SETTLEMENT PROCEDURES FOR TARGET2 ANCILLARY SYSTEMS

30 November 2018

Note: This document implements Annex IV of Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (the 'TARGET2 Guideline'), as the same may be amended from time to time. It describes the procedures applicable in respect of TARGET2 ancillary systems and the possible role of a Eurosystem central bank in relation to these procedures (either as settlement central bank (SCB) or an ancillary system central bank (ASCB)). It also specifies the settlement procedure offered by the Central Bank of Ireland when it acts as an ASCB.

1. **Definitions**

    The following terms shall have the following meanings for the purposes of this document. Terms not otherwise defined in this document shall have the meaning given to them in the terms and conditions for participation in TARGET2-Ireland (the 'Terms and Conditions').

    (1) 'credit instruction' means a payment instruction submitted by an ancillary system and addressed to the ASCB to debit one of the accounts kept and/or managed by the ancillary system in the PM, and to credit a settlement bank's PM account or sub-account by the amount specified therein,

    (2) 'debit instruction' means a payment instruction addressed to the SCB and submitted by an ancillary system to debit a settlement bank's PM account or sub-account by the amount specified therein, on the basis of a debit mandate, and to credit either one of the ancillary system's accounts in the PM or another settlement bank's PM account or sub-account,

    (3) 'payment instruction' or 'ancillary system payment instruction' means a credit instruction or a debit instruction,

    (4) 'ancillary system central bank (ASCB)' means the Eurosystem CB with which the relevant ancillary system has a bilateral arrangement for the settlement of ancillary system payment instructions in the PM,

    (5) 'settlement central bank (SCB)' means a Eurosystem CB holding a settlement bank's PM account,

    (6) 'settlement bank' means a participant whose PM account or sub-account is used to settle ancillary system payment instructions,

    (7) 'Information and Control Module (ICM)' means the SSP module that allows PM account holders to obtain on-line information and gives them the possibility to submit liquidity transfer orders, manage liquidity and initiate payment orders in contingency situations,

    (8) 'ICM broadcast message' means information made simultaneously available to all or a selected group of PM account holders via the ICM,

    (9) 'debit mandate' means an authorisation by a settlement bank in the form provided by the Eurosystem CBs in the static data forms addressed to both its ancillary system and its SCB, entitling the ancillary system to submit debit instructions, and instructing the SCB to debit the settlement bank's PM account or sub-account as a result of debit instructions,

    (10) 'short' means owing money during the settlement of ancillary system payment instructions,

(11) 'long' means being owed money during the settlement of ancillary system payment instructions,

(12) 'cross-system settlement' means the real-time settlement of debit instructions under which payments are executed from a settlement bank of one ancillary system using settlement procedure 6 to a settlement bank of another ancillary system using settlement procedure 6,

(13) 'Static Data (Management) Module' means the SSP module in which static data are collected and recorded,

(14) 'technical account' means a specific account held in the PM by an ancillary system or held by the ASCB on an ancillary system's behalf in its TARGET2 component system for use by the ancillary system.

2. **Role of SCBs**

Each Eurosystem CB shall act as the SCB in relation to any settlement bank for which it holds a PM account.

3. **Management of relationship between CBs, ancillary systems and settlement banks**

(1) The ASCBs shall ensure that the ancillary systems with which they have bilateral arrangements provide a list of settlement banks containing the settlement banks' PM account details, which the ASCB shall store in the Static Data (Management) Module of the SSP. Any ancillary system may access the list of its respective settlement banks via the ICM.

(2) The ASCBs shall ensure that the ancillary systems with which they have bilateral arrangements inform them without delay of any changes with regard to the list of settlement banks. The ASCBs shall inform the relevant SCB regarding any such changes via an ICM broadcast message.

(3) The ASCBs shall ensure that the ancillary systems with which they have bilateral arrangements collect the debit mandates and other relevant documents from their settlement banks and submit them to the ASCB. Such documents shall be provided in English and/or the ASCB's relevant national language(s). If the ASCB's national language(s) is/are not identical with the SCB's national language(s), the necessary documents shall be provided in English only or both in English and in the ASCB's relevant national language(s). In the case of ancillary systems that settle via TARGET2-ECB, the documents shall be provided in English.

