



Target2



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Seventh Conference on Payment and Securities
Settlement Systems, Ohrid 7-10 July 2014



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Outline

- What is Target2
- Set-up of the system
- Participation
- Pricing
- Statistics
- Future

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What is Target?



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Target

- **T**rans-European
- **A**utomated
- **R**ead-time
- **G**ross settlement
- **E**xpress
- **T**ransfer system



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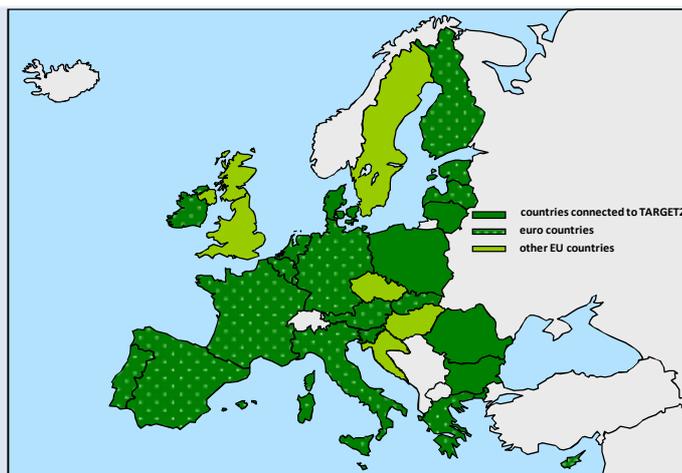
Target2

- Target2 is the RTGS system for large value payments in euro (from 2007)
- Central bank money by Eurosystem
- Intraday credit
- Legal finality (Settlement Finality Directive)
- >1700 participants (direct and indirect)

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Countries connected to Target2 (2014)



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Target2 set-up (1)

- One IT system: The Single Shared Platform
- Built by 3 NCB's (3CB): Bbk, BdF, Bdl
- Used by all 18 euro NCB's + ECB, and by 5 non-euro EU NCB's for euro payments
- Decentralised business relationships
- Legally decentralised systems: e.g. Target2-NL
- Maximum harmonization legal conditions

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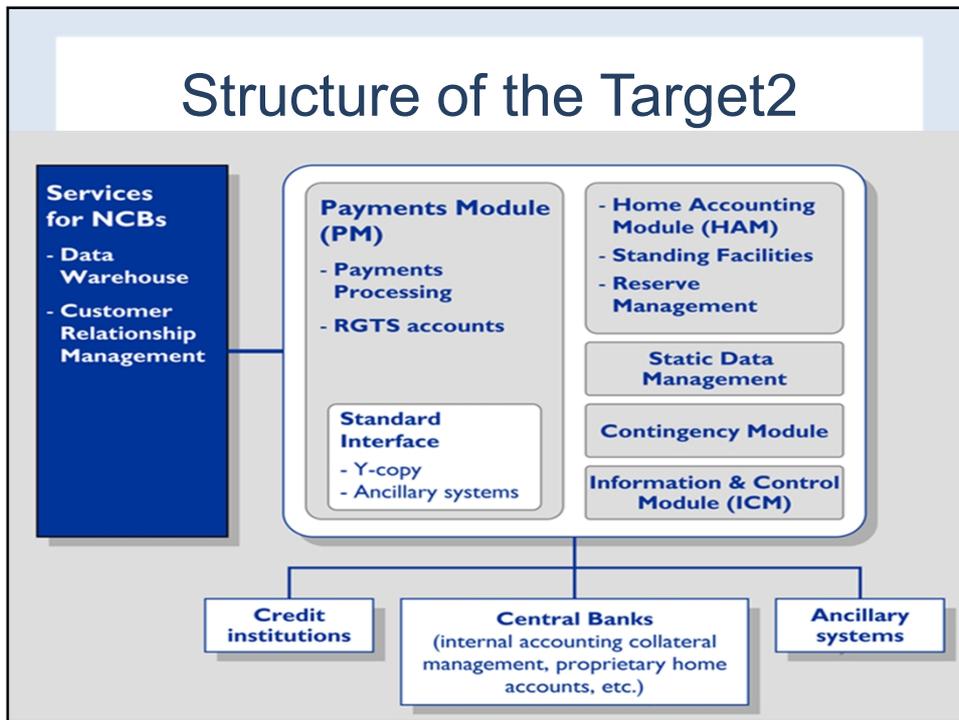
TARGET2 set-up (2)

