

TARGET2 / T2S Consolidation

Background

The Eurosystem consists of the European Central Bank and the national central banks (NCB) of the 19 member states that are part of the eurozone. The Eurosystem is the monetary authority of the eurozone, the collective of European Union member states that have adopted the euro as their sole official currency.

Eurosystem has developed a strategy for the evolution of market infrastructures so-called “Vision 2020”. Vision 2020 has the ultimate goal of achieving full integration of the European Financial Market, capturing the benefits of further integration and harmonization of cash and securities services.

In this context, Eurosystem has initiated three project initiatives:

- Consolidation of TARGET2 and T2S
- Implementation of an instant payment service (TARGET Instant Payment Settlement, or TIPS)
- Eurosystem Collateral Management System (ECMS)

TARGET2 (T2) stands for the second generation of the “Trans-European Automated Real-time Gross Settlement Express Transfer System”, which is the payment system used by Eurosystem central banks since November 2007 to settle urgent euro payments in real time.

TARGET2-Securities – T2S for short – enables the harmonised and centralised settlement of securities in central bank money within the Eurosystem.

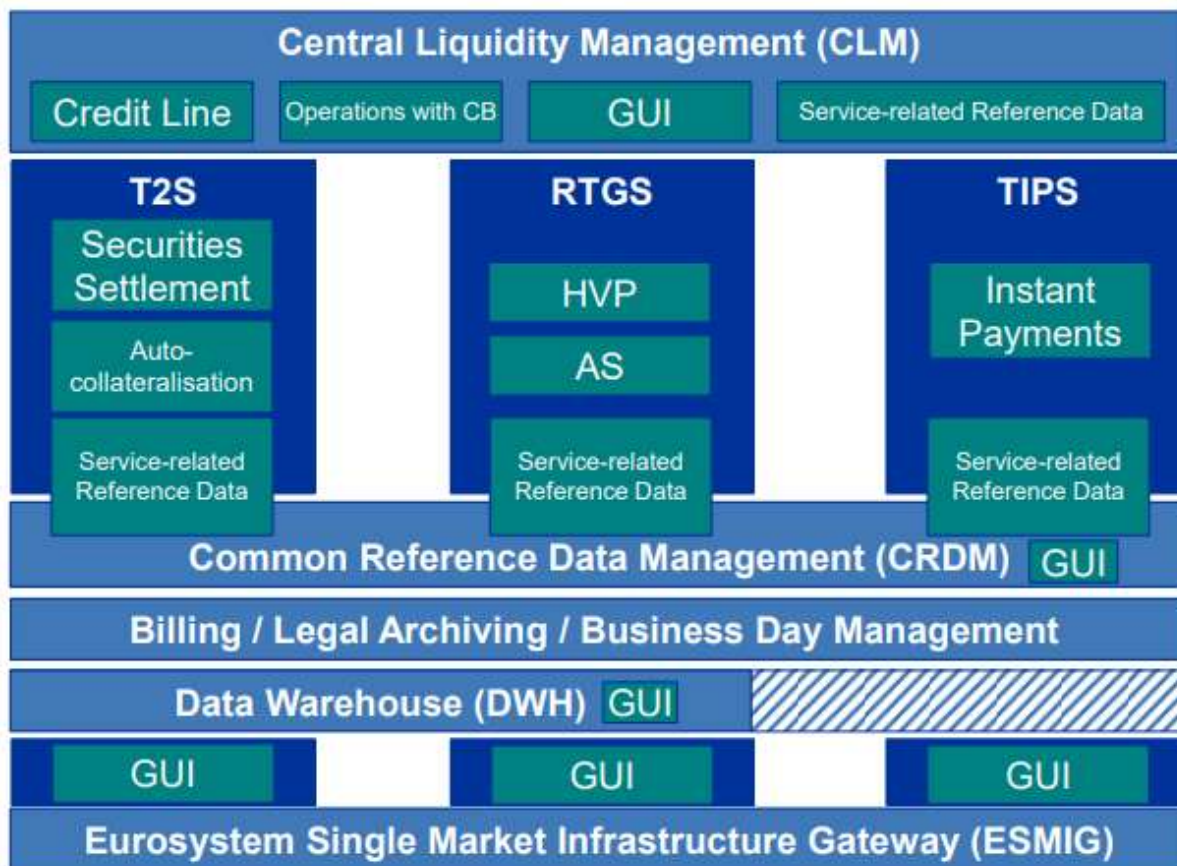
TIPS (TARGET Instant Payment Settlement) is enabling the real-time settlement of payments in central bank money.

