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## **Background information on TARGET2**

### **What is TARGET?**

The **T**rans-European **A**utomated **R**eal-time **G**ross settlement **E**xpress **T**ransfer system (TARGET) is a so-called real-time gross settlement (RTGS) system through which banks can make interbank and customer payments.

A real-time gross settlement system (RTGS) is a payment system in which processing and settlement take place in real time (continuously) rather than in batch processing mode. It enables transactions to be settled with immediate finality. Gross settlement means that each transfer is settled individually.

TARGET began operations on 4 January 1999, at the same time as the launch of the euro. It is owned by the Eurosystem, which consists of the ECB and the 13 national central banks of the euro area. Since then, TARGET has provided a real-time payment processing service with intraday finality to almost all credit institutions in the European Union. Until 16 November 2007, TARGET was available for all credit transfers in euro between banks in 17 EU member states – including the 13 euro area countries as well as Denmark, Estonia, Poland and the United Kingdom.

### **Why has TARGET been developed?**

During the preparations for monetary union, the Eurosystem was concerned by the lack of an efficient and safe market solution for transferring large amounts of money from one country to another.

Therefore, TARGET has been developed

- to serve as a benchmark for the processing of euro payments in terms of speed, reliability, opening times and service level,

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- to facilitate the conduct of the single monetary policy and to promote the integration of the euro money market,
- to contribute to the integration of financial markets in Europe by providing its users with a common payment and settlement infrastructure.

### **What is the importance of TARGET in the European and global context?**

TARGET has not only met its objectives of serving the needs of the monetary policy and promoting the integration of the euro money market, it has also become increasingly popular among its users, as is shown by the growth in its close to nine years of operation.

In 1999, the number of payments processed in TARGET amounted to a daily average of around 163,000 payments, representing a value of € 925 billion. In 2006 an average of more than 350,000 payments with a value of € 2.400 billion were transferred per business day.

With a share of around 90% in terms of value and 60% in terms of volume of total euro payments settled in euro payment systems located in the euro area, TARGET maintained its leading position. EURO1<sup>1</sup>, the second largest euro payment system in the euro area in terms of value, processed a daily average of € 191 billion over the same period.

Looking at the global environment, TARGET is one of the three largest systems for large-value payments in the world, alongside Fedwire in the United States and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions.

### **Why has a new generation of TARGET (TARGET2) been built?**

Although the TARGET system stood the test of time very well to become the payment system with the highest turnover in Europe, certain structural drawbacks became evident. In particular, its decentralised technical structure – TARGET is currently comprised of a system of 17 components – and the principle of “minimum harmonisation” appeared in the longer run to be less advantageous in terms of performance, costs and stability.

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<sup>1</sup> The EURO1 system is the largest privately-run payment system for euro transactions. It is operated by the Clearing company of the Euro Banking Association (EBA CLEARING).

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With the TARGET2 project the Eurosystem is pursuing the following main objectives:

1. Fulfilling the European banking industry's user requirements (eg Europe-wide liquidity management)
2. Compliance with the neutrality principle. TARGET2 should lead to a level playing field for banks and market infrastructures in the respective countries
3. Provision of a harmonised level of service on the basis of a common technical platform
4. Applying a single price structure that is applicable to both domestic and cross-border payments
5. Safeguarding the principle of decentralisation within the ESCB. The participating central banks will retain responsibility for conducting business with their customers
6. High degree of flexibility through a modular approach in order to accommodate the various interests of the participating central banks
7. High level of standardisation
8. Benchmark-setting provisions for business continuity.

Furthermore, the European banking industry made it clear that, given the planned Single Euro Payments Area (SEPA), in future it would prefer a single platform TARGET2 system with largely standardised features and technical interfaces, which would enable efficient pan-European liquidity management.

### **Which transactions will be settled via TARGET2?**

- TARGET2 is used for the purposes of settling Eurosystem monetary policy operations, supplying market participants with central bank money and absorbing excess central bank liquidity.
- The trading of central bank balances between banks, also known as money market activity, is also settled using TARGET2.
- Other, privately operated settlement systems, for example in the area of foreign currency payments and securities trading, settle their transactions via bank accounts held at the central banks and likewise use TARGET2 to achieve this.

