

TARGET Newsletter

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The **objective** of the TARGET Newsletter is to inform the user community and the general public about relevant issues surrounding the TARGET system in operation.¹ The Newsletter contains articles of special interest, and provides insights and opinions from relevant system participants.

Introduction

The Eurosystem appreciates the feedback received from the user communities while preparing the contents of new system releases (release 3.0 was successfully implemented on 23 November 2009, and release 4.0 is to be implemented in November 2010). The cooperative efforts between the user communities and the Eurosystem are vital to further increase the level of service and to meet the expectations of TARGET participants. With the completion of the migration phase, it could be said that the second generation TARGET system has reached its cruising speed. However, the environment in which TARGET exists is not static. Consequently, the Eurosystem is now focusing firmly on the management of new annual releases. A clear framework has been defined and agreed with the user community.² On 11 November the Eurosystem published the final contents of the new 2010 release, 4.0. Work has already started on the new release 5.0, which is to be implemented in November 2011. The Eurosystem regards this continuous attention to the evolution of the system as a necessity.

The first issue of the TARGET Newsletter was published on 19 June 2009. Since then, the TARGET system has continued to perform seamlessly. The TARGET2 single shared platform reached 100%

availability. This is the highest availability figure since the start of TARGET operations in 1999, a remarkable achievement, particularly in times of difficult market conditions. TARGET is actively used in 21 European Union countries, while the Bulgarian user community is preparing to join in February 2010. In the second quarter of 2009 TARGET had 942 direct participants and processed 348,071 payments, amounting to €2.1 trillion on a daily basis.

About the TARGET newsletter

The second issue of the TARGET Newsletter contains two articles of special interest, namely "Bridging the cash and securities worlds" and "The TARGET2 website". Four boxes below the articles provide information on the main TARGET indicators in Q2 2009, the cumulative volumes over the last 12 months, the share of PHAs³ in TARGET volumes, and a comparison with other large-value payment systems. The final part of the Newsletter includes a calendar of events and details of where to find further information on TARGET.

The third issue of the TARGET Newsletter is scheduled for publication in the second quarter of 2010.

¹ In the following paragraphs, the references made to the first-generation TARGET system (which was in operation from January 1999 to May 2008) are also applicable to its second generation, TARGET2 (which has been in operation since November 2007). Indeed, the second-generation system continues to provide euro RTGS services, but with significant improvements. This is the reason for both the first and second-generation systems being referred to as "TARGET" in many instances in this newsletter, i.e. no distinction is made between TARGET and TARGET2.

² Please see the article entitled "TARGET release management", included in the June 2009 issue of the TARGET Newsletter.

³ Proprietary home accounts.



Special interest articles

Bridging the cash and securities worlds⁴

Euroclear's experience of TARGET2

By Mr Dan Toledano

ESES Product Management, Euroclear SA, Paris



Liquidity is essential to any business. The possibility of integrated back-office systems and applications means that treasurers are capable of providing valuable, real-time insights into the financial circumstances of a business and, as such, facilitate the management of cash flows and the distribution of funds where they are needed within the organisation. The advent of the TARGET system has been instrumental to the liquidity management function, more significantly still since the launch of TARGET2 with a single technical platform. Moreover, TARGET2 has significantly improved the bridging of the cash and securities worlds.

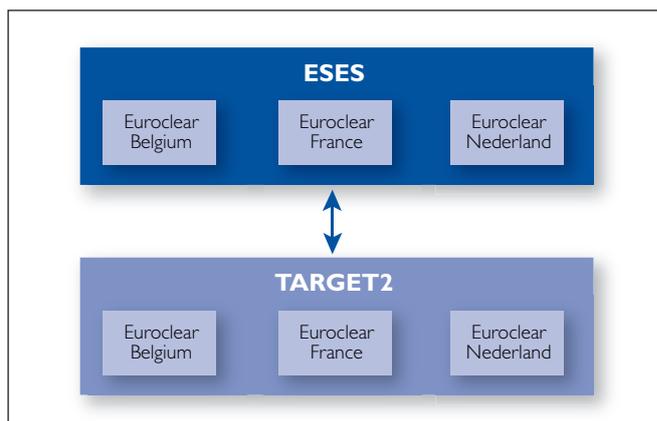
Central securities depositories (CSDs) have long ago mitigated settlement and counterparty risks with the introduction of simultaneous, delivery-versus-payment settlement. To ensure that securities are delivered against payment, CSDs and their respective central banks must interact efficiently. During the past decade, European CSDs have upgraded and further secured their transaction-processing arrangements to better interact with TARGET, partly to comply with ESCB standards. They have done so by extending opening hours, moving from BIS models 2 or 3 to model 1, and supplementing batch processing with continuous or real-time settlement.

