



TARGET2-România. **The RTGS system for interbank and customer payments in euro**

SWIFT Business Forum Romania - 3rd Edition
“20 Years of SWIFT in Romania”

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NATIONAL BANK OF ROMANIA

TARGET 2 – The RTGS system for the euro

T - *Trans-European*

A - *Automated*

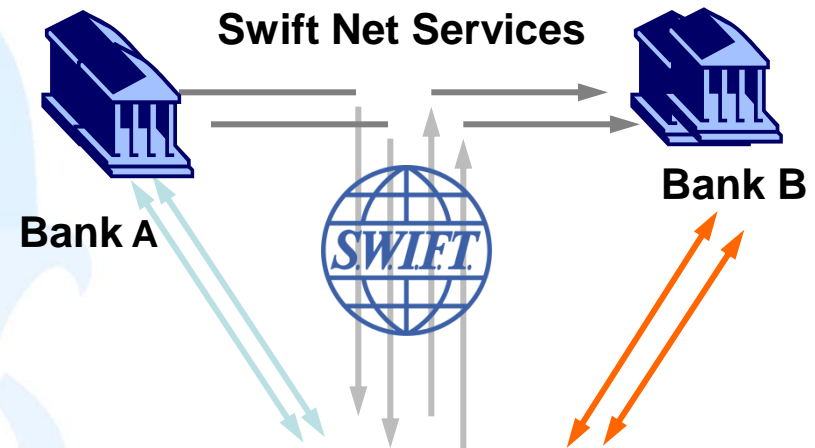
R - *Real-time*

G - *Gross settlement*

E - *Express*

T - *Transfer system*

- 18 euro area central banks (including the ECB)
- 6 central banks from non-euro area countries (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania.)



Ancillary Systems

(retail and large-value payment systems, foreign exchange systems, money market systems, clearing houses, central counterparties and securities settlement systems)





TARGET 2: The RTGS system for the euro

- It is owned and operated by the Eurosystem.
- Payment transactions are settled one by one on a continuous basis in central bank money with immediate finality.
- No upper or lower limit on the value of payments.
- It mainly settles operations of monetary policy and money market operations.
- It has to be used for all payments involving the Eurosystem, as well as for the settlement of operations of all large-value net settlement systems and securities settlement systems handling the euro.
- It is operated on a single technical platform.
- The business relationships are established between the TARGET2 users and their National Central Bank (NCB).



