



EUROPEAN CENTRAL BANK

EUROSYSTEM

FOURTH PROGRESS REPORT ON TARGET2

On 20 November 2006, the Eurosystem published the third progress report on TARGET2. The report provided details of a number of pricing and legal issues (the pricing of ancillary system services and the definition of a group of accounts for the purposes of multi-addressee access and liquidity pooling) and described the progress made with regard to contingency procedures, testing and migration activities.

The overall project is now in its final stages. Since the last progress report was published, the Eurosystem has made significant progress in the realisation of the new TARGET system and remaining activities are progressing as planned. Testing and migration activities have been thoroughly prepared and publicised. In particular, testing activities have commenced with future users of the system. The go-live date of the Single Shared Platform (SSP) for TARGET2 has been confirmed as Monday, 19 November 2007, as have the two subsequent migration waves after which all NCBS and TARGET users will have migrated to TARGET2.

The purpose of the fourth progress report on TARGET2 is to update market participants on the Eurosystem's recent decisions concerning remaining pricing and financing issues, as well as to fine-tune some previous decisions. The report also contains the final version of the General Functional Specifications (GFS). Moreover, the report provides information on legal issues, on recent changes to the envisaged functionality of the SSP, on testing and migration activities, and on other ongoing issues of relevance to TARGET2.

I PRICING ISSUES

The core pricing schemes for credit institutions and ancillary systems have been established in the context of the Communication on TARGET2 of July 2006 and the third progress report of November 2006 respectively. Nevertheless, some issues have emerged during the implementation of these pricing schemes, in particular with respect to ancillary system transactions and liquidity pooling.

I.1 CLARIFICATION ON ANCILLARY SYSTEM (AS) SUBJECT TO THE PRICING SCHEME

When establishing the billing principles with regard to AS transactions, clarification was needed as to whether the fixed fees and the transaction fees should be applied at the level of the legal entity or at the level of the "system".

The Eurosystem decided that the AS pricing scheme should be charged at the level of the "system". Each ancillary system should pay all fixed fees only once, irrespective of whether they keep one or more accounts of any type (RTGS or technical account) in TARGET2 or no accounts at all. The transaction fees should then be charged for all billable transactions (see Annex 1) on these accounts according to the AS pricing scheme.

In principle, a system as defined in Article 2 of the Guideline of the European Central Bank of 26 April 2007 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) that has been designated under the Settlement Finality Directive (SFD) automatically would be treated separately (as one entity) for the application of the pricing scheme for ancillary systems, even if two or more of them are operated by the same legal entity.

The same rule should apply to the ancillary systems that are not designated under the SFD, in which case the ancillary system would be identified by references to the following criteria¹: (i) as a formal arrangement based on a private contract or legislative instrument (e.g. an agreement among the participants and the system operator); (ii) with multiple membership; (iii) with common rules and standardised arrangements; and (iv) for the clearing, netting and/or settlement of payments and/or securities between the participants.

1.2 CLARIFICATION OF THE TYPES OF TRANSACTIONS TO BE CHARGED IN THE CONTEXT OF THE SETTLEMENT OF ANCILLARY SYSTEMS VIA THE ANCILLARY SYSTEMS INTERFACE (ASI)

In November 2006, the Eurosystem defined the pricing scheme for ancillary systems taking due account of the need to ensure cost recovery, a balance between price and service and a level playing-field.

However, the scheme was considered to “double charge” ancillary system transactions settling bilateral positions under those ASI settlement procedures (4, 5 and 6) designed for multilateral settlements. Because these procedures require the use of an intermediate technical account, every bilateral transaction is converted into two transactions, one from the debtor to the technical account, and the other from the technical account to the creditor, both for the same amount.

In order to avoid a double-charging of these transactions, the Eurosystem decided that the ancillary systems settling bilateral transactions under ASI settlement procedures 4, 5 and 6 will be charged only for half of the number of such transactions that are actually booked on the SSP. This solution is based on general principles that have already been applied for other decisions and is limited only to those ancillary systems which use the aforementioned procedures and are subject to “double charging”.

The details for charging ancillary systems transactions settled via ASI, as well as the liquidity transfers under the ASI procedures, are presented in Annex 1.

1.3 PRICING, ACCOUNT FEE AND INVOICING OF LIQUIDITY POOLING SERVICES

As stated in the Communication on TARGET2, TARGET2 will offer two variants for liquidity pooling: (i) aggregated liquidity (AL²), formerly known as the virtual account, which allows payments to be settled by using the liquidity available in the other accounts of the group; and (ii) consolidated account information (CAI), which allows the group manager to obtain comprehensive information about the liquidity position of all group members.