The Euroclear group of CSDs, with links to seven national central banks (NCBs) in the EU, has extensive experience in this domain, especially with TARGET. In fact, Euroclear and the NCBs from three EU markets recently created a new model for CSD interaction with euro area NCBs through TARGET2. We are delighted to share this experience with the TARGET user community.

Three CSDs, one platform and one liquidity pool

The Euroclear Settlement of Euronext-zone Securities (ESES) platform, covering all securities transactions from three EU markets, was launched in early 2009. ESES processes cash and securities transactions for clients of Euroclear Belgium, Euroclear France and Euroclear Nederland on one consolidated platform, which is linked to TARGET2. ESES follows an integrated cash settlement model. Settlement occurs in central bank money by decentralising client cash positions held in the central banks of Belgium, France or the Netherlands, as appropriate.

ESES enables clients to concentrate their liquidity within a single central bank to settle transactions with counterparties that are members of any ESES CSD. ESES has been connected to TARGET2 from the outset.



When TARGET2 was implemented in 2008, each of the three ESES CSDs were operating individual legacy processing platforms. As the roll-out for ESES got underway, connecting each of the three ESES CSDs to TARGET2 was managed as three separate projects. The migration process went very smoothly, delivering important user benefits.

It allowed banks and other clients to further consolidate cash management of their euro positions, as the new, innovative interface improved direct and indirect cash mobility between ESES and euro area NCBs.

It helped clients with their liquidity needs during the overnight transaction-processing cycle performed by ESES. Previously, market participants either needed to provide external guarantees to the NCB or to pre-fund their RTGS accounts, which had a funding cost. In general, before TARGET2, the only source of liquidity during the overnight processing cycle was the collateral held by clients.

A typical operational day in ESES

During the ESES settlement process, cash is transferred from the buyer of securities to the seller in euro central bank money, based on the cash position of the buyer. This position is the sum of all cash credits generated from settled securities sales during the day, from liquidity transfers from TARGET2 or, where applicable, based on

⁴ The views expressed in this article are personal and do not necessarily reflect those of the European Central Bank.

ESCB-eligible collateral held by the client (auto-collateralisation on stocks and flows). Moreover, throughout the course of the day, the client's cash position may be credited with income payments (dividends, interest, etc.) earned on securities held in custody.

There are various ways a participant can manage cash in the ESES system. Out of 279 intermediaries eligible for cash settlement, 71 act as settlement banks, using their direct connection to TARGET2. Of the others, 114 have chosen to fully outsource cash management to a settlement bank, while the remaining 94 make use of the option to self-manage their individual ESES cash position while using a settlement bank only to link with TARGET2. In practice, the number of external cash transfers between TARGET2 and ESES is relatively limited on a normal day. There are around 300 such liquidity transfers per day between TARGET2 and the ESES CSDs, amounting to an average of €300 million per unit. This liquidity is used to settle more than 120,000 trades each day, averaging a total of €300 billion per day. The cash transfers mainly correspond to treasury cash management activity as treasurers seek to cover their net cash needs. They manage cash balances based on their own interpretations of the firm's cash needs, as well as the real-time information they receive from Euroclear reports, such as transaction settlement status and liquidity projections.

TARGET2 and ESES have three opportunities to interact with each other every day.

