**TARGET2** is the real-time gross settlement (RTGS) system for the euro, where the processing and settlement of payments takes place in real time (i.e. continuously) and where 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.

More than 363,000 transactions totalling approximately €1.9 trillion were settled every day in 2013, making TARGET2 one of the largest wholesale payment systems in the world. The payments settled via TARGET2 relate mainly to refinancing operations with national central banks, transactions between credit institutions and the settlement activities of 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 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 Eurosystem central banks and their banking communities are connected to TARGET2. Other EU national central banks have joined TARGET2 on a voluntary basis, making TARGET2 accessible to a large number of participants from 23 EU countries. Over 1,000 direct participants use TARGET2 to initiate payments on their own or their customers' behalf. A number of options are available to participants in terms of access to TARGET2, including direct and indirect participation, addressable Bank Identifier Codes (BICs), and multi-addressee access.
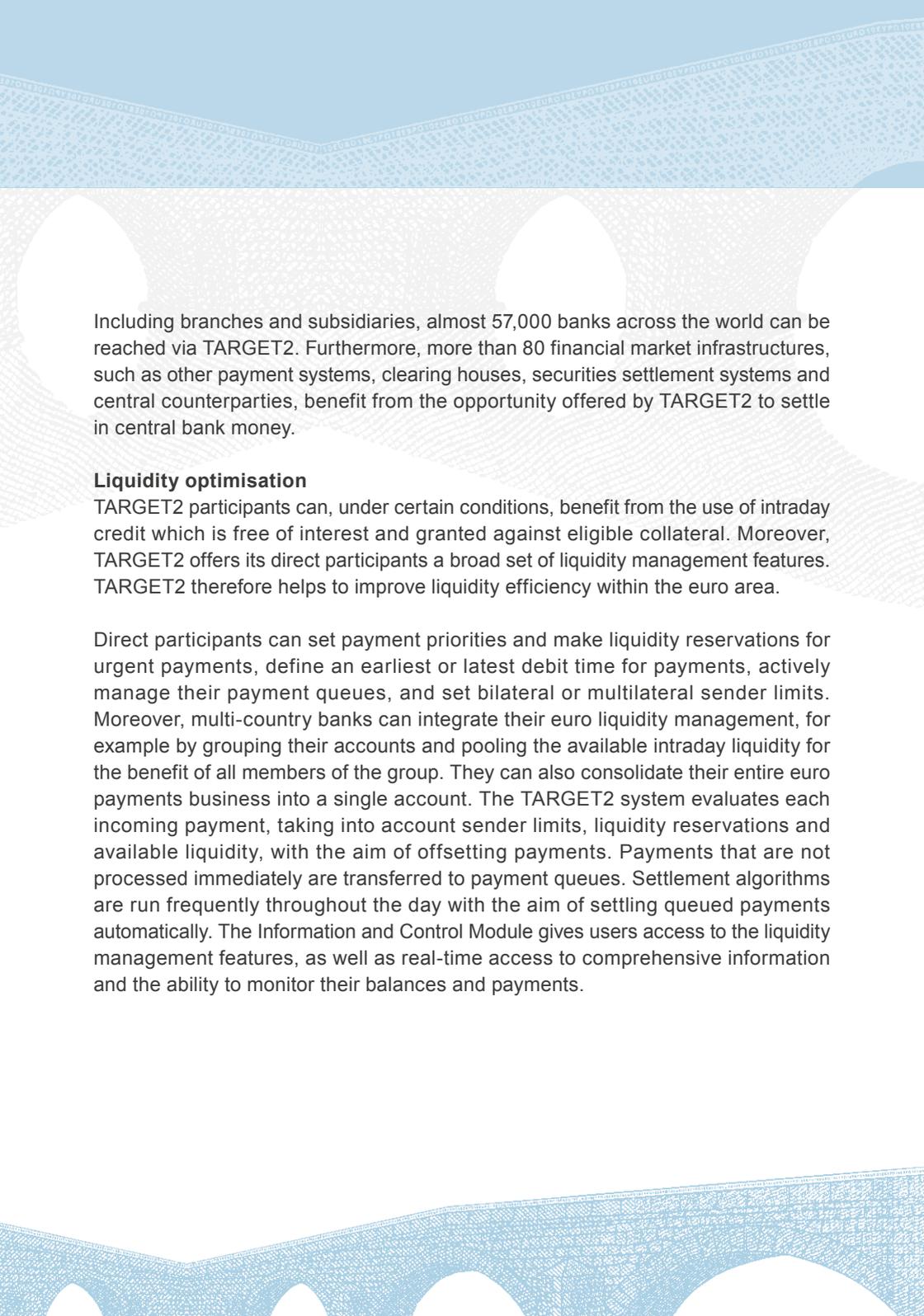
Including branches and subsidiaries, almost 57,000 banks across the world can be reached via TARGET2. Furthermore, more than 80 financial market infrastructures, such as other payment systems, clearing houses, securities settlement systems and central counterparties, benefit from the opportunity offered by TARGET2 to settle in central bank money.

Liquidity optimisation

TARGET2 participants can, under certain conditions, benefit from the use of intraday credit which is free of interest and granted against eligible collateral. Moreover, TARGET2 offers its direct participants a broad set of liquidity management features. TARGET2 therefore helps to improve liquidity efficiency within the euro area.

Direct participants can set payment priorities and make liquidity reservations for urgent payments, define an earliest or latest debit time for payments, actively manage their payment queues, and set bilateral or multilateral sender limits. Moreover, multi-country banks can integrate their euro liquidity management, for example by grouping their accounts and pooling the available intraday liquidity for the benefit of all members of the group. They can also consolidate their entire euro payments business into a single account. The TARGET2 system evaluates each incoming payment, taking into account sender limits, liquidity reservations and available liquidity, with the aim of offsetting payments. Payments that are not processed immediately are transferred to payment queues. Settlement algorithms are run frequently throughout the day with the aim of settling queued payments automatically. The Information and Control Module gives users access to the liquidity management features, as well as real-time access to comprehensive information and the ability to monitor their balances and payments.

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. 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.

Future changes

In view of the upcoming go-live of TARGET2 Securities (T2S), TARGET2 has updated all the functionalities necessary to make TARGET2 and T2S interoperable, in particular ensuring system-to-system connectivity and establishing a new interface for processing liquidity transfers between them.

The Eurosystem has defined a strategy for the migration of TARGET2 to a new set of ISO 20022-compliant payment messages in November 2017. According to the endorsed strategy, all the SWIFT FIN MT payment standards currently used in TARGET2 will be replaced by their MX equivalent following a "like-for-like" approach. This approach will ensure interoperability with other financial market infrastructures as well as "backwards" compatibility with the legacy standard.

Resilience and business continuity

TARGET2 offers the highest possible level of reliability and resilience, as well as sophisticated business 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 any event. This architecture enables TARGET2 to provide the highest level of service, minimise operational risk and avoid systemic risk.

Opening times

TARGET2 is open every working day, except on official TARGET2 holidays (New Year's Day, Good Friday, Easter Monday, 1 May and 25 and 26 December). Daytime processing is from 7 a.m. to 6 p.m. CET, with a cut-off time of 5 p.m. CET for customer payments.

TARGET2 starts the new business day on the evening of the previous day. The "night-time window" is available from 7.30 p.m. to 6.45 a.m. CET, with a technical maintenance period of three hours between 10 p.m. and 1 a.m. CET. The night time window allows for the settlement of payments from ancillary systems (such as CSDs retail payment systems) in central bank money with finality, and also supports cross-system settlement during the night.