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**PRESS CONFERENCE ON THE
LAUNCH OF TARGET2**

FRANKFURT, 20 NOVEMBER 2007

THE EUROSYSTEM

Press conference on the launch of TARGET2 in Frankfurt on 20 November 2007

Agenda of the press conference

1. Introduction, review of the first operation day of TARGET2
(Mr Fabritius, Deutsche Bundesbank)
 - TARGET2 within the global context (comparison with other RTGS systems)
 - Main features of TARGET2
 - TARGET2 migration in Germany
2. Overview on TARGET2 operations
(Mr Finocchiaro, Banca d'Italia)
 - Organisation of the operations
 - Business continuity concept
 - 3CB as service provider within the Eurosystem
3. TARGET2 as a project
(Mr Bruneel, Banque de France)
 - Data of the project (eg involvement of staff, duration)
 - Involvement of users at national and European level
 - Migration windows
4. TARGET2 and European integration
(Ms Tumpel-Gugerell, ECB)
 - How is TARGET2 expected to facilitate European market integration even further?
 - Integrated payment and liquidity management
 - TARGET2 as the backbone to other Eurosystem initiatives around market integration (TARGET2-Securities and CCBM2)
 - Conclusion
5. Questions & Answer session

**Speeches of Mr Hans Georg Fabritius (Deutsche Bundesbank), Mr Antonio
Finocchiaro (Banca d'Italia), Mr Didier Bruneel (Banque de France) and Ms
Gertrude Tumpel-Gugerell (ECB)**

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Hans Georg Fabritius

Member of the Board

Deutsche Bundesbank



“Introduction, review of the first operation day of TARGET2”

Ladies and Gentlemen, I would like to start with the most important message: yesterday, the new TARGET generation - TARGET2 - was successfully launched!

The launch of TARGET2 is an historic step forward on the way to an integrated financial infrastructure in Europe. We have transformed the decentralised network of payment systems into a centralised payment system with a single technical platform. And in this respect, we also found a new way of sharing work within the Eurosystem: the platform has been developed and is operated by a “consortium” of central banks – Banca d’Italia, Banque de France and the Deutsche Bundesbank – on behalf of the Eurosystem.

TARGET2 guarantees a harmonised level of service for banks all over Europe combined with one single transaction price for domestic and cross-border payments.

Thanks to the consolidation onto one single technical platform, we were able to offer complete harmonisation to the market in terms of technique and functionality. And that was exactly what the European Banking Industry responded in 2003 to the consultation on the future TARGET generation: a single, harmonised and integrated system.

TARGET2 is one of the best individual payment systems in the world. Together with the US Federal Reserve Bank's FEDWIRE system and the global foreign exchange settlement system "Continuous Linked Settlement" (CLS), TARGET2 belongs to the biggest payment systems worldwide. Looking at the considerable rates of growth, we expect that TARGET2 will go well beyond the 350,000 payments with a value of 2.4 trillion euro which are settled each day in TARGET1.

TARGET2 is also a "system of systems". It is used for cash settlement purposes by about 60 other systems such as securities settlement systems, retail payment systems etc. In this dimension, TARGET2 is unique in the world.

What are the benefits of TARGET2 compared with TARGET1?

- TARGET2 makes the liquidity management of banks much more efficient. Banks will be able to concentrate their European payment operations on one central bank account. Alternatively, they could also pool their liquidity held on central bank accounts in TARGET2. In TARGET1, the euro liquidity was spread across 17 different TARGET components. In TARGET2, there will be only one platform.
- TARGET2 provides banks with comprehensive online information on a real-time basis and a wide array of options to actively manage their payment flows. This is superior to what European banks have experienced before. For example, Europe-wide transparency on payment "queues" shows all pending incoming and outgoing payments of a bank. This provides banks with a sound basis in order to monitor in a forward-looking manner their liquidity position worth billions of euro. Also sender limits are now applicable on a European-wide basis – a feature which we had already in the German RTGS^{plus}-System. They allow for an easy

synchronisation of payment flows between participants with quick finality early in the day.

- The consolidation achieved by TARGET2 makes it possible to significantly reduce the costs for the operating central banks. And it also means lower fees on a European average.
- TARGET2 will combine the efficiency of a centralised platform with customer support at national level. To ensure that due account is taken of national peculiarities, business relations with customers will continue to be maintained by the respective “home central banks”.
- TARGET2 offers first-class resilience being able to cope also with wide-area regional disasters. Owing to its importance for the financial markets, TARGET2 is also a major contribution to financial stability.