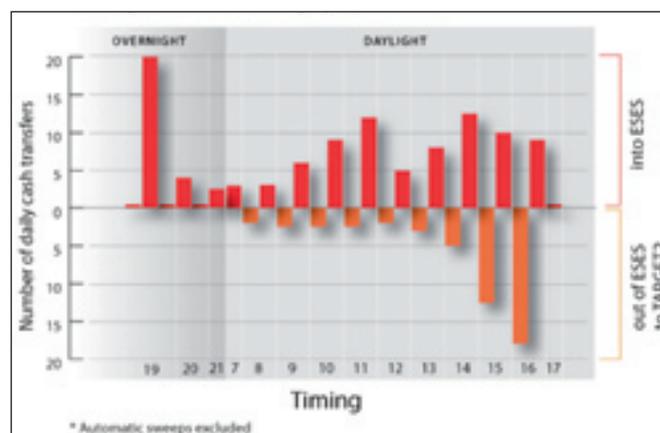
Overnight

The ESES settlement process starts with an overnight batch at around 8.30 p.m. (CET) on the eve of the settlement date. After a technical break between 3 a.m. and 5 a.m. on the settlement date, a real-time settlement process continues throughout the day until 4 p.m.

Introduced with the launch of TARGET2, clients may send standing orders to TARGET2 in order to credit their ESES cash positions automatically, in advance of the overnight batch processing cycle. Typical users of this window are clients with little or no collateral, or those who are not eligible to take advantage of the auto-collateralisation process. In addition, ESES enables clients who are anticipating a credit transfer to initiate a cash transfer instruction the day before the settlement date so that the credit will appear in their RTGS cash account at the opening of TARGET2.

Cash transfers between TARGET2 & ESES

(Average from a standard operating day* September 2009)



In real time

From the time TARGET2's day trade phase opens at 7 a.m. until the close of business at ESES at 4 p.m., the two platforms interact on a real-time basis. Throughout the day, treasurers can transfer cash to and from ESES to fulfil transaction settlement or other business needs.

We usually observe two peaks of activity during this processing cycle. In the middle of the morning, a high number of liquidity-related transfers are initiated from TARGET2 to ESES. These transfers intend to facilitate the settlement of transactions that failed during the previous overnight processing cycle, or to redeem any auto-collateralisation transactions that were triggered by ESES. A second peak of activity is observed during the middle of afternoon, when treasurers need to cover their same-day transaction activity in the money markets and repos, for example, or want to make last-minute cash balance adjustments before the end of the business day.

During automatic sweeps

As client cash balances cannot be held overnight in ESES, at the end of each day, the system automatically generates three mandatory sweeps that debit outstanding client cash positions and credit them to the relevant RTGS-linked accounts at one of the three NCBs (or to the accounts of their settlement banks). At 7 a.m., an optional cash sweep is conducted for clients who wish to start the day with a zero cash position.

Clients can, of course, transfer liquidity from ESES to their NCB (and onward to any other location in the euro area) at any time during the day when ESES is available.

Settlement performance and efficiency

There is a direct correlation between the efficiency of the TARGET2 to ESES link and ESES settlement performance. TARGET2 contributes to keeping the transaction fail rates very low: less than 0.5% at Euroclear France, and around 2-3% at Euroclear Belgium and

Euroclear Nederland. Cash failures are extremely rare, as are failures when redeeming transactions resulting from the auto-collateralisation process.

The interaction between TARGET2 and ESES provides a high level of performance between payment and securities settlement systems, which is also a source of savings for treasurers. As a result, they can optimise sources of funding and switch between collateral and cash throughout the day. The only drawback may be that treasurers can adopt a more reactive approach, feeling less pressure to fund their cash position in advance for the overnight processing cycle or early in the morning, in the knowledge that they have all day to monitor and adjust their cash management operations. This is a topic of discussion among the ESES user groups.

Conclusion and the way forward

The role of treasury management has evolved and now requires more sophisticated tools to effectively manage liquidity and cash flows. With increasing volumes of securities transactions, coupled with greater usage of collateral by treasury managers in their financing operations, the efficient interaction between payments and securities settlement systems is vital. This has been facilitated by the single technical platform, TARGET2, with innovative features and interfaces at hand.

TARGET2 has contributed to improving Euroclear's real-time settlement capabilities and effective liquidity management features. Moreover, TARGET2 has helped our clients with their liquidity needs during the overnight transaction processing cycle, as well ensuring a very high level of settlement performance. Overall, the feedback received from Euroclear group clients is very positive in this respect. And more benefits are in the pipeline.

