target
THE TRANS-EUROPEAN
AUTOMATED REAL-TIME
GROSS SETTLEMENT
EXPRESS TRANSFER SYSTEM
Welcome to the world of TARGET

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future

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-users

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Distinctive features of the system

TARGET, which stands for the Trans-European Automated Real-time Gross settlement Express Transfer system, is the real-time gross settlement (RTGS) system for the euro, which commenced operation on 4 January 1999.

TARGET offers a premium payment service which transcends national borders between payment systems in the European Union (EU).

TARGET has a decentralised structure which consists of 15 national RTGS systems and the ECB payment mechanism (EPM), which are interlinked so as to provide a uniform platform for the processing of cross-border euro payments.

TARGET is a real-time system: payments go directly to their destination, reaching it under normal circumstances within a couple of minutes, if not just a few seconds, of being debited from the sending participant’s account.

TARGET is a gross settlement system in which each payment is handled individually. Acknowledgement of the successful execution of each individual payment order is sent in real time.

TARGET provides intraday finality: settlement is final for the receiving participant once the funds have been credited. The money received is central bank money. It is possible to re-use these funds several times a day.

TARGET is accessible to a large number of participants. Hence, most credit institutions are able to use TARGET to make payments on their own behalf, independently of other participants. Even indirect participants can be addressed directly.

TARGET is very easy to use. To initiate a cross-border payment via TARGET, participants simply send their payment orders to the euro RTGS system in which they participate.

TARGET is an EU-wide system for euro payments. It provides individual real-time processing and intraday finality. TARGET is very easy to use and is accessible to a large number of participants.

Why was TARGET developed?

TARGET was developed to meet three main objectives:
- to provide a safe and reliable mechanism for the settlement of euro payments on an RTGS basis;
- to increase efficiency of cross-border payments within the euro area; and, most importantly,
- to serve the needs of the monetary policy of the ECB.
It is possible to make credit transfers to almost all EU credit institutions via TARGET without any limitation on value. With its special emphasis on large-value payments related to interbank operations, TARGET contributes to reducing systemic risk.

The possibility of reaching almost any EU credit institution

There are 1,560 direct participants in TARGET and around 2,330 indirect participants. The overall number of banks (including their branches and subsidiaries) accessible via TARGET is more than 40,000.

It is possible to reach almost all credit institutions established in the EU via TARGET and, hence, all their account holders. All credit institutions which are addressable through TARGET (i.e. direct or indirect participants) have to be identified by a Bank Identifier Code (BIC). The BICs of TARGET participants are listed in the TARGET Directory as well as in the SWIFT BIC directories. TARGET obviates the need for a service level agreement with other participants. Furthermore, at the cross-border level, there is no longer any need for a bilateral exchange of SWIFT authentication keys.

Payments directly related to monetary policy operations involving the Eurosystem, whether as the recipient or the sender, have to pass via TARGET. Cross-border large-value net settlement systems operating in euro also settle their end-of-day balances via TARGET. Thus, TARGET is used for the end-of-day settlement of EURO 1, the system operated by the European Banking Association (EBA). TARGET is also used for euro payments between CLS Bank and its members.

Although TARGET is mainly intended for large-value payments, more and more participants are using TARGET for all their cross-border euro payment business. In this way, even smaller institutions in the EU are able to offer their customers an inexpensive cross-border payment service, as they are independent of correspondent banking.

• The average value of a cross-border interbank payment in 2002 was €15.9 million. However, during the last hour of the working day (when customer payments are no longer possible) the average payment size reached €107.3 million.

• The average value of a customer payment in 2002 was €0.84 million.

1) The MT-100 will be withdrawn by SWIFT in November 2003.

All credit transfers are possible

TARGET is available for all credit transfers in euro between EU countries, including those countries which have not yet adopted the euro as their currency (non-euro area countries). TARGET processes both interbank (MT-202) and customer payments (MT-100/102/103/103+). There is no upper or lower value limit for TARGET payments.

TARGET provides a highly efficient service, especially for time-critical large-value payments. Therefore, by using TARGET for all their large-value payments, in particular those related to interbank operations, market participants not only receive a premium service, but also make a substantial contribution to reducing systemic risk throughout the EU.
The system is capable of processing a significant number of large-value payments within short transmission times. Even larger banks, which have access to cheaper alternatives for processing their payments, use TARGET extensively for very high-value payments, since TARGET provides advantages in terms of liquidity management and security.

TARGET provides a firm foundation for the management of payment system risks. It gives participants the possibility of settling payments in central bank money with immediate finality, thus eliminating the settlement risk between participants. TARGET payments become final for receiving participants once they have been credited to the participant’s account held at the national central bank (NCB). This means that participants are, in principle, able to pass on third-party payments they receive to the final beneficiary immediately and without credit risk.

TARGET facilitates liquidity management because liquidity is widely available and the turnover of funds can be high. Thus any risk of having liquidity trapped can be avoided.

**Real-time operation**

The high speed at which payments in TARGET are processed facilitates and improves cash management. Moreover, this enables participants to increase their turnover of funds.

