

features

users

benefits

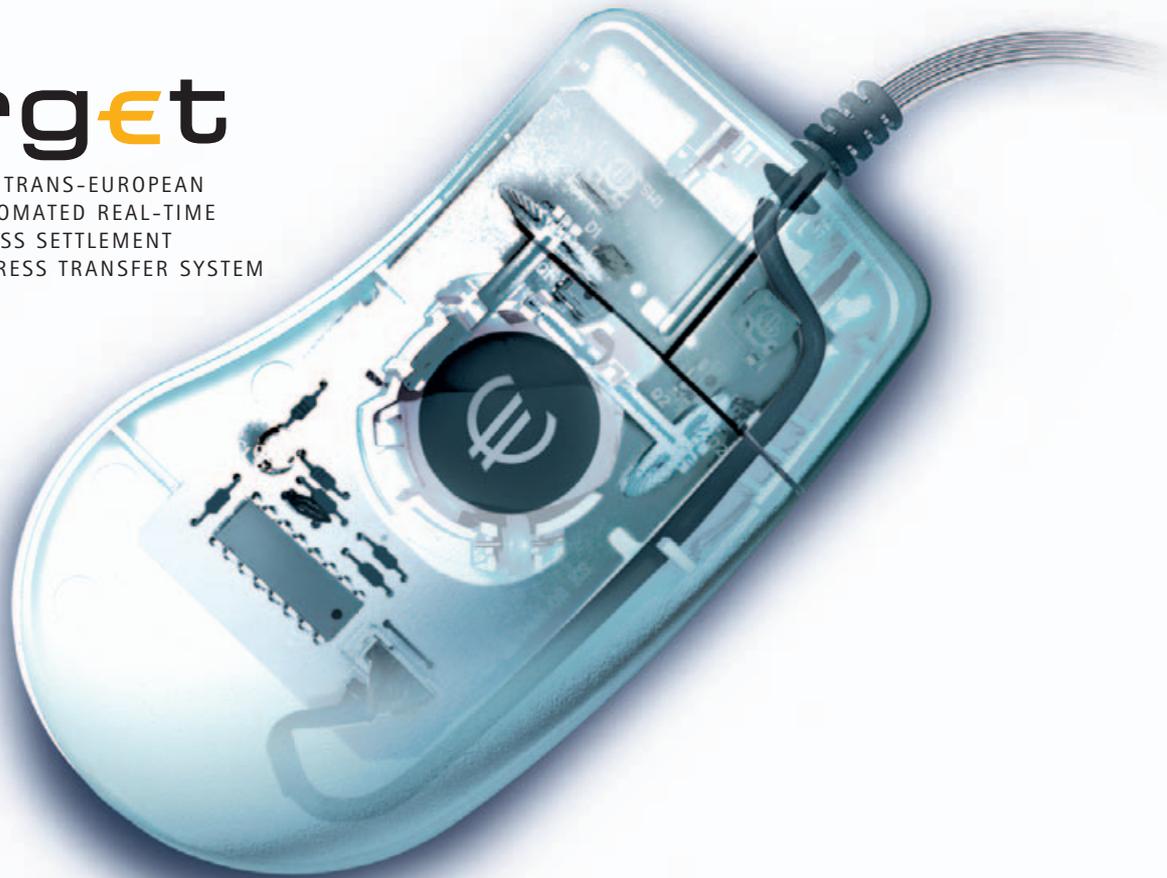
facts

future

access

target€t

THE TRANS-EUROPEAN
AUTOMATED REAL-TIME
GROSS SETTLEMENT
EXPRESS TRANSFER SYSTEM



Welcome

to the world of TARGET



features users benefits facts future access

p.4 What is TARGET?
 - Distinctive features of the system
 - Why was TARGET developed?

p.6 Who can use TARGET and which payments can be made?
 - The possibility of reaching almost any EU credit institution
 - All credit transfers are possible

p.8 What are the advantages of using TARGET?
 1) Flexible liquidity management
 2) Risk reduction
 3) Real-time operation
 4) Interbank straight-through processing
 5) Operating times to suit everyone
 6) Operating days
 7) EBA settlement (EURO 1) via TARGET
 8) TARGET information system
 9) TARGET is a reliable system
 10) The cost of making a payment

p.12 What recent developments have there been in TARGET?
 1) Relations with TARGET users
 2) Continuous linked settlement and TARGET
 3) TARGET release 2002
 4) Migration from SWIFT FIN to SWIFTNet FIN
 5) Facts and figures
 6) TARGET security
 7) TARGET contingency measures
 8) Compensation scheme

p.15 Future
 - TARGET 2
 - EU enlargement

p.16 How do users gain access to TARGET?
 - Multiple access points
 - TARGET payments can be made via the following systems
 - Further information on TARGET

Published by:
 ©European Central Bank
 Frankfurt am Main
 July 2003

Concept and design:
 EURO RSCG THOMSEN RÖHLE
 Düsseldorf

Lithography:
 Color Service GmbH
 Düsseldorf

Printed by:
 Kern & Birner GmbH & Co.
 Frankfurt am Main

Photographs and pictures:
 Christian Stoll, Tony Stone, Zefa

ISBN 92-9181-377-X

What is TARGET?



users

benefits

facts

future

access

features

Distinctive features of the system

TARGET, which stands for the Trans-European Automated Real-time Gross settlement Express Transfer system, is the real-time gross settlement (RTGS) system for the euro, which commenced operation on 4 January 1999.