In 2011 Euroclear plans to deliver the phase of its Single Platform programme that will enable clients to access a single pool of collateral held anywhere within the entire Euroclear group for securities financing, monetary policy operations or other purposes.

Lastly, TARGET2-Securities will take the standardisation process a further step forward. We can fully appreciate the potential of settling transactions via a single platform. We intend to leverage the benefits of T2S to meet the very challenging demands of issuers and market participants.

The TARGET2 website

By the Eurosystem

The **TARGET2 website** is a communications tool to update the user community and other parties directly involved on the most relevant documentation on TARGET2. The Eurosystem regularly publishes and

updates general information to support the TARGET2 participants via the TARGET2 website.

If there is one form of technology that has proved its worth, it is the internet. For a long time, it has been a solid communication platform and an integral part of the communication strategy in most organisations as an information provider. As part of the efforts to ensure the optimal preparation of TARGET2 in its project phase, the Eurosystem set up a dedicated, password-protected website providing access to all relevant documentation and up-to-date information. The TARGET2 website was launched in April 2005 as a communication solution to integrate the various information sources, resulting in a single "one-stop shop" website. For nearly five years now, the Eurosystem has been regularly publishing and updating general information to support the TARGET2 participants. Access to the TARGET2 website is restricted to TARGET participants and other parties directly involved, such as vendors and service providers. Very often, central banks outside the European Union request access to the website to follow the most recent developments in TARGET, or use it as a reference while developing their own market infrastructure solutions.

Genesis

While the second generation TARGET system (TARGET2) is based on a single technical platform, the NCBs remain responsible for the accounts, business relations and communication with the users in the respective national communities. Soon after the launch of the TARGET2 project, the Eurosystem identified the need for a tool to supplement communication at the national level. A technically centralised system and the provision of services common to all highlighted the need to disseminate the same information simultaneously throughout all the national user communities. The provision of timely, adequate, coherent and coordinated information would certainly be crucial in preparing for daily operations. In the project phase, the TARGET2 website was the window to the progress reports, the user-focused project plan, system specifications, testing and migration issues, business and legal frameworks, and operational procedures, to name but a few. A practical example was the TARGET2 test related information system (T2TRIS), an information exchange tool between the TARGET2 users and their central banks on test related activities, available on the TARGET2 website. Via the T2TRIS, the user community had a single window access to, for example, the general description of the TARGET2 user testing approach, the list of TARGET2 user test cases and scenarios, and information related to the test calendar, including details of individual test phases,

test days, migration groups, etc.

The TARGET2 website was also crucial for communication with the user communities shortly before, in the course of, and shortly after the three go-live dates between November 2007 and May 2008.

TARGET2 in operation – revised website contents

The TARGET2 website fulfilled its objective as an information source for project-related issues when participants completed migration to the new TARGET2 system in May 2008. Since then, the contents of the TARGET2 website have been tailored to the present operational phase.⁵ However, a dedicated “Project” section has been kept as a repository of the most relevant information in the project phase.

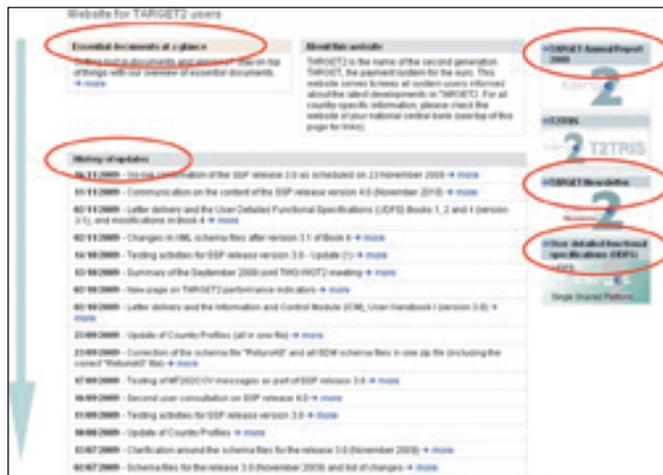
In line with the “one-stop shop” philosophy, all information and documentation on the TARGET2 website can be accessed via the homepage.



