

T2/T2S Consolidation – single market infrastructure for payments and securities settlement

Directorate
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Next steps in the evolution of the Eurosystem's market infrastructure

TARGET2 (T2) and TARGET2-Securities (T2S) as well as the realisation of the Single Euro Payments Area (SEPA) by the banking industry mark important steps on the road towards an integrated financial market infrastructure in Europe. Decentralised and fragmented settlement structures were transformed into harmonised payment and securities settlement services. Nonetheless, the Eurosystem's market infrastructure has even more potential to further deepen the integration of the European financial market. The Eurosystem first thought about how this could be achieved in its "Vision 2020", and ultimately initiated three project initiatives to enhance its market infrastructure – Consolidation of TARGET2 and T2S, implementation of an instant payment service (TARGET Instant Payment Settlement, or TIPS), and a Eurosystem Collateral Management System (ECMS).

In the meantime, the Governing Council of the ECB has taken a decision to realise all three projects. On 21 June 2017, it took the decision to develop an instant payment service (TIPS). The ECB Governing Council gave the go-ahead for TARGET2/T2S Consolidation and ECMS on 6 December 2017.

The three projects are a response to the very rapid pace of change in payments and securities settlement, the need for technological modernisation, the necessity of further improving cost-effectiveness and cyber security as well as the need to optimise liquidity holding and management (including harmonised and efficient collateral management).

Overarching objectives of further developments

- Efficiency by consolidating the technical infrastructure and optimising the existing services for market participants (including lowering operating costs)
- Innovation by improving the range of services to match market requirements, new business developments, technological innovations, cyber security and greater legal (and supervisory) requirements
- Contribution to further financial market integration and harmonisation as part of the capital markets union planned by the European Commission.

The Consolidation of T2 und T2S as a pillar of further market infrastructure development in the Eurosystem

TARGET2 (T2) stands for the second generation of the “Trans-European Automated Real-time Gross Settlement Express Transfer System”, which is the payment system used by Eurosystem central banks since November 2007 to settle urgent euro payments in real time. It is a real-time gross settlement (RTGS) system, meaning that payments are continuously processed on a transaction-by-transaction basis and are settled with immediate finality.

TARGET2-Securities – T2S for short – enables the harmonised and centralised settlement of securities in central bank money within the Eurosystem.