As with TARGET1, TARGET2 will settle payment transactions in a fast manner and in central bank money with no credit risk. This is a core competence of central banks which cannot be provided by private operators. In addition, liquidity risks are substantially reduced by the advanced features for saving and managing liquidity. And, in contrast to privately-owned systems, there is flexible access to collateralised intraday credit provided by central banks. I am confident that these features make TARGET2 a very robust infrastructure also in times of crises.

TARGET2 has a modular construction. Besides payment settlement, central banks can use other modules on the single shared platform. Thereby, they could process other operations, for example the granting of overnight credit, more cost-effectively. And not least the single shared platform is a “basis infrastructure” which could be progressively expanded to offer further services like TARGET2-Securities.

As mentioned at the beginning, TARGET2 went live yesterday. The launch was successful, and the first operating day went very smoothly with no hitches. We are very satisfied.

Since yesterday, a first group of eight countries has been connected to TARGET2. 259 banks from Germany, Austria, Luxemburg, Malta, Latvia, Lithuania, Slovenia and Cyprus are now participating in TARGET2. And 7 ancillary systems are using TARGET2 for their cash settlement. The next groups of countries will follow in three respectively six months.

Let me summarise our first experience:

- The operation has shown a high degree of stability, ie there were no failures in the applications. The technical communication with still existing TARGET1 components is also functioning smoothly.
- Yesterday, more than 171,000 payments were settled via TARGET2. The turnover volume amounted to € 833 billion. This reflect the share of approximately 50% of the migrated countries in TARGET1 with regard to the TARGET business.
- Customer satisfaction is very high. In particular, liquidity managers of TARGET2 banks are experiencing just how convenient and useful the liquidity management at European level is. Some say that “TARGET2 is a quantum leap”. The great importance of an active liquidity management system can also be seen in the fact that around 80% of all payments in TARGET2 were settled in a liquidity-saving manner.

Please allow me some remarks from a German perspective.

Since its start in 1999, TARGET has always been a very important infrastructure for the German banking community. That is also reflected by the fact that participants in Germany account for almost 50 % of the overall TARGET activity in Europe.

With the migration to TARGET2, our RTGS^{plus} system was switched off on Friday after six years of successful operation. Roughly 140 participants are connected to TARGET2 via the Bundesbank. Some of these banks are participating directly via remote access from other EU countries. Therefore, TARGET2 could also be used by banks in those EU countries which have not decided to join TARGET2.

On the first day of operations, German TARGET2 participants submitted more than 161,000 payments amounting to € 726 billion. This equals the normal transaction volume and value which we had expected.

The next important step in Germany is scheduled for Friday this week. From that time on the night-time processing of the German securities settlement company Clearstream Banking AG Frankfurt will also change over to TARGET2 per business day 26 November 2007. At present, the cash leg of these transactions is still settled via separate central bank accounts.

Ladies and Gentlemen, as you can see, yesterday's TARGET2 launch was a success. But the work is not yet complete. We look forward to the completion of TARGET2 which will have in the end 1,000 direct participants of 21 countries. By then, TARGET2 will realise its full potential for Europe.

Antonio Finocchiaro
Member of the Governing Board
Banca d'Italia



“Overview on TARGET2 operations”

Ladies and Gentlemen,

Following Mr Fabritius's introduction, I would like to spend a few words on some organizational aspects of the project, as well as on the role of the 3CB within TARGET2.

Organisation of the operation

The operational day in TARGET2 is longer than that of the former system. With TARGET2 the new business day starts on the evening of the previous day. The night-time window - available from 7.30 p.m. to 6.45 a.m. on the next day, with a technical maintenance period of three hours between 10 p.m. and 1 a.m. facilitates the night-time settlement of the different ancillary systems in central bank money with immediate finality, and also supports cross-system settlement during the night.

Therefore ***the total operational period of the system reaches 21 hours per day. The support of this long business window rests on two main pillars: a 3-layer-support structure and the intra-day rotation between the SSP Operational Teams made up of dedicated staff at Banca d'Italia and Deutsche Bundesbank (so-called “active-active” service desk).***

The daily rotation ensures that the tools needed for remote operation are always working properly and that the staff is familiar with them. Since both Operational Teams are in charge daily (and therefore fully staffed), an unexpected switch to the other region due to the extreme case of a regional disaster would be managed without delay from an operational point of view.