- Payment Module and a few optional modules
- All interactions via ICM (Information and Control Module)
- Harmonized services and service levels
- Standard operational day; one calendar
- Set of uniform interfaces

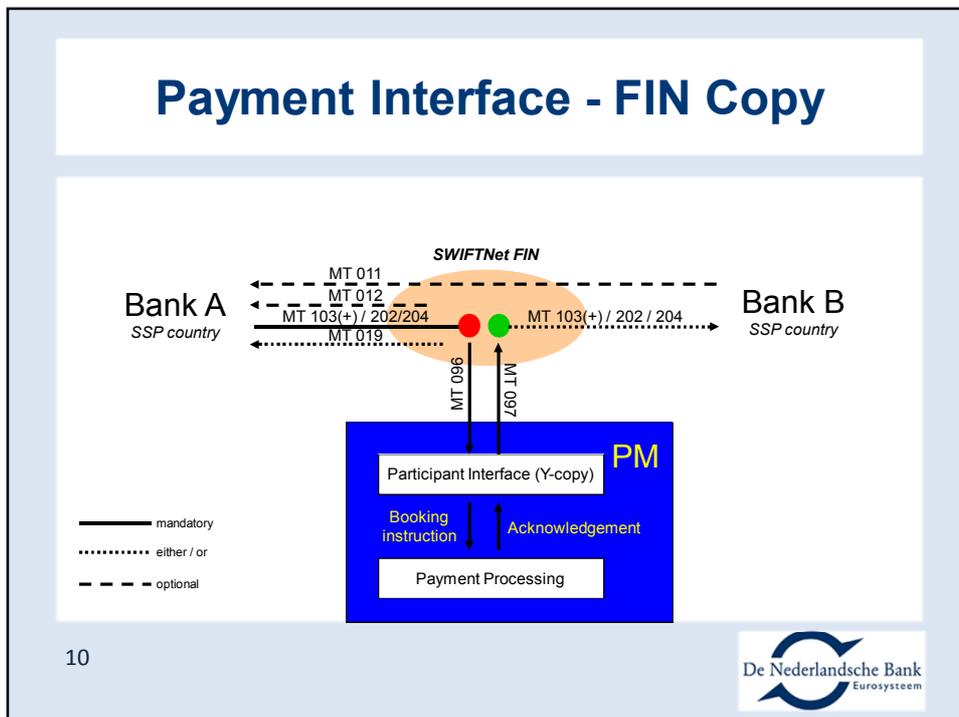
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Structure of the Target2



Payment Interface - FIN Copy



TARGET2 set-up (3)

- Co-operation with the market (bank's needs)
- High level of availability and business continuity
- Easy access, no thresholds
- No limitations on amounts
- Adaptability to new features, release mgt
- Adaptability to NCB's/countries, e.g. Latvia by January 2014

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TARGET2 set-up (4)

- All RTGS operations may be processed in T2
 - individual operations settled in real-time and in central bank money
 - no exclusion according to amount or type of operations
 - Wholesale payments are a main goal for TARGET2
- All types of operations
 - credit transfers
 - direct debits (limited usage)
 - mandated payments
- All types of business
 - payments between market participants
 - central bank operations
 - settlement operations of ancillary systems

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Target2 Ancillary System Interface

83 Ancillary Systems settle in Target2:

35 retail

32 SSS

6 CCP's

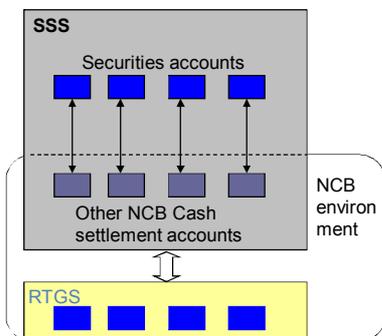
e.g. CLS, Euro1, Euroclear,
Clearstream, Equens

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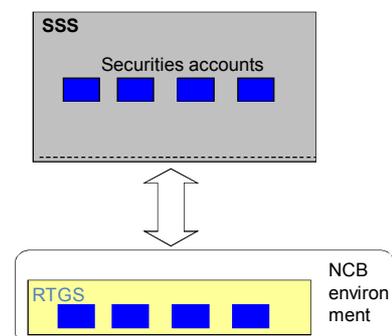