TARGET offers a premium payment service which transcends national borders between payment systems in the European Union (EU).

TARGET has a decentralised structure which consists of 15 national RTGS systems and the ECB payment mechanism (EPM), which are interlinked so as to provide a uniform platform for the processing of cross-border euro payments.

TARGET is a real-time system: payments go directly to their destination, reaching it under normal circumstances within a couple of minutes, if not just a few seconds, of being debited from the sending participant's account.

TARGET is a gross settlement system in which each payment is handled individually. Acknowledgement of the successful execution of each individual payment order is sent in real time.

TARGET provides intraday finality: settlement is final for the receiving participant once the funds have been credited. The money received is central bank money. It is possible to re-use these funds several times a day.

TARGET is accessible to a large number of participants. Hence, most credit institutions are able to use TARGET to make payments on their own behalf, independently of other participants. Even indirect participants can be addressed directly.

TARGET is very easy to use. To initiate a cross-border payment via TARGET, participants simply send their payment orders to the euro RTGS system in which they participate.

Why was TARGET developed?

TARGET was developed to meet three main objectives:

- to provide a safe and reliable mechanism for the settlement of euro payments on an RTGS basis;
- to increase the efficiency of cross-border payments within the euro area; and, most importantly,
- to serve the needs of the monetary policy of the ECB.



TARGET is an EU-wide system for euro payments. It provides individual real-time processing and intraday finality. TARGET is very easy to use and is accessible to a large number of participants.

Who

can use TARGET and which payments can be made?



features



users



benefits



facts



future



access

The possibility of reaching almost any EU credit institution

There are 1,560 direct participants in TARGET and around 2,330 indirect participants. The overall number of banks (including their branches and subsidiaries) accessible via TARGET is more than 40,000.

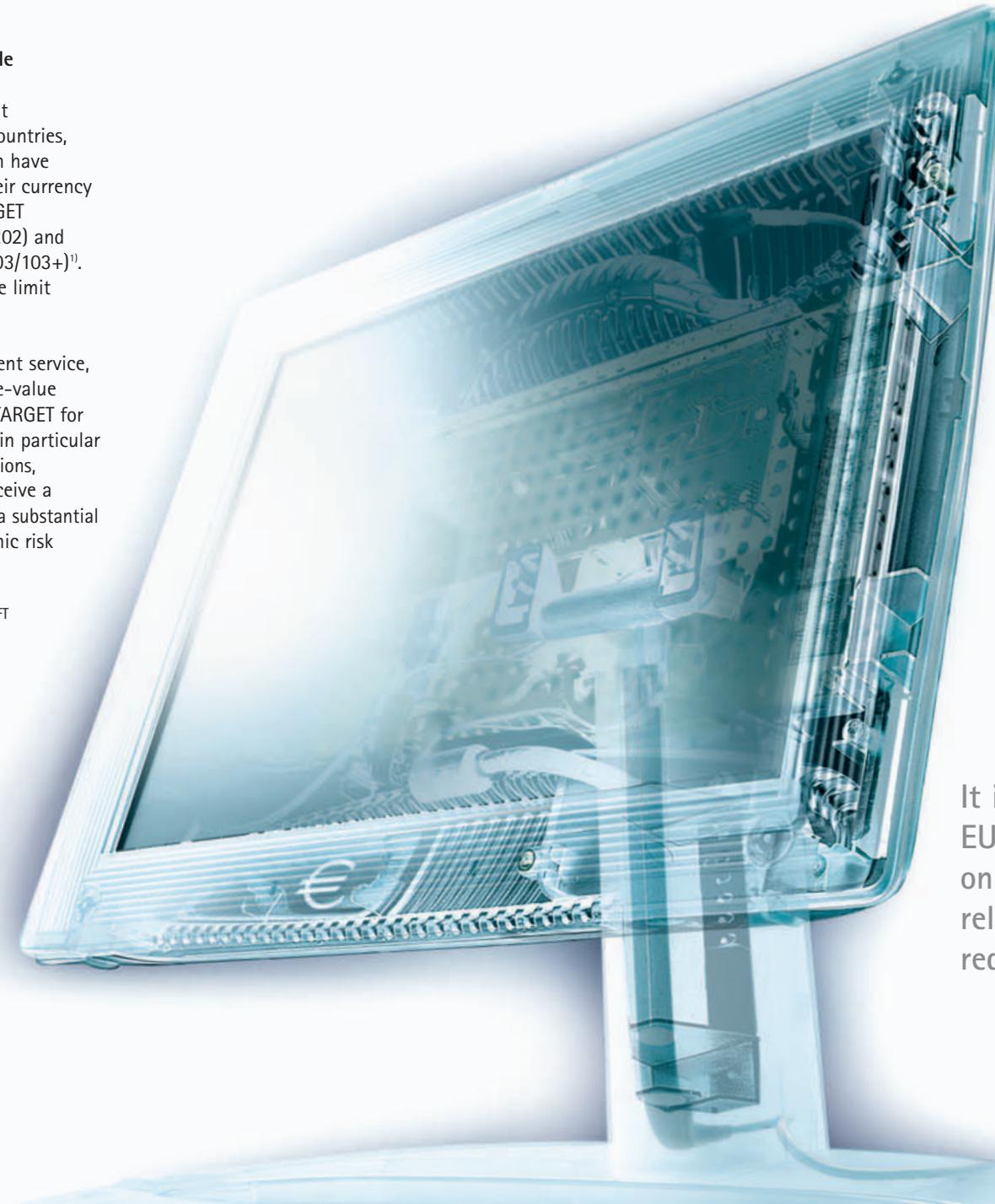
It is possible to reach almost all credit institutions established in the EU via TARGET and, hence, all their account holders. All credit institutions which are addressable through TARGET (i.e. direct or indirect participants) have to be identified by a Bank Identifier Code (BIC). The BICs of TARGET participants are listed in the TARGET Directory as well as in the SWIFT BIC directories. TARGET obviates the need for a service level agreement with other participants. Furthermore, at the cross-border level, there is no longer any need for a bilateral exchange of SWIFT authentication keys.