Picture: The TARGET2 website: Home page

It contains two kinds of information tab: one displayed vertically and the other displayed horizontally. The vertical information tabs provide the visitor to the website with direct access to the very latest information or documentation, as summarised below:

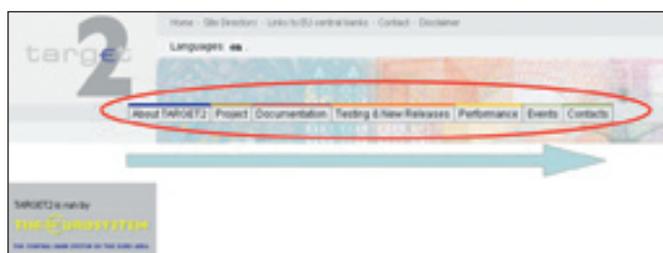
- The **essential documents at a glance**, e.g. frequently asked questions, system specifications, information on system operations and legal issues;
- The **history of updates**: a chronological list of the most recent items published on the website. Every item includes a link to the page on which more details are given; and
- Direct links to the latest available **TARGET Annual Report**, the TARGET Newsletter and the latest version of the **User Detailed Functional Specifications** document (UDFS)



Picture: Vertical information tabs

The horizontal information tabs provide the visitor to the website with direct access to a wide range of information on TARGET2. There are seven information sections, covering the following subjects:

- **Background information** on the TARGET2 system, as contained in the section entitled “About TARGET2”;
- A dedicated “Project” section: a repository of the most relevant information in the project phase;
- A section entitled “**Documentation**”: access to information or documentation of relevance to the TARGET2 user community;
- A section with information and documentation on “**Testing and New Releases**”: the visitor to the website can find all related publications and the final contents of the most recent and forthcoming new system releases in this section, including information on versions 2.0 (November 2008), 2.1 (May 2009), 3.0 (November 2009) and 4.0 (November 2010);
- A section entitled “**Performance**”: information on TARGET2 system volumes (i.e. the number of payments), values (i.e. turnover in euro) and availability, provided in the format of graphics and charts;
- “**Events**”: information on seminars, conferences or activities the Eurosystem has been, or will be, involved in regarding the promotion of TARGET2; and finally
- The “**Contacts**” section: a reference to participants on the relevant contact persons or organisations at every NCB with respect to TARGET2 matters.



Picture: Horizontal information tabs

⁵ The TARGET2 information system (T2IS) is not featured on the TARGET2 website. The T2IS is available on the public ECB website on the “TARGET2” page in the “Payments & Markets” section (<http://www.ecb.europa.eu/paym/t2/html/index.en.html>), and gives up-to-date information on the operational status of the TARGET2 system.

Notification of new entries

New information or documentation available on the website is notified to the user community in a push mode. A single notification is sent to the NCBs, announcing the new entry, and this is passed on to participants in the respective national user communities. At the same time, a single notification is sent to the Secretariat of the TARGET Working Group of the European Credit Sector Associations (ECSAs), so that information is passed on to its members.

NCB websites

As mentioned at the beginning of this article (Genesis), the TARGET2 website was set up to supplement communication by the NCBs at the respective national level. In particular, the TARGET2 website complements

