



EUROPEAN CENTRAL BANK

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PUBLIC CONSULTATION

SUMMARY OF COMMENTS RECEIVED ON TARGET2 – PRINCIPLES AND STRUCTURE

On 24 October 2002 the Governing Council of the European Central Bank (ECB) announced its decision on the long-term strategy for TARGET (TARGET2). A document entitled “TARGET2: principles and structure” was distributed for public consultation on 16 December 2002. Comments on the above-mentioned document were invited by 14 February 2003. TARGET users were also requested to submit business requirements for TARGET2 by the same date. The deadline for the submission of comments was later extended to 25 April 2003.

INTRODUCTION

The Secretariat Division of the ECB received 14 responses from banking and financial markets associations in various European countries, from individual commercial banks and from domestic and international central securities depositories (CSDs and ICSDs). The TARGET Working Group (TWG), representing the European Payment Council and the European banking industry (federations/associations of European banks, savings banks and co-operative banks), presented the broadest view on the future of TARGET. The TWG submitted a response to the consultation document and provided business requirements for TARGET2 as requested in the consultation announcement. The business requirements submitted by the TWG consist of the TARGET user requirements forwarded to the ECB in November 2002 and an appendix to these user requirements as part of the response to the consultation document. In their individual responses some European banks expressed full support for the user requirements prepared by the TWG. This document provides a summary of the responses to the public consultation document. The summary follows the sectional structure of the consultation document.

I GENERAL FEATURES AND STRUCTURE OF TARGET2

All respondents welcomed the public consultation exercise and the initiative of the Eurosystem to improve the functionality and performance of the TARGET system. Many respondents supported the principles that TARGET2 should be based on broadly defined, harmonised core services, that those core services should have a single price structure and that TARGET2 should comply with cost efficiency requirements.

All respondents welcomed the TARGET integration process, but at the same time, the responses indicated that the multiple-platform TARGET2 system approach presented in the consultation document would not be able to satisfy the TARGET user requirements. The European banking industry and some other respondents believe that the benefits of full harmonisation and integration, such as efficiency and effectiveness, can only be realised in a system that is fully integrated (a single-platform system). The European banking industry firmly believes that liquidity management and central collateral management – key priorities of banks – will certainly not be optimised by the multiple-platform system.

According to one financial markets association, the decentralised systems concept in TARGET2 could no longer be justified. In its view, the decentralised structure of TARGET2 is not in accordance with the existing centralised liquidity management structure of the European banking system. The same respondent also believes that a single-platform system should be developed and implemented, and that only such a model can deliver optimal efficiency to the end-users of the financial system.

Some respondents went even further, suggesting that TARGET2, as a single-platform system, should be based on whichever existing payment system available in the market had the largest range of functions and proven technological architecture.

In contrast to the above, one ICSD saw a danger that a centralised system might be more exposed to external threats than a decentralised system and that operational risk could also increase.

The European banking industry welcomed the fact that subsidies which go beyond an acceptable public good factor will be obligatorily phased out after a four-year period and that, as a result, platforms which do not comply with this requirement will be abandoned. However, it would prefer a shorter period than four years.

Some respondents recommended that the principle of political, geographical and commercial neutrality should be respected when choosing the location of the single shareable platform. They pointed out that all users must have the same access to the services, irrespective of their country of establishment or business location.

The European banking industry regretted that the consultation document did not specify the requirements for system reliability and performance. 100% availability and sufficient processing capacity to avoid delays during peak hours should be ensured. Contingency measures on an equal footing for all

users must be in place. One CSD commented that early implementation of the single shared platform would help future EU/EMU members avoid a duplication of investment. With regard to the proposal to design the shareable platform in a way that would allow each NCB which joined it to preserve the business relationships it had with “its” banks (including monetary policy and lender of last resort relationships), the same CSD noted that the maintenance of such relationships was an important factor in the gradual change of the infrastructure and the education of users. Some credit institutions raised concerns in relation to one of the envisaged solutions for the management of accounts on the single sharable platform. In their view, a twin account system (one account with the sharable platform and one “home” account with the NCB) might be an obstacle to the smooth liquidity management of credit institutions.

2 PERIMETER, BUSINESS, SERVICES AND INTERFACES OF TARGET2

2.1 Perimeter and business

No comments were received on these issues.

2.2 Services

All respondents welcomed and supported the resolve expressed in the consultation document that the services and functions of TARGET2 should be seen from the users’ perspective and that the service level of TARGET2 should be defined in close co-operation with the TARGET user community. The European banking industry made reference to the TARGET2 user requirements document, in which all the core services and functions have been already identified by TARGET users. It expects users to be involved in the establishment and revision of the list of core services and that all core services will be available from the start of the new system.