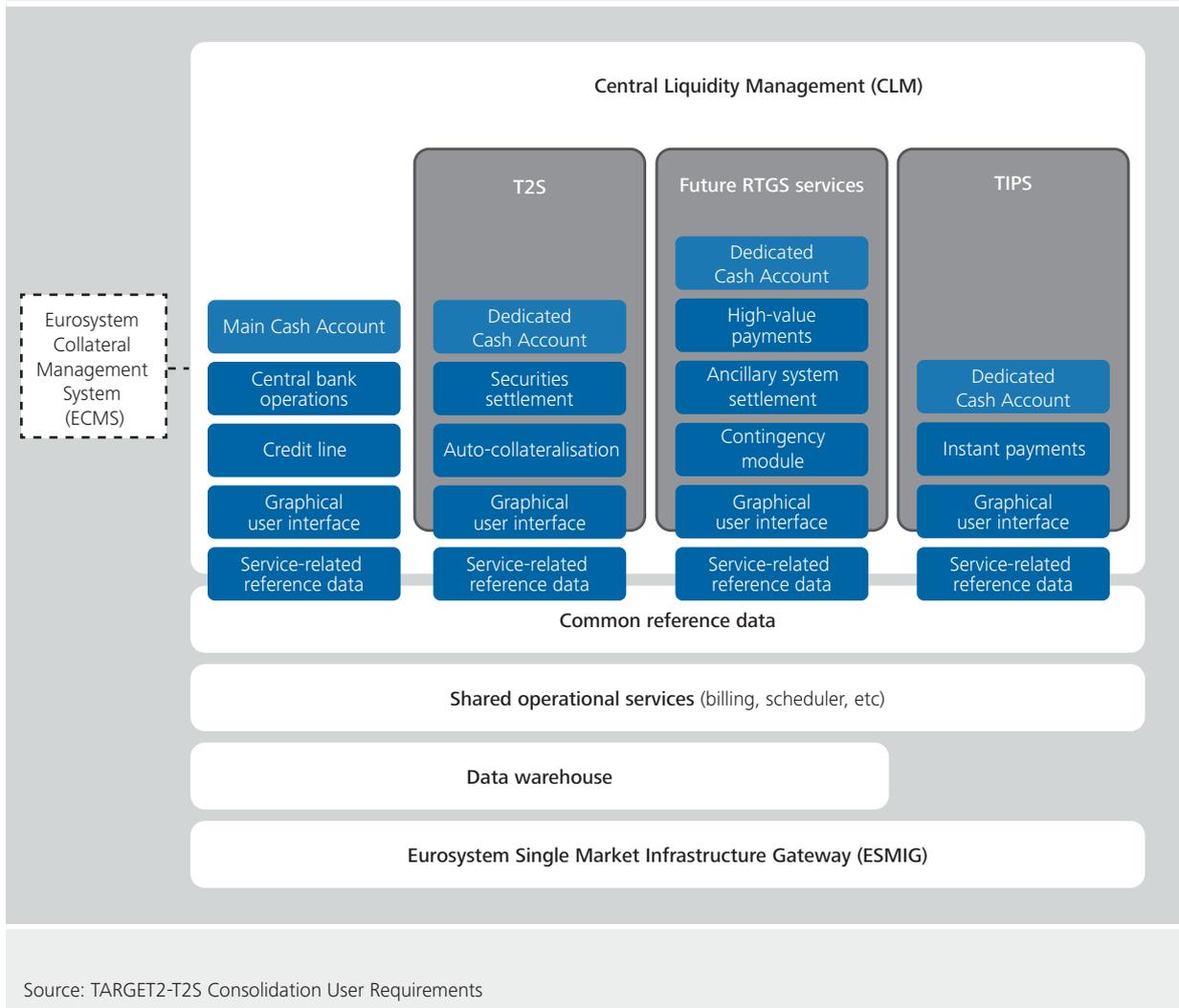
As of November 2018, TIPS (TARGET Instant Payment Settlement) will enable the real-time settlement of payments in central bank money.

The Consolidation will migrate the Eurosystem’s range of services (RTGS, T2S and instant payments) to a common platform - the TARGET services.

Key elements of T2/T2S consolidation

- Introduction of Central Liquidity Management (CLM)
- Harmonisation of support functionalities for the future TARGET services (RTGS, T2S and TIPS)
- Introduction of ISO 20022-compliant messages for communication
- Building-in of multi-currency capability

The modular set-up of future TARGET services



1) Introduction of Central Liquidity Management (CLM)

Consolidation will see a separation of traditional (commercial) payment transactions from central bank operations. In the current set-up, PM accounts are used for liquidity management, high-value payments and central bank operations. In future, however, Main Cash Accounts (or MCAs) in the CLM will be used for central bank operations and liquidity management purposes along with Dedicated Cash Accounts (DCAs) for high-

value payments in the RTGS services. The T2S-DCAs currently linked to PM accounts in TARGET2 and the TIPS-DCAs will be linked to the MCAs, just as is the case for DCAs for RTGS services. Home accounts will not exist in future – neither in the Home Accounting Module (HAM) of the TARGET2 platform, nor on a proprietary basis at central banks. The features of home accounts will be absorbed into the Main Cash Account.

1 When TIPS is launched in November 2018, the TIPS DCAs will also be linked to PM accounts in TARGET2.

Any institution that wishes to hold an account with the Bundesbank will need to have an MCA. These MCAs will be located in the CLM. All monetary policy operations, including open market operations and standing facilities, will be settled using the MCAs, which will also be used for minimum reserve purposes. Any credit line a participant might have will, in future, be linked to the MCA. Where an institution subject to reserve requirements holds DCAs and/or Cash Handling Accounts with the Bundesbank as well as its MCA, the balances on

these accounts can also be taken into account for the purposes of calculating whether the participant is fulfilling their minimum reserve requirements.

The DCAs for the individual services – RTGS, T2S and TIPS (TARGET Instant Payment Settlement) – and for Cash Handling Accounts will be fed with liquidity from the MCAs.