The three projects are a response to the very rapid pace of change in payments and securities settlement, the need for technological modernisation, the necessity of further improving cost-effectiveness and cyber security. The consolidation will migrate the Eurosystem’s range of services (RTGS, T2S and instant payments) to a common platform - the TARGET Services.

Who will be affected?

- Investment firms
- Credit institutions
- CCPs and CSDs
- Financial institutions
- CSDs, CCPs
- ECB, Banque de France

The modular set-up of future TARGET Services



Key elements of TARGET2 / T2S Consolidation

- Introduction of Central Liquidity Management (CLM):

Main Cash Accounts (or MCAs) in the CLM will be used for central bank operations and liquidity management purposes along with Dedicated Cash Accounts (DCAs) for high value payments. Home accounts will not exist in the future. The features of home accounts will be absorbed into the Main Cash Account.

- Harmonisation of support functionalities for the future TARGET services (RTGS, T2S and TIPS):

Master data spanning multiple services and access rights will be managed via a Common Reference Data Management. The Data Warehouse will allow you to access historical data for some TARGET services (namely CLM, RTGS and T2S). There will also be one shared billing process for all TARGET services. A Eurosystem Single Market Infrastructure Gateway (ESMIG) will provide a secure and uniform means of accessing the Eurosystem's range of financial market infrastructure services.

- Introduction of ISO 20022-compliant messages for communication:

ISO 20022 standard will impact financial messaging across all financial industry processes, including payments, cash management, securities settlement, asset servicing and collateral management. The new messaging standard will be introduced on a "big-bang" basis, which means that there will be no transitional phase during which both standards (SWIFT MT and ISO 20022) are supported in parallel. The adoption of ISO 20022 applies only to payment instructions and reporting messages exchanged bilaterally between financial institutions.

- Building-in of multi-currency capability:

The requirements for multi-currency capability in RTGS services (as in TARGET2- Securities) will also be created. It should then be possible to settle payments in different currencies at different set times.

Expected time frame for market participants

- User tests will begin in mid of 2020 with a ten weeks of stabilisation period.
- Migration of Target 2 participants to consolidated platforms is for November 2021, big bang mode.



¹⁾Preparation and Execution phase are included to equal proportions

*calendar from Banque de France

Key milestones of ISO20022 adoption are:

December 2019: Phase 1 Payments & reporting usage guidelines are published

March 2020: Phase 1 Payments & Reporting translation rules are published and translation portal is live

September 2020: Pilot messaging and translation services are live for customer testing

November 2021: Compliant ISO 20022 messages are live

Challenges

Considering that the big-bang migration is scheduled for November 2021 and the 18-month window for user testing, this gives banks just 28 months to raise internal awareness and commitment, define internal responsibilities, assess migration impact, budget for and plan implementation accordingly, analyse UDFs and internal requirements, adapt or change processes and IT solutions and manage contingency.

Taking into account that during these months Instant Payments are quickly becoming a reality, particularly through TIPS, it's not Mission Impossible. But it is time to take action. TIPS can be seen as a first step in the new scenario, capitalising on connectivity and implementing instant treasury solutions on the new common platform.

How can i-Fihn Consulting help you?

Based on years of experiences in the implementation of regulatory requirements and several complex market projects, i-Fihn has developed an analysis methodology that enables us to establish new requirements and optimizations efficiently. In addition, we support you in the integration with the operative business.

According to our experience in implementation of regulatory obligations, following topics and responsibilities will be affected:

- Scope, action plan and gap analysis:
 - Gap analysis of company readiness against the requirements of the directive (as-is vs to-be)
- Mandatory documentation review and drafting:
 - Realignment of your internal policies (as applicable)
- Implementing necessary changes in processes where gaps have been identified:
 - Modification of your current process to address any identified gaps
 - Evaluation of implementation
- Support with IT solutions:
 - Support with the implementation of compliant information exchange processes in your IT systems, and with adjusting the formats for the collection and transmission of shareholder information, etc.
 - Alignment of your overall IT environment with the requirements of the directive

We hope you find this document useful in answering most, if not all, of them and we encourage you to reach out to i-Fihn Consulting Business Unit Clearing & Post Trade Activities:

Nathalie AMAR

Head of Business Development

📞: +33 6 15 89 50 86

☎: +33 1 71 18 32 66

✉: n.amar@i-fihn.com

Bercesté GENCTURK

Head of BU Clearing & Post Trade Activities

📞: +33 6 10 19 94 39

☎: +33 1 71 18 32 66

✉: b.gencturk@i-fihn.com



35, rue de la Bienfaisance
75008 Paris

www.i-fihn.com