For TARGET payments, under normal circumstances, the time between the debiting of the account of the sending participant and the crediting of the account of the beneficiary participant is a couple of minutes, if not just a few seconds. This rapid processing of funds, which are credited to the appropriate account with finality, yields direct benefits for participants.

With TARGET, international corporate cash management is also able to make substantial efficiency gains. The real-time execution of TARGET payments makes it possible to optimise cash management in euro. Participants’ corporate customers therefore have a particular interest in having their financial payments made via TARGET.
The debiting of the ordering bank's account to the crediting of the receiving bank's account. At present, TARGET fully supports STP standards for the SWIFT message types. This is reflected in the very low rate of rejected payments at the cross-border level. In 2002 this rate fell slightly to around 0.26% of the total number of cross-border TARGET payments (from 0.28% in 2001).

EBA settlement (EURO1) via TARGET

The ECB provides EURO 1 with an access point to TARGET. Through the EPM, EBA clearing banks are able to settle their positions in a final and irrevocable way. As settlement service provider, the ECB is informed (at around 4 p.m. C.E.T.) of the final balances of the EBA clearing banks. Before the deadline defined by the ECB, banks with a short position send a cross-border TARGET payment to their NCB in favour of the EBA's settlement account at the ECB; the ECB then sends confirmation to the EBA that the clearing bank has covered its position. If all short banks have paid in and sufficient funds have been received on the settlement account at the ECB to cover the aggregate long banks' positions, the EBA instructs the ECB to pay the clearing banks with a credit balance via a cross-border TARGET payment. This brings the balance of the settlement account back to zero.

Upon confirmation that the payment has been credited to the beneficiary, the ECB notifies the EBA that the payment has been successfully performed. On receipt of all confirmation messages, the EBA sends confirmation to the clearing banks and the ECB that the settlement has been completed.

Operating days

TARGET operating days are, de facto, the settlement days for the financial markets in euro, as well as foreign exchange transactions involving the euro. As from 2002 and until further notice, TARGET – including all the national RTGS systems – will be closed, in addition to Saturdays and Sundays, on New Year's Day, Good Friday, Easter Monday, 1 May (Labour Day), Christmas Day and 26 December.9

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Interbank straight-through processing

Straight-through processing (STP) rules in TARGET are viewed as a way of facilitating further automation in the processing of payment messages, thus reducing the associated costs and risk. Since TARGET started operations, it has supported the fully automated processing of cross-border payments between banks within the EU (i.e. from the debiting of the ordering bank’s account to the crediting of the receiving bank’s account). At present, TARGET fully supports STP standards for the SWIFT message types. This is reflected in the very low rate of rejected payments at the cross-border level. In 2002 this rate fell slightly to around 0.26% of the total number of cross-border TARGET payments (from 0.28% in 2001).

Operating times to suit everyone

To meet the needs of its customers and those of financial markets in general, TARGET operates for 11 hours on each of its working days. The system is available from 7 a.m. to 6 p.m. C.E.T., with a cut-off time for customer payments of 5 p.m.

The long TARGET operating hours help to reduce foreign exchange settlement risk substantially because they overlap with those of the Fedwire system in the United States completely and with those of the Bank of Japan Payment System during the first operating hours in the morning, thus enabling simultaneous settlement of CLS positions.
What recent developments have there been in TARGET?

1. Relations with TARGET users

The performance of and developments in TARGET have benefited from the very active and fruitful dialogue with TARGET users. This dialogue is maintained at the national level and further intensified at the European level, and has ensured that users and operators have a reciprocal understanding of the system and the market requirements. The co-operation has proved to be very beneficial for all parties in respect of the preparations and implementations for CLS operations, the strengthening of TARGET contingency measures, TARGET’s single compensation offer and market demands on the current and future TARGET system.

2. Continuous linked settlement and TARGET

In September 2002 the continuous linked settlement (CLS) system, a system designed for the settlement of foreign exchange transactions, started live operations. CLS largely eliminates foreign exchange settlement risk by settling the transactions in its books on a payment-versus-payment (PVP) basis. The remaining balances of CLS settlement members in the books of CLS Bank are squared by pay-ins and pay-outs in central bank money for each of the eligible currencies (USD, EUR, JPY, GBP, CHF, CAD and AUD)

3. TARGET release 2002

In line with other major system providers and to ensure that system upgrades are managed in a professional and structured way, it was decided that any enhancements to the TARGET system should be introduced in yearly releases. The changes implemented by the TARGET release 2002 consisted mainly of the introduction of the mandatory validation that MT103+ customer transfers contain a correct IBAN. All RTGS systems were fully certified to TARGET 2002 specifications before the new release went live. The MT103/MT103+ supports improved transparency and efficiency in cross-border payments. The MT103+ supports STP by imposing stricter usage rules.

4. Migration from SWIFT FIN to SWIFTNet FIN

The Eurosystem is preparing TARGET’s migration from SWIFT FIN to SWIFTNet FIN. The migration of FIN from X.25 technology to IP technology using FIN is mandatory for the entire TARGET community, as SWIFT will end support for X.25 technology at the end of 2004. The implementation of SWIFTNet FIN is a technical migration. Although the FIN functionality and message formats remain untouched, migrating access to SWIFTNet FIN requires adaptations to the local SWIFT users’ operational environment. For TARGET, a phased approach has been chosen. The migration to SWIFTNet FIN started in the first quarter of 2003 and will be completed by the end of 2004.

