TARGET2 – a single Europe for individual payments

Department
Payments and Settlement Systems
TARGET2 is the real-time gross settlement (RTGS) system owned and operated by the Eurosystem for the processing of urgent euro payments. The payments are processed on a continuous basis and settled with immediate finality. TARGET stands for Trans-European Automated Real-time Gross Settlement Express Transfer System and the 2 for the second generation of the system.

Compared to its forerunner system TARGET, which was an association of 17 different components, TARGET2 is operated on a single technical platform (known as the single shared platform, SSP).

On 19 May 2008, TARGET was replaced by TARGET2 after a six-month migration period. Currently, the central banks of the euro area as well as the European Central Bank and the central banks of Bulgaria, Croatia, Denmark, Poland and Romania are connected to TARGET2. TARGET2 is Europe’s most important payment system, processing a daily average of around 340,000 payments worth roughly €1.7 trillion. About half of the payments in terms of volume and over one-third in terms of value are submitted via the Bundesbank.

TARGET2 has the following objectives:

- Supporting the implementation of the Eurosystem’s monetary policy and the functioning of the euro money market
- Minimising systemic risk in the payments markets
- Ensuring the efficient processing of cross-border payments in euro

By meeting these objectives, TARGET2 makes a significant contribution of the integration and stability of the euro-area money market.

The conceptual and legal design

TARGET2 is based on a single technical platform operated by the Deutsche Bundesbank, Banca d’Italia and Banque de France. From a legal perspective, however, it consists of a number of different national systems operated by the individual central banks. Nonetheless, the legal conditions of the individual systems have been harmonised as far as possible; deviations are permissible only if national legislation makes this absolutely necessary. The German system is called TARGET2-Bundesbank (TARGET2-BBk).
TARGET2 offers participants a number of advantages:

- TARGET2 processes large-value payments and urgent transactions in safe central bank money with immediate finality, even across borders, and thus reduces the risks inherent in payment transactions.
- With roughly 1,000 direct and more than 700 indirect participants, as well as more than 52,000 addressable banks (including branches and subsidiary institutions), an extremely large number of banks are accessible.
- TARGET2 has long operating hours: from 7.00 to 18.00 for daytime processing and from 19.30 to 22.00 as well as from 1.00 to 7.00 for the night-time business of ancillary systems on working days.
- Liquidity is widely available in TARGET2. Minimum reserve holdings can be used for settlement purposes during the day and the Eurosystem provides its counterparties with unlimited intraday credit free of interest against collateral.
- It has many liquidity management options, for instance, the reservation of liquidity and liquidity pooling.
- Domestic and cross-border payments are processed in the same way, with participants addressed directly.
- The single shared platform means harmonised services provided at standardised prices.
- TARGET2 also processes interbank direct debits.
- Payment orders can be "pre-submitted" – up to five working days in advance.
- The system’s design allows payment transactions made via the accounts of central banks in future EU member states to be processed easily.
- It also offers efficient provision of liquidity to cash accounts held in TARGET2-Securities (T2S).

The pricing scheme

TARGET2 makes no distinction between domestic and cross-border payments. Instead, one common pricing scheme applies to the core service, aimed at meeting two key objectives. First, it ensures broad access to the system, thus allowing smaller institutions to participate directly in TARGET2. Second, the pricing scheme is designed to attract the major market players, which account for a very large share of TARGET2 transactions and which process, in particular, urgent commercial payments. The processing of these payments in RTGS mode contributes to financial stability in the euro area and covers costs at a reasonable price. Participants may choose between the two options shown on the right.

<table>
<thead>
<tr>
<th>Option A</th>
<th>Monthly fee</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat fee per transaction</td>
<td>€</td>
<td>0.80</td>
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</table>

<table>
<thead>
<tr>
<th>Option B</th>
<th>Monthly fee</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ 1,875.00</td>
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<table>
<thead>
<tr>
<th>Band</th>
<th>Monthly transactions</th>
<th>Price per transaction in €</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>1 – 10,000</td>
<td>0.60</td>
</tr>
<tr>
<td>2</td>
<td>10,001 – 25,000</td>
<td>0.50</td>
</tr>
<tr>
<td>3</td>
<td>25,001 – 50,000</td>
<td>0.40</td>
</tr>
<tr>
<td>4</td>
<td>50,001 – 100,000</td>
<td>0.20</td>
</tr>
<tr>
<td>5</td>
<td>more than 100,000</td>
<td>0.125</td>
</tr>
</tbody>
</table>
TARGET2 provides open and competitively neutral access to individual payments in euro. In principle, credit institutions are free to choose between direct or indirect participation.