As long as accounts belong to only one group, with one single Group Manager, the implementation of the pricing scheme agreed in the context of the Communication on TARGET2 is straightforward. However, if an account is part of one CAI group and one AL group, then all accounts of the AL group must also be included in the CAI group. Moreover, there are two possible variants:

1. the CAI Group Manager and the AL Group Manager are the same;
2. the CAI Group Manager is different from the AL Group Manager and is not a member of the AL group.

The Eurosystem has further elaborated on the implementation modalities of the liquidity pooling pricing scheme for the above variants as well as on the conventions of invoicing.

Annex 2 presents in detail the proposal on the fees to be applied to all entities involved in a group of accounts.

- 1 Based on the definition used for a funds transfer system in “A glossary of terms used in payments and settlement systems” published by the BIS, January 2001.
- 2 During the development of the TARGET2 Guidelines, the term “virtual account” was replaced with “aggregated liquidity” (AL); therefore this term is used in this report.

1.4 CLARIFICATION OF THE PRICING OF OPEN MARKET OPERATIONS ON HOME ACCOUNTS

Last year, the Eurosystem decided that payments settled on home accounts will be charged above the TARGET2 fee (i.e. above €100 plus €0.80 per transaction). In view of the fact that some NCBs will continue to settle monetary policy transactions on their home accounts during the transition period,³ the scheme has been revised to ensure a level playing-field and to avoid “penalising” the TARGET2 participants which have to use proprietary home accounts for open market operations as a result of a decision by their NCB. Hence, the normal TARGET2 transaction price, i.e. a transaction fee between €0.125 and €0.80 (instead of a fee above €100 per month plus €0.80 per transaction), will apply for open market operations settled on proprietary home accounts during the transition period.

1.5 PRICING OF TRANSACTIONS RELATED TO ANCILLARY SYSTEMS ON HOME ACCOUNTS

In the context of the third progress report, it was decided that ancillary system transactions settled on home accounts will be charged a fixed fee I, II and a transaction fee⁴ higher than the ancillary system transaction fee. The Eurosystem has examined the case of NCBs which prefer to maintain their current pricing scheme during the limited time remaining until such transactions are settled on the SSP. In line with the policy already adopted by the Governing Council, the Eurosystem decided that the NCBs may apply other pricing schemes for ancillary system-related transactions settling on home accounts, provided that the total revenues are at least the same as the revenues that would be generated if the NCBs were to apply the fees as defined in the third progress report.

2 GENERAL FUNCTIONAL SPECIFICATIONS (GFS)

The general functional specifications (GFS) provide a high-level overview of the SSP for TARGET2 and its functional specifications. The GFS has been recently restructured in order to be in line with the structure of the User Detailed Functional Specifications (UDFS) and the Information and Control Module User Handbooks. The revised GFS is less detailed than the initial version of July 2004, because these details can be found in the UDFS. This version is the final version before the go-live date of TARGET2. The revised version of the GFS (version 2.1) for the SSP is presented in Annex 4 (as a separate document).

3 INFORMATION ON OTHER DECISIONS TAKEN BY THE EUROSYSTEM

3.1 TARGET2 GUIDELINE

The Eurosystem approved the public TARGET2 Guideline which will eventually repeal the current Guideline governing the operation of TARGET. The new Guideline will be the basis for the NCBs to establish their TARGET2 component systems, governed by their national legislation. The TARGET2 Guideline, which is intended to be published in the Official Journal of the European Union and translated into all official EU languages, in line with the transparency policy for the ECB legal acts, will contain the main legal elements of TARGET2, including governance arrangements, audit rules and transitory provisions on the migration from TARGET to TARGET2. In addition, to ensure the maximum legal harmonisation of the rules applying to TARGET2 participants in all jurisdictions concerned, the Guideline includes the Harmonised Conditions for participation in

³ In December 2004 the Governing Council of the ECB decided that “during a maximum transition period of four years, payments between banks (and between banks and ancillary systems), including transactions related to open market operations, may be settled on home accounts...”. These local applications are called proprietary home accounts.

⁴ Including the €1,250 or €100 fixed element.