Ancillary systems settlement

**For integrated model:
liquidity transfer**



**For interfaced model:
real-time settlement**

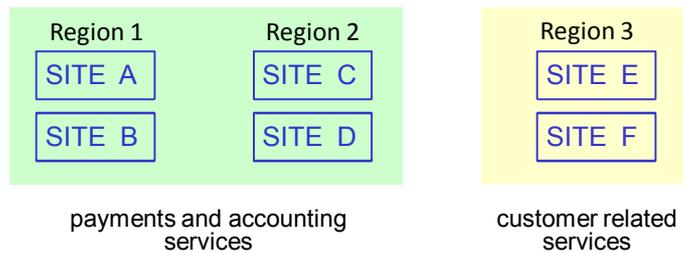


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SSP business continuity (1)

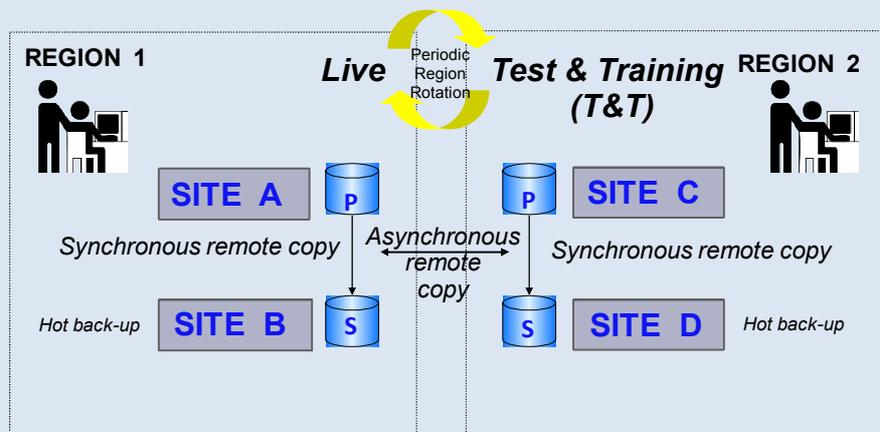
- central payments processing in DE, IT;
- workload distribution between regions
- datawarehouse and customer services in FR



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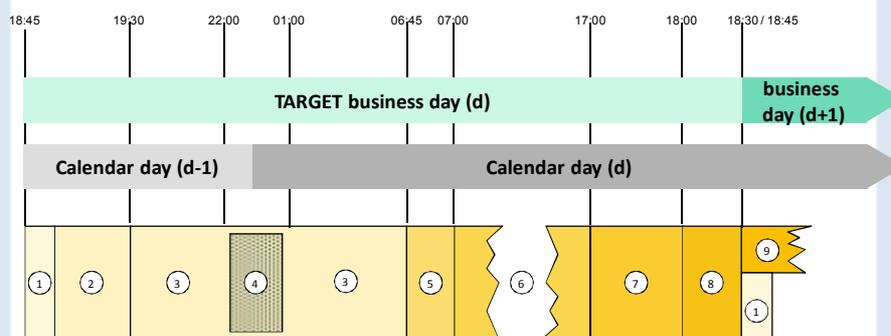
SSP business continuity (2)



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TARGET2 Operational day



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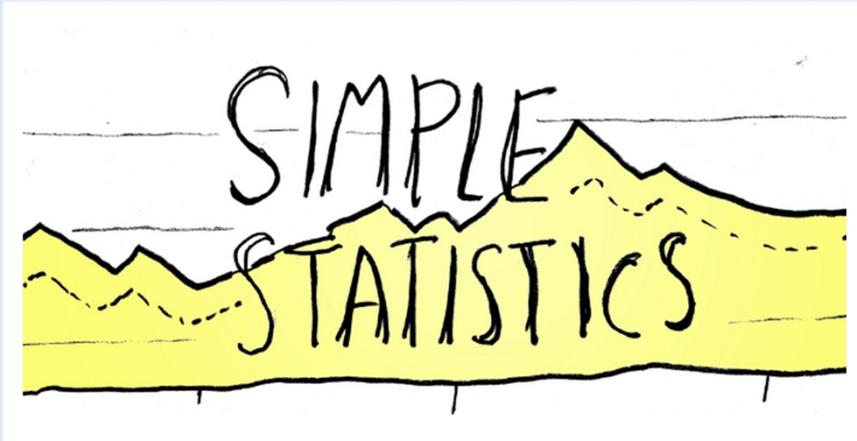