All credit transfers are possible

TARGET is available for all credit transfers in euro between EU countries, including those countries which have not yet adopted the euro as their currency (non-euro area countries). TARGET processes both interbank (MT-202) and customer payments (MT-100/103/103+)¹⁾. There is no upper or lower value limit for TARGET payments.

TARGET provides a highly efficient service, especially for time-critical large-value payments. Therefore, by using TARGET for all their large-value payments, in particular those related to interbank operations, market participants not only receive a premium service, but also make a substantial contribution to reducing systemic risk throughout the EU.

¹⁾ The MT-100 will be withdrawn by SWIFT in November 2003.



Payments directly related to monetary policy operations involving the Eurosystem, whether as the recipient or the sender, have to pass via TARGET. Cross-border large-value net settlement systems operating in euro also settle their end-of-day balances via TARGET. Thus, TARGET is used for the end-of-day settlement of EURO 1, the system operated by the European Banking Association (EBA). TARGET is also used for euro payments between CLS Bank and its members.

Although TARGET is mainly intended for large-value payments, more and more participants are using TARGET for all their cross-border euro payment business. In this way, even smaller institutions in the EU are able to offer their customers an inexpensive cross-border payment service, as they are independent of correspondent banking.

- The average value of a cross-border interbank payment in 2002 was €15.9 million. However, during the last hour of the working day (when customer payments are no longer possible) the average payment size reached €107.3 million.
- The average value of a customer payment in 2002 was €0.84 million.

It is possible to make credit transfers to almost all EU credit institutions via TARGET without any limitation on value. With its special emphasis on large-value payments related to interbank operations, TARGET contributes to reducing systemic risk.

What are the advantages of using TARGET?



features



users



benefits



facts



future



access

1 Flexible liquidity management

Liquidity is widely available in TARGET. 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.

Incoming funds are available for immediate re-use. Furthermore, the full collateralisation of intraday credit has proved to operate smoothly.

The co-existence of several alternative payment channels has required careful management of payment routing and of multiple liquidity positions in euro. In 1999 the European Banking Federation (EBF) and other European banking organisations established a set of useful guidelines which, together with the experience gained, have helped banks to manage their business in a more efficient manner.

For example, liquidity management has been facilitated by a reduction in the late submission of payments. The effects of the EBF guidelines on late payments – according to which interbank payments should be executed before 5 p.m. C.E.T., unless notified and agreed between participants in advance – have clearly changed the intraday processing pattern in TARGET by encouraging participants to make payments earlier in the day.

Statistical data and feedback received from the banking community indicate that TARGET is recognised as the standard for large-value payments in euro.



The system is capable of processing a significant number of large-value payments within short transmission times. Even larger banks, which have access to cheaper alternatives for processing their payments, use TARGET extensively for very high-value payments, since TARGET provides advantages in terms of liquidity management and security.

2 Risk reduction

TARGET provides a firm foundation for the management of payment system risks. It gives participants the possibility of settling payments in central bank money with immediate finality, thus eliminating the settlement risk between participants.

TARGET payments become final for receiving participants once they have been credited to the participant's account held at the national central bank (NCB). This means that participants are, in principle, able to pass on third-party payments they receive to the final beneficiary immediately and without credit risk.

3 Real-time operation

The high speed at which payments in TARGET are processed facilitates and improves cash management. Moreover, this enables participants to increase their turnover of funds.

For TARGET payments, under normal circumstances, the time between the debiting of the account of the sending participant and the crediting of the account of the beneficiary participant is a couple of minutes, if not just a few seconds. This rapid processing of funds, which are credited to the appropriate account with finality, yields direct benefits for participants.

With TARGET, international corporate cash management is also able to make substantial efficiency gains. The real-time execution of TARGET payments makes it possible to optimise cash management in euro. Participants' corporate customers therefore have a particular interest in having their financial payments made via TARGET.

TARGET facilitates liquidity management because liquidity is widely available and the turnover of funds can be high. Thus any risk of having liquidity trapped can be avoided.



