

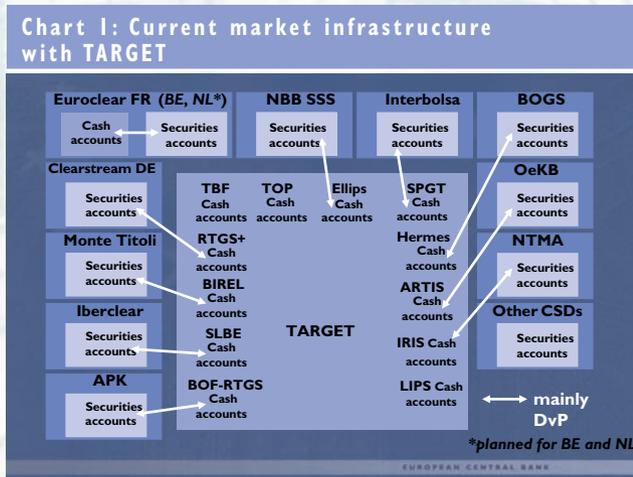
TARGET2-SECURITIES

WHY TARGET2-SECURITIES?

Under current arrangements, European central securities depositories (CSDs) normally settle the central bank money leg of securities transactions that are denominated in euro through the local real-time gross settlement (RTGS) component of the TARGET system (see Chart 1). To facilitate this, participants in a CSD (whether direct or indirect participants) must also participate (directly or indirectly) in the national RTGS system of the country where the CSD is located. With the introduction of TARGET2, it will be possible for each participant in TARGET2 to settle, through a single TARGET2 account, transactions effected via any CSD that

provides for settlement in central bank money in euro. With its single technical platform replacing the multiplicity of platforms of the current TARGET system, TARGET2 has increased the pressure for a common European platform for the settlement of securities transactions.

TARGET2-Securities may be this common securities settlement platform if the Governing Council of the European Central Bank (ECB) decides to implement it. A decision is expected by early 2007. The label "TARGET2-Securities" reflects the main objective of optimising interactions between TARGET2 and securities settlement systems.



The Eurosystem is working in cooperation with CSDs and their participants to determine whether the project is feasible and to identify the market's preferences in relation to the features of TARGET2-Securities.

BENEFITS

The implementation of such a facility, which would be fully owned and operated by the Eurosystem, would potentially

bring large cost savings as a result of the high level of efficiency and technical harmonisation that it would entail for market participants, particularly in the field of cross-border business. TARGET2-Securities would represent a major step towards a single Eurosystem interface with the market. In addition, it could facilitate the cross-border management of collateral and, thereby, pan-European liquidity management. Synergies with other systems operated by the Eurosystem – in particular TARGET2 and solutions for the cross-border use of collateral – could be expected.

HOW WOULD IT WORK IN PRINCIPLE?

Like TARGET2, TARGET2-Securities would settle only in euro. At the start of the operating day, the participating CSDs would transfer the securities account positions to TARGET2-Securities.¹ During operating hours, real-time gross settlement (on a DVP model 1 basis) in central bank money would take place on the TARGET2-Securities platform (see Chart 2). This

¹ With TARGET2, the national central banks will retain their relationships with the banks. Similarly, with TARGET2-Securities, CSDs would retain their relationships with participants, in particular with regard to the securities accounts.

would enable the new facility to benefit from the efficiency of the so-called integrated model, whereby the settlement of securities and cash takes place on the same technical platform.

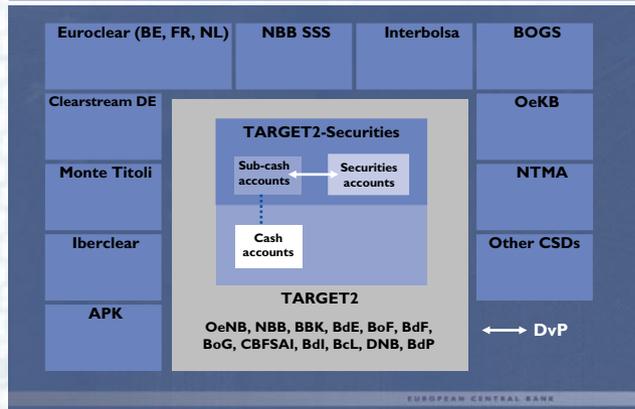
TARGET2-Securities would only provide settlement services while other CSD functions (such as corporate actions, custody functions, safekeeping and administration) would continue to be offered by the CSDs. Non-settlement activities affecting the securities positions of participants would be carried out outside the operating hours of TARGET2-Securities. At the end of each day's TARGET2-Securities operations, the participating CSDs and TARGET2 would run their end-of-day procedures, including accounting.

ISSUES UNDER CONSIDERATION

In order to evaluate the feasibility of TARGET2-Securities, the Eurosystem is currently consulting market participants, CSDs and other market infrastructure providers on a number of issues, which include the following:

- Scope of assets: should TARGET2-Securities cover all types of securities currently settled by CSDs or should CSDs

Chart 2: Market infrastructure with TARGET2-Securities (during operating hours)



continue to offer settlement in central bank money for some assets?

- Scope of services: does TARGET2-Securities need to offer services such as matching, securities lending or collateral management?

- Settlement frequency: in addition to real-time settlement with optimisation mechanisms and self-collateralisation, should TARGET2-Securities also offer batch settlement?



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- Account structure: what is the most feasible account structure for TARGET2-Securities, both in terms of securities and central bank money?
- Communication: what role should CSDs play in the routing of settlement instructions to TARGET2-Securities?
- Separation of custody and settlement functions: are there any legal or other obstacles in a given country to separation of the entity providing custody services (the CSD) and the entity providing settlement services (TARGET2-Securities)?
- Timing: what timeframe is realistic for the Eurosystem to develop and launch TARGET2-Securities, and could deployment be gradual (e.g. certain services starting earlier than others or a phased country migration)?

INFORMATION ON TARGET2-SECURITIES

More information and hard copies of this brochure can be obtained from any of the national central banks or from the ECB at the following address:

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