TARGET2 Operational day

- Purpose of the different phases:
- Start-of-day (1 & 2)
- Night-time processing (3)
- Technical maintenance window (4)
- Preparation for day trade phase (5)
- Day trade phase I (6)
- Day trade phase II (7)
- End-of-day (8 & 9)

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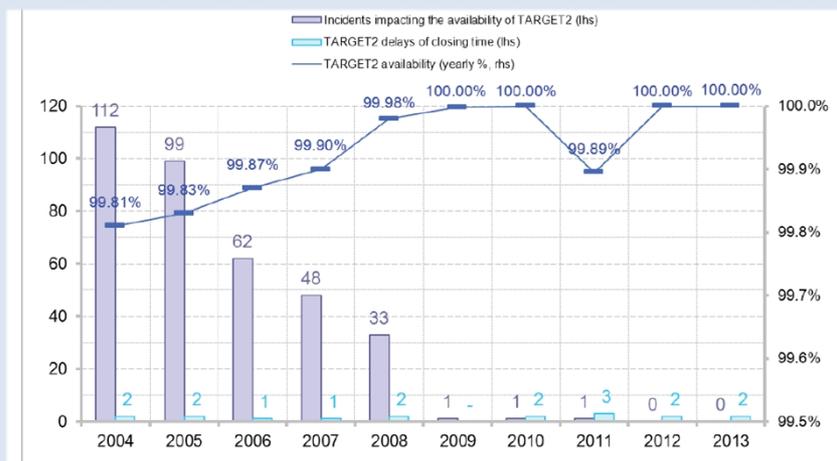




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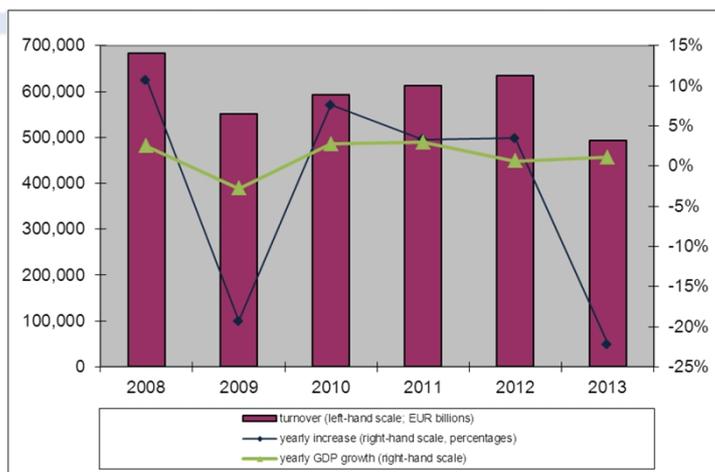
Target2 availability and incidents



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Target2 Turnover



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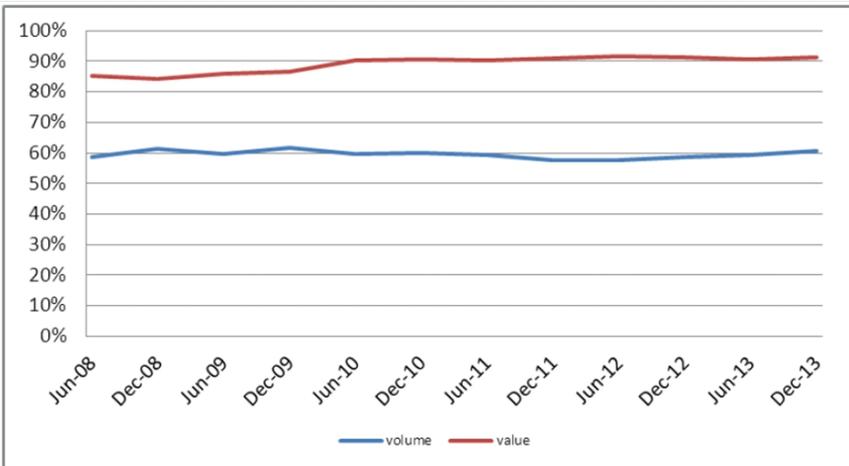
Target2 key figures (2013)