TARGET 2: The RTGS system for the euro

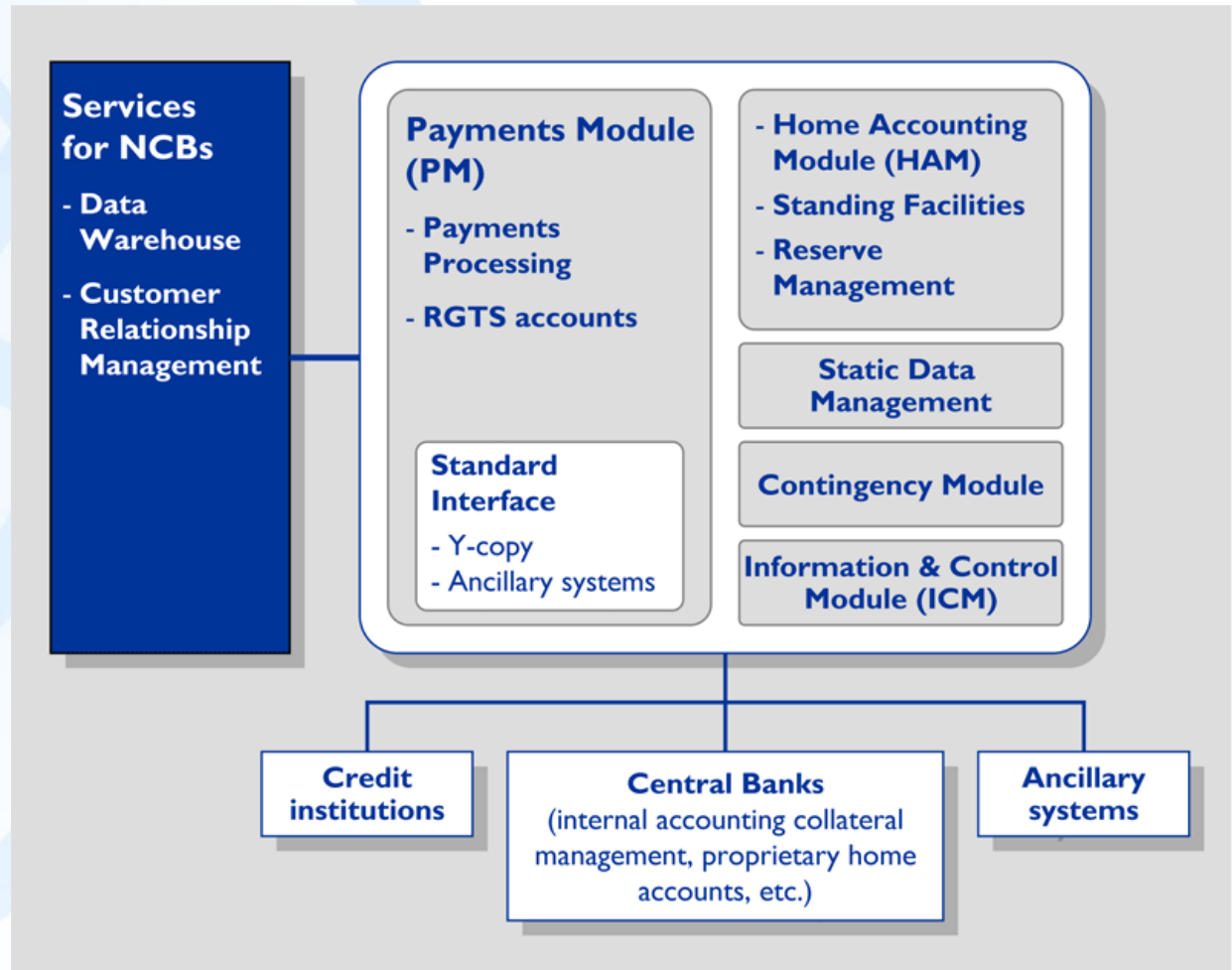
- The participation in TARGET2 becomes mandatory when new Member States join the euro area.
- However, the National Central Banks which have not yet adopted the euro also have the option to participate in TARGET2 to facilitate the settlement of transactions in euro.
- In fact, this was one of the reasons for voluntarily connecting the National Bank of Romania (NBR) and the Romanian banking community to TARGET2.

Modular approach

+

SWIFT standards

and services (i.e. FIN, InterAct, FileAct and Browse) are used in the harmonised communication between the system and its participants (i.e. credit institutions, national central banks, ancillary systems).



Source: ECB



TARGET2 facts for 2011

BANCA NAȚIONALĂ A ROMÂNIEI



- TARGET2 had 976 direct participants, 3,465 indirect participants and 13,083 correspondents.
- TARGET2 settled the cash positions of 80 ancillary systems.
- TARGET2 processed 89,6 million payments, with a total value of €612,936 billion. This translates into a daily average of 348,505 payments, with an average daily value of €2,385 billion.
- The average value of a TARGET2 transaction was €6,8 million.
- In value terms, large-value interbank transactions accounted for the vast majority (94%) of the payments settled. The remainder was made up of low-value customer transactions.
- Two-thirds of all TARGET2 payments (i.e. 67%) had a value of less than €50,000 each, most of which can be considered as customer retail payments; 11% of all payments had value of over 1 EUR million.
- The peak in volume turnover was 31 January 2011 with 524,856 transactions and peak value turnover was on 30 November 2011 with €3,713 billion.