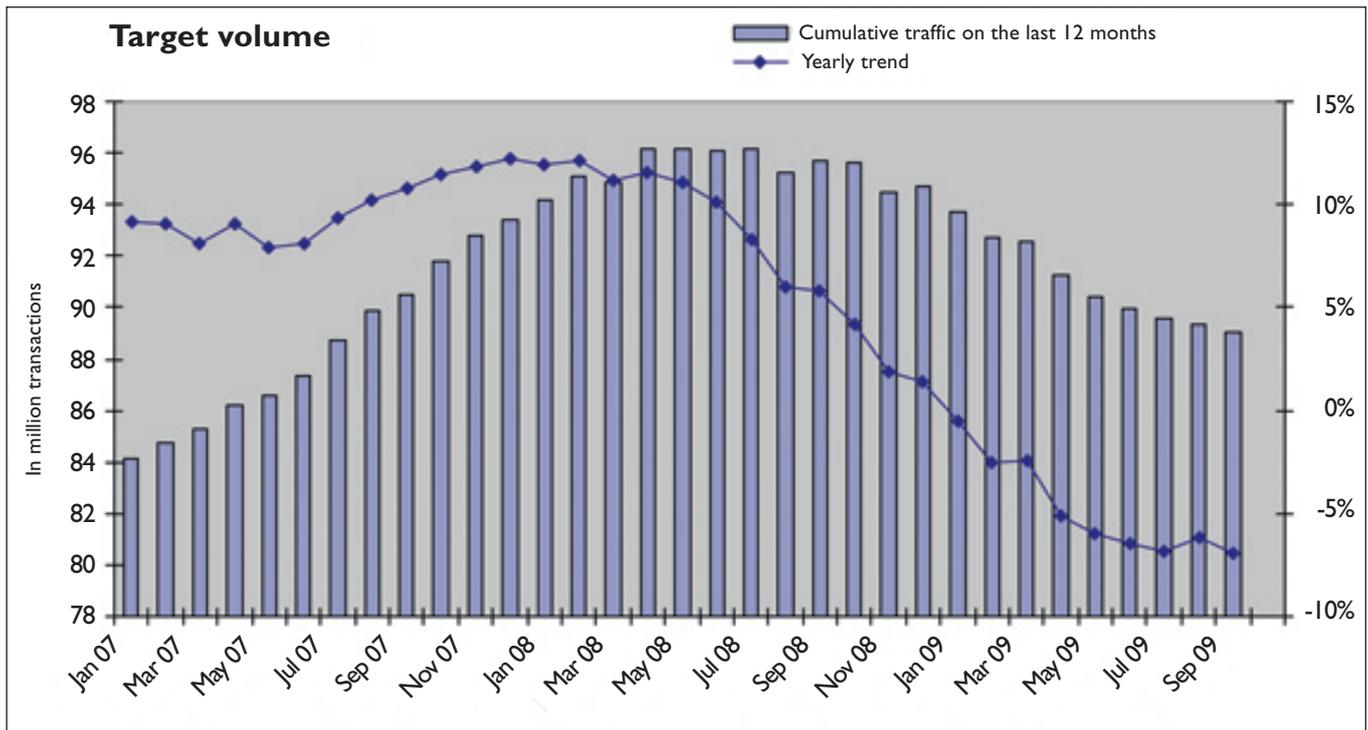
the information that is already available on the NCB websites. While the information contained on the NCB websites is publicly available and is of an informative nature, the TARGET2 website is business-oriented and keeps the user community posted on relevant system developments. The “Contacts” section of the TARGET2 website has links to the websites of the NCBs.

Should you see a need to access the password-protected TARGET2 website, please contact your NCB or send a request to target.hotline@ecb.europa.eu. The same e-mail address can be used to send any suggestions you may have to enhance the contents of the TARGET2 website. For easier and faster access, add the TARGET2 website to your favourites list. You are also invited to share the access details to the website with staff in your organisation who are closely involved in TARGET2 operations.