(4) If a settlement bank is a participant in the relevant ASCB's TARGET2 component system, the ASCB shall verify the validity of the debit mandate given by the settlement bank and make any necessary entries in the Static Data (Management) Module. If a settlement bank is not a participant in the relevant ASCB's TARGET2 component system, the ASCB shall forward the debit mandate (or an electronic copy thereof, if so agreed between ASCB and SCB) to the relevant SCBs for verification of its validity. The SCBs shall perform such verification and shall inform the relevant ASCB of the outcome of verification within five business days after receipt of such request. After verification, the ASCB shall update the list of settlement banks in the ICM.

(5) The verification undertaken by the ASCB shall be without prejudice to the ancillary system's responsibility to restrict payment instructions to the list of settlement banks referred to in subparagraph 1.

(6) Unless they are one and the same, the ASCBs and SCBs shall exchange information regarding any significant event during the settlement process.

(7) The ASCBs shall ensure that the ancillary systems with which they have bilateral arrangements provide the name and the BIC of the ancillary system with which they intend to execute cross-system settlement and the date from which cross-system settlement with a particular ancillary system should begin or stop. This information shall be recorded in the Static Data (Management) Module.

4. **Initiation of payment instructions via the ASI**

(1) All payment instructions submitted by an ancillary system via the ASI shall be in the form of XML messages.

(2) All payment instructions submitted by an ancillary system via the ASI shall be considered as 'highly urgent' and shall be settled in accordance with Annex I of the Terms and Conditions.

(3) A payment instruction shall be deemed accepted if:

(a) the payment instruction complies with the rules established by the TARGET2 network service provider;

(b) the payment instruction complies with the formatting rules and conditions of the ASCB's TARGET2 component system;

(c) the settlement bank is on the list of settlement banks referred to in paragraph 3(1);

(d) in the case of a cross-system settlement, the relevant ancillary system is on the list of ancillary systems with which cross-system settlement may be executed;

(e) in the event that a settlement bank's participation in TARGET2 has been suspended, the explicit consent of the SCB of the suspended settlement bank has been obtained.

5. **Entry of payment instructions into the system and their irrevocability**

(1) Credit instructions shall be deemed to be entered in the relevant TARGET2 component system at the moment that they are accepted by the ASCB and shall be irrevocable from that moment. Debit instructions shall be deemed to be entered in the relevant TARGET2 component system at the moment that they are accepted by the SCB and shall be irrevocable from that moment.

(2) The application of subparagraph 1 shall not have any effect on any rules of ancillary systems which stipulate a moment of entry into the ancillary system and/or irrevocability of transfer orders submitted to such ancillary system at a point in time earlier than the moment of entry of the respective payment instruction in the relevant TARGET2 component system.

6. **Settlement procedures**

(1) If an ancillary system requests use of a settlement procedure, the Bank (as ASCB) shall offer the following settlement procedure:

(a) settlement procedure 6 (dedicated liquidity, real-time and cross-system settlement).

(2) The SCBs shall support the settlement of ancillary system payment instructions in accordance with the choice of settlement procedures referred to in subparagraph 1

by, *inter alia,* settling payment instructions on the settlement banks' PM accounts or sub-accounts.

(3)   Further details relating to the settlement procedure referred to in subparagraph 1 are contained in paragraph 9.

7. **No obligation to open PM account**

Ancillary systems shall not be obliged to become direct participants in a TARGET2 component system or to maintain a PM account while using the ASI.

8. **Accounts to support settlement procedures**

(1)   In addition to PM accounts, the following types of accounts may be opened in the PM and used by ASCBs, ancillary systems and settlement banks for the settlement procedure referred to in paragraph 6(1):

(a)   technical accounts,

(b)   sub accounts.

(2)   When an ASCB offers settlement procedure 6 for interfaced models, it shall open a technical account in its TARGET2 component system for the ancillary systems concerned. The balance on technical accounts shall be zero or positive at the end of the relevant ancillary system's settlement process and the end-of-day balance shall be zero. Technical accounts are identified by either the BIC of the ancillary system or the relevant ASCB's BIC.