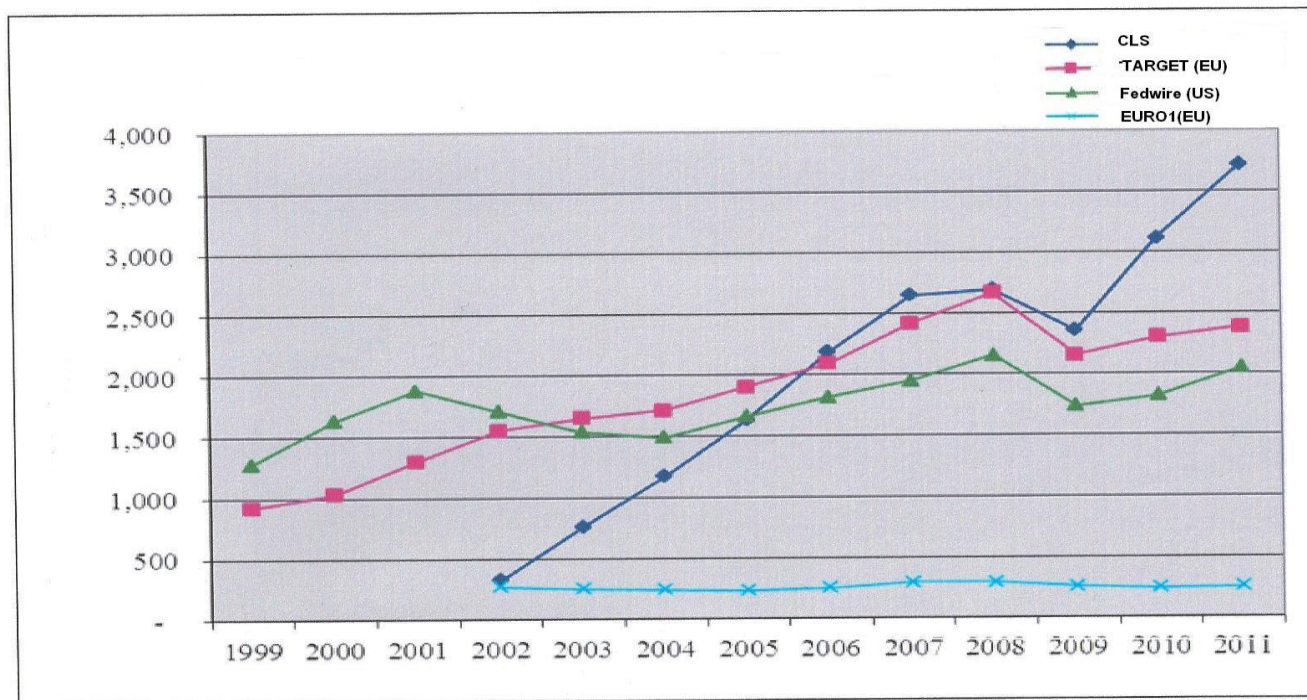
TARGET2 facts for 2011

BANCA NAȚIONALĂ A ROMÂNIEI

- TARGET2's share in total large-value payment system traffic in euro was 91% in value terms and 59% in volume terms.
- The SSP technical availability was 99,89%.
- 99.85% of TARGET2 payments were processed in less than five minutes.
- The Governing Council of the ECB chose to allow the processing of low-value payments and to set no value floor or cap. There was no deliberate intention to process retail transactions but the Eurosystem acknowledged that this decision could contribute to the efficiency of cross-border settlement in the EU without adding costs to the system.
- The main reasons for the growing preference for settlement of retail transactions in TARGET2 are:
 - the advantages of a real-time gross settlement (RTGS) system: i.e. time-criticality and immediate finality of the transaction;
 - the additional benefits offered to TARGET2 customers: i.e. the speed of the system, the enhanced liquidity management features and the high security level;
 - the fact that TARGET2 provides settlement in central bank money;
 - almost any bank in Europe is reachable through TARGET2.

TARGET2: One of the largest payment systems in the world (in terms of the value processed)

The average daily turnover in EUR billions (equivalent)





TARGET2 pricing scheme



- The existing pricing policy for TARGET2 is in force since 2008.
- The single pricing scheme was designed in such a way as to recover the costs incurred by the system over the six-year investment period.
- The overall economic slowdown and exceptional market conditions in the years following the launch of TARGET2 made it impossible to reach the initial forecasts and assumptions (e.g. in practice, the system has seen an average annual decrease in traffic of 2%, not a 6% increase).
- Therefore, on 19 September 2012, the Eurosystem decided on a new TARGET2 pricing scheme, applicable from January 2013.
- By applying this new scheme, the Eurosystem anticipates that full cost recovery for TARGET2 will be achieved after eight and a half years, rather than six.
- The Eurosystem believes that the new pricing scheme represents an acceptable compromise between a limited increase in the participants' fees and a reasonable extension of the system's payback period. At the end of this payback period, or at an earlier point in time if market conditions become more favourable, the Eurosystem will reconsider the single pricing scheme of TARGET2.