4 Interbank straight-through processing

Straight-through processing (STP) rules in TARGET are viewed as a way of facilitating further automation in the processing of payment messages, thus reducing the associated costs and risk. Since TARGET started operations, it has supported the fully automated processing of cross-border payments between banks within the EU (i.e. from the debiting of the ordering bank's account to the crediting of the receiving bank's account). At present, TARGET fully supports STP standards for the SWIFT message types. This is reflected in the very low rate of rejected payments at the cross-border level. In 2002 this rate fell slightly to around 0.26% of the total number of cross-border TARGET payments (from 0.28% in 2001).

5 Operating times to suit everyone

To meet the needs of its customers and those of financial markets in general, TARGET operates for 11 hours on each of its working days. The system is available from 7 a.m. to 6 p.m. C.E.T., with a cut-off time for customer payments of 5 p.m.

The long TARGET operating hours help to reduce foreign exchange settlement risk substantially because they overlap with those of the Fedwire system in the United States completely and with those of the Bank of Japan Payment System during the first operating hours in the morning, thus enabling simultaneous settlement of CLS positions.

6 Operating days

TARGET operating days are, de facto, the settlement days for the financial markets in euro, as well as foreign exchange transactions involving the euro. As from 2002 and until further notice, TARGET – including all the national RTGS systems – will be closed, in addition to Saturdays and Sundays, on New Year's Day, Good Friday, Easter Monday, 1 May (Labour Day), Christmas Day and 26 December.²⁾

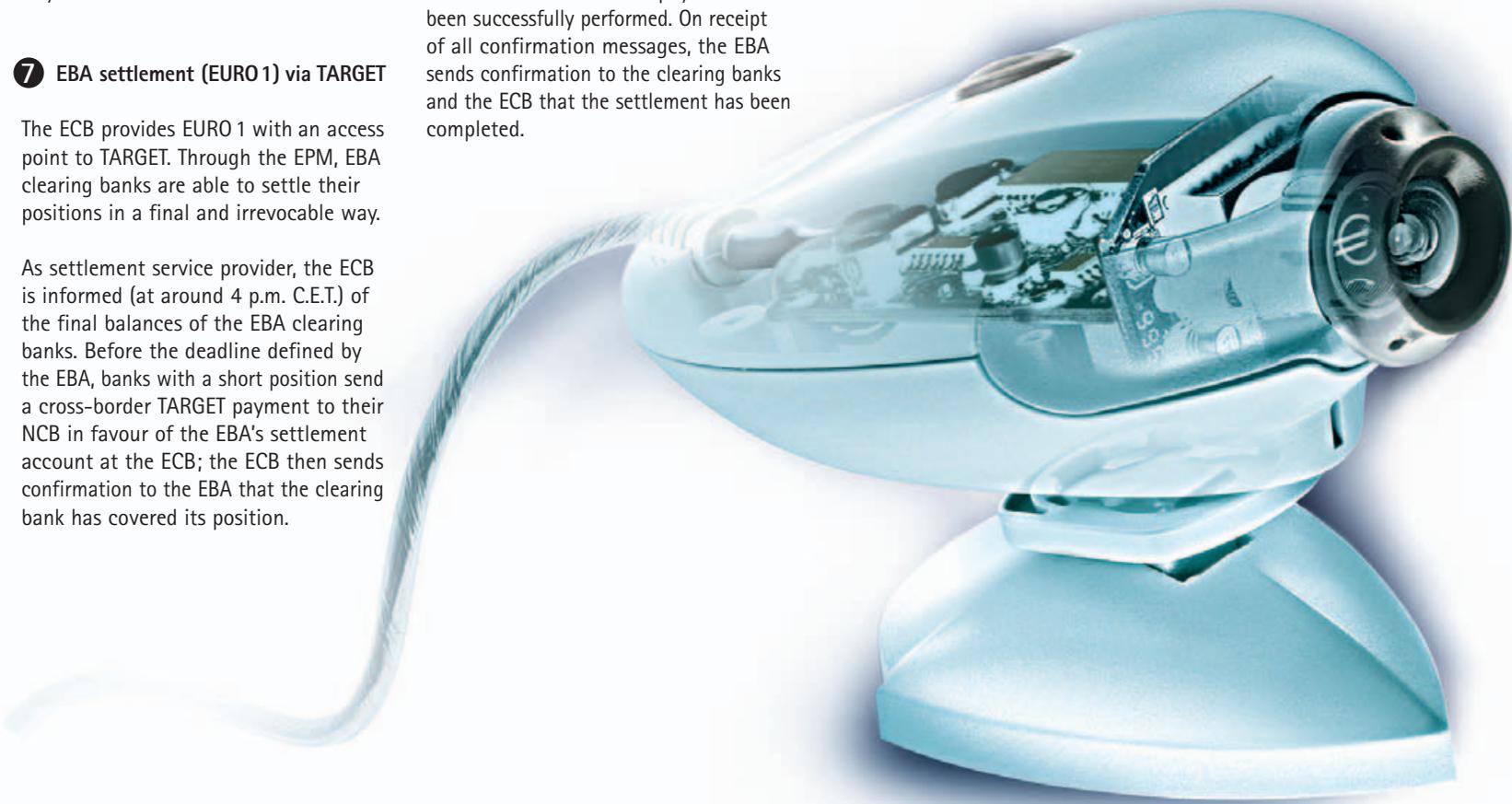
7 EBA settlement (EURO 1) via TARGET

The ECB provides EURO 1 with an access point to TARGET. Through the EPM, EBA clearing banks are able to settle their positions in a final and irrevocable way.