(3)   When offering settlement procedure 6 real-time an ASCB shall open technical accounts in its TARGET2 component system. Technical accounts for settlement procedure 6 real-time may only have a zero or positive balance during the day and may maintain a positive balance overnight. Any overnight balance on the account shall be subject to the same remuneration rules that apply to Guarantee Funds under Article 11 of the TARGET2 Guideline.

(4)   When settlement procedure 6 is offered by an ASCB for interfaced models, SCBs shall open one or more sub-accounts in their TARGET2 component systems for settlement banks, to be used for dedicating liquidity and, if relevant, cross-system settlement. Sub-accounts shall be identified by the BIC of the PM account to which they relate, in combination with an account number that is specific to the relevant sub-account. The account number is composed of the country code plus up to 32 characters (depending on the relevant national bank account structure).

(5)   The accounts referred to in subparagraph 1(a) to (b) shall not be published in the TARGET2 directory. If so requested by the PM account holders, the relevant statements of accounts (MT 940 and MT 950) for all such accounts may be provided to the account holder at the end of every business day.

(6)   The detailed rules on the opening of the account types mentioned in this paragraph and on their application while supporting the settlement procedures may be further specified in bilateral arrangements between the ancillary systems and the ASCBs.

9   **Settlement procedure 6 — Dedicated liquidity, real-time and cross-system settlement**

(1)   Settlement procedure 6 can be used for both the interfaced and the real-time model, as described in subparagraphs 4 to 12 and 13 to 16 below, respectively. In the case of the real-time model, the relevant ancillary system has to use a technical account to collect the necessary liquidity set aside by its settlement banks for funding their

positions. In the case of the interfaced model, the settlement bank has to open at least one sub-account relating to a specific ancillary system.

(2)   If they so request, the settlement banks shall be notified via a SWIFT MT 900 or MT 910 message and PM account holders using internet-based access shall be informed by a message on the ICM of the crediting and debiting of their PM accounts and, if applicable, of their sub-accounts.

(3)   When offering cross-system settlement under settlement procedure 6, the ASCBs and SCBs shall support cross-system settlement payments, if they are initiated by the relevant ancillary systems. For settlement procedure 6 interfaced, an ancillary system can only initiate cross-system settlement during its processing cycle, and settlement procedure 6 has to be running in the ancillary system receiving the payment instruction. For settlement procedure 6 real-time, an ancillary system can initiate cross-system settlement at any time during the TARGET2 daytime processing and settlement of night-time ancillary system operations. The possibility to execute cross-system settlement between two individual ancillary systems shall be recorded in the Static Data (Management) Module.

(A) *Interfaced model*

(4)   When offering settlement procedure 6 interfaced, the ASCBs and SCBs shall support the settlement of bilateral and/or multilateral cash balances of ancillary system transactions by:

(a)   enabling a settlement bank to pre-fund its prospective settlement obligation through liquidity transfers from its PM account into its sub-account ('dedicated liquidity') prior to the ancillary system processing; and

(b)   settling the ancillary system's payment instructions subsequent to the completion of the ancillary system processing: in relation to short settlement banks by debiting their sub-accounts (within the limits of the funds provided on such accounts) and crediting the ancillary system's technical account and in relation to long settlement banks by crediting their sub-accounts and debiting the ancillary system's technical account.

(5)   When offering settlement procedure 6 interfaced:

(a)   the SCBs shall open at least one sub-account in relation to a single ancillary system for each settlement bank; and

(b)   the ASCB shall open a technical account for the ancillary system for: (i) crediting funds collected from the sub-accounts of the short settlement banks; and (ii) debiting funds when making credits to the dedicated sub-accounts of the long settlement banks.

(6)   Settlement procedure 6 interfaced shall be offered at any time during the TARGET2 daytime processing and settlement of night-time ancillary system operations. The new business day shall start immediately on fulfilment of the minimum reserve requirements; any debit or credit made on the relevant accounts thereafter shall be for value of the new business day.