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- Bank customers can also use TARGET2 for the settlement of domestic or European credit transfers that need to be settled as speedily as possible owing to their special urgency. In addition, banks frequently use TARGET2 to settle payments arising from their correspondent banking activity in non-European countries.

## **What are the benefits of TARGET2?**

### ***Highly efficient, resilient and competitive***

- TARGET2 settles payments with immediate finality in central bank money, thus eliminating the settlement risk between banks.
- TARGET2 provides real-time settlement, making it possible to transfer large amounts of money between bank accounts from one country participating in TARGET2 to another within minutes, if not seconds.
- TARGET2 has long operating hours, being open from 7.00 to 18.00 C.E.T. on each working day, with a cut-off time of 17.00 for customer payments.
- After the migration is completed, TARGET2 will be unique in its coverage, with 1,000 direct participants and around 50,800 banks – including branches and subsidiaries – accessible through the system.
- TARGET2 processes “interbank” direct debits.
- TARGET2 offers the possibility of submitting payments up to five business days “in advance”.

### ***Pan-European liquidity management***

- In TARGET2 liquidity is widely accessible. Minimum reserve holdings are available for settlement purposes during the day and the Eurosystem provides unlimited (collateralised) intraday credit free of interest to its counterparties.
- TARGET2 offers various liquidity management options (reservation of liquidity, liquidity pooling, control of liquidity flow by defining limits).

### ***Single interfaces leading to harmonised services at a single price***

- In TARGET2 participants are directly addressed irrespective of whether domestic or cross-border payments are involved.

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- In TARGET2 the settlement of ancillary systems, eg securities clearing systems, retail payment systems and individual payment systems, takes place, the main advantage being that each ancillary system is able to access every central bank in the single shared platform.

***Flexible enough to accommodate future customer needs***

- TARGET2 offers harmonised functions, services, technical interfaces and prices across all participating countries.
- In TARGET2 the status of payments sent and received is transparent.

***Able to handle euro area enlargement***

- The heterogeneous technical design of the TARGET system made it difficult to accommodate a further enlargement of the euro area with regard to the interlinkage of further RTGS systems.

**How will the business continuity concept of TARGET2 will look like?**

TARGET2 will offer the highest possible level of reliability and resilience, as well as sophisticated business contingency arrangements commensurate with the systemic importance of the TARGET2 infrastructure.

The business continuity concept of TARGET2 consists of a multi-region/multi-site architecture. There will be two regions. In each region, there will be two sites some distance from each other. This will be combined with the principle of region rotation in order to ensure the presence of experienced staff in both regions.

**Who has built and operated TARGET2?**

From the start of the Eurosystem debate on TARGET2, the Bundesbank has consistently supported the idea of a single shared platform. This led to in-depth discussions with the other Eurosystem central banks. The upshot of these talks was that in July 2003, the Banca d'Italia, the Banque de France and the Bundesbank decided to submit a common offer to develop and operate the TARGET2 Single Shared Platform (SSP) on behalf of the Eurosystem. On 16 December 2004, the Governing Council of the ECB mandated these three providing central banks to develop and operate the SSP.

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**Which countries will use TARGET2 and from which date?**

The Eurosystem assessed the advantages and disadvantages of a “big bang” migration compared with a phased migration by “country windows”. The simultaneous migration of all TARGET participants to TARGET2 would create an enormous project risk and would not permit any flexibility in the organisation of the changeover.

For this reason, the Eurosystem opted for a country window approach in which country specific user groups will changeover to TARGET2 on various predefined dates. Each group consists of various central banks and their respective national banking communities. The migration process is expected to be spread over a six-month period, during which both TARGET components and TARGET2 will coexist.

The Eurosystem has defined the following country windows based on the technical project requirements.