As settlement service provider, the ECB is informed (at around 4 p.m. C.E.T.) of the final balances of the EBA clearing banks. Before the deadline defined by the EBA, banks with a short position send a cross-border TARGET payment to their NCB in favour of the EBA's settlement account at the ECB; the ECB then sends confirmation to the EBA that the clearing bank has covered its position.

If all short banks have paid in and sufficient funds have been received on the settlement account at the ECB to cover the aggregate long banks' positions, the EBA instructs the ECB to pay the clearing banks with a credit balance via a cross-border TARGET payment. This brings the balance of the settlement account back to zero.

Upon confirmation that the payment has been credited to the beneficiary, the ECB notifies the EBA that the payment has been successfully performed. On receipt of all confirmation messages, the EBA sends confirmation to the clearing banks and the ECB that the settlement has been completed.



8 TARGET information system

The TARGET information system (TIS) is a common information tool that allows all TARGET participants to gain simultaneous access to standardised information on the status of the TARGET system via the information providers Reuters, Telerate/Bridge and Bloomberg.³⁾ In accordance with the experience gained and the requests of TARGET users, a new version of the TIS went live in May 2003.

9 TARGET is a reliable system

TARGET was developed by the European System of Central Banks (ESCB), most of whose members have a long and proven track record in building and running RTGS systems.

The Eurosystem continues to improve TARGET availability. In 2002 the overall availability of TARGET was 99.77%, as compared with 99.75% in 2001 (TARGET availability is defined as the average availability of the RTGS systems belonging to TARGET).

SWIFT, which has nearly 30 years' experience in financial messaging services, is the network service provider for TARGET. Special agreements have been concluded with SWIFT with a view to providing the best possible support in terms of speed, capacity, availability and security.

10 The cost of making a payment

The use of TARGET is supported by a transparent pricing structure, where cross-border payments are subject to the following degressive transaction fees:

- €1.75 for each of the first 100 transactions per month;
- €1.00 for each of the next 900 transactions per month;
- €0.80 for each subsequent transaction in excess of 1,000 per month.

For extensive users, the average fee per payment is in the region of €0.85. The cross-border fee depends on neither the destination nor the value of the payment and is charged by the sending NCB only. Domestic transaction fees (including entry and periodical fees) are not harmonised.

²⁾ In February 2002 the Governing Council of the ECB approved an exceptional derogation from the long-term calendar applicable in Greece for a three-year period. The Greek RTGS system (HERMES) is operational on Catholic/Protestant Easter Fridays and Mondays which do not coincide with the Greek Orthodox Easter Fridays and Mondays, but only for a limited range of operations. The Bank of Greece does not offer access to standing facilities on these days and it is only granted if absolutely necessary, e.g. to avoid a failure in the settlement of an ancillary system. Following this three-year period, Greece's situation will be reassessed.

³⁾ Reuters (page ECB46), Telerate/Bridge (pages 47556-47557), Bloomberg (page ECB17).

What

recent developments have there been in TARGET?



1 Relations with TARGET users

The performance of and developments in TARGET have benefited from the very active and fruitful dialogue with TARGET users. This dialogue is maintained at the national level and further intensified at the European level, and has ensured that users and operators have a reciprocal understanding of the system and the market requirements. The co-operation has proved to be very beneficial for all parties in respect of the preparations and implementations for CLS operations, the strengthening of TARGET contingency measures, TARGET's single compensation offer and market demands on the current and future TARGET system.

2 Continuous linked settlement and TARGET

In September 2002 the continuous linked settlement (CLS) system, a system designed for the settlement of foreign exchange transactions, started live operations. CLS largely eliminates foreign exchange settlement risk by settling the transactions in its books on a payment-versus-payment (PVP) basis. The remaining balances of CLS settlement members in the books of CLS Bank are squared by pay-ins and pay-outs in central bank money for each of the eligible currencies (USD, EUR, JPY, GBP, CHF, CAD and AUD)⁴⁾. For the euro, the pay-ins and pay-outs in central bank money are made via TARGET. For this purpose, CLS Bank holds an account with the ECB and

the CLS settlement members or their nostro agents hold an account in their respective national RTGS system. The banks fund a debit position in euro by transferring money from their RTGS account to the CLS Bank account held with the ECB and vice versa if CLS Bank has to fund a euro credit position of a bank.

3 TARGET release 2002

In line with other major system providers and to ensure that system upgrades are managed in a professional and structured way, it was decided that any enhancements to the TARGET system should be introduced in yearly releases. The changes implemented by the TARGET release 2002 consisted mainly of the introduction of the mandatory validation that MT103+ customer transfers contain a correct IBAN. All RTGS systems were fully

certified to TARGET 2002 specifications before the new release went live. The MT103/MT103+ supports improved transparency and efficiency in cross-border payments. The MT103+, a subset of the core MT103, supports STP by imposing stricter usage rules.