(7)   Under settlement procedure 6 interfaced, the ASCBs and SCBs shall offer the following types of liquidity transfer service into and from the sub-account:

(a)   standing orders which settlement banks may submit or modify at any time during a business day via the ICM (when it is available). Standing orders submitted after the sending of the 'start-of-procedure' message on a given business day shall be valid only for the next business day. If there are several standing orders to credit different sub-accounts and/or the technical account

of the ancillary system, they shall be settled in the order of their amount, starting with the highest. During night-time ancillary system operations, if there are standing orders for which there are insufficient funds on the PM account, such orders shall be settled following a pro rata reduction of all orders;

(b)   current orders, which may only be submitted either by a settlement bank (via the ICM) or the relevant ancillary system via an XML message during the running of settlement procedure 6 interfaced (identified by the time span from the 'start-of-procedure' to the 'end-of-procedure' message) and which will be settled only as long as the ancillary system processing cycle has not yet started. If there is a current order submitted by the ancillary system for which there are insufficient funds on the PM account, such order shall be partially settled;

(c)   SWIFT orders that go via an MT 202 message or by automatic mapping to an MT202 from the screens for PM account holders using internet-based access, which may only be submitted during the running of settlement procedure 6 interfaced and only during daytime processing. Such orders shall be settled immediately.

(8)   Settlement procedure 6 interfaced shall start by means of a 'start-of-procedure' message and finish by means of an 'end-of-procedure' message, which shall be sent by the ancillary system (or ASCB on its behalf). 'Start-of-procedure' messages shall trigger the settlement of standing orders for the transfer of liquidity into the sub-accounts. The 'end-of-procedure' message leads to an automatic retransfer of liquidity from the sub-account to the PM account.

(9)   Under settlement procedure 6 interfaced, dedicated liquidity on the sub-accounts shall be frozen as long as the ancillary system processing cycle is running (starting with a 'start-of-cycle' message and ending with an 'end-of-cycle' message, both to be sent by the ancillary system) and released thereafter. The frozen balance can be changed during the processing cycle as a result of cross-system settlement payments or if a settlement bank transfers liquidity from its PM account. The ASCB shall notify the ancillary system of the reduction or increase of liquidity on the sub-account as a result of cross-system settlement payments. If the ancillary system so requests, the ASCB shall also notify it of the increased liquidity on the sub-account as a result of liquidity transfer by the settlement bank.

(10)   Within each ancillary system processing cycle under settlement procedure 6 interfaced, payment instructions shall be settled out of dedicated liquidity whereby Algorithm 5 (as referred to in Appendix I of Annex I of the Terms and Conditions) shall be used as a rule.

(11)   Within each ancillary system processing cycle under settlement procedure 6 interfaced, a settlement bank's dedicated liquidity can be increased by crediting certain incoming payments directly to its sub-accounts, i.e. coupons and redemption payments. In such cases, the liquidity first has to be credited on the technical account, then debited from such account before crediting the liquidity on the sub-account (or on the PM account).

(12)   Cross-system settlement between two interfaced ancillary systems can only be initiated by an ancillary system (or its ASCB on its behalf) whose participant's sub-account is debited. The payment instruction is settled by debiting the amount indicated in the payment instruction from the sub-account of a participant of the ancillary system initiating the payment instruction and crediting the sub-account of a participant of another ancillary system.

The ancillary system initiating the payment instruction and the other ancillary system shall be notified on completion of the settlement. If they so request, settlement banks

shall be notified of successful settlement via a SWIFT MT 900 or MT 910 message. PM account holders using internet-based access shall be informed by a message on the ICM.

(B) ***Real-time model***

(13) When offering settlement procedure 6 real-time, the ASCBs and SCBs shall support such settlement.