5. Facts and figures

• There are 1,560 direct participants in TARGET and the overall number of banks (including their branches and subsidiaries) accessible via TARGET is more than 40,000, meaning that almost all EU credit institutions are accessible via TARGET.
• TARGET as a whole processed 64.5 million domestic and cross-border payments in 2002, representing a value of more than €1,395 trillion. These figures show that – in terms of value – TARGET is the largest payment system in the world.
• The number of customer payments in cross-border TARGET traffic quadrupled from 1999 to 2002.

In 2002 the number of payments processed in TARGET as a whole, i.e. cross-border and domestic payments taken together, amounted to more than 253,000 as a daily average (of which 54,000 were cross-border). The average daily value processed in TARGET as a whole in 2002 reached €1,552 billion (with cross-border payments totalling €485 billion), which is equivalent to an 85% share of the total value processed by all large-value payment systems operating in euro.

TARGET cross-border payments are submitted early, with nearly 50% of the volume processed in the first three hours of operations (between 7 a.m. and 10 a.m.). By 2 p.m. almost four out of five payments have been processed. The significant volume in the morning seems to be related to the release of a high number of warehouse payments from previous dates. In 2002 TARGET processed a daily average of nearly 10,800 cross-border payments in the first hour of operations (equally distributed between interbank and customer payments).

With regard to the value of TARGET cross-border payments, the highest values are processed between 10 a.m. and midday and between 4 p.m. and 5 p.m. 21% of the cross-border turnover is processed by 10 a.m., while 53% is processed by 5 p.m. At 5 p.m. 93% of the total value has already been processed.

6. Eligible currencies at the time of printing.
**TARGET security**

The security policy for TARGET is based on an agreed security strategy and methodology. Since the beginning of 1997, TARGET risk analyses have been conducted on a regular basis. The new TARGET risk management framework was developed in 2002. The implementation of the state-of-the-art security policy will ensure that TARGET is protected from all threats, whether internal or external, deliberate or accidental, and will minimise the impact on the continuity of TARGET business of any threats that, despite all measures taken, do materialise.

**TARGET contingency measures**

The Eurosystem gives top priority to the enhancement of TARGET contingency measures. TARGET contingency measures ensure that, even if TARGET is not fully operational, systemically important payments can be processed in a timely manner. The Eurosystem has always required all local TARGET components to have both TARGET business continuity measures and TARGET contingency measures available. TARGET business continuity requires each national component to be able to switch to a secondary site within the shortest time possible, in the event of a failure occurring at the primary site. In addition, TARGET contingency measures ensure the processing of systemically important payments in the event of both primary and secondary sites being temporarily affected.

**Compensation scheme**

In 2003, the new TARGET compensation scheme was set up for the benefit of TARGET participants in the event of a malfunctioning of TARGET. The TARGET compensation scheme is an attractive, simple and standardised compensation offer by the ESCB, which largely follows market practices. The scheme compensates participants for certain additional costs incurred as a result of non-completion of a payment order on the processing day owing to a TARGET malfunctioning. The TARGET compensation scheme applies to all national RTGS systems that are components of or connected to TARGET, and is available for all TARGET participants (including TARGET participants of national RTGS systems of non-euro area countries) in relation to all TARGET payments (with no distinction between domestic and cross-border payments).

**EU enlargement**

On 24 October 2002, the Governing Council of the ECB decided on the long-term strategy for TARGET (TARGET2). In view of increasing financial integration within the euro area and the fact that the business needs of the users of TARGET are becoming even more similar, the main objective of the Eurosystem is to ensure that TARGET evolves towards a system that (i) better meets customers' needs by providing an extensively harmonised service level, (ii) guarantees cost efficiency, and (iii) is prepared for swift adaptation to future developments, including enlargement of the EU and the Eurosystem.

The Governing Council of the ECB also decided on 24 October 2002 that 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 EU. In this context, ACCBs might decide for reasons of cost-effectiveness to connect to TARGET without the need to operate their own euro RTGS. Participation in TARGET will be compulsory only when the respective Member States participate in Economic and Monetary Union, i.e., when they adopt the euro in place of their national currencies.
TARGET payments can be made via the following systems:

Within the euro area:
- Belgium: ELLIPS
- Germany: RTGS
- Greece: HERMES
- Spain: SLBE
- France: TBF
- Ireland: IRIS
- Italy: Bi-REL
- Luxembourg: LIPS-Gross
- Netherlands: TOP
- Austria: ARTIS
- Portugal: SPOT
- Finland: BoF-RTGS
- European Central Bank: EPM

Outside the euro area:
- Denmark: KRONOS
- Sweden: ERIK
- United Kingdom: CHAPS euro

* Special liquidity conditions apply to TARGET participants operating from these countries.

Further information on TARGET can be found in the "Information guide for credit institutions using TARGET" and the "TARGET Annual Report". All relevant documents and reports can be accessed 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:

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