Present



from January 2013

❖ **Core services for RTGS** accounts banks can choose between :

- Option A: monthly fee €100 + flat transaction fee €0.80; or
- Option B: monthly fee €1,250 + digressive transaction fee (from €0.60 to €0.125).

(transaction fees are only charged to the sending party)

❖ **Settlement of ancillary systems**

- Fixed monthly fee applicable to all systems; and
- Monthly fee based on the underlying gross value settled; and
- Transaction fee.

❖ **Optional services are priced separately,**
e.g. liquidity pooling; internet access

❖ **Core services for RTGS** accounts banks can choose between :

- Option A: monthly fee **€150** + flat transaction fee €0.80 **remain unchanged**; or
- Option B: monthly fee **€1,875** + digressive transaction fee **remain unchanged** (from €0.60 to €0.125).

❖ A new periodic fee will be introduced for the registration in the system of indirect participants (€20/month) and correspondents (€5/month).

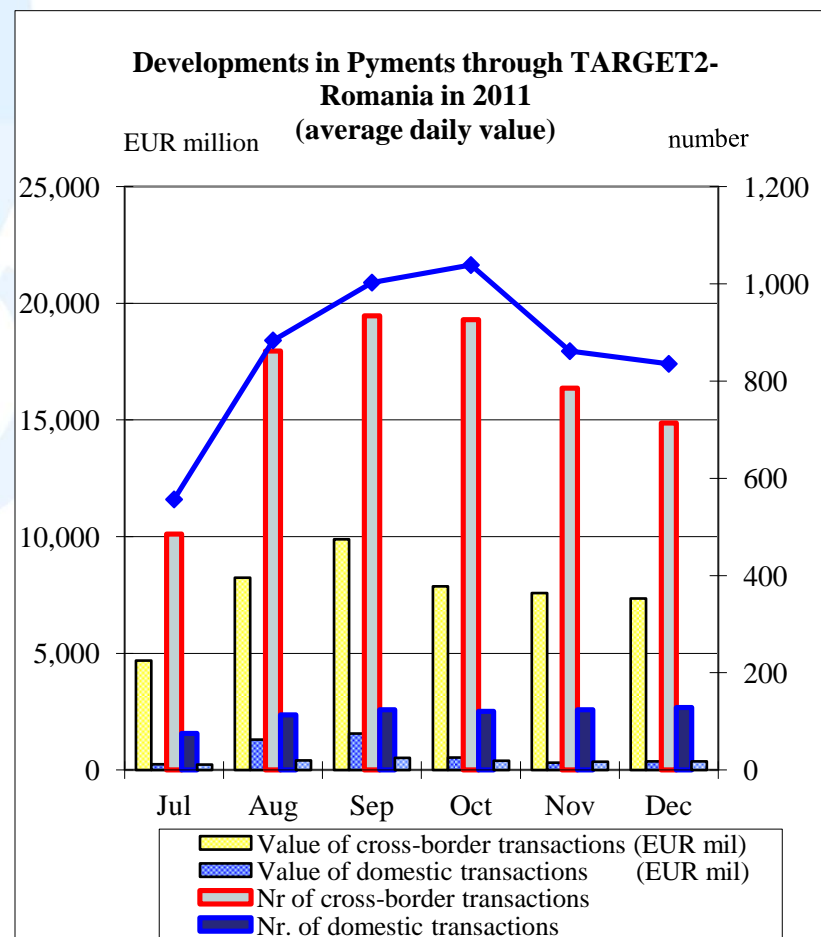
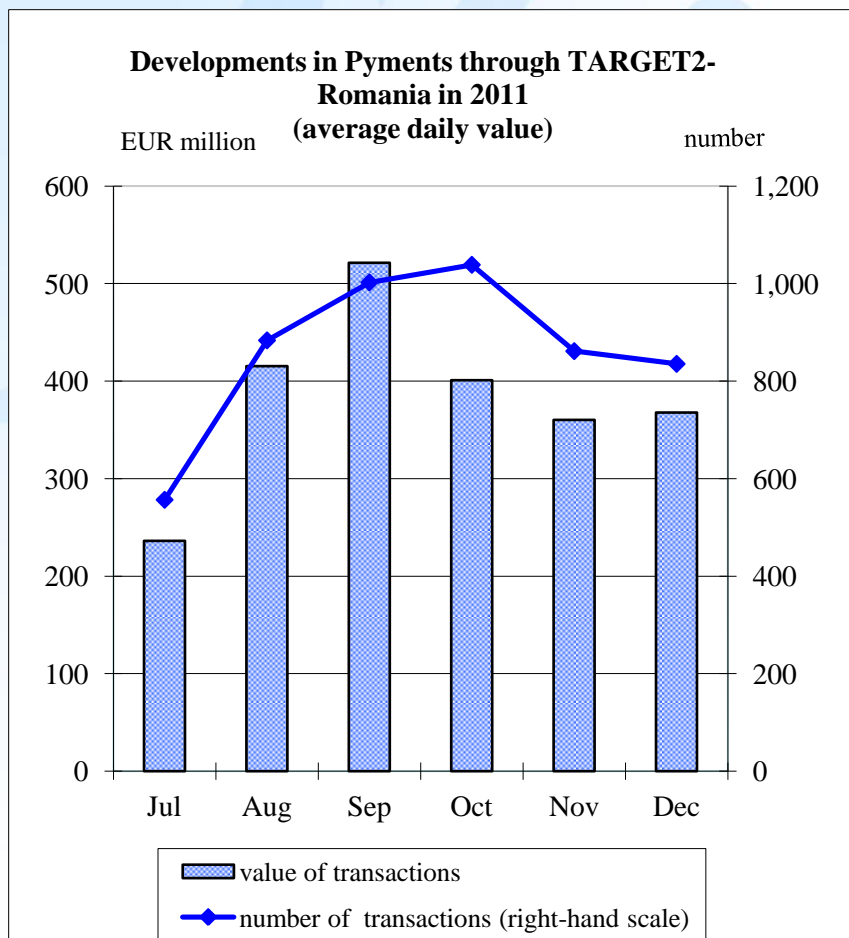
❖ The **variable fees** and in particular the **transaction fees remain unchanged.**