(14) Under settlement procedure 6 real-time, the ASCBs and SCBs shall offer the following types of liquidity transfer service into and from a technical account:

(a) standing orders (for night-time ancillary system operations), which settlement banks may submit or modify at any time during a business day via the ICM (when it is available). Standing orders submitted after start-of-day processing shall be valid only for the next business day. If there are several standing orders, they shall be settled in the order of their amount, starting with the highest. During night-time ancillary system operations, if there are standing orders for which there are insufficient funds on the PM account, such orders shall be settled following a pro rata reduction of all orders;

(b) current orders to credit the technical account, which may only be submitted either by a settlement bank (via the ICM) or by the relevant ancillary system on its behalf (via an XML message).   If there is a current order submitted by the relevant ancillary system on behalf of the settlement bank for which there are insufficient funds on the PM account, such order shall be partially settled;

(c) current orders to debit the technical account, which may only be submitted by the relevant ancillary system (via an XML message);

(d) SWIFT orders that go via an MT 202 message, which may only be submitted by a settlement bank during daytime processing. Such orders shall be settled immediately.

(15) The 'start-of-procedure' and 'end-of-procedure' will take place automatically upon completion of the "Start-of-day processing" and start of "End-of-day processing" respectively*.*

(16) Cross-system settlement between two ancillary systems using the real-time model will take place without intervention by the ancillary system whose technical account will be credited.   The payment instruction is settled by debiting the amount indicated in the payment instruction from the technical account used by the ancillary system initiating the payment instruction and crediting the technical account used by another ancillary system. The payment instruction cannot be initiated by the ancillary system whose technical account will be credited.

The ancillary system initiating the payment instruction and the other ancillary system shall be notified on completion of the settlement. If they so request, settlement banks shall be notified of successful settlement via a SWIFT MT 900 or MT 910 message. PM account holders using internet-based access shall be informed by a message on the ICM.

10. **Algorithms used**

In settlement procedure 6 interfaced, the settlement bank can dedicate a liquidity amount to settle balances coming from a specific ancillary system. Dedication is brought about by setting aside the necessary liquidity on a specific sub-account (interfaced model). Algorithm 5 is used both for night-time ancillary system operations and daytime processing. The settlement process takes place by means of debiting the short settlement banks' sub-accounts in favour of the ancillary system

technical account and then debiting the ancillary system technical account in favour of the long settlement banks' sub-accounts. In the case of credit balances the booking can take place directly — if indicated by the ancillary system within the relevant transaction — on the settlement bank's PM account. If the settlement of one or more debit instructions is unsuccessful, i.e. as the result of an ancillary system's error, the payment concerned is queued on the sub-account. Settlement procedure 6 interfaced can make use of Algorithm 5 running on sub-accounts. Furthermore, Algorithm 5 does not have to take account of any limits or reservations. For every settlement bank the total position is calculated and if all total positions are covered, all transactions will be settled. Transactions which are not covered are put back into the queue.

11. **Effect of suspension or termination**

If suspension or termination of the use of the ASI by an ancillary system takes effect during the settlement cycle of ancillary system payment instructions, the ASCB shall be deemed to be authorised to complete the settlement cycle on behalf of the ancillary system.

12. **Fee schedule and invoicing**

(1)   An ancillary system using the ASI or the Participant Interface, irrespective of the number of any accounts it may hold with the ASCB and/or the SCB, shall be subject to a fee schedule consisting of the following elements:

(a)   A fixed monthly fee of EUR 1 000 to be charged to each ancillary system ('Fixed Fee I').

(b)   A second monthly fixed fee of between EUR 417 and EUR 8 333, in proportion to the underlying gross value of the ancillary system's euro cash settlement transactions ('Fixed Fee II'):

Band	From (EUR million/day)	To (EUR million/day)	Annual fee	Monthly fee
1	0	below 1 000	EUR 5 000	EUR 417
2	1 000	below 2 500	EUR 10 000	EUR 833
3	2 500	below 5 000	EUR 20 000	EUR 1 667
4	5 000	below 10 000	EUR 30 000	EUR 2 500
5	10 000	below 50 000	EUR 40 000	EUR 3 333
6	50 000	below 500 000	EUR 50 000	EUR 4 167
7	500 000 and above	—	EUR 100 000	EUR 8 334

The gross value of the ancillary system's euro cash settlement transactions shall be calculated by the ASCB once a year on the basis of such gross value during the previous year and the calculated gross value shall be applied for calculating the fee from 1 January of each calendar year. The gross value shall exclude transactions settled on T2S DCAs and TIPS DCAs.