**Direct participation**
Direct participants must hold their own RTGS accounts and have access to the Information and Control Module (ICM). All supervised credit institutions within the European Economic Area (EEA) are allowed to become direct participants. A direct participant may also hold several accounts in TARGET2, in which case these have to be assigned to different BICs. Upon request, single BICs, which are generally used for internal purposes of a participant, may remain unpublished in the TARGET2 directory (“unpublished BICs”).

TARGET2 also offers a number of additional, separately priced tailor-made functions and services (eg unpublished BICs, as they are known).

**Indirect participation**
Indirect participants settle their TARGET2 payments via direct participants, ie they do not have their own RTGS accounts and are not able to send or receive payments directly. Only credit institutions within the EEA are allowed to become indirect participants. Indirect participants are recognised by the system operator. Their payments are protected by the EU Settlement Finality Directive, depending on how this has been implemented in respective national law.

**Liquidity pooling**
TARGET2 offers two types of liquidity pooling: a virtual account (aggregated liquidity procedure) and consolidated information (consolidated account information procedure). Both options allow TARGET2 participants belonging to the same banking group to pool the liquidity held on RTGS accounts in one account group.

In the case of a virtual account, the available liquidity of all members of the account group is aggregated in a liquidity pool during the business day. Each account holder within a group thus has the possibility of making payments through their own account up to the total amount of intraday liquidity available to the account group. Only accounts of participants in the euro area may be included in a virtual account.

“Group pricing” is applied to all participants included in an account group, meaning that all payment orders from the account group are treated as if they were issued by a single participant.

**Eligibility without any size-related access criteria**
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Furthermore, while participants may hold just one RTGS account, they are allowed to register branches and subsidiary institutions belonging to the same group and located in EEA countries to use an autonomous BIC to send and receive payments directly (“multi-addressee access”).

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Where an institution also maintains dedicated cash accounts (DCAs) in T2S, separate fees are incurred for these services, charged to the relevant TARGET2 participant.

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**Addressable BICs**
Any branch or correspondent of a direct participant, irrespective of location, may be listed as an addressable BIC in the TARGET2 directory. From a technical point of view, there is no difference between indirect participants and addressable BICs. Legally, however, addressable BICs only provide routing information in the TARGET2 directory without any further legal consequences.

<table>
<thead>
<tr>
<th>Direct participation</th>
<th>Liquidity pooling</th>
<th>BICs able to send and receive payments</th>
<th>Indirect participation/addressable BICs</th>
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<tbody>
<tr>
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**Internet-based access to TARGET2 – an alternative for medium-sized and small credit institutions**

Direct participation in TARGET2 has become easier thanks to the provision of modern and secure internet-based access to the TARGET2 single shared platform. As an alternative to access via SWIFT, the Eurosystem’s internet-based access provides a service that is sufficient for managing accounts and liquidity and for settling a restricted number of individual payments. Using this means of communication, users gain access to the Information and Control Module (ICM) in TARGET2. This allows them to call up information such as turnover status and account statements or to intervene, for instance through liquidity transfers or the submission of payments. The fee for this internet-based access is €70 per month.

Participants that make use of the internet access option are precluded from opening cash accounts in T2S.
Additional functions

In addition to facilitating the settlement of individual payments, the TARGET2 single shared platform offers a number of other functions which participating central banks can choose to use or offer as extra services. These functions include the monitoring and management of minimum reserve holdings, recourse to the standing facilities (overnight deposit facility and marginal lending) on the part of the account holder and a home accounting module, for example for banks which do not wish to settle their individual payments themselves. The Bundesbank makes use of all these optional services.

Information

For more information, please visit
www.bundesbank.de → tasks → Payment systems
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