



TARGET2: ASI procedure 6 integrated Today's functionality

7 November 2016

Settlement of ancillary systems (AS)



Retail payment systems
Large value payment systems
Securities settlement systems
Central Counterparties
...

77 AS are settling in TARGET2



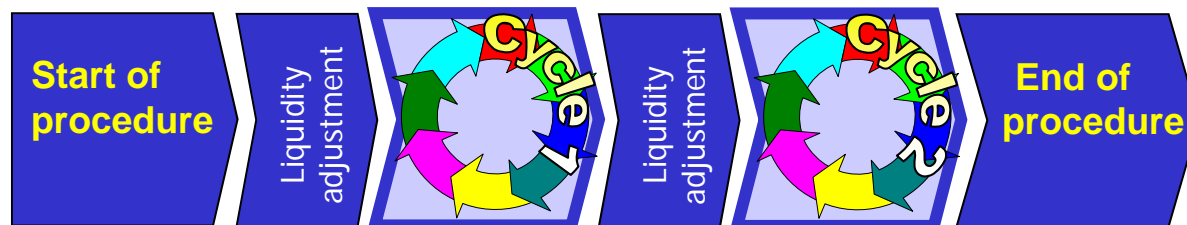
Harmonised interface for AS settlement



- Messages (SWIFTNet standard messages)
- Network and services (SWIFTNet services; InterAct and FileAct Store-and-forward)
- Settlement processing (six generic settlement procedures with optional mechanisms for adjustment)

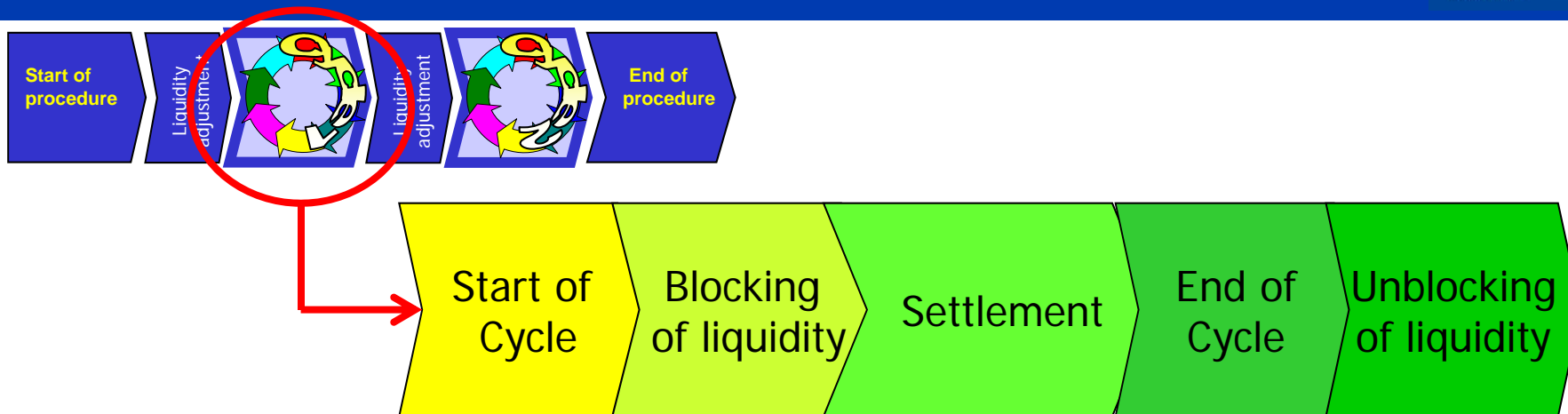
Six generic Settlement procedures	Interaction principle
1. Liquidity transfer 2. Real-time settlement	Real-time
3. Bilateral settlement 4. Standard multilateral settlement 5. Simultaneous multilateral settlement 6. Dedicated liquidity	Batch

AS Procedure 6 integrated – Main features



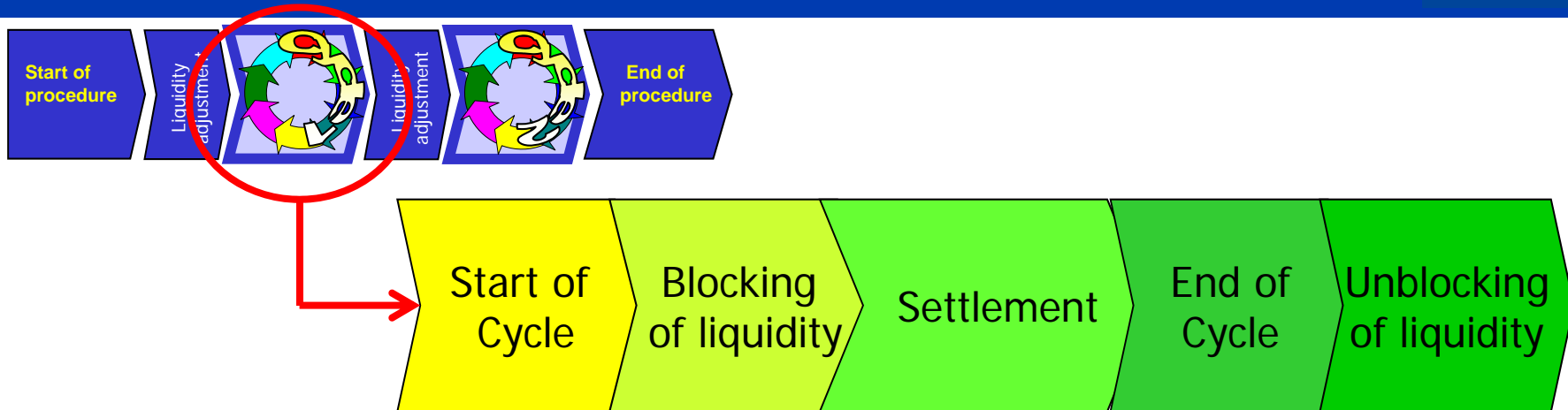
- Settlement in AS procedure 6 integrated works on dedicated liquidity and operates in “**procedures**” (**night-time procedure**, **daytime procedure**) identified by specific Start of Procedure and End of Procedure messages or via the Information and Control System (ICM).
- Within a procedure, several **cycles** could run consecutively.
- Between two cycles, a timeframe to allow **liquidity adjustment** is foreseen