Furthermore, Banque de France has the operational responsibility to run the Customer Related Services System. Based on the storage of production data over a long period and on data-warehouse services, this system will allow central banks to monitor the relationships with their banking community and their ancillary systems.

Business continuity concept

The SSP is aimed at fulfilling the business continuity requirement through an unparalleled technical and organizational structure. TARGET2 will guarantee a continuous service both in the event of malfunctions and of disasters affecting the regional site and/or the entire “region”.

The business continuity model for centralized payment and account management services (both functions which operate on the central computers), will involve two regions, each containing two different processing sites. Each region's sites are remote from each other and linked with synchronous data alignment. The two sites are completely equivalent in terms of processing and storage capabilities, operating system and network interface.

During normal operations, the SSP is active in one of the two sites while the other is in standby mode. In the event of a “disaster” in the operational site, the site in standby would be activated. Should both sites in a “region” be unavailable, one of the sites in the second “region” would be activated.

Business continuity measures are designed to ensure that the SSP will:

- make the system operational on the secondary site of the same region within a maximum time limit of 1 hour;
- make the system operational on the secondary “region” within a maximum time limit of 2 hours.

3CB as Service Provider within the Eurosystem

Four years have passed since Banca d'Italia, Deutsche Bundesbank and Banque de France (3CB) put forward the proposal of a single shareable platform (SSP).

The fulfilment of the 3CB's project was a unique experience. For the first time, three central banks made efforts to share and harmonise work methods, IT procedures and operational practices while aiming for a common objective relevant to all EU central banks and, more generally, to the whole European financial community.

The success of the project was possible thanks to the introduction of organizational structures which allowed the harmonisation, within the 3CB environment, of a single vision for the project with a clear internal separation between the roles of Service Provider and system Participant in order to avoid possible "conflicts of interest". Such an approach could be used as a model in similar projects (T2S, CCBM2) aimed at bringing a functional specialization model into the Eurosystem.

Didier Bruneel
Director General Operations
Banque de France



“TARGET2 as a project”

Ladies and Gentlemen,

To complete what has just been said by Mr Fabritius and Mr Finocchiaro, I would like to give you some information about TARGET2 as a project and, in particular, to set out three points.

First, TARGET2 has been a large-scale, European and “multi-cultural” project.

When all banking communities have migrated to the Single Shared Platform, i.e. in May 2008, TARGET2 will serve the needs of 1,000 banks (direct participants) and approximately 60 ancillary systems across 21 European countries.

TARGET2 was developed over four years. The decision regarding the new generation of TARGET was taken by the ECB’s Governing Council at the end of October 2002, i.e. five years ago, but the project organisation itself was set up in October 2003.

One of the main challenges of the TARGET2 project stemmed from its European and “multi-cultural” character. At the Eurosystem level, around 500 people have been

involved in the TARGET2 project. Within the 3CB (Deutsche Bundesbank, Banca d'Italia, Banque de France) and under the responsibility of the project management assumed by Banque de France, approximately 200 experts have been involved in the development of the Single Shared Platform (including the extremely valuable help that the 3CB received from other central banks).

Second, the users have been closely involved, at national and European levels, in all steps of the project.

From the earliest stages of TARGET2, the European banking industry worked hard, in a highly pro-active and supportive manner, to define the User Requirements. During the project phase, the Eurosystem organised several market consultations in order to ensure that TARGET2 corresponds to users' needs. Moreover, specific joint groups bringing together the Eurosystem and the banking industry were set up in order to prepare the migration and the definition of the operational procedures. Finally, users were closely involved in testing the system.

The close involvement of users also contributed to harmonising divergent national practices. With TARGET2, all banks and ancillary systems throughout Europe will work within a harmonised legal and operational framework. In this context, transparency, frank exchanges of views and open debates with the European banking industry were of the utmost importance.

Third, a phased migration process

As you are aware, the migration to TARGET2 has been designed according to a "country window" approach, in order to mitigate the project risk. The first window, comprising eight countries (Germany, Austria, etc.) migrated yesterday (19 November 2007): this constitutes 259 "direct participants", 2,925 indirect participants and 7 ancillary systems; the second country window, comprising 7 countries (France, Belgium, Finland, etc.) will migrate on 18 February; the third window (Italy, Greece, etc.) will migrate on 19 May 2008.

At the end of the migration period, the daily average volume of TARGET2 is expected to amount to 380,000 payments.