Advantages of Central Liquidity Management

- For monetary policy purposes (for example, participation in open market operations), only a Main Cash Account (MCA) is required – there is no need to hold an RTGS-DCA and thus participate in high-value payments.
- All balances on DCAs and cash holding accounts are automatically included in the minimum reserve requirement calculation – indirect minimum reserve holdings possible.
- Centralised liquidity management, allocation and monitoring of all TARGET services and MCAs/DCAs.
- Ability to manage liquidity of Cash Handling Accounts from MCA, too.
- Liquidity from an intraday credit can be used for all services.
- Liquidity transfers can be made to the relevant TARGET service DCAs (RTGS, T2S or TIPS) and the Cash Handling Accounts.

² If a monetary policy counterparty has several MCAs, the credit line must be assigned to one (and only one) of their Main Cash Accounts/MCAs.

³ Cash Handling Accounts are primarily used to settle cash payments. They can also be used for cash deposits, for the issuance or settlement of cash cheques and deposit-only cheques, for the certification of cheques and for the clearing and settlement of liquidity transfer orders.

2) Settlement of high-value payments and ancillary system settlement using RTGS-DCAs

High-value payments and ancillary system settlement will take place via the DCAs for all future RTGS services or by means of the appropriate RTGS-DCA sub-accounts. Compared with how payments work in the existing TARGET2 set-up and the services currently on offer, settlement of payments will remain at the high standard to which users are accustomed and see further improvements (for example, reservation for specific purposes, priorities, optimisation algorithms). At the end of the day, RTGS-DCA balances can remain where they are and be counted towards the minimum reserve.

3) Settlement of securities transactions in TARGET2 Securities (T2S) will barely change

The financial settlement of securities transactions will also be carried out using T2S-DCAs in future. However, the liquidity source will no longer be the RTGS account, but rather the MCA in the CLM. In the first instance, the mandatory cash sweep of the DCA – now the MCA – at the close of the day will be retained.

4) Harmonisation of the provision of support functionalities for future TARGET services (RTGS, TARGET2-Securities and TIPS)

The work to consolidate the market infrastructure will in future result in some functionalities being utilised by all or several TARGET services. For instance, master data spanning multiple services and access rights will be managed via a Common Reference Data Management. The Data Warehouse will allow you to access historical data for some TARGET services (namely CLM, RTGS and T2S). There will also be one shared billing process for all TARGET services.

A Eurosystem Single Market Infrastructure Gateway (ESMIG) will provide a secure and uniform means of

accessing the Eurosystem's range of financial market infrastructure services. It will not be dependent on any network-specific features, enabling participants using different network service providers to connect (A2A and U2A).

5) Introduction of ISO 20022-compliant messages for communication

The consistent use of ISO 20022-compliant messages ensures that communication across the Eurosystem's entire range of services will, in future, conform to the latest financial industry standards. The systematic use of ISO 20022-compliant messages is in keeping with the broader international trend. While the ISO 20022 standard is already in use in the T2S service and is set to be used for the future TIPS service as well, it will represent a new feature among the future RTGS services. The new messaging standard will be introduced on a "big-bang" basis, which means that there will be no transitional phase during which both standards (SWIFT MT and ISO 20022) are supported in parallel.

6) Building in multi-currency capability

Within the scope of this project, the requirements for multi-currency capability in RTGS services (as in TARGET2-Securities) will also be created. It should then be possible to settle payments in different currencies at different set times. In order to take advantage of this multi-currency capability, non-euro central banks must make liquidity available in their respective currencies.

4 Application-to-application enables the automated exchange of information between participants' infrastructures and TARGET services.