TARGET2. These Harmonised Conditions have been drafted in view of the fact that the Eurosystem NCBs have to implement them in an identical manner, with certain derogations in the event that respective national laws require otherwise.⁵ The Harmonised Conditions contain several alternatives which will enable NCBs to customise their respective implementation in line with the requirements of national law. This approach implements the decision of the Governing Council of the ECB taken at its meeting of 20 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”.

3.2 GUIDANCE ON PROCEDURES FOR “GROUP RECOGNITION IN TARGET2”

The arrangements approved by virtue of the Communication on TARGET2 in July 2006 allow for the recognition of three types of groups: 1) those credit institutions that consolidate according to IAS 27;⁶ 2) those credit institutions that do not consolidate or consolidate according to other standards but which are in line with the definition provided under IAS 27; and 3) those bilateral and multilateral networks of savings and cooperative banks based on statutory/cooperation rules in line with national legal requirements.

Following this decision, procedures clarifying how to submit an application for group status were put in place in order to enable the NCBs to start the verification and acceptance process of entities willing to create a “group” in TARGET2. Such procedures are required to ensure fair and equal treatment between banks subject to different consolidation and accounting regimes, as well as for the timely communication of decisions on group status to the TARGET2 participants, in full compliance with the principle that NCBs maintain the business relation with their participants.

The procedure for the first category is for the NCB to request an extract from the official consolidated statement of accounts or a certified declaration from an external auditor specifying which entities are included in the consolidation.

For the second category of credit institutions, those that do not consolidate according to IAS 27, a statement from an external auditor must be requested demonstrating to the NCB that the consolidation is equivalent to IAS 27. The Eurosystem needs to confirm that the requirements applied by each NCB are harmonised and that the level playing-field among the TARGET2 participants is ensured.

For the third category of bilateral and multilateral networks of credit institutions the NCB must first prepare an assessment (e.g. by the NCB’s legal department) demonstrating that the “group” is in accordance with the national legal requirements and/or the statutory framework and that it fulfils the policy requirements as defended in the TARGET2 legal framework. An assessment issued by the NCB is needed to support the approval process, involving the Governing Council of the ECB.

Participants in approved groups have to fill in specific SSP registration forms and remit them via the group manager to the group manager’s NCB. This NCB will forward the relevant sub-forms to the other NCBs concerned.

3.3 RECENT CHANGES TO THE FUNCTIONALITY OF THE SSP

The Eurosystem has elaborated the procedures on change and release management between NCBs after the TARGET2 go-live date. These

⁵ No national derogations were identified so far by the national central banks.

⁶ International accounting standards (IAS). IAS 27 defines a range of institutions that are bound to publish consolidated financial statements. The application of the IASs was endorsed by the European Parliament and European Council Regulation 1606/2002 of 19 July and became mandatory from 2005 onwards for the financial statements of listed (publicly traded) EU companies.

procedures are necessary in order to efficiently track and manage the changes to the original functionality requirements, or amendments to the technical infrastructure.

Three change requests concerning the SSP functionality have been addressed by the NCBs while finalising the functional specifications and the development phase, based on a positive assessment in terms of cost, feasibility and timing. A description of these changes can be found in Annex 3.

3.4 TESTING ACTIVITIES

3.4.1 ACCEPTANCE TESTING BY THE NCBs

The objective of acceptance testing by the NCBs was to check the compliance of the SSP with its technical specifications before the system is made available to future participants for their own certification tests. A subset of seven NCBs volunteered to conduct this very critical activity on behalf of the Eurosystem (BE, ES, FR, LT, LU, NL and the ECB). Tests started on time on 1 February 2007 and were completed by the end of April 2007.

During these three months, the testing teams reported satisfactory stability and reliability of the technical platform. All features needed for the start of the user test were checked against a set of test scenarios defined ex ante by the Eurosystem. The difficulties encountered during this phase as well as the number of incidents were considered to be normal for a project of this size. As a consequence, TARGET2 user testing for the first migration group started as scheduled on 2 May 2007.

Users were informed that some bugs detected during the acceptance tests would not be fixed by 2 May. However, both the limited number and low criticality of the remaining bugs should limit the impact on their certification. Users were informed about the nature of these bugs as well as the date by which they are expected to be corrected. A large number of them were resolved in the course of June 2007.

3.4.2 USER TESTING

The objective of user testing is to verify the technical and operational readiness of users to interact with the SSP. For this purpose, the Eurosystem developed a harmonised framework whereby NCBs are responsible for the certification of their respective banking communities. The certification starts with a number of pre-defined technical scenarios to be run at institution level, followed by more elaborated business scenarios to be run at the level of national banking communities and then TARGET2-wide.

