participation types are listed in the TARGET2 directory.

Direct participants hold an RTGS account on the Single Shared Platform (SSP) of TARGET2, with access to real-time information and control features. Indirect participants, addressable BICs and multi-addressees settle their payments via a direct participant, using the direct participant's account on the SSP.

Including branches and subsidiaries, almost 57,000 banks across the world can be addressed via TARGET2.

Furthermore, more than 80 financial market infrastructures, such as other payment systems, clearing houses, securities settlement systems and central counterparties, benefit from the opportunity offered by TARGET2 to settle in central bank money.

TARGET2 settlement services are provided under a single pricing scheme, which applies to all participants irrespective of the central banks via which they connect. The various fees were set at a level that would allow the system to fully recover its costs. In order to accommodate the needs of small and medium/large banks, two pricing options are offered for the provision of core services (i.e. flat transaction fees and digressive transaction fees). In addition, a specific pricing scheme applies to financial market infrastructures.





Liquidity optimisation

TARGET2 has several features that enable its participants to optimise their liquidity management. It therefore helps to improve liquidity efficiency within the euro area.

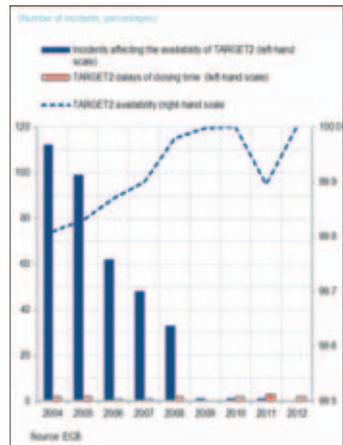
Under certain conditions, TARGET2 participants may benefit from the use of intraday credit free of interest. This credit is granted against eligible collateral.

Furthermore, TARGET2's liquidity management tools enable multi-country banks to consolidate their internal processes, such as treasury and back office functions, and to integrate their euro liquidity management more successfully. For example, participants are able to group their accounts and to pool the available intraday liquidity for the benefit of all members of the group.

TARGET2 participants can also control their liquidity outflow by setting limits, actively managing payment queues or prioritising certain payments.

In addition, via the Information and Control Module (ICM), users have real-time access to comprehensive information, control of balances and payments and easy-to-use liquidity management features.

Finally, central bank money settlement conducted by other financial market infrastructures in TARGET2 provides participants with liquidity optimisation opportunities, as these infrastructures are able to access any account on the SSP via a standardised inter face.





System structure

TARGET2 is based on a technically centralised platform – the SSP – and all users, irrespective of their location, have access to the same services, functionalities and interfaces at the same price.

The SSP of TARGET2 was set up using a modular approach. Every module in the SSP is closely related to a specific service (e.g. the Payments Module for the processing of payments). Some of the modules (Home Accounting, Standing Facilities and Reserve Management Modules) can be used by individual central banks on an optional basis. Central banks that do not use these modules offer the respective services via proprietary applications in their domestic technical environments.

SWIFT standards and services (e.g. FIN, InterAct, FileAct and Browse) are used to enable standardised communication between the TARGET2 system and its participants. Since November 2010 TARGET2 has also offered internet-based access for low-volume participants.

Resilience and business continuity

TARGET2 offers the highest possible level of reliability and resilience, as well as sophisticated business continuity and contingency arrangements commensurate with the systemic importance of the TARGET2 infrastructure. The business continuity concept of TARGET2 consists of a two-region/four-site architecture. There are two regions for payment processing and accounting services, and in each region there are two different sites. Regular region rotations are applied, thus ensuring full readiness and preparation in both regions in case of any event.

For further information please visit the TARGET2 website: www.target2.eu

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