AS Procedure 6 integrated – Cycles (1/2)



- **The AS** declares the **starting of the cycle** with a specific message or via ICM
- **During** the settlement **cycle**, the dedicated **liquidity** on the mirror account is **blocked**.
- **Settlement is done within the AS.**
- A specific message **is sent by the AS** to state the **end of cycle**.
- At the end of the settlement process,
 - the (remaining) dedicated **liquidity is unblocked** but kept on the mirror account to be available for possible further cycles. The AS is notified.

AS Procedure 6 integrated – Cycles (2/2)



- **At the end of the settlement process,**
 - the (remaining) dedicated **liquidity is unblocked** but kept on the mirror account to be available for possible further cycles. The AS is notified.
 - **Reverse liquidity transfer and current orders** issued by the AS for debiting the mirror account and crediting the participants TARGET2 (PM) account are also **possible** to allow the reallocation of the liquidity in favour of other settling ASs.

AS Procedure 6 integrated – Liquidity adjustment tools



Standing order (1/2)

Definition

- **Instruction** of a settlement bank **to transfer** regularly **a fixed amount** from its TARGET2 (PM) account to the mirror account

Actions

- **Inserted or modified via TARGET2 ICM in U2A or A2A mode**
 - No insertion or no modification possible when ICM is not available (between end-of-day and the opening of the next business day)
 - Changes are effective on the next business day

Options

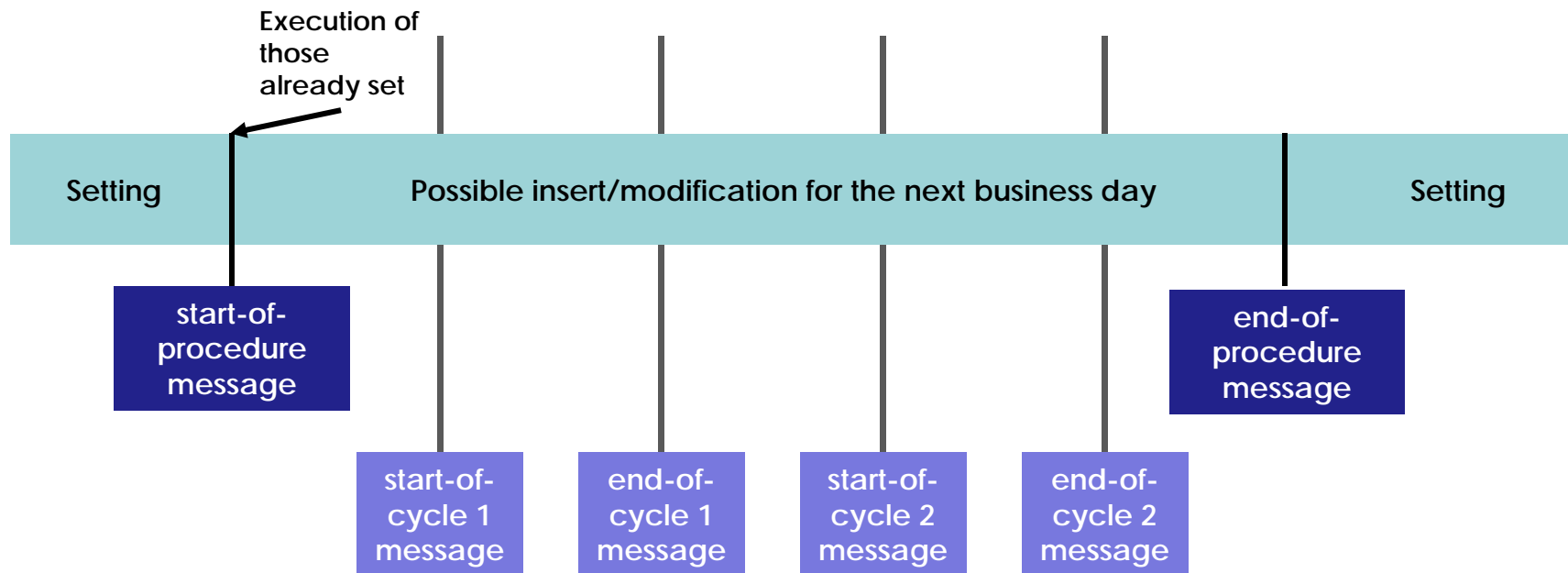
- Option to define **different** standing orders for **night-time** and **daylight** procedure
- More than one standing order for a specific mirror account e.g. **to separate** own business and third-party business

AS Procedure 6 integrated – Liquidity adjustment tools



Standing order (2/2)

Execution



AS Procedure 6 integrated – Liquidity adjustment tools



Current order (1/2)

Definition

- **Instruction** entered either by a settlement bank or the pertinent AS on its behalf **to perform** an immediate **liquidity transfer** from the settlement bank's TARGET2 (PM) account to the mirror account