(c)   A transaction fee calculated on the same basis as the schedule established for PM account holders in Appendix VI to Annex I of the Terms and Conditions. The ancillary system may choose one of the two options: either to pay a flat EUR 0.80 fee per payment instruction (Option A) or to pay a fee

calculated on a degressive basis (Option B), subject to the following modifications:

(i)   for Option B, the limits of the bands relating to volume of payment instructions are divided by two, and

(ii)   a monthly fixed fee of EUR 150 (under Option A) or EUR 1 875 (under Option B) shall be charged in addition to Fixed Fee I and Fixed Fee II.

(d)   In addition to the fees set out in (a) to (c), an ancillary system using the ASI or the Participant Interface shall also be subject to the following fees:

(i)   If the ancillary system makes use of the TARGET2 value-added services for T2S, the monthly fee for the use of the value added services shall be EUR 50 for those systems that have chosen option A and EUR 625 for those participants that have chosen option B. This fee shall be charged for each account held by the ancillary system that uses the services;

(ii)   If the ancillary system holds a Main PM account linked to one or more T2S DCAs, the monthly fee shall be EUR 250 for each linked T2S DCA; and

(iii)   The ancillary system as Main PM account holder shall be charged the following fees for T2S services connected with the linked T2S DCA(s). These items shall be billed separately:

Tariff items	Price	Explanation
Settlement services		
T2S DCA to T2S DCA liquidity transfer orders	9 euro cent	per transfer
Intra-balance movement (i.e. blocking, unblocking, reservation of liquidity etc.)	6 euro cent	per transaction
Information services		
A2A reports	0.4 euro cent	Per business item in any A2A report generated
A2A queries	0.7 euro cent	Per queried business item in any A2A query generated
U2A queries	10 euro cent	Per executed search function
U2A queries downloaded	0.7 euro cent	Per queried business item in any U2A query generated and downloaded
Messages bundled into a file	0.4 euro cent	Per message in a file
Transmissions	1.2 euro cent	Per transmission

(iv) the ancillary system as Linked PM account holder shall be charged the following fees for TIPS service connected with the linked TIPS DCA(s):

Tariff items	Price	Explanation
Settlement services		
Instant payment order	0.20 euro cent	To be charged also for unsettled transactions
Recall request	0.00	
Negative recall answer	0.00	
Positive recall answer	0.20 euro cent	To be charged to holder of the Linked PM account associated with the TIPS DCA to be credited (also for unsettled transactions)

Up to the first ten million instant payment orders and positive recall answers, cumulatively, received by the TIPS Platform by the end of 2019, shall be free of charge. The Bank shall charge the ancillary system as Linked PM account holder for any further instant payment orders and positive recall answers received by the TIPS Platform by the end of 2019, in the following year.

(2) Any fee payable in relation to a payment instruction submitted or payment received by an ancillary system, via either the Participant Interface or the ASI, shall be exclusively charged to this ancillary system. The Governing Council may establish more detailed rules for the determination of billable transactions settled via the ASI.

(3) Each ancillary system shall receive an invoice from its ASCB for the previous month based on the fees referred to in subparagraph 1, no later than the ninth business day of the following month. Payments shall be made no later than the 14th business day of this month to the account specified by the ASCB or shall be debited from an account specified by the ancillary system.

(4) For the purposes of this paragraph, each ancillary system that has been designated under Directive 98/26/EC shall be treated separately, even if two or more of them are operated by the same legal entity. The same rule shall apply to the ancillary systems that have not been designated under Directive 98/26/EC, in which case the ancillary systems shall be identified by reference to the following criteria: (a) a formal arrangement, based on a contractual or legislative instrument, e.g. an agreement among the participants and the system operator; (b) with multiple membership; (c) common rules and standardised arrangements; and (d) for the clearing, netting and/or settlement of payments and/or securities between the participants.