4 Migration from SWIFT FIN to SWIFTNet FIN

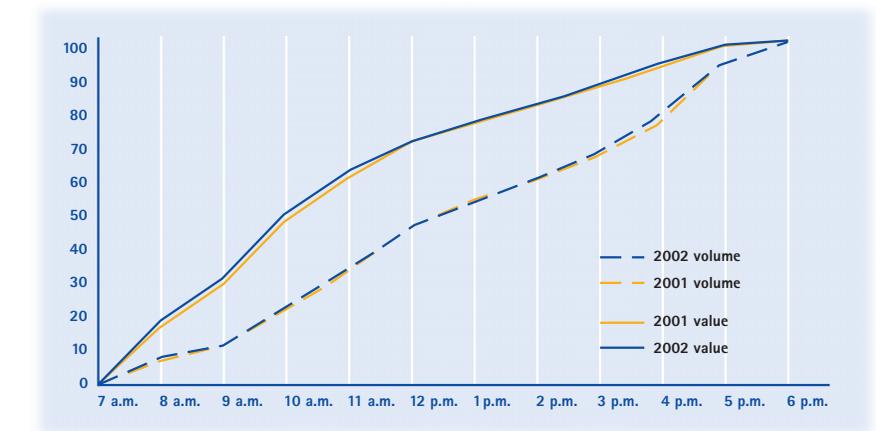
The Eurosystem is preparing TARGET's migration from SWIFT FIN to SWIFTNet FIN. The migration of FIN from X.25 technology to IP technology using SWIFTNet is mandatory for the entire SWIFT community, as SWIFT will end support for X.25 technology at the end of 2004. The implementation of SWIFTNet FIN is a technical migration. Although the FIN functionality and message standards remain untouched, migrating access to SWIFTNet FIN requires adaptations to the local SWIFT users' operational environment. For TARGET, a phased approach has been chosen. The migration to SWIFTNet FIN started in the first quarter of 2003 and will be completed by the end of 2004.

5 Facts and figures

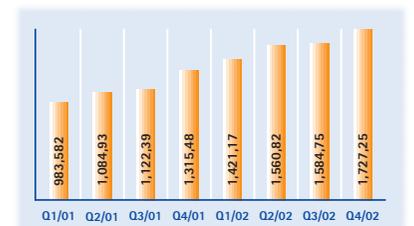
- There are 1,560 direct participants in TARGET and the overall number of banks (including their branches and subsidiaries) accessible via TARGET is more than 40,000, meaning that almost all EU credit institutions are accessible via TARGET.
- TARGET as a whole processed 64.5 million domestic and cross-border payments in 2002, representing a value of more than €395 trillion. These figures show that – in terms of value – TARGET is the largest payment system in the world.
- The number of customer payments in cross-border TARGET traffic quadrupled from 1999 to 2002.

In 2002 the number of payments processed in TARGET as a whole, i.e. cross-border and domestic payments taken together, amounted to more than 253,000 as a daily average (of which 54,000 were cross-border). The average daily value processed in TARGET as a whole in 2002 reached €1,552 billion (with cross-border payments totalling €485 billion), which is equivalent to an 85% share of the total value processed by all large-value payment systems operating in euro.

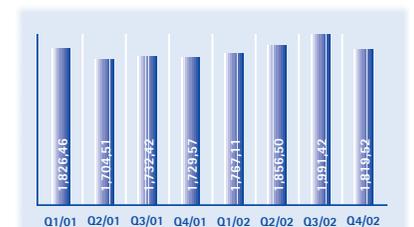
TARGET cross-border payments are submitted early, with nearly 50% of the volume processed in the first three hours of operations (between 7 a.m. and 10 a.m.). By 2 p.m. almost four out



Intraday distribution of TARGET cross-border traffic (cumulative figures in percentages)



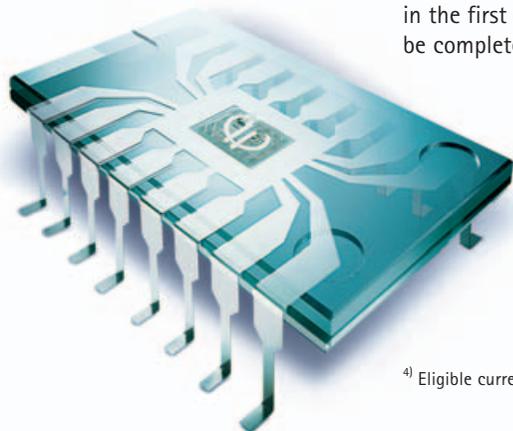
Volume of cross-border customer payments (MT-100, 103, 103+) per quarter



Volume of cross-border interbank payments (MT-202) per quarter

of five payments have been processed. The significant volume in the morning seems to be related to the release of a high number of warehoused payments from previous dates. In 2002 TARGET processed a daily average of nearly 10,800 cross-border payments in the first hour of operations (equally distributed between interbank and customer payments).

With regard to the value of TARGET cross-border payments, the highest values are processed between 10 a.m. and midday and between 4 p.m. and 5 p.m. 21% of the cross-border turnover is processed by 10 a.m., while 53% is processed by 1 p.m. At 5 p.m. 93% of the total value has already been processed.



⁴⁾ Eligible currencies at the time of printing.