The overall organisation of user tests follows the approach of migration by waves. Activities with users of the first migration group commenced on 2 May 2007; they will have a total of around six months to complete their certifications. Banking communities of groups 2 and 3 will start around 15 June and 1 July 2007 respectively. During this phase, the Eurosystem will provide the necessary assistance to users by means of a dedicated web-based application, which went live on 31 January 2007 (TARGET2 Test-Related Information System). The progress of user tests in all banking communities will be closely monitored by the Eurosystem in order to anticipate any delay in the national migration process.

4 INFORMATION ON THE STATUS OF SOME ONGOING ISSUES

4.1 COOPERATION WITH MARKET PARTICIPANTS

Good cooperation between the Eurosystem and future users throughout the TARGET2 project is a critical factor in the successful launch of the system and its acceptance by the users. In addition to the cooperation at national level (between the NCBs and their domestic users), a joint cooperation and communication structure has been set up between the Eurosystem and the users at European level. This cooperation consists of regular joint meetings and joint task forces to address the relevant issues around

TARGET2 operations, risk management, contingency, testing and migration. A user-focused project plan with the relevant information and major milestones in the TARGET2 project is being updated on a regular basis. Relevant and updated information is regularly published on the dedicated TARGET2 website and on the ECB and NCB websites.

4.2 INFORMATION GUIDE FOR TARGET2 USERS

An information guide for TARGET2 is being elaborated which will serve as a single reference providing users with a standard set of information to help them better understand the overall functioning of the system and, consequently, make as efficient use of it as possible. The information guide will describe the procedures for normal and abnormal situations in TARGET2. In view of the interplay between TARGET2 and the market in abnormal situations, the procedures for abnormal situations have been defined in close cooperation with the users (banks and ancillary systems). The information guide for TARGET2 users is expected to be published in October 2007.

4.3 MIGRATION ACTIVITIES

4.3.1 ASSISTANCE TO USERS IN THEIR PREPARATION FOR TARGET2

Pursuing its efforts since the start of the TARGET2 project, the Eurosystem is regularly publishing and updating general information to support future TARGET2 participants in their preparatory work for the migration. The relevant documentation available on the TARGET2 website and on the websites of the NCBs was further enriched with the technical assistance of the three Eurosystem NCBs in charge of developing the SSP and in consultation with the respective national user communities. In particular, the national migration profiles, detailing the technical set-up of NCBs on the day of their migration, as well as profiles for ancillary systems, were regularly enriched. In addition, other items were published on a variety of issues (e.g. TARGET2 directory and changeover weekends) and several workshops

were organised locally by NCBs to support their communities.

4.3.2 REGISTRATION PROCESS FOR PARTICIPANTS

With a view to supporting the registration of TARGET2 users, the Eurosystem developed a set of forms which were made available to all banking communities together with an information guide. The registration forms were harmonised to the maximum extent possible, limiting the burden for banks present in more than one country and facilitating the coordination work among NCBs. The registration forms were distributed from 1 March 2007 onwards to collect static data necessary for the registration of participants in the test and training environment. The same forms will be used for registration to the production environment.

4.3.3 ORGANISATION OF CHANGEOVER WEEKENDS

From a technical and operational viewpoint, the three changeover weekends during which each group of NCBs will migrate from TARGET1 to TARGET2 are considered as very critical. To control the associated risks as much as possible, the Eurosystem defined a general framework for the organisation of all activities to be performed during the changeover weekends. This framework will be verified several times while performing the (ongoing) testing activities, in order to check the appropriateness of the tasks to be carried out, the overall timing of activities as well as the coordination process.

TARGET2 users will be informed accordingly about the organisation of changeover weekends and in particular on their expected involvement during the tests and the changeover itself.

4.4 RESTART AFTER DISASTER

Issues surrounding the restart after disaster are related to the very exceptional situation whereby both sites of the active region (i.e. in charge of payment processing) are simultaneously paralysed. Due to the asynchronous method of copying data between the two regions, the

databases in both regions could, in that scenario, show a discrepancy of up to two minutes; meaning that payments finally settled in the failing region may not be registered in the database in the recovering region.

In order to close this gap, an automatic functionality offered by SWIFT would be used (SWIFT FIN retrieval). However, this functionality does not exist for SWIFT messages using XML formats (primarily used for ASI transactions), as a result of which the users would need to be involved in the rebuilding of the final balances. In the medium term, the Eurosystem will elaborate on possible enhancements which require less involvement from the users.