Some respondents indicated in their responses which services they considered should be included in the list of broadly defined, harmonised core services of TARGET2. Services related to effective liquidity management took a prominent place among the comments.

Some respondents pointed out that TARGET2 should provide all the functions currently available in the national components of the TARGET system. They suggested that a reduced range of functions in TARGET2 would be a step backwards and may hamper operations.

2.3 Interface with users and ancillary systems

The majority of respondents strongly supported a single interface to TARGET2 for all payments (domestic and cross-border). With regard to technical implementation, SWIFT message standards were regarded as a necessity. Moreover, the European banking industry pointed out that the single interface should be very clearly defined and should include procedures, security features, validation, contingency

arrangements and a single-window entry point for all TARGET2 services. Furthermore, respondents called for the stability of adopted standards, at least in the medium term.

With regard to the settlement of ancillary systems in TARGET2, one individual CSD and the association of European CSDs suggested that both models specified in the consultation document should be applied, i.e. both the “interfaced model” and the “integrated model”. They also recommended an analysis of the costs of supporting current domestic settlement models on the single sharable platform as compared with the costs of changing the domestic infrastructure for the settlement of ancillary systems. Moreover, these respondents also suggested examining two other alternatives (a cross-border direct debit scheme and the earmarking of reserves) for the settlement of ancillary systems (securities settlement systems) in TARGET2.

The business requirements submitted by the European banking industry state that a credit institution should be able to settle the balance of any ancillary system, irrespective of the country in which the ancillary system is located. Existing settlement models which require settlement accounts in each NCB hamper the proper liquidity management of multinational banks. The banking industry regards the settlement of any ancillary system on the single sharable platform as a core service for users from the start of TARGET2.

3 GOVERNANCE, FINANCING AND PRICING ISSUES

3.1 Governance

With regard to the governance structure of TARGET2, no respondents objected to the three levels of governance foreseen in the consultation document. However, the European banking industry noted that the multi-level governance structure should not be obstacle to effective decision-making.

The system of rotation among central banks for the technical operation of single sharable platform referred to as one possible option in the consultation document, was seen as a risk factor by some respondents, since it could lead to fluctuations in the reliability of the system.

The consultation document envisaged the possibility that the technical operation of a single sharable platform could be outsourced to a separate privately-owned legal entity. However, the European banking industry raised some concerns about the actual control of the single sharable platform by central banks if operations were outsourced to a separate legal entity (whether owned privately or by central banks) and about the role of users in that context. If outsourcing were to be used, the European banking industry believes that the Eurosystem should retain control over the single sharable platform and take on all risks and responsibilities.

3.2 The role of the users

The European banking industry stressed the importance of users being involved in the decision-making process at all three levels of TARGET2 governance. It also indicated that, owing to current and future (after EU enlargement) diversity among users in the EU, the consultation process must be as effective as possible and all users involved in this process should be treated equally, irrespective of the TARGET components to which they have access. Moreover, the specific needs of smaller credit institutions should also be taken on board.

3.3 Pricing

With regard to pricing, the European banking industry considered that the most important issue to be addressed by the Eurosystem was transparency in cost methodology, in price-setting and in the identification of the benchmark system. It also considered that the effect of the public good factor on the final price of services should be transparent to the users.

The European banking industry raised the question of whether prices would be set for the whole TARGET2 operational period or would be revised from time to time according to the efficiency performance of the TARGET components.

According to one CSD, there should be no graduation in prices according to the number of payments a participant sends or according to the timing of payments. Smaller participants with few payments should not be disadvantaged.

4 FURTHER STEPS IN THE ESTABLISHMENT OF TARGET2

The European banking industry emphasised the lack of clarity with regard to the timing of the project and asked for more visibility vis-à-vis the project timeframe and migration plan.

Several respondents noted that the envisaged transition period from TARGET1 to TARGET2 appeared too long. They recommended a shortening of the transition period and also stressed that transition should not result in the running of two parallel systems. However, one CSD considered that the timeframe set by ECB for the implementation of TARGET2 (within the second half of this decade) appeared reasonable when considering the lifecycle of the investments already made and their amortisation periods.

The European banking industry indicated that during the planning phase the Eurosystem should draw up a specifications book in response to its user requirements. It took the view that users should be given an opportunity to see how well the specifications satisfy the user requirements, and that the implementation phase should not start until agreement on these specifications had been reached. The European banking industry believes that only such an approach will ensure the quality of the product.

The European banking industry commented that users of the system should be involved in the drafting of specifications and that the implementation horizon should be decided jointly with Eurosystem, since this project implies costs for the banking community.