Actions

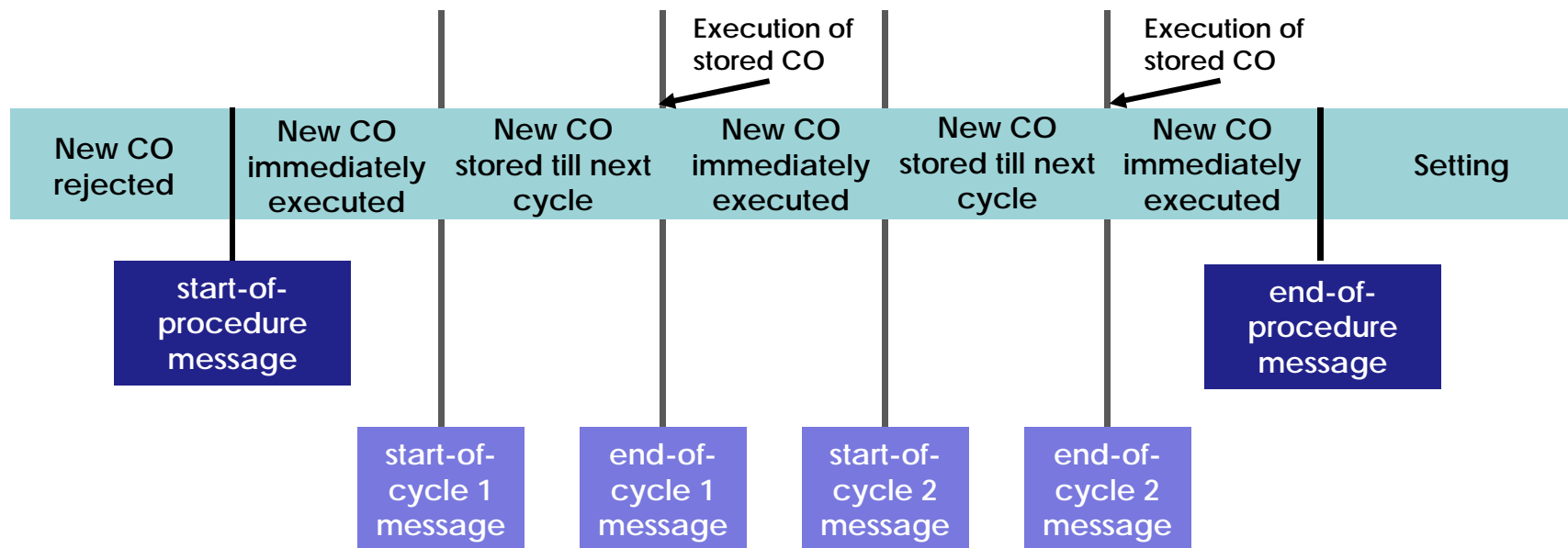
- **Inserted or modified via TARGET2 ICM in U2A or A2A mode**
 - In A2A mode by the settlement bank using „SBTransferInitiation“ XML message or by the AS using „ASTransferInitiation“ XML message (using ASI)

AS Procedure 6 integrated – Liquidity adjustment tools



Current order (2/2)

Execution



Current order executed immediately if received between two cycles otherwise queued

Payment (1/2)

Restrictions

- For **daylight** processing **only**
- Transfer from TARGET2 (PM) account to the mirror account possible, however transfer from mirror account to the TARGET2 (PM) account not possible
- **No debit notification (MT 900)** of the debit for the settlement bank as sender of Interbank payment (MT 202)

Characteristics

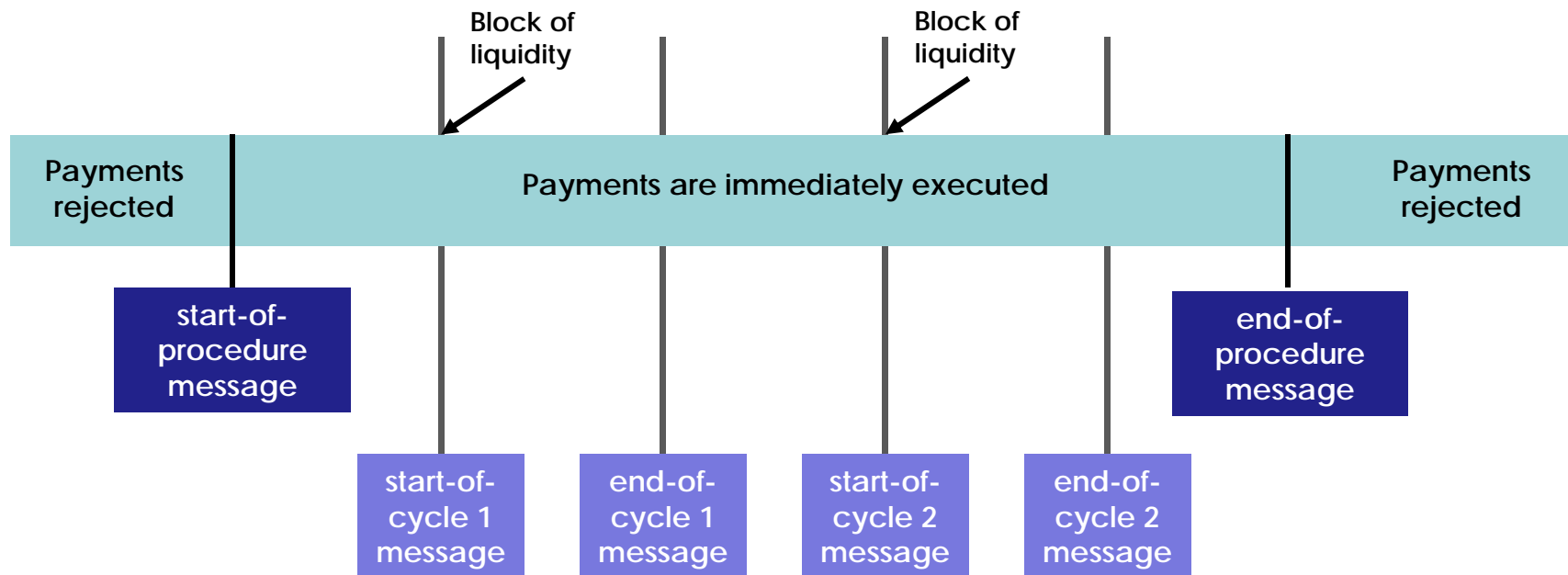
- MT202 with priority „**highly urgent**“
- To be addressed to **specific BIC** with reference of the mirror account in field 57

