



THE PAYMENT
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THE €UROSYSTEM



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THE EUROSISTEM'S PAYMENT SYSTEM

TABLE OF CONTENTS

THE CURRENT TARGET SYSTEM

Structure	5
Objectives	5
Achievements	5

WHY TARGET2?

TARGET users' requirements	6
Benefits from economies of scale	6
EU enlargement	7

WHAT IS NEW AND WHAT WILL REMAIN?

Move towards consolidation	8
All credit transfers are possible	8
A far more harmonised service level	9
Single price structure	9
Cost-effectiveness	10

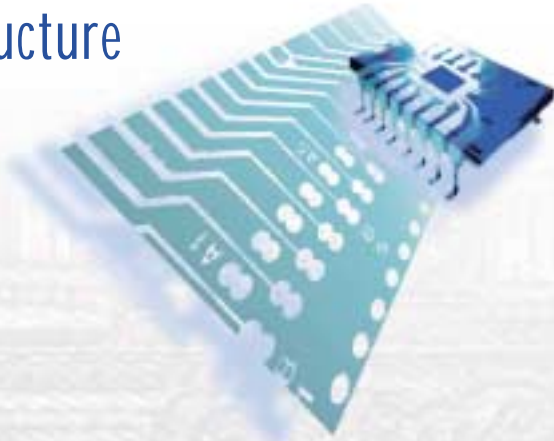
WAY FORWARD IN THE ESTABLISHMENT OF TARGET2 11

FURTHER INFORMATION ON TARGET2 12

THE CURRENT TARGET SYSTEM



Structure



TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) has a decentralised structure and consists of 15 national real-time gross settlement (RTGS) systems and the ECB payment mechanism (EPM), which are all interlinked. It follows the principle of a minimum level of harmonisation. The approach of interconnecting existing infrastructures was agreed in 1994 as the best way of ensuring that the system would be operational from the very start of Stage Three of Economic and Monetary Union (EMU).

Objectives

TARGET was developed to meet three main objectives: (i) to provide a safe and reliable mechanism for the settlement of euro payments on an RTGS basis; (ii) to increase the efficiency of cross-border euro payments; and, most importantly, (iii) to serve the needs of the monetary policy of the ECB.



Achievements

40,200
253,000

More than 40,000 banks and branches can be addressed via TARGET. A daily average of more than 253,000 transactions (domestic and cross-border) were processed in 2002, with an average daily value of more than EUR 1,500 billion. TARGET's market share of large-value euro payment systems traffic is very significant, with the system processing almost 85% in terms of value and 59% in terms of volume. Single money market rates have been achieved from the beginning of Monetary Union. It can thus be concluded that TARGET has successfully met its objectives.

WHY TARGET2?

TARGET users' requirements



Credit institutions increasingly perceive the euro area as one single payments market. They therefore expect to receive the same service everywhere. The principle of minimum harmonisation for the TARGET system, its infrastructure and interfaces has become less and less acceptable.

Benefits from economies of scale

From the start, cost recovery has been accepted as an indispensable principle. Over time, it became evident, however, that this is not achievable in the context of a fully decentralised infrastructure. In an integrated market where individual national requirements are diminishing, the national central banks (NCBs) can benefit from economies of scale by sharing an IT platform for their RTGS services.



EU enlargement

Acceding country central banks (ACCBs) will have the possibility – but not the obligation – to connect to TARGET as from the date of their joining the European Union (2004). In this context, ACCBs might decide for reasons of cost-effectiveness to connect to TARGET without the need to operate an own RTGS. Participation in TARGET will be compulsory only when they join Economic and Monetary Union.

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WHAT IS NEW AND WHAT WILL REMAIN?

Considering all drivers for change, the Governing Council of the ECB defined the strategic direction for TARGET2 by establishing the following principles for the development of the system.



Move towards consolidation

NCBs will maintain their business relationships with credit institutions. However, from the start of TARGET2 they can opt to join a shared IT platform providing RTGS services to more than one NCB.


The design of the shared platform will allow each central bank which joins to preserve the business relationships with its banks, including those related to monetary policy operations.

All credit transfers are possible



TARGET2 will be a system for the settlement of predominantly systemically relevant, large-value euro payments in central bank money. Nevertheless, as is the case with the present TARGET system, TARGET2 will be open “downwards”, which means that there should be no de jure or de facto limits, set by the Eurosystem or the NCBs, on payments that users may wish to process in real time in central bank money.

A far more harmonised service level



TARGET2 will have a far more harmonised service level than the present system. There will be a broadly defined core service, meaning that the same services and functions will be offered by all TARGET2 components (for example, the provision of harmonised interfaces for banks and ancillary systems across the EU). Nevertheless, central banks will have the possibility to provide some specific domestic services in addition to the core services.

The Governing Council of the ECB has the competence to define and periodically revise the list of core services, with the intention of making additional services available to the whole TARGET user community. It will exercise this competence in a way that fosters innovation.

All platforms that are part of TARGET2 will be subject to the same guiding principles, for example, for pricing, cost recovery, access, core services, etc.

Single price structure

A single price structure will be applicable to the core services of TARGET2 (i.e. price differences for domestic and cross-border TARGET payments will no longer exist). Additional services will be priced separately and independently by each central bank. The single price structure will apply as from the start of TARGET2.





Cost-effectiveness

TARGET2 will be based on the principle of cost-effectiveness, which implies that the single price will be based on the most efficient RTGS system. Those RTGS systems which have not met the cost recovery requirement within four years of the start of TARGET2 will be compulsorily closed. The respective NCBs will then have to provide their RTGS services via the shared platform.

The improvements of TARGET2

- Same core services
- A more robust and resilient system
- Harmonised interfaces
- A single price structure which fosters market integration
- Economies of scale
- Flexible liquidity management

The Governing Council of the ECB decided that a shared platform should be created for the start of TARGET2. For the first three years of operation, TARGET2 will thus consist of a single shared platform (SSP) and the remaining national RTGS systems. After this three-year period, an assessment will be carried out to establish whether the SSP can satisfy the needs of all central banks and their banking communities not wishing to maintain an individual platform.

WAY FORWARD IN THE ESTABLISHMENT OF TARGET2

The preparation of TARGET2 can be divided into three phases: (i) the pre-project phase; (ii) the project phase; and (iii) the testing and trial operations phase.

TARGET2 is currently in the pre-project phase, planned to continue until autumn 2004.

TARGET2 will start when:

- All the components provide the core service
- The shared platform is available
- The single price structure applies

The new system will become operational during the second half of this decade.



EUROPEAN CENTRAL BANK

FURTHER INFORMATION ON TARGET2

More detailed information on TARGET2 can be found in the ECB's press release of 24 October 2002 entitled "The long-term evolution of TARGET" and in 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 NCBs or from the ECB at the following address:

European Central Bank
Press and Information Division
Kaiserstrasse 29
60311 Frankfurt am Main
Germany
Fax: +49 69 1344 7404

Further information is available from target.hotline@ecb.int

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