6 TARGET security

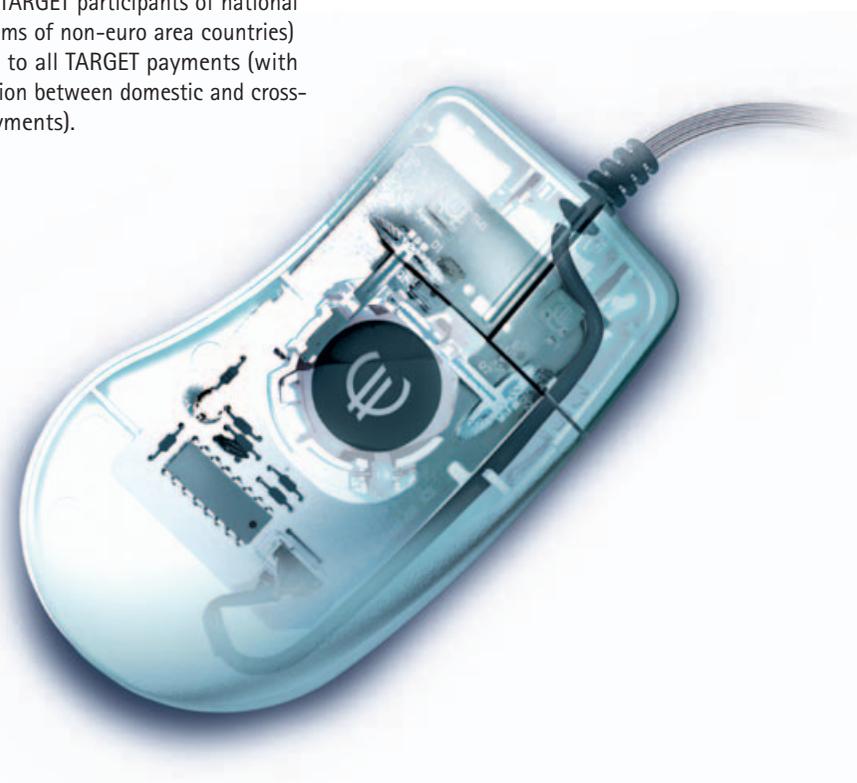
The security policy for TARGET is based on an agreed security strategy and methodology. Since the beginning of 1997 TARGET risk analyses have been conducted on a regular basis. The new TARGET risk management framework was developed in 2002. The implementation of the state-of-the-art security policy will ensure that TARGET is protected from all threats, whether internal or external, deliberate or accidental, and will minimise the impact on the continuity of TARGET business of any threats that, despite all measures taken, do materialise.

7 TARGET contingency measures

The Eurosystem gives top priority to the enhancement of TARGET contingency measures. TARGET contingency measures ensure that, even if TARGET is not fully operational, systemically important payments can be processed in a timely manner. The Eurosystem has always required all local TARGET components to have both TARGET business continuity measures and TARGET contingency measures available. TARGET business continuity requires each national component to be able to switch to a secondary site within the shortest time possible, in the event of a failure occurring at the primary site. In addition, TARGET contingency measures ensure the processing of systemically important payments in the event of both primary and secondary sites being temporarily affected.

8 Compensation scheme

In 2003 the new TARGET compensation scheme was set up for the benefit of TARGET participants in the event of a malfunctioning of TARGET. The TARGET compensation scheme is an attractive, simple and standardised compensation offer by the ESCB, which largely follows market practices. The scheme compensates participants for certain additional costs incurred as a result of non-completion of a payment order on the processing day owing to a TARGET malfunctioning. The TARGET compensation scheme applies to all national RTGS systems that are components of or connected to TARGET, and is available for all TARGET participants (including TARGET participants of national RTGS systems of non-euro area countries) in relation to all TARGET payments (with no distinction between domestic and cross-border payments).



target2

On 24 October 2002 the Governing Council of the ECB decided on the long-term strategy for TARGET (TARGET2). In view of increasing financial integration within the euro area and the fact that the business needs of the users of TARGET are becoming even more similar, the main objective of the Eurosystem is to ensure that TARGET evolves towards a system that (i) better meets customers' needs by providing an extensively harmonised service level, (ii) guarantees cost efficiency, and (iii) is prepared for swift adaptation to future developments, including enlargement of the EU and the Eurosystem.

As in the case of the current TARGET system, TARGET2 will be a system for the settlement of predominantly systemically-relevant, large-value euro payments in central bank money. Nevertheless, as is the case at present, there will be no de jure or de facto limits set by the Eurosystem or the NCBs on any payments that users may wish to process in real time in central bank money.

On the basis of both the Governing Council decision and the views of TARGET users, the Eurosystem will establish a project plan for the next generation of TARGET. The new system is expected to become operational during the second half of this decade.

EU enlargement

The Governing Council of the ECB also decided on 24 October 2002 that acceding country central banks (ACCBs) will have the possibility – but not the obligation – to connect to TARGET as from the date of their joining the EU. In this context, ACCBs might decide for reasons of cost-effectiveness to connect to TARGET without the need to operate their own euro RTGS. Participation in TARGET will be compulsory only when the respective Member States participate in Economic and Monetary Union, i.e. when they adopt the euro in place of their national currencies.

How

do users gain access to TARGET?



features



users



benefits



facts



future



access

Multiple access points

Most credit institutions are participants in the euro RTGS system of their home country. Credit institutions with a wide network of branches or subsidiaries across the EU can choose to become members of different euro RTGS systems within which they are able to obtain intraday credit from the respective NCBs.