AS Procedure 6 integrated – Liquidity adjustment tools



Payment (2/2)

Execution



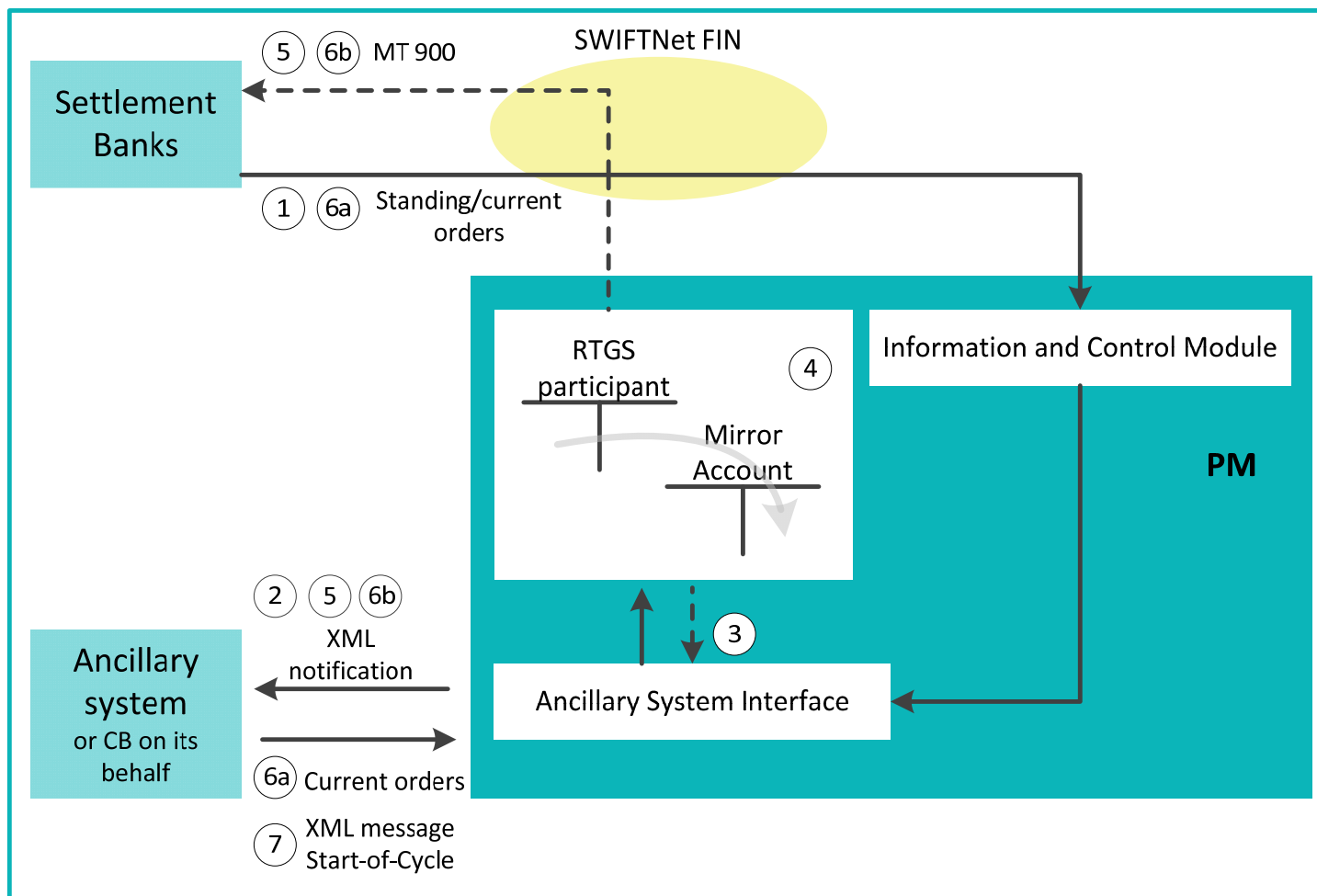
Payments executed immediately regardless of the cycle