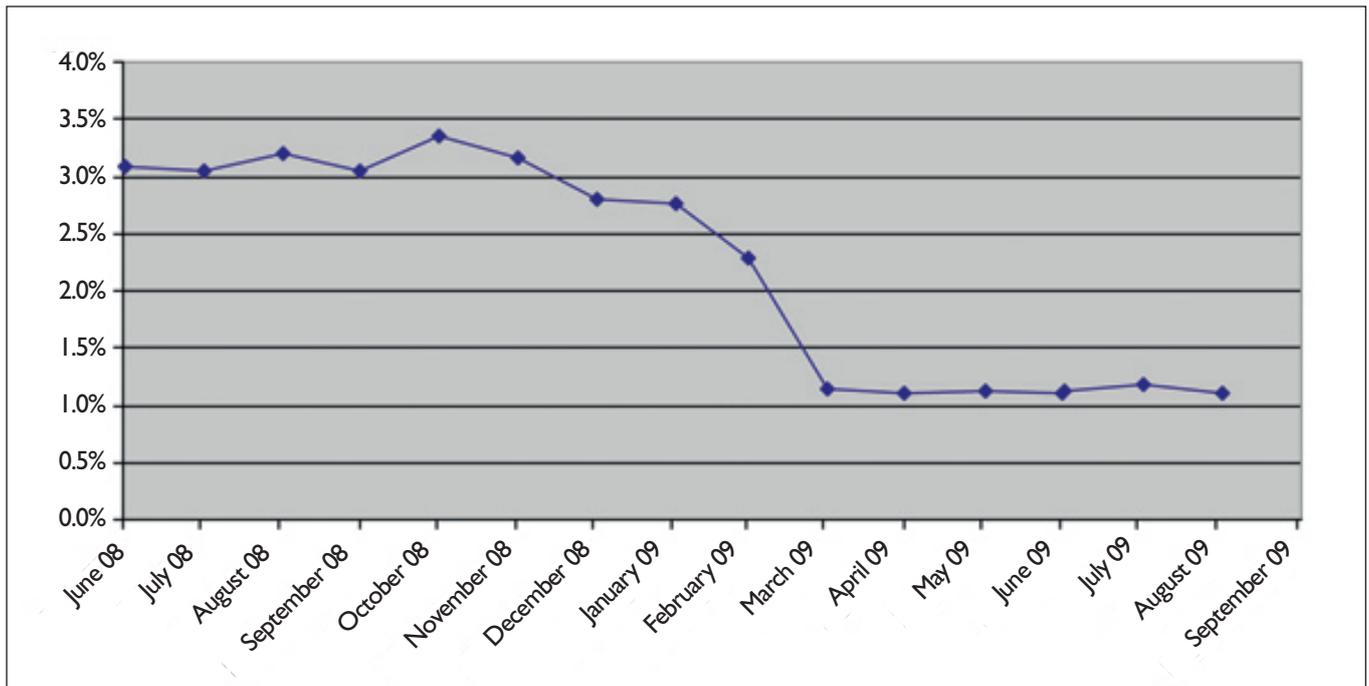
Main TARGET indicators in Q2 2009

- In Q2 2009 TARGET had 942 direct participants, 3,744 indirect participants and 11,031 correspondents.
- TARGET settled the cash positions of 69 ancillary systems.
- TARGET processed a daily average of 348,071 payments, representing an average daily value of €2.1 trillion.
- The average value of a TARGET transaction was €5.9 million.
- 67% of TARGET payments had a value of less than €50,000.
- The peak day was 30 June 2009, with 495,223 payments.
- TARGET’s share of total large-value payment system traffic in euro was 89% in value terms and 60% in volume terms.
- The availability of the system was 100%.
- 99.99% of TARGET payments were processed in less than one minute.