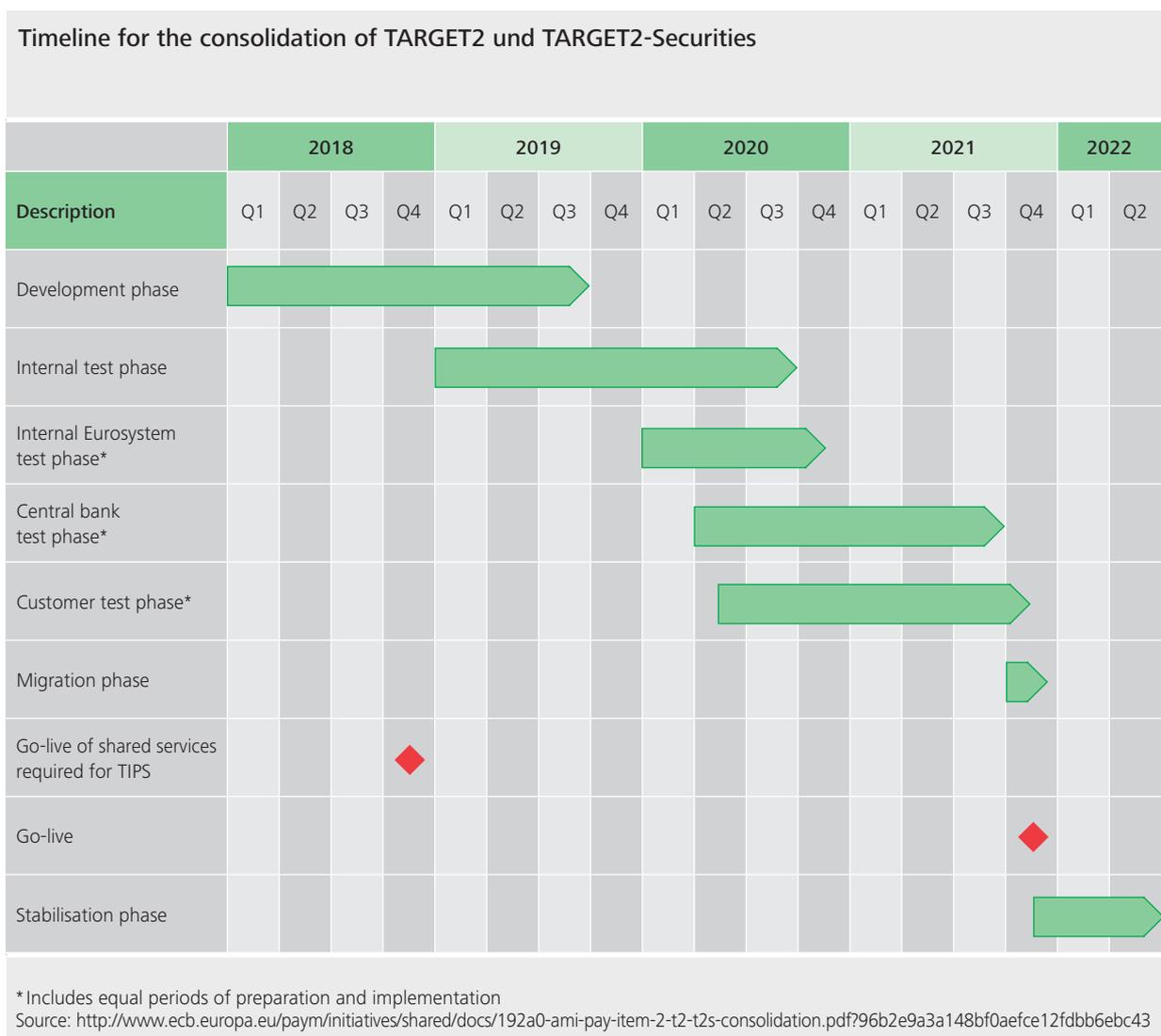
5 User-to-application enables the manual exchange of information between participants and TARGET services via a graphical user interface.

7) Timeline

The following chart gives an outline of the basic timeline for the consolidation of TARGET2 and TARGET2-Securities.

Consolidation will be implemented in two phases. The first phase, which will run until November 2018, will see the implementation of elements of the shared ser-

vices necessary for the introduction of TIPS, including essential common reference data and ESMIG elements. The second phase (lasting until November 2021) will include, inter alia, the introduction of the CLM, adaptation of the RTGS services and the consistent use of ISO 20022-compliant messages.



Further information on the CLM, RTGS services and the shared support services can be found in the following user requirements documents regarding TARGET2/T2S consolidation:
http://www.ecb.europa.eu/paym/cons/html/future_rtgs_t2-t2s.en.html

Further information can be found on our website at:
https://www.bundesbank.de/Navigation/DE/Aufgaben/Unbarer_Zahlungsverkehr/Weiterentwicklung_der_Marktinfrastuktur/TARGET2_T2S_Konsolidierung/target2_t2s_konsolidierung.html

Information

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