AS Procedure 6 integrated – Night-time business

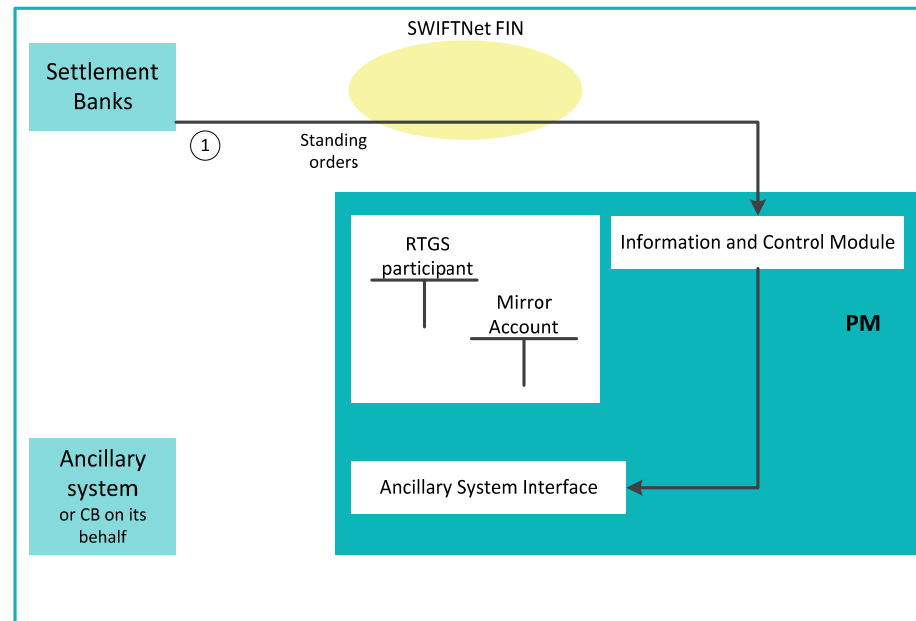


- **Night-time** procedure benefits from an **automatic start** of procedure message sent by the Ancillary system interface (ASI) itself after the end-of-day processing and the following re-opening of the next business day (with next value date).
- After the re-opening of the new business day, several **cycles can be performed** within the night-time procedure, with an interruption needed for technical reasons.
- **Liquidity adjustments** possible via
 - Standing order
 - Current order

AS Procedure 6 integrated – Night-time business work flow (1/9)



AS Procedure 6 integrated – Night-time business work flow (2/9)

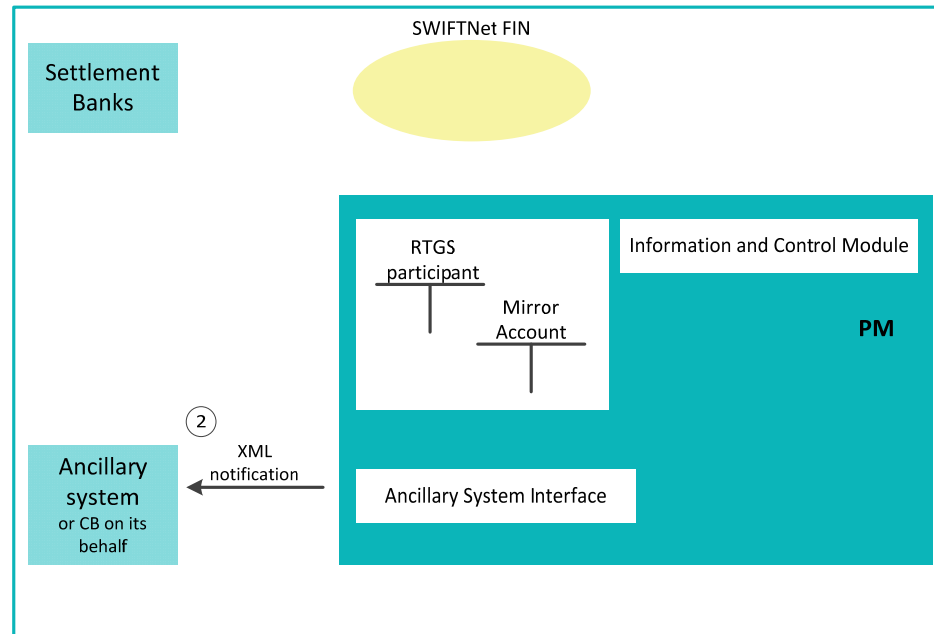


① Setting of standing orders:

During the business day it is possible for a settlement bank to determine the liquidity provision for the forthcoming night-time business.

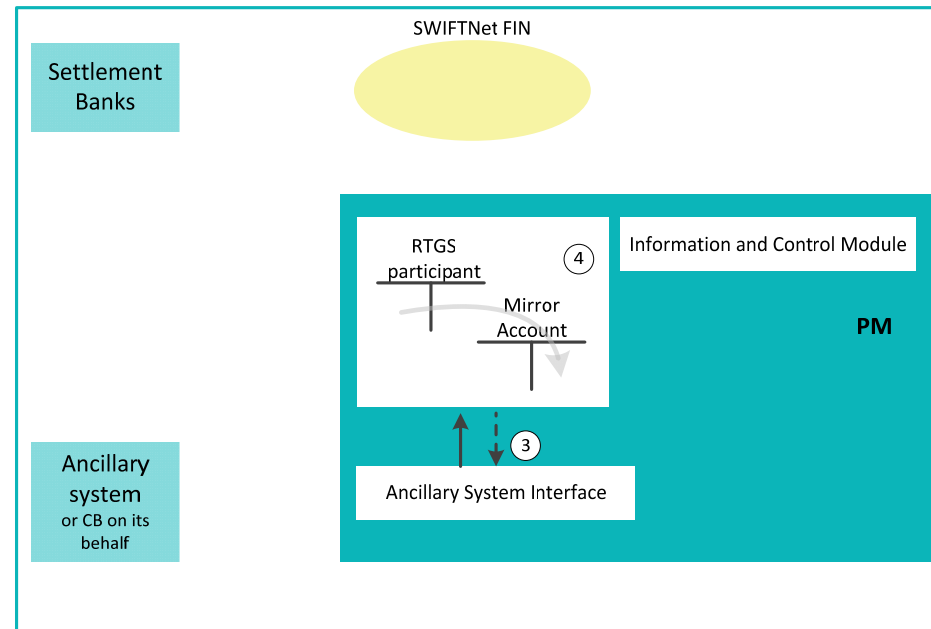
A settlement bank can set several standing orders for a specific AS debiting its TARGET2 (PM) account (e.g. to separate own business and third-party business). Changes of standing orders in ICM will always become effective from the next business day.

