Recent Eurosystem market infrastructure initiatives

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Eurosystem market infrastructure initiatives

- TARGET2
- TARGET2-Securities (T2S)
- CCBM2
Parallel initiatives in the EU

- Commission Communication for a single payment area of January 2000
- Commission Communications on clearing and settlement in the EU of May 2002 and April 2004
- Work on the Payment Services Directive
- Code of Conduct for clearing and settlement
- Elimination of the Giovannini barriers
  ⇒ CESAME, FISCO and Legal Certainty Group
- ESCB-CESR standards
- Review of the Settlement Finality Directive
- Other initiatives (UNIDROIT, etc.)
TARGET

Established in 1999
- to support the settlement of Eurosystem monetary policy operations
- to provide a facility for real time payments in euro
- to increase the efficiency of cross-border payments
- to promote the integration of the euro money market

• TARGET consists of the national RTGS systems of the 13 euro area countries, the ECB payment mechanism (EPM) and the national euro RTGS systems of Denmark, Poland, Estonia and the UK

• More than 10,000 financial institutions use TARGET, with close to 53,000 banks worldwide addressable in TARGET

• In 2005 TARGET processed 76 million transactions, with a value of more than EUR 488 trillion and an availability rate of 99.83%
Development of TARGET2

In December 2004, the ECB Governing Council approved the building of a *Single Shared Platform*, with the following objectives:

- harmonisation of services
- cost-efficiency, and
- swift adaptation to future developments

The Governing Council decided in October 2005 to ‘legally construct TARGET2 as a multiple system, but aiming at the highest degree of harmonisation of the legal documentation used by the central banks within the constraints of their respective national legal framework’:

- legal rules across TARGET2 are uniform
- no difference between domestic and cross-border payments
Development of TARGET2

• Multiple payment systems – “TARGET2 component systems”:  
  - Designated and notified under the SFD  
  - Legal and business relationships maintained between CBs and participants under domestic law but based on Harmonised Conditions

• Functionalities and operation of the SSP defined in the User Detailed Functional Specifications (UDFS)

• Extensive consultations with users were concluded in 2005

• Go-live date (19 November 2007) for the first migration window
Main functionalities

- Standardised communication between the system and participants
- Three different payment priorities
- Reservation of liquidity for certain payments
- Possibility of bilateral and multilateral sender limits
- Active management of payment queues
- Availability of sufficient liquidity; use of algorithms
- Access to comprehensive online information
- Liquidity pooling features
- Specific interface for ancillary systems (optional)
TARGET2-Securities

- 18 CSDs in Euro Area
- 2 ICSDs
- 17 other EU CSD
- 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 (19.50 to 35.00 €)
ECB Governing Council Decision of July 2006

“Evaluate opportunities for the Eurosystem to provide settlement services for securities transactions”

• Eight years after the introduction of the euro, the euro still lacks an efficient, integrated securities infrastructure that would support the operation of a single financial market

• The Eurosystem is committed to efficient and integrated financial markets in the EU (Lisbon agenda)

• TARGET and TARGET2 experience in successfully creating and implementing Europe-wide infrastructures

TARGET2-Securities (T2S) as a step towards the development of a more efficient euro market infrastructure
TARGET2 Securities initiative

• T2S is a tool for the provision of certain securities settlement services to the CSDs for the benefit of the CSDs’ participants
• T2S is envisaged to be a purely technical platform allowing for the real-time DvP settlement of securities transactions in central bank money
• T2S does not entail the creation of a new CSD
• Market participants will continue to open accounts with CSDs - under objective and non-discriminatory conditions
• Full price recovery
• Non-mandatory participation
The concept: securities and cash accounts in one platform
Development of TARGET2

Decision of the Governing Council of March 2007

- Feasible to build T2S
- Move to next phase (specification of User Requirements - UR)
- Decision on development phase: early 2008
- T2S to be built on TARGET2 platform
- Regular and transparent interaction with stakeholders
- Possible completion date: 2013

Decision of the Governing Council of April 2007

- Launch of a public consultation on the general principles
- Approval of the Governance structure for the UR phase
- Preparation of UR by the end of 2007 and second consultation
User requirements phase

ECB Governing Council
- Executive Board
  - T2S Advisory Group
    - Co-ordination Group
      - National User Groups
        - Information Sessions with all Stakeholders
          - Scope & Schedule
          - Lifecycle & Matching
          - Settlement Functionality
          - Static Data
          - Interfaces
          - Non-functional requirements
          - Six Technical Groups
On 8 March 2007, the Governing Council decided to review the current Eurosystem collateral management handling procedures, in particular, the Correspondent Central Banking Model (CCBM):

- Development of a single platform, allowing the Eurosystem to manage collateral for both domestic and cross-border operations
- CCBM2 should be based on existing systems such as that of the National Bank of Belgium and De Nederlandsche Bank
- Work will be conducted in parallel with the TARGET2-Securities (T2S) project in order to exploit all possible synergies and avoid any overlap
CCBM2 will be implemented in line with the following principles:

- CCBM2 will provide central banks with an IT platform for the management of eligible collateral for Eurosystem credit operations.
- CCBM2 will be fully compatible with TARGET2 and T2S, in particular with communication interfaces and settlement procedures.
- CCBM2 will cover both the domestic and cross-border use of collateral, as well as different collateralisation techniques.
- CCBM2 will handle all eligible collateral (both securities and non-marketable debt instruments).
- CCBM2 will process instructions in real time on a straight-through-processing (STP) basis permitting the delivery of collateral to generate the real-time release of related credit in TARGET2.
- CCBM2 will be able to take collateral through all eligible SSSs and eligible links between them.