4.5 MEASURES TO ENSURE THE SECURITY AND OPERATIONAL RELIABILITY OF TARGET2 PARTICIPANTS

The Core Principles for Systemically Important Payment Systems assign certain responsibilities to the operators of a payment system which need to be fulfilled. Core Principle VII (in the following referred to as “CP VII”) discusses issues revolving around security and operational reliability. In this context CP VII states that the “[...] operators of a payment system [...] need to concern themselves not just with the security and operational reliability of the components of the central system, but also with the components of the system’s participants.”

Against this backdrop, a concept called “Measures to ensure the security and operational reliability of TARGET2 participants” has been developed. By implementing this concept, the Eurosystem, in its capacity as TARGET2 system operator, will meet CP VII in respect of the security and operational reliability of TARGET2 participants.

The Eurosystem will continue its work on these measures in close cooperation with the banking industry.

4.6 SETTLEMENT AT NIGHT BETWEEN SSSs IN TARGET2

In October 2005, the second progress report announced that TARGET2 would be operational at night. The objective of the night opening was to facilitate the night-time settlement of the various ancillary systems in central bank money with finality and to support cross-system “delivery versus payment” (DvP) settlement. The night-time window of TARGET2 has, compared with the daylight one, the peculiarity that only one of the generic AS settlement procedures will be offered: procedure 6. In this procedure settlement happens on dedicated accounts⁷ of the AS’s settlement banks during consecutive settlement cycles.

As long as the buyer and seller participate in the same CSD, this feature allows an efficient settlement of securities transactions and the re-use of central bank liquidity during the night. Finality and re-use of liquidity are also easy in integrated systems, even between participants in the two systems, when the securities and cash accounts are managed on the same technical platform outside TARGET2. In interfaced models the last step of cash settlement and re-use of liquidity by the seller is only possible upon the sequential opening and closing of settlement cycles in the buyer and seller CSDs. This situation appears problematic from a level playing-field perspective and the Eurosystem is currently investigating the issue.

4.7 FUTURE EVOLUTION OF TARGET2

TARGET2 offers a broad range of features and services that meet the general and specific requirements of various types of users. However, during the project phase, NCBs, ancillary systems and banks put forward several suggestions and ideas for the further enhancement of the TARGET2 services. Some of these initiatives were taken on board during

⁷ Dedicated liquidity posted from an RTGS account of a bank to sub-accounts (interaction with an interfaced SSS) or mirror accounts (interaction with an integrated SSS).

the specification or implementation phases, while others could not be accommodated before the go-live date because they were raised too late and consequently could not be included in the original scope of the SSP. Accordingly, the Eurosystem started to review some potential functional and system changes with the intention to schedule some of them for the next releases of TARGET2.

Some of these proposed future changes would improve the SSP response in crisis situations and enhance its resilience; others would further improve liquidity management and monitoring solutions for participants, while a third category consists of new or improved services to new and existing participants that could attract additional traffic or open TARGET2 to particular market segments.

The Eurosystem will work on the issue in close cooperation with the users with the aim of evaluating the business benefits and scope in relation to the costs and risks of the possible solutions. Taking into account the feedback from users, the Eurosystem will be able to work on the implementation of and detailed timetable for the changes. Finally, the Eurosystem will keep the users informed about the content of possible future releases of TARGET2.

ANNEX I

CLARIFICATION OF ASI SETTLEMENT PROCEDURES AND THEIR PRICING

BACKGROUND

The calculations which formed the basis of the decision approved by the Governing Council considered that a transaction consisted of a debit to one account and a credit to another. According to this interpretation, a net settlement system would be charged for each debit on an RTGS/sub-account (to the technical account) and for each credit to an RTGS/sub-account (from the technical account).

With regard to ancillary systems using bilateral settlement from one RTGS account directly to another without using a technical account, the assumption was to charge for each transaction (i.e. debit) on an RTGS account, similar to a normal TARGET2 payment. However, some settlement procedures provided via ASI (i.e. 4, 5 and 6) also require the use of a technical account when settling bilateral transactions in TARGET2. Ancillary systems settling bilateral positions using these procedures would be subject to “double charging” if the same principle for charging is applied to them as to net systems using a technical account. This would be an issue for some ancillary systems which opt to use the advanced liquidity-saving features in the above-mentioned settlement procedures.

