

TARGET2 – THE FUTURE TARGET SYSTEM

WHY TARGET2?

With the TARGET2 project the Eurosystem is pursuing three main objectives, which the Governing Council of the ECB decided upon in October 2002:

- First, TARGET2 is to provide a harmonised level of service on the basis of a common technical platform.
- Second, it is to follow the principle of cost recovery and have a single price structure that is applicable to both domestic and cross-border payments.
- Third, it is to meet new user demands, in particular those resulting from the enlargement of the euro area. The ten new Member States that joined the European Union (EU) on 1 May

2004 will have to connect to TARGET once they adopt the euro, as this is a prerequisite for participation in the single monetary policy.

NEW FEATURES

TARGET2 will offer a range of new features and characteristics sought by users:

1. **A single technical platform.** Probably the most important innovation is the consolidation of the technical infrastructure. TARGET2 will replace the decentralised technical structure of the current TARGET system with a single technical platform, known as the Single Shared Platform (SSP). This was also the

KEY FACTS

- > common technical platform
- > based on customer needs
- > highly efficient and competitive
- > caters for the enlargement of the euro area
- > scheduled to go live in January 2007



overriding user requirement to emerge from the public consultation on TARGET2 held in early 2003.

2. TARGET-wide flexible liquidity management services. Payment system users are increasingly demanding enhanced liquidity management services and liquidity-efficient systems that combine the advantages of both gross and net settlement systems. TARGET2 will respond to these demands by offering both state-of-the-art liquidity management tools and liquidity-saving features.

3. State-of-the-art technology. TARGET2 will apply the latest payment system technology and standards (such as SWIFTNet in the field of messaging) and will undoubtedly be one of the most advanced payment systems in the world.

4. Support of timed payments. TARGET2 will take the increased time-criticality of payments into account by enabling the submission of timed transactions, such as those needed in the context of Continuous Linked Settlement (CLS).

5. Integration with ancillary systems. In Europe there are a large number of “ancillary” systems – mainly securities settlement systems and retail payment systems – that have to settle in TARGET. The main advantage of TARGET2 for ancillary systems is that they will be able to reach any account on the SSP via a standardised interface.

6. Strengthened business continuity measures. TARGET2 will respond to the new threats in the post-September 11 world by offering the highest possible level of reliability and resilience, as well as sophisticated business contingency arrangements which are commensurate with the systemic importance of the TARGET infrastructure.

In TARGET2, all banks in the EU – irrespective of the country they use as access point – will be offered the same high-quality services, functionality and interfaces, as well as a single price structure.

MILESTONES OF THE PROJECT

How and in what steps will TARGET2 be established?

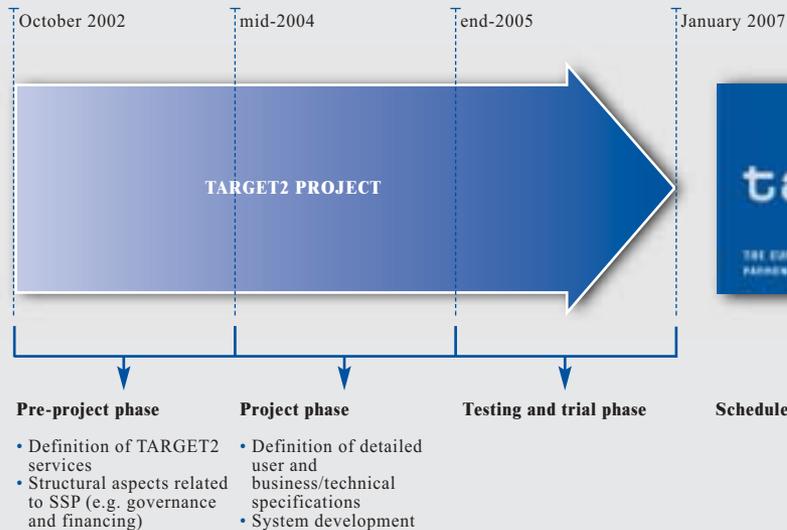
In October 2003, the Banca d'Italia, the Banque de France and the Deutsche Bundesbank made a joint proposal to develop and operate the SSP on behalf of the Eurosystem. The proposal put forward by the three central banks has been positively assessed by the Eurosystem. Furthermore, all ESCB central banks confirmed their general willingness to join the SSP from the outset.

The TARGET2 project can be divided into three phases: the pre-project phase, the project phase and the testing and trial phase (see box).

The future users of the system have been closely involved in the project since its inception. A document describing the General Functional Specifications (GFS) of the SSP was drafted on the basis of the user requirements identified during the public consultation on TARGET2. The GFS document was discussed with the TARGET user community and, taking their comments into account, was then finalised in July 2004. This, together with the completion of the work on structural aspects of the SSP (such as governance, costs and financing), marked the end of the first phase, the **pre-project phase**.

The **project phase**, currently ongoing, will continue until the end of 2005 and involve drawing up detailed functional and technical specifications, developing the software and establishing the technical infrastructure for the new system. The last phase, the **testing and trial phase**, will occupy the whole of 2006 and be devoted to intensive testing and pre-production trial runs. The Eurosystem aims to start live operations in January 2007.

TARGET2 project phases – envisaged time scale



Pre-project phase

- Definition of TARGET2 services
- Structural aspects related to SSP (e.g. governance and financing)

Project phase

- Definition of detailed user and business/technical specifications
- System development

Testing and trial phase

Scheduled to go live



EUROPEAN CENTRAL BANK

FURTHER INFORMATION ON TARGET2

More detailed information on TARGET2 can be found in the public consultation document entitled "TARGET2: principles and structure", the April 2004 issue of the ECB's Monthly Bulletin and the TARGET Annual Report. All relevant documents and reports can be downloaded from the ECB's website at www.ecb.int.

Alternatively, hard copies can be ordered from any of the national central banks, or from the ECB at the following address:

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