

Prefunded settlement in TARGET2

Use of prefunded settlement in TARGET2 under review by the Governing Council of the ECB

With regard to ancillary systems' access to TARGET2 as outlined in the [TARGET2 Guideline](#) Annexes II and IV, the Eurosystem is conducting a review of its stance on prefunded settlement.

In the context of TARGET2, “prefunding” can be defined as a practice where an ancillary system participant places funds in central bank money under the control of the ancillary system to which it participates for settlement purposes. “Prefunded settlement” is a type of “prefunding” that occurs when the ancillary system uses the funds placed under its control to discharge a participant’s financial obligations without any further involvement of the central bank (i.e. beyond the provision of a central bank account) by accordingly updating individual positions of participants on its own books.

Prefunded settlement may present certain advantages. However, an extensive use of prefunded settlement may also negatively impact the overall efficiency of the market as regards liquidity fragmentation and the Eurosystem’s statutory tasks/role.

This communication highlights the interim decisions of the Governing Council of the ECB taken in May 2021, i.e. that prefunded settlement is in principle allowed in TARGET2 for processing SEPA payment instruments (i.e. SEPA Instant Credit Transfers, SEPA Credit Transfers and SEPA Direct Debits) and for processing Foreign Exchange transactions on a payment-versus-payment basis. However, it should be noted that the usage of prefunded settlement might be subject to conditions.

The aim is to finalise the review on the use of prefunded settlement by the end of 2021. The Eurosystem will accordingly communicate its revised stance to the TARGET community and other stakeholders thereafter.