AS Procedure 6 integrated – Night-time business work flow (3/9)



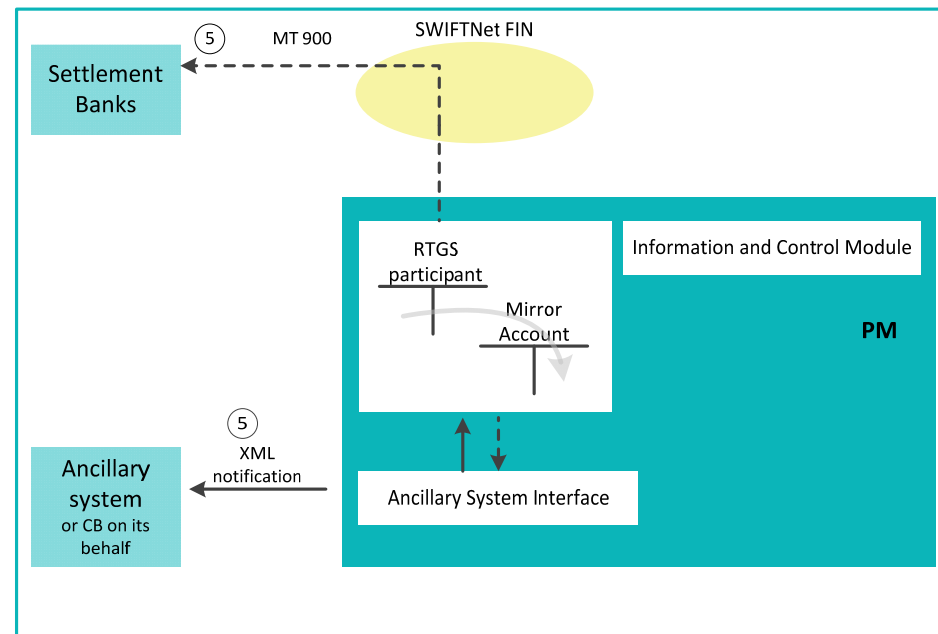
- ② **Start of procedure:**
Start of procedure message is automatically initiated by ASI after re-opening of the new business day. The AS will be notified on the event.

AS Procedure 6 integrated – Night-time business work flow (4/9)



- 3 Standing orders execution:**
The start of procedure message triggers the execution of existing standing orders debiting settlement bank's TARGET2 (PM) account and crediting the respective mirror account.
- 4 Standing orders execution:**
If the total sum of all standing orders of a settlement bank is larger than the liquidity on its TARGET2 (PM) account, all standing orders will be reduced in a pro-rata mode, i.e. the existing liquidity is divided by the total sum of standing orders and the resulting factor will be used to reduce each standing order of this participant.

AS Procedure 6 integrated – Night-time business work flow (5/9)

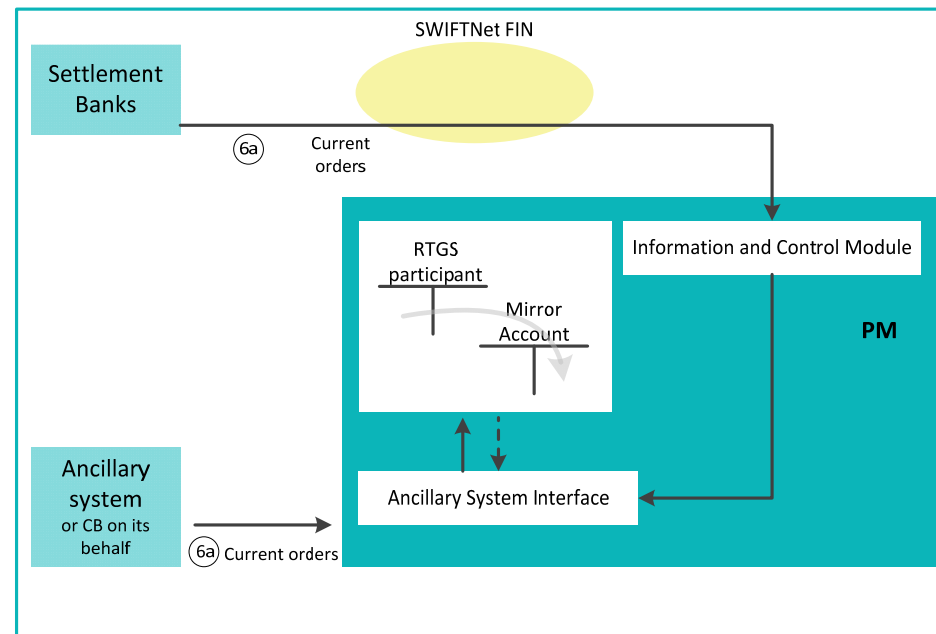


5 Notifications:

On an optional basis, the settlement banks receive the debit notification on the TARGET2 (PM) accounts (MT 900).

XML notifications for each individual credit of the mirror account are sent to the AS for the amounts actually booked.