TARGET2- România



- TARGET2-România went live on 4 July 2011
- Some specific aspects:
 - No intraday credit for the time being
 - No standing facilities (e.g. overnight credit) for the time being
- TARGET2-România National Users Group (TARGET2 – RONUG) has been set up by the NBR with a view to providing the users the possibility to analyse and discuss specific aspects concerning the system
- Facts for 2011:
 - 22 direct participants (NBR & credit institutions)
 - The total value of payment transactions settled was € 49,961.81million
 - The total volume of payment transactions settled was 112,348
 - The peak in volume was 1,248 transactions (in November 2011)
 - The peak in value was € 1,263 million (in July 2011)





1. Integration with TARGET2-Securities (T2S)

What is T2S?

- An **integrated settlement platform** provided by the Eurosystem for DVP settlement of securities transactions in central bank money in euro within the euro area.
- Supports the integration of the securities settlement market infrastructure
- Making cross-border transactions domestic ones in the Eurozone
- Extension to other currencies

How?

- CSDs outsource their administration of securities accounts to T2S
- T2S dedicated cash accounts (DCAs), exclusively in central bank money, will be opened on the books of an NCB
- As account holders payment banks or settlement banks transfer cash to the T2S DCA, real time DVP is now possible
- Rationalisation of banks' liquidity management (possibility to have one single DCA for settling in all CSDs)

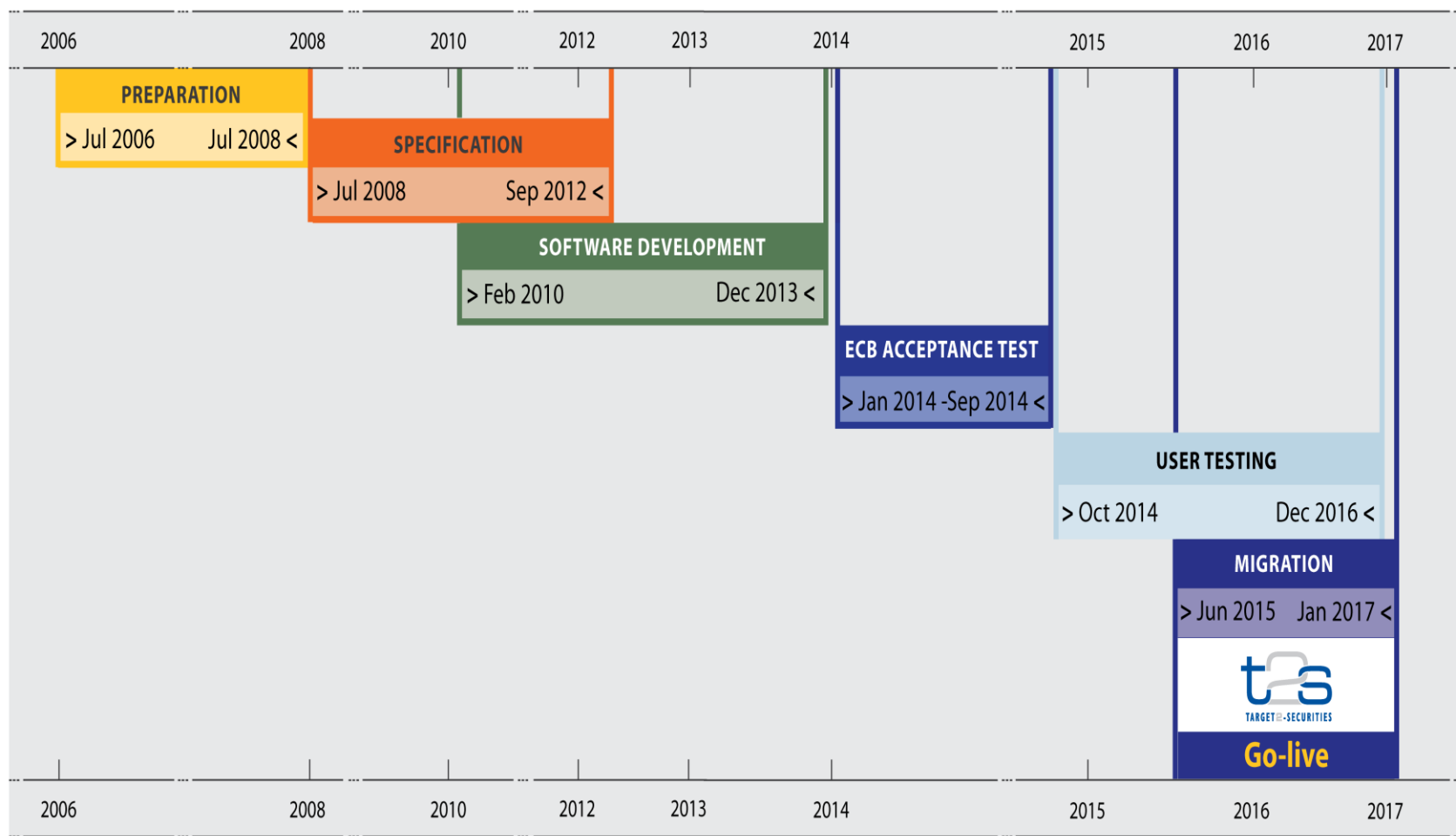


1. Integration with TARGET2-Securities (cont.)

As from **1 July 2012**, a new T2S project governance has come in place, following the signing of the contractual agreements between the Eurosystem and the CSDs

CSDs and Central Banks in T2S:

- 23 CSDs signed the Framework Agreement (out of which 18 CSDs from euro area)
- euro area NCBs, ECB, 4 non-euro area TARGET2 NCBs (Lithuania, Romania, Latvia and Denmark)
- Danmarks Nationalbank signed the Currency Participation Agreement on 20 June 2012 and will make the Danish krone available in T2S in 2018 (those non-euro area NCBs that sign the Currency Participation Agreement will be involved in the governance of the project, which ensures that NCBs retain control over their currency.)