<b>Country window</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>Contingency</b>
<b>Start date</b>	19 November 2007	18 February 2008	19 May 2008	15 September 2008
<b>Countries</b>	Austria Cyprus Germany Latvia Lithuania Luxembourg Malta Slovenia	Belgium Finland France Ireland Netherlands Portugal Spain	Denmark Estonia ECB Greece Italy Poland	A “contingency window” will be available in case a national banking community or the central bank should not be able to migrate to the TARGET2 platform as scheduled.

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## Statistics

- TARGET2 volume and value on 19 November 2007**

Country	Volume	Value (in million €)
AT	2,796	67,041.7
CY	40	23.5
DE	161,294	725,849.5
LT	19	1.3
LU	3,155	31,129.9
LV	39	59.4
MT	3	3.9
SI	3,963	9,320.3
<b>sum</b>	<b>171,309</b>	<b>833,429.5</b>

- Volume of TARGET transactions**

2001 to 2006: annual figures; 2007: quarterly figures

Year	Total transactions (in thousands)	Transaction on a daily average (in thousands)
2001	53,663	211
2002	64,519	253
2003	66,608	261
2004	69,213	267
2005	76,151	296
2006	83,180	326
2007 Q 1	22,069	345
2007 Q 2	22,882	376

Source: <http://www.ecb.int/stats/payments/payments/html/index.en.html>

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- **Value of TARGET transactions**

2001 to 2006: annual figures; 2007: quarterly figures

Year	Total value (in billion euros)	Value on a daily average (in billion euros)
2001	344,210	1,299
2002	395,638	1,552
2003	420,749	1,650
2004	443,992	1,714
2005	488,900	1,902
2006	533,541	2,092
2007 Q 1	143,599	2,242
2007 Q 2	150,142	2,421

Source: <http://www.ecb.int/stats/payments/payments/html/index.en.html>

- **TARGET volume and value (daily average) - Growth rates**

2002 to 2006 compared to last year annual figure

2007 compared to last year quarterly figure

Year	Volume	Value
2002	19.8 %	19.5 %
2003	3.2 %	6.3 %
2004	2.3 %	3.9 %
2005	10.9 %	11.0 %
2006	10.1 %	10.0 %
2007 Q 1	12.4 %	11.9 %
2007 Q 2	8.6 %	12.6 %

Source: <http://www.ecb.int/stats/payments/payments/html/index.en.html>

- **TARGET and EURO1 volume (daily average, in thousands)**

Year	TARGET	EURO1
2001	211	113
2002	253	135
2003	261	153
2004	267	161
2005	296	181
2006	326	187
2007 Q 1	345	196
2007 Q 2	376	214

Source: <http://www.ecb.int/stats/payments/payments/html/index.en.html>

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• **TARGET and EURO1 value (daily average, in billion euros)**

Year	TARGET	EURO1
2001	1,299	205
2002	1,552	188
2003	1,650	175
2004	1,714	170
2005	1,902	167
2006	2,092	189
2007 Q 1	2,242	210
2007 Q 2	2,421	224

Source: <http://www.ecb.int/stats/payments/payments/html/index.en.html>

• **TARGET, Fedwire, CLS volume (daily average, in thousands)**

Year	TARGET	Fedwire	CLS <sup>2</sup>
2001	211	448	---
2002	253	458	7
2003	261	491	77
2004	267	494	130
2005	296	527	192
2006	326	532	263

Source: Red Book March 2007 (<http://www.bis.org/cpss/cpsspubl.htm>), internet publications of Fedwire and CLS

• **TARGET, Fedwire, CLS value (total value, in billion euros)**

Year	TARGET	Fedwire	CLS <sup>2</sup>
2001	344,210	310,016	---
2002	395,638	296,957	1,740
2003	420,749	327,387	161,427
2004	443,992	350,517	277,742
2005	488,900	379,498	399,472
2006	533,541	419,091	513,759

Source: Red Book March 2007 (<http://www.bis.org/cpss/cpsspubl.htm>), internet publications of Fedwire and CLS

<sup>2</sup> CLS = Continuous Linked Settlement

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**Further information in the internet:**

- <http://www.ecb.int/paym/html/index.en.html>
- [www.bundesbank.de](http://www.bundesbank.de) > Payment systems
- Information on TARGET2 is also provided on the websites of the national central banks.