The Eurosystem decided to solve this issue on the basis of general principles that have already been applied to other decisions. First, there should be no double-charging of individual transactions settled through TARGET2. Second, the settlement procedure chosen by the ancillary systems using ASI (i.e. the six procedures) should not have an impact on the overall price they pay. Third, the principles established for ancillary systems pricing should be observed in each of the six ASI procedures, making the need for “arbitrage” between these procedures obsolete.

THE PROPOSAL

In summary, the Governing Council decided to charge ancillary system transactions settled via ASI as follows:

- for the ancillary systems settling bilateral transactions under ASI settlement procedures 4, 5 and 6 (i.e. the “double-charging” case): charge only half the number of debits and credits on the RTGS/sub-accounts (i.e. the sum of the number of debits and credits on the RTGS/sub-accounts divided by two);
- for the ancillary systems settling bilateral transactions without involving a technical account in the settlement process: charge for each transaction (i.e. debit) on an RTGS account, similar to normal TARGET2 payments;
- for the ancillary systems settling multilateral transactions (necessarily via a technical account): charge for each debit on the RTGS/sub-account (to the technical account) and for each credit to an RTGS /sub-account (from the technical account).

As regards the charging of the liquidity transfers under the ASI settlement procedures, the Governing Council decided the following:

- not to charge the liquidity transfers from the RTGS accounts to sub-accounts and vice versa (i.e. in settlement procedure 6 (interfaced)) as these are transfers between two accounts of the same entity. The sub-account is only a technical implementation of a specific function (i.e. to set aside liquidity). This function could also have been implemented by blocking one or several amounts on the RTGS accounts in favour of certain AS, in which case no sub-accounts would have been necessary. However, the settlement instructions debiting the participant’s sub-accounts towards the AS technical accounts, and then debiting the AS technical accounts towards

the participant's sub-accounts will be charged;

- to charge the liquidity transfers between the RTGS accounts and mirror accounts for each debit and credit on the RTGS accounts (i.e. in settlement procedures 1, 3 and 6). In this case, the “transfer of liquidity” is actually a payment between a settlement bank and the ancillary system. The funds are used by the ancillary systems in their internal systems to settle the participants' obligations towards other settlement banks.

As far as the transactions related to auto-collateralisation are concerned, these transactions should not be charged following the same principle as for liquidity transfers from the RTGS accounts to sub-accounts.

As mentioned in the third progress report, as a general rule, any transaction sent or received by an ancillary system is considered an ancillary system-related transaction. As a consequence, in order to avoid charging a system twice, TARGET2 will not charge banks when they send a payment to an ancillary system. The ancillary system would charge its banks in accordance with its own pricing scheme outside of TARGET2.

The transactions that are possible in the settlement procedures using ASI and their pricing are presented in the table below.