TARGET payments can be made via the following systems:

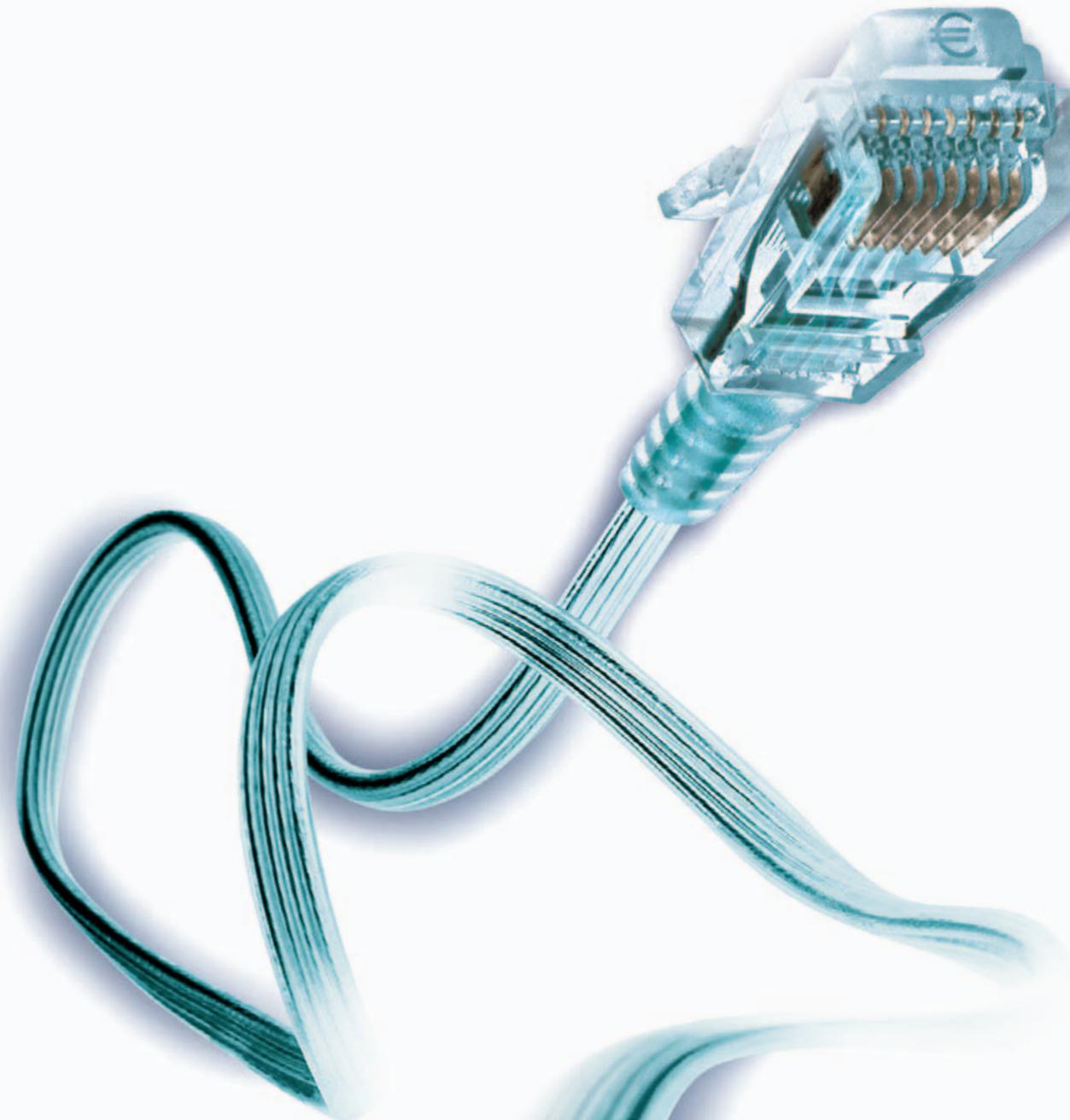
Within the euro area:

Belgium	ELLIPS
Germany	RTGS ^{plus}
Greece	HERMES
Spain	SLBE
France	TBF
Ireland	IRIS
Italy	BI-REL
Luxembourg	LIPS-Gross
Netherlands	TOP
Austria	ARTIS
Portugal	SPGT
Finland	BoF-RTGS
European Central Bank	EPM

Outside the euro area:⁵⁾

Denmark	KRONOS
Sweden	ERIX
United Kingdom	CHAPS euro

⁵⁾ Special liquidity conditions apply to TARGET participants operating from these countries.



Further information on TARGET

More detailed information on TARGET can be found in the "Information guide for credit institutions using TARGET" and the "TARGET Annual Report". All relevant documents and reports can be accessed from the ECB's website at www.ecb.int

Alternatively, hard copies can be ordered from any of the NCBs or from the ECB at the following address:

European Central Bank
Press and Information Division
Kaiserstrasse 29
60311 Frankfurt am Main
Germany
Fax: +49 69 1344 7404

Further information can be obtained by e-mail from: target.hotline@ecb.int



EUROPEAN CENTRAL BANK