Gertrude Tumpel-Gugerell

Member of the ECB's Executive Board

European Central Bank



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TARGET2 and European market integration

I am happy to celebrate the moment with you, at which TARGET2 is no longer theory, but reality. I would like to congratulate all my colleagues in the Eurosystem who have worked very hard to make this possible. I would also like to thank them. And I would like to thank you – the media – for your ongoing interest in this project.

Now, how is TARGET2 expected to ***facilitate European market integration even further?***

In Europe, the large-value payments segment has already reached a high level of consolidation. However, TARGET2 introduces an even more uniform wholesale payment infrastructure by means of a single technical platform. This will lead to a level playing field for users across Europe, and will be a driver for more harmonisation and efficiency of business practices, which in turn promotes cost-effectiveness of post-trade services in euro.

In the following, allow me to cover two fields as practical examples of TARGET2 as facilitator of further integration, efficiency and cost-effectiveness: the ***banks'***

payment and liquidity management in euro and their internal business processes.

[Integrated payment and liquidity management]

Managers of cash and collateral today wish to have automated processes to optimise payment and liquidity management. They need appropriate tools to track activity across accounts and to make accurate intraday and overnight funding decisions, preferably from a single location, for example, the head office. Therefore, unlike the situation in TARGET1, where payment and liquidity management tools were very heterogeneous across national TARGET components, a number of common tools have been built into the TARGET2 system, thus making ***a single set of tools available to all TARGET2 users.***

TARGET2 users have the possibility of controlling the use of the available liquidity by means of a reservation system, which can be used to meet individual needs. In TARGET2, participants are able to reserve liquidity for urgent and highly urgent payments, as well as to dedicate liquidity for the settlement of ancillary systems.

Furthermore, banks are able to use a liquidity pooling functionality within a group to view or use the liquidity of all accounts that belong to the group, irrespective of the RTGS account on which it is held. Liquidity pooling is achieved by grouping a number of accounts. Within a group of accounts, group pricing applies, meaning that a degressive transaction fee applies to all payments of the group, as if they were all sent from one account. In addition, TARGET2 brings benefits to its users in terms of consolidated account information: whereas it was not possible in the past for an institution's head office to see the information on balances held across its various branches, TARGET2 allows it to automatically monitor and process all its data from a centralised location.

TARGET2 is expected to streamline payment and liquidity management in euro even further.

[TARGET2 and integration of banks' internal business processes]

In addition, the trend among users of wholesale payment services points towards a centralisation of business operations.

In principle, the centralisation of payment business can provide the users of wholesale payment services benefits due to economies of scale, possible efficiency gains in terms of speed and quality, and a better position to face a payment market environment that is in constant evolution.

TARGET2 is seen as a tool to promote the further integration of its users' internal processes, including the centralisation of euro payment business. For example, TARGET2 offers functionalities that enable its users to better integrate their euro liquidity management with their back-office systems. In all, the new functionalities of TARGET2 enable its users, in particular the multi-country ones, to advance in the consolidation of internal functions such as treasury and back-office functions, and to better integrate their euro liquidity management.

[TARGET2 as the backbone to other Eurosystem initiatives around market integration]

Finally, TARGET2 is not an infrastructure that is intended to grow in isolation. Already in its project stages, TARGET2 led to the generation of synergies with other, newer Eurosystem integration initiatives.

Building on the centralised technical infrastructure and drawing on the experience gained while developing and running TARGET2, the Eurosystem is currently working on the provision of new integrated market solutions in the field of securities settlement, namely TARGET2-Securities, and collateral management, namely CCBM2. Thus, TARGET2 is seen as the trigger and, at the same time, as the enabler of new Eurosystem integration initiatives.

The TARGET2-Securities and the CCBM2 initiatives are to exploit synergies with the TARGET2 single platform. In doing so, the settlement of securities and the management of collateral in Europe are expected to become more efficient, safe and harmonised, and to allow lower fees and a better cost-efficiency.

[Conclusion]

Ladies and gentlemen, let me conclude. The launch of the euro paved the way for the process of European financial integration in which we are immersed today, and the TARGET system has been instrumental in this process. We at the Eurosystem are certainly convinced that TARGET2 will bring this process of integration to a higher speed, in particular by further streamlining euro payment and liquidity management, as well as the banks' internal business processes. But that will not be all. TARGET2 is also expected to be the backbone for other, newer Eurosystem initiatives around market integration, such as TARGET2-Securities and CCBM2.

Thank you very much for your attention.