- daily average of 363,000 payments
- daily average value of € 1,900 billion
- average value per transaction € 5.3 million
- 68% of payments had value of < € 50,000
- Value drop in 2013 because of change in statistical framework (exclusion of PHA liq transfer and deposits)
- The overall availability of TARGET2 was 100%
- And 100% of TARGET2 payments were processed in less than 5 minutes

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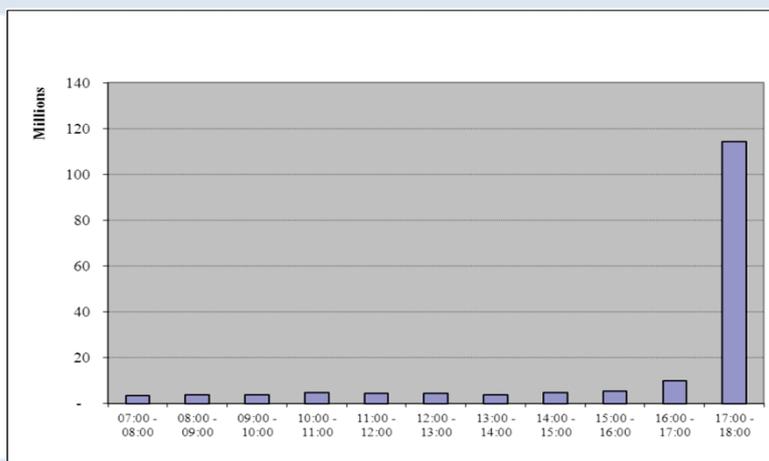
Target2/Euro1 market share



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Intraday pattern Target2 (average value)



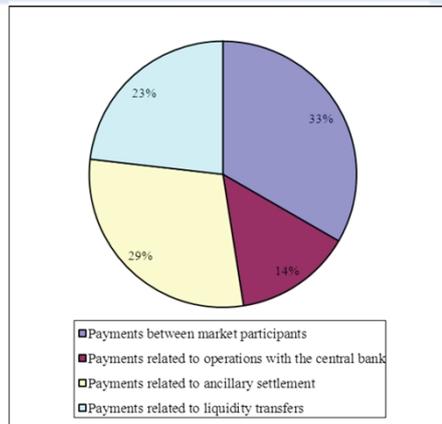
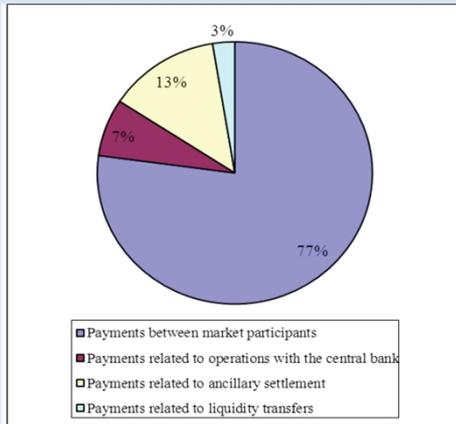
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Breakdown in type of payments

volume

value



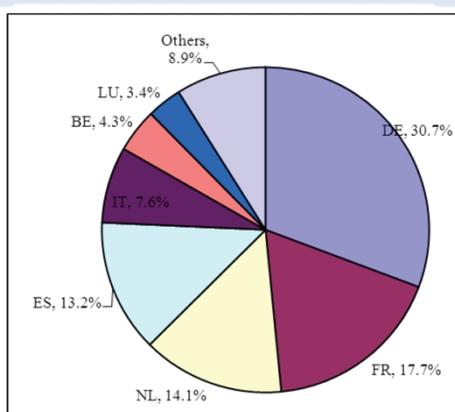
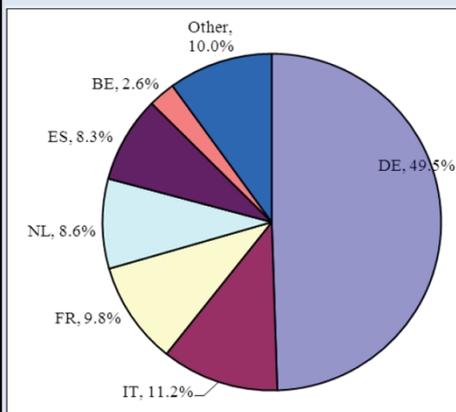
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Target2 contribution main countries

volume

value



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Future of Target2

- Continuing strong cooperation with the participants
- Keep up-to-date
- Connection to T2S
- ISO 20022 by November 2017: big bang, like-for like, all payment messages, specification phase

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Questions?