Procedure	Possible transactions	Pricing
1. Liquidity transfers (<i>real-time link, used in the context of integrated models</i>)	a. from RTGS account to mirror account b. from mirror account to RTGS account	a. the transaction fee is charged for <u>each debit</u> on an RTGS account b. The transaction fee is charged for <u>each credit</u> on an RTGS account
2. Real-time settlement (<i>real-time link, single transaction basis</i>)	a. from RTGS account to RTGS account (no involvement of technical account) b. from RTGS account to technical account c. from technical account to RTGS account	a. The transaction fee is charged for <u>each debit</u> on an RTGS account b. The transaction fee is charged for <u>each debit</u> on an RTGS account c. The transaction fee is charged for <u>each credit</u> on an RTGS account
3. Bilateral settlement (<i>batch, independent processing of transactions</i>)	a. from RTGS account to RTGS account (no involvement of technical account) b. from RTGS account to technical account c. from technical account to RTGS account d. from RTGS account to mirror account e. from mirror account to RTGS account	Same pricing as for Procedure 2.a Same pricing as for Procedure 2.b Same pricing as for Procedure 2.c Same pricing as for Procedure 1.a Same pricing as for Procedure 1.b
4. Standard multilateral settlement (<i>batch, booking of debits prior to booking of credits</i>)	a. from RTGS/guarantee funds account to technical account b. from technical account to RTGS/guarantee funds account	In case of AS using <u>net settlement</u> , the transaction fee is charged for <u>every debit</u> on an RTGS/guarantee account. In case of AS using <u>net settlement</u> , the transaction fee is charged for <u>every credit</u> on an RTGS account/guarantee account. In case of AS <u>settling bilateral transactions</u> , the fee is charged <u>only for half the number of debits and credits</u> on the RTGS accounts.
5. Simultaneous multilateral settlement (<i>batch, "all-or-nothing"</i>)	a. from RTGS/guarantee funds account to technical account b. from technical account to RTGS/guarantee funds account	In case of AS using <u>net settlement</u> , the transaction fee is charged for <u>every debit</u> on an RTGS/guarantee account. In case of AS using <u>net settlement</u> , the transaction fee is charged for <u>every credit</u> on an RTGS account/guarantee account. In case of AS <u>settling bilateral transactions</u> , the fee is charged <u>only for half the number of debits and credits</u> on the RTGS accounts.
6. Dedicated liquidity (<i>batch, AS processing based on pre-funding</i>)	<u>For liquidity transfers</u> a. from RTGS account to sub-account or mirror account b. from mirror account or sub-account to RTGS account <u>For transactions related to auto-collateralisation</u> c. from RTGS account (of CB, participant, or specific RTGS account) to sub-account/RTGS account <u>For settlements</u> d. from sub-account to AS technical account e. from AS technical account to sub-account or RTGS account	a. – <u>Liquidity transfer</u> from RTGS account to sub-account is not charged. – <u>Liquidity transfer</u> from RTGS account to mirror account is charged for every debit on an RTGS account b. – <u>Liquidity transfer</u> sub-account to RTGS account is not charged. – <u>Liquidity transfer</u> from mirror account to RTGS account is charged for every credit on an RTGS account c. <u>transactions related to auto-collateralisation</u> from RTGS account (of CB, participant, or specific RTGS account) to sub-account/RTGS account are not charged. In case of AS using <u>net settlement</u> , the transaction fee is charged: – <u>for every debit</u> on a sub-account, and – <u>for every credit</u> on a sub-account or RTGS account. In case of AS <u>settling bilateral transactions</u> , the fee is charged <u>only for half the number of debits and credits</u> on the RTGS/sub-accounts.



ANNEX 2

PRICING, ACCOUNT FEE AND INVOICING OF LIQUIDITY POOLING SERVICES

I FACTS STEMMING FROM EUROSISTEM DECISIONS (UDFS, PROGRESS REPORTS, ETC.)

I.1 FUNCTIONAL OPTIONS AND CONSTRAINTS

Liquidity pooling is defined as a core TARGET2 service, which is charged separately to those opting to use it. There are two types of liquidity pooling services available:

- aggregated liquidity (AL);¹
- consolidated account information (CAI).

In the event that a group of participants in the payments module (PM) opts for the AL mode, the CAI functionality is automatically included.

With regard to the possibility of *joining a group*, the following aspects should be recalled:

- a given RTGS account can – at the same time – only be assigned to one aggregated liquidity group (AL) and to one group of accounts formed for the provision of consolidated account information (CAI);
- if a participant is a member of an AL group and a CAI group, all accounts forming the AL group also have to belong to the CAI group. No account belonging to an AL group can be left out from the CAI group.

I.2 PRICING OF THE LIQUIDITY POOLING SERVICES:

- in July 2006, the Governing Council decided to charge €1,200 per year per account for CAI and €2,400 per year per account for AL (which includes the CAI mode);
- within a group of accounts (with either the CAI or the AL mode) group pricing will apply to the whole group, i.e. the degressive transaction fee will be applied to all

payments of the group as if they were sent from one account.

2 PROPOSALS

The clarifications made below aim at clearly defining the implementation modalities of the liquidity pooling pricing scheme, taking into account two possible scenarios²:

- the group manager is the same for the AL group and the CAI group (Figure 1);
- the group manager is different for the AL group and the CAI group (Figure 2).

A diagram clarifying the liquidity pooling pricing scheme is presented below.

2.1 TOTAL FEES TO BE APPLIED FOR THE ENTITIES INVOLVED IN A GROUP OF ACCOUNTS:

- *Group manager:*
 - if the AL group manager is the same as the CAI group manager (entity A in Figure 1), the fees to be applied are €200 monthly (i.e. AL mode of liquidity pooling) and €1,250 monthly (i.e. Option B of the core pricing account fee);
 - if the AL group manager is different from the CAI group manager, the fees to be applied are as follows:
 - *AL group manager (entity B in Figure 2):* €200 monthly (i.e. AL mode of liquidity pooling) and €1,250 monthly (i.e. Option B of the core pricing account fee)
 - *CAI group manager (entity C in Figure 2):* €100 monthly (i.e. CAI mode of liquidity pooling) and €1,250

1 “Aggregated liquidity” is a legal term and in the UDFS the functionality is referred to as a “virtual account”.