2. Migration to ISO 20022

- At the previous edition of the SWIFT Business Forum, the NBR presented the Eurosystem's ISO20022 strategy for TARGET2.
- A number of events are justifying a reconsideration of this strategy:
 - T2S has been rescheduled and its go-live date is now foreseen for June 2015
 - The Regulation (EU) No. 260/2012 on a SEPA migration end date now explicitly excludes the LVPSs from its scope.
 - SWIFT worked with the industry to develop specific ISO 20022 standards for high value payment systems.
- On 19 June – 16 August 2012, TARGET2 participants were consulted in this respect via the National User Groups (NUGs) and TARGET Working Group (TWG).
- The ESCB's Working Group on TARGET2 (WGT2) will re-open the discussion with market participants in view of possibly amending the ISO 20022 strategy for TARGET2 defined in 2010.
- Most probably, the Eurosystem will use the opportunity of Sibos 2012 to announce the reviewing of the ISO 20022 strategy for TARGET2.

1) New participants are expected in the system in 2012

- credit institutions (direct and/or indirect participants);
- ancillary systems operating in euro in Romania (e.g. the new retail payment system for payments in euro which is under implementation by TRANSFOND S.A.).

2) NBR connection to T2S

- Depozitarul Central S.A. (i.e. the Romanian private CSD) decided to connect to T2S in the first wave (June 2015), but only for settling transactions in euro.
- Consequently, as operator of the TARGET2 national component, the NBR has to provide settlement services in euro in T2S for the Romanian payment/settlement banks (no settlement services in Lei will be provided in T2S).
- The NBR will open/manage DCA accounts in T2S.
- No auto-collateralisation facility.

3) Bridge Bank

- Bridge-bank issue is important for TARGET2-România, as well as for ReGIS and SaFIR systems operated by NBR.
- Legal provisions regarding the creation and operation of a bridge bank in Romania (the last resort measure for bank stabilization) are provided in the Government Emergency Ordinance no. 99/2006 (as subsequently amended).
- According to Article 240³⁵ of the Government Emergency Ordinance no. 99/2006:
 - Para (1) – *On the transfer date, the bridge-bank subrogates by law all the rights and obligations arising from agreements concluded by the credit institution from which the transfer was carried out, in connection with: a) the participation in payment systems, settlement systems for financial instruments transactions and payment schemes and payment arrangements;*
 - Para (2) – *The bridge-bank shall notify the interested parties its subrogation in rights and obligations under the provisions of para (1).*
 - Para (3) – *Under the provisions of para (1), the bridge-bank takes over the existent amounts in correspondent accounts and in accounts opened within payment systems for the credit institution from which the transfer was made, as well as the holdings of its financial instruments, both in its own name and on behalf of clients, recorded in the depository and settlement systems for the financial instruments transactions.*

3) Bridge Bank (cont.)

- Similar laws regarding bridge-banks are in force in Germany, UK, Greece, Ireland, US etc. and these laws have been successfully applied already (see Proton Bank case in Greece).
- SWIFT confirmed the legal and technical feasibility of the solution provided by the Romanian law.
- The solution provided by the Romanian law is applicable both in case of TARGET2-România, as well as ReGIS and SaFIR.
- To be able to provide payment services on a continuous basis to the clients transferred from the old bank, the bridge-bank will be allowed to use the old bank's BIC code(s) and SWIFT infrastructure, but it is obliged by law to inform immediately SWIFT (a model letter will be provided by the NBR in this respect) and to follow the relevant SWIFT administrative procedures (e.g. for updating/concluding the contractual framework). In this respect, the bridge-bank has also to pay the related fees to SWIFT, e.g. fees related to the transfer of licenses etc.

Thank you for your attention!



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