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Target2-Securities



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The securities settlement market

Background

- **Securities market:** financing government activities and companies; trading securities and other financial instruments
- **Clearing and settlement** of those trades for a well working financial system is important: inefficiencies have serious consequences
- **National markets** in Europe have remained isolated, cross border transactions too complex, too costly



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Why T2S?

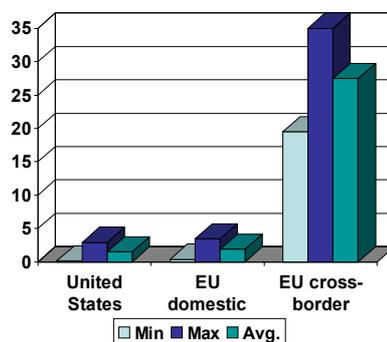
T2S: a workable solution for DVP cross-border settlement of securities in central bank money



Why T2S?

Settlement costs are too high.....

- EU domestic costs range from 0.35 to 3.43 €;
- ... and are higher than US (+ 0.10 to 2.90 €);
- Cross-border costs higher than domestic ones (19.5 to 35.0 €).



Source: Oxera, LSE, CEPS



Why T2S?

- Making cross-border settlement fees the same as domestic fees (volume dependent, economies of scale)
- Reducing users' collateral/liquidity needs and funding costs through a single pool of securities and central bank money
- Harmonising settlement to make Europe a Single Market
- Financial stability



What is T2S?

- An integrated settlement platform of the Eurosystem for DVP securities settlement in central bank money in Euro
- Supports the integration of the securities settlement market infrastructure
- Making cross-border transactions domestic ones in the Eurozone
- The extension to other currencies is an option



Role Eurosystem

- T2S on TARGET2: Four central banks (4CB) of the Eurosystem develop the platform: Bbk, BdE, BdF and Bdl
- Commitment of the Eurosystem to efficient and integrated financial markets in the EU
- Neutrality of the Eurosystem as supranational organisation
- No own economic interest, cost recovery principle/fees users



Commitment CSDs

- 24 CSD's participating in T2S
- Frame work Agreement:
 - Rights and obligations of CSDs en NCBs within the context of the development and operation of T2S.
 - Testing, migration, governance, pricing, change management, and exit management
 - In particular: confidentiality, data protection, intellectual property rights, liability, termination, dispute resolution and arbitration.