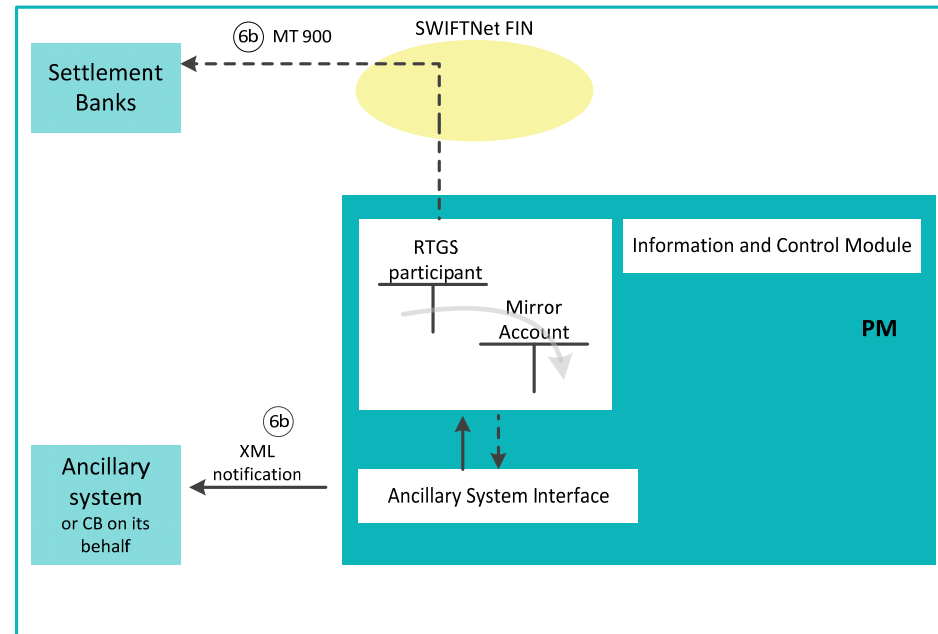
AS Procedure 6 integrated – Night-time business work flow (6/9)



6a Liquidity adjustment:

- In addition current orders can be sent by the AS (ASTransferInitiation) via ASI (the AS cannot set standing order on behalf of its settlement bank, to provide such a functionality the AS has to store and manage in its own procedure outside TARGET2 any potential standing orders and send them at the appropriate time as current orders).
- Settlement banks can also instruct current orders via ICM either in A2A or U2A mode. In case of A2A, the settlement bank receives a technical receipt.

AS Procedure 6 integrated – Night-time business work flow (7/9)



6b

Liquidity adjustment:

Current orders will be

- Immediately executed
- Notified to the settlement bank (MT 900) (optional)
- Notified to the AS:
 - With XML ASTransferNotice when the settlement bank has issued the current order
 - With XML ASInitiationStatus when the AS has issued the current order.

AS Procedure 6 integrated – Night-time business work flow (8/9)



⑥ Liquidity adjustment:

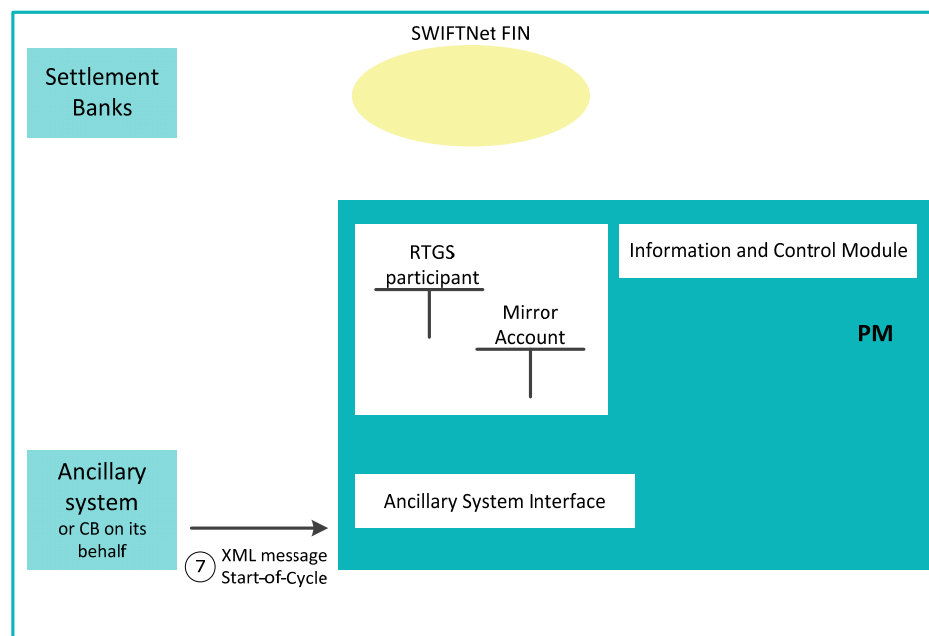
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If the liquidity on the TARGET2 (PM) account is insufficient to cover the current order, it is:

- partially executed (i.e. up to the available liquidity on the TARGET2 (PM) account concerned) if it was sent by the AS. If several orders were sent simultaneously for the same settlement bank, they are executed in the same order as in the AS message up to the available liquidity, and the last order that is not rejected is partially executed.
- rejected if it was sent by the settlement bank.

In case a highly urgent payment is pending and has been submitted earlier than the current order, the current order will be rejected.

AS Procedure 6 integrated – Night-time business work flow (9/9)



⑦ Start of cycle:

Once the start of cycle message has been sent the incoming liquidity transfers will not be any longer immediately executed. The AS is notified on the amount actually credited.

AS Procedure 6 integrated – End of procedure and liquidity back transfer



- **End of procedure message will be sent in case a daylight procedure is requested (to execute standing orders for daylight procedure)**
 - Requestor (AS or central bank) will be notified of the execution of the order to close the procedure
- **At the end of the time cycle ASs willing to return back possible remaining liquidity to their participants have to perform a liquidity transfer from the mirror account to the TARGET2 (PM) account**
 - Via XML message „ASTransferInitiation“ sent by AS or CB on behalf
 - No obligation for AS to return funds at the end of night-time processing.