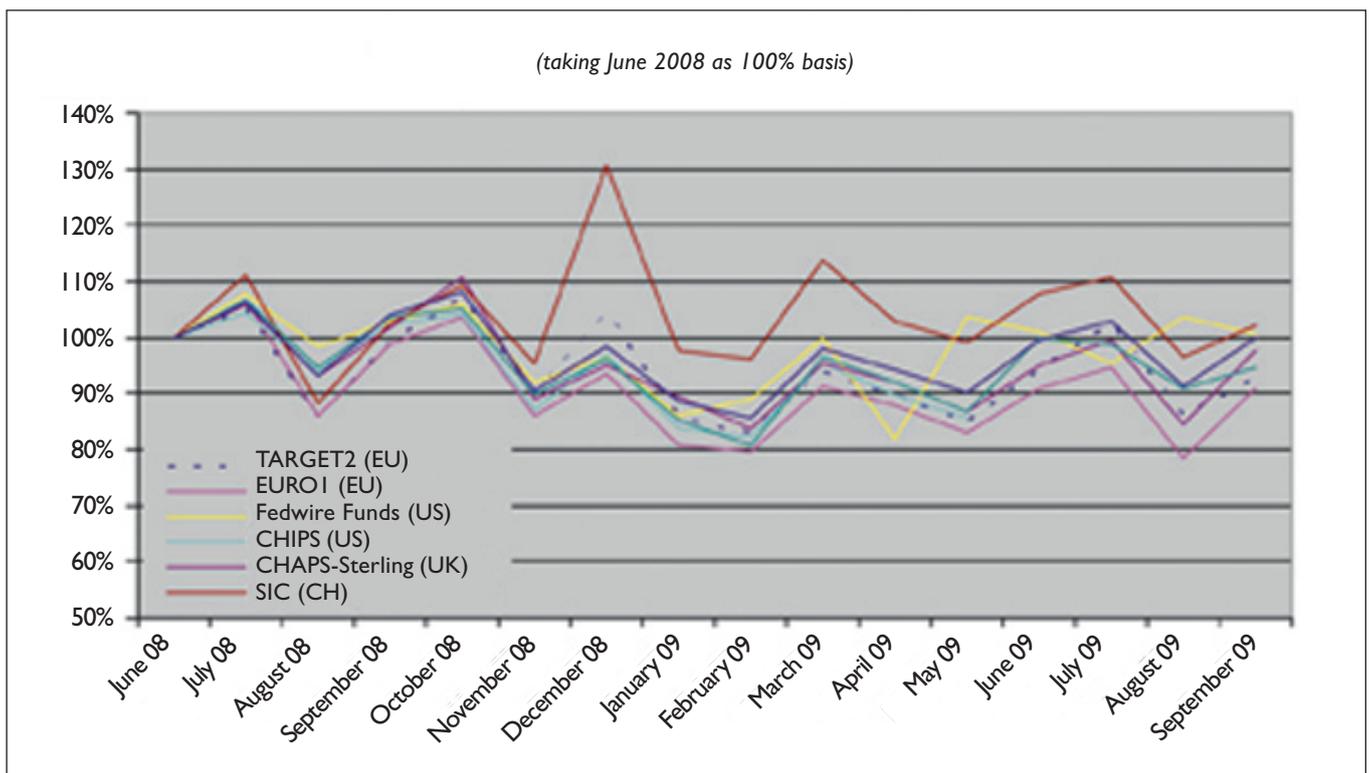
Cumulative volumes over the last 12 months



Share of PHAs in TARGET volumes



Comparison with other large-value payment systems



Calendar of events

Implementation dates for new system releases

Release 3.0 was successfully implemented on 23 November 2009. The content of the 2010 release (version 4.0) was published on 11 November 2009, and is expected to be implemented in the live environment on 22 November 2010. The content of the 2011 release (version 5.0) will be agreed in close cooperation with the user community. The final contents of release 5.0 are expected to be finalised and communicated to the TARGET user community towards the end of 2010.

Next meetings with user representatives

The Eurosystem maintains close relations with TARGET users, and regular meetings are held at national level between the NCBs connected to the system and the respective national user groups. In addition to the cooperation at the national level, joint meetings of the Eurosystem Working Group on TARGET2 and the TARGET Working Group, which comprise representatives of the European banking industry, take place regularly at a pan-European level. In 2009 joint meetings took place on 20 March, 12 May, 9 September and 25 November. The summaries of the joint meetings are available on the TARGET2 website.⁶ The next joint meeting is scheduled to take place in Frankfurt on 17 February 2010. The dates of the joint meetings are arranged to fit in with the planning for the annual system releases.

The Eurosystem at SIBOS 2010

The SIBOS 2010 exhibition is scheduled to take place in Amsterdam from 25 to 29 October. The activities planned by the Eurosystem at the 2010 SIBOS exhibition are expected to be included in the next issue of the TARGET Newsletter.

Further information

More detailed information on TARGET can be found in the “Information Guide for TARGET2 users” http://www.ecb.europa.eu/paym/t2/shared/pdf/infoguide_V3_1_0.pdf and in the latest available TARGET Annual Report, covering the year 2008. <http://www.ecb.europa.eu/pub/pdf/other/targetar2008en.pdf>

The TARGET Annual Report covering the year 2009 is expected to be published in May 2010.

All relevant documents and reports can be accessed from the ECB’s website at <http://www.ecb.int>, as well as those of the NCBs. For further information, please e-mail target.hotline@ecb.europa.eu

⁶ <https://target2.ecb.int/doc/meetings/html/index.en.html>