2 In theory, a third option also exists, i.e. a situation where the main account holder for the AL group and the CAI group is different, but where the latter is included in the AL group. However, this scenario has not been taken into account, because no business case can be identified.

Diagram

Figure 1

— Aggregated Liquidity (AL)
— Consolidated Account Information (CAI)

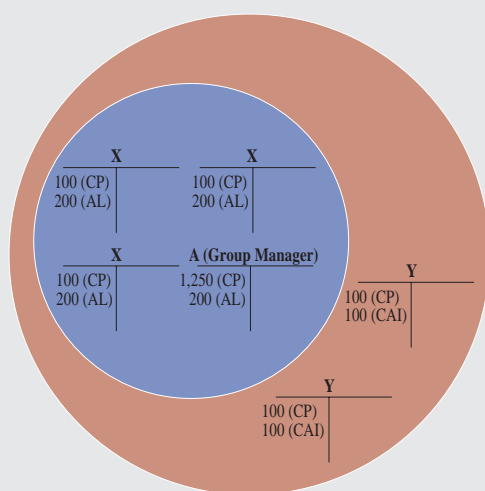
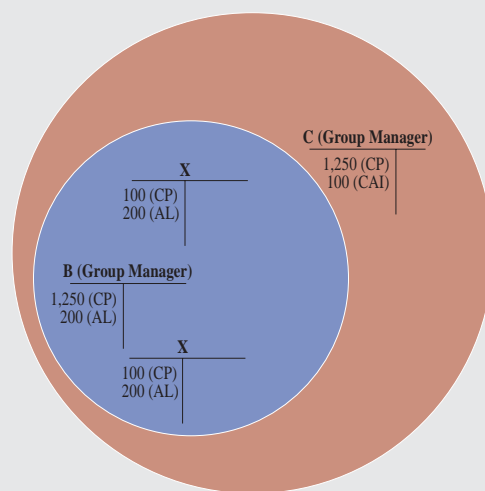


Figure 2

— Aggregated Liquidity (AL)
— Consolidated Account Information (CAI)



€1,250 (CP) – monthly core pricing fixed fee to be paid by a group manager
 €100 (CP) – monthly core pricing fixed fee to be paid by a member of a group
 €200 (AL) – monthly fixed fee to be paid for the AL mode of liquidity pooling
 €100 (CAI) – monthly fixed fee to be paid for the CAI mode of liquidity pooling

monthly (i.e. Option B of the core pricing account fee).

– *Group member:*

- if a participant is a member of an AL group as well as of a CAI group (entities X in all figures), the fees to be applied are €200 monthly (i.e. AL mode of liquidity pooling) and €100 monthly (i.e. Option A of the core pricing account fee);
- if a participant is a member only of a CAI group (entities Y in all figures), the fees to be applied are €100 monthly (i.e. CAI mode of liquidity pooling) and €100 monthly (i.e. Option A of the core pricing account fee).

the two groups of accounts, according to the degressive scheme applied to all payments of its group;

- where the CAI group manager is different from the AL group manager, the CAI group manager will be invoiced for the total fees of the group of accounts, according to the degressive scheme applied to all payments of its group.

2.2 INVOICING OF THE LIQUIDITY POOLING SERVICES

- Where the group manager is the same for the CAI and the AL, the group manager will be invoiced for the total fees of all members of

ANNEX 3

RECENT CHANGES TO THE FUNCTIONALITY OF THE SSP

Based on a positive assessment in terms of cost, feasibility and timing, the Eurosystem agreed on the following change requests:

- to have access to the contact details of the banks for the whole TARGET2 community: Since it might be necessary to contact any TARGET2 participant regardless of its banking community, some NCBs requested access to contact details not only for their banking community, but for the whole TARGET2 community;
- to make a distinction between the indirect participants and addressable BICs in the TARGET2 directory: In its “Communication on TARGET2”, the Governing Council agreed on the participation scheme in TARGET2. In order to comply with this decision, the information provided in the TARGET2 directory needs to be adapted to allow users to distinguish the indirect participants from the addressable BICs;
- not to apply the stop debiting/sending functionality: After thorough technical investigation, it was decided not to apply the stop debiting/stop sending functionality for the migrated NCBs during the migration and after it, since this feature is not needed once the migration period has ended.

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