Involvement non-Euro NCB's

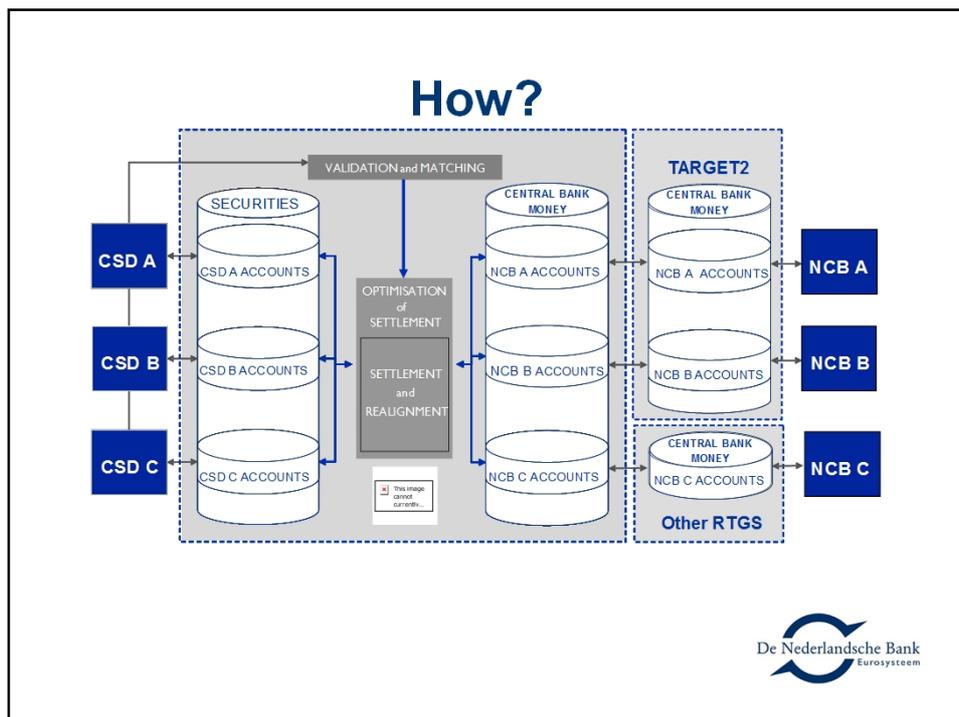
- Currency Participation Agreement
 - Governs the relationship between the Eurosystem and the non-euro area central banks that will allow settlement of securities transactions in their own currencies in T2S
- Aligned and synchronised with the Framework Agreement
 - to ensure consistency AND to make the CSDs located outside the euro area aware of whether its national currencies will be available in T2S or not.



How?

- CSDs outsource the administration of their securities accounts to T2S
- T2S dedicated cash accounts (DCAs) exclusively in central bank money, will be opened on the books of an NCB
- Banks transfer cash from T2 account to the T2S DCA, real time DVP is now possible
- At the end of the day the securities return to the CSD's and the money goes back into the T2 payment system





- ## Scope of T2S
- Scope of assets
 - All types of securities which CSD's are settling today
 - Debt instruments, equities, investment funds, warrants
 - Scope of services
 - Whole life cycle of a transaction:
 - Receiving settlement instructions
 - Providing matching facilities
 - Verifying availability of securities and central bank money
 - T2S will not provide settlement in commercial bank money
- De Nederlandsche Bank Eurosystem

Impact T2S

- Fosters competition among CSDs for better services at a lower settlement price
- Reduces intermediary costs by providing the possibility for direct technical access to the settlement platform
- Reduces collateral needs and costs
- Reduces back-office costs thanks to harmonised access to multiple CSDs and harmonised settlement procedures



Planning

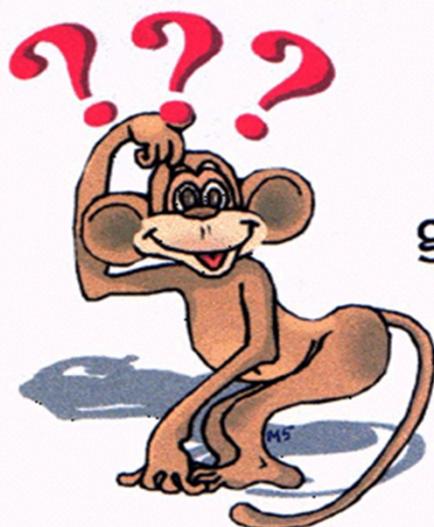


Go-live

First wave 22 June 2015	Second wave 28 March 2016	Third wave 12 September 2016	Fourth wave 6 February 2017
Bank of Greece Securities Settlement System (BOGS)	Euroclear Belgium	Clearstream Banking (Germany)	Centrálny depozitár cenných papierov SR (CDCP) (Slovakia)
Depozitarul Central (Romania)	Euroclear France	KELER (Hungary)	Eesti Väärtpaperikeskus (Estonia)
Malta Stock Exchange	Euroclear Nederland	LuxCSD (Luxembourg)	Euroclear Finland
Monte Titoli (Italy)	Interbolsa (Portugal)	Oesterreichische Kontrollbank (Austria)	Iberclear (Spain)
SIX SIS (Switzerland)	National Bank of Belgium Securities Settlement System (NBB-SSS)	VP LUX (Luxembourg)	KDD - Centralna klirinško depotna družba (Slovenia)
		VP SECURITIES (Denmark)	Lietuvos centrinis vertybinių popierių depozitoriumas (Lithuania)



Target2-Securities



Questions
are
guaranteed in
life;
Answers
aren't.