AS Procedure 6 integrated – Night-time vs. daylight business (1/2)



The night-time procedure has, compared with the daylight one, the following deviating characteristics:

	Night-time procedure	Daylight procedure
Start of procedure	Automatically opened by the ASI at the "Start of Day"	Start of procedure can be manually initiated by the AS (or the central bank on behalf).
Pre-requisite	New business day has to be opened in TARGET2.	End of procedure message for night-time procedure has to be sent before.
Interruption	A night-time interruption is needed for technical reasons.	No interruption

AS Procedure 6 integrated – Night-time vs. daylight business (2/2)



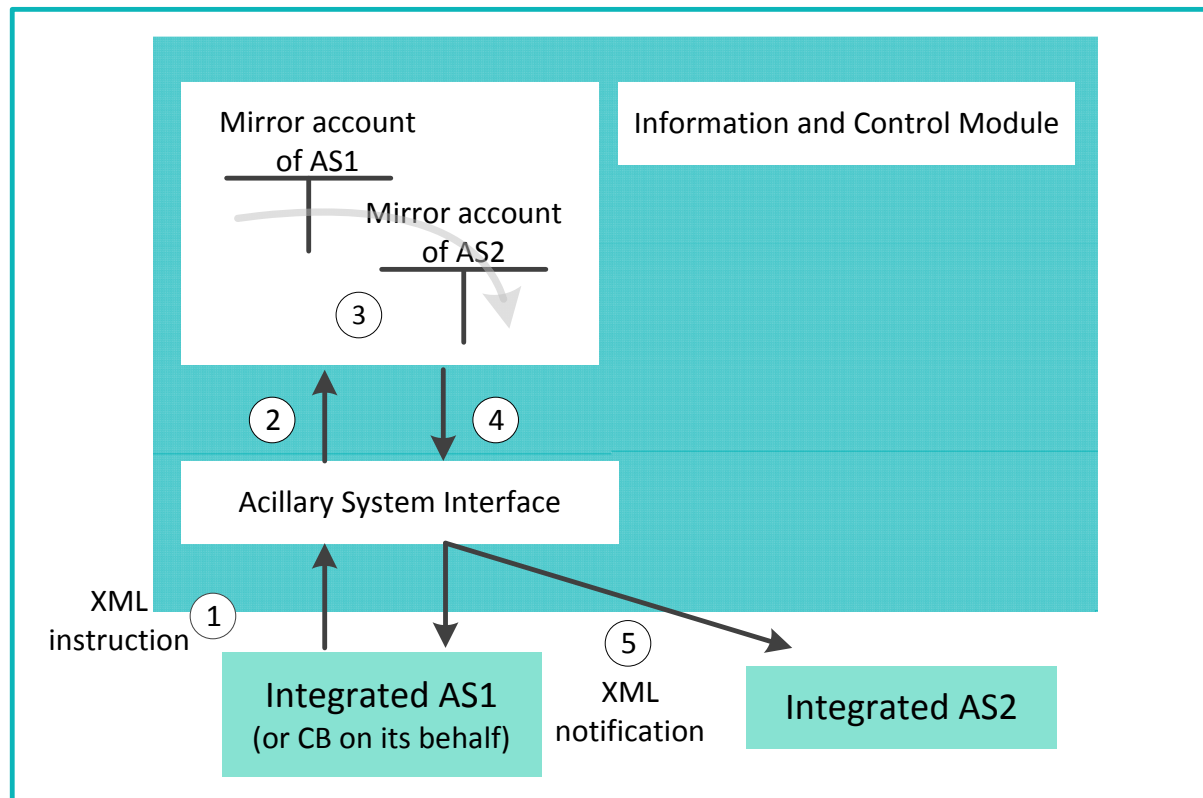
	Night-time procedure	Daylight procedure
Standing orders execution	If the total sum of all standing orders of a settlement bank is larger than the liquidity on its RTGS account, all standing orders will be reduced in a pro-rata mode.	Standing orders for daylight are executed in the order of the incoming start of procedures messages from the different ASs (FIFO principle). Furthermore they are processed according to their amount (decreasing range). If a standing order is not covered, it will be rejected.
Payments (MT202)	Payments (MT202) cannot be used.	Payments (MT202) can be used.
End of procedure	Only needed in case daylight procedure should be opened (for execution of standing orders).	Automatically closed by the ASI at "End of Day"

AS Procedure 6 integrated – Cross-DVP settlement (1/2)



Business case

The settlement bank A of AS1 wants to send a payment to settlement bank B, who is not participating in AS1 but in AS2.



AS Procedure 6 integrated – Cross-DVP settlement (2/2)



- 1 INITIATION - Request for Cross-DVP settlement:**
AS1 (or its CB on behalf) sends an XML message (ASTransferInitiation) with a single payment to transfer liquidity from the mirror account of AS1 on behalf of settlement bank A to the mirror account of AS2 in favour of settlement bank B.
- 2 FUNCTIONAL CONTROLS:**
If procedure 6 is open in AS1 and AS2 and if the cycle is open in AS1, then the order is transmitted to TARGET2 Payments module (PM), else the order is rejected.
- 3 SETTLEMENT:**
The liquidity is transferred from the mirror account of AS1 to the mirror account of AS2.
- 4 NOTIFICATION:**
The notification on settlement is transmitted to AS1.
- 5 STILL NOTIFICATION:**
AS1 or its CB is notified on the outcome of the cross-DVP settlement request. If the cross-AS settlement is sent by the CB on behalf of AS1, then AS1 is notified on successful settlement. AS2 is notified on the increase of liquidity in the mirror account including the resulting balance.

Thank you for your attention.
Questions?