X-pand into the Future

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⚠ **High priority**

Migration to the TARGET2 Payment System

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Content may be most important for:

➲ All departments

Attachments:

none

Summary:

In conjunction with the introduction of TARGET2 by the European Central Bank, this circular will provide you with information on the planned migration of Eurex euro payments to the TARGET2 platform which will take place in mid 2008.

Furthermore we will explain the effects the changeover will have on the Clearing Members and settlement institutes of Eurex Clearing AG.

Migration to the TARGET2 Payment System

In conjunction with the introduction of TARGET2 by the European Central Bank, this circular will provide you with information on Eurex Clearing AG's planned migration for euro payments with the TARGET2 platform. Eurex Clearing AG intends to establish migration of all payments from Eurex/CCP in mid 2008.

Furthermore we will explain the effects the changeover will have on the Clearing Members and settlement institutes of Eurex Clearing AG.

TARGET2 is the future real-time gross settlement system for euro payments in central bank money. It will replace the current decentralized TARGET1 platform.

In the future, Eurex Clearing AG will settle cash payments in euro with its Clearing Members/settlement institutes via the TARGET2 platform and therefore use the Ancillary System Interface (ASI). In TARGET2, Eurex Clearing AG may access TARGET2 accounts (RTGS accounts) of central banks other than the Deutsche Bundesbank (cross-border money transfer). Accordingly, Clearing Members/settlement institutes may use RTGS accounts at their respective central bank also for payments of Eurex Clearing AG.

At the same time the TARGET2 changeover of Eurex euro payments will take place, Eurex Clearing AG will also migrate payments in the CCP system to the TARGET2 platform. Until the point in time the changeover has been completed, bookings of euro payments via Eurex Clearing/CCP will continue to be booked via the Electronic Securities Settlement System (EWV) of Deutsche Bundesbank within the Eurex Bundesbank link, as before.

Payment Procedure of Eurex Clearing AG

Eurex Clearing AG will enter euro payment instructions as Ancillary Systems (AS) in the Single Shared Platform (SSP) of TARGET2 by means of Settlement Procedure 3. Eurex Clearing AG will use no other procedure for this purpose. In the course of the procedure, Eurex Clearing AG enters credits and debits as bilateral cash settlement between the Clearing Member/settlement institute as so-called Direct Participant and Eurex Clearing AG. Those debits and credits will be processed independently of each other by the SSP. Since Eurex Clearing only uses Settlement Procedure 3, and this can only be used for daylight processing, payment instructions will only be settled on the TARGET2 member's RTGS account. Using a sub-account (Settlement Procedure 6), e.g., for reservation purposes and bookings, as is provided for in overnight processing of Clearstrem Banking AG, Frankfurt, will not be possible.

Effects on Clearing Members/Settlement Institutes

Due to the fact that Eurex Clearing AG can address Direct Participants of TARGET2 only via the Single Shared Platform (SSP), existing Bundesbank home accounts must be replaced by RTGS accounts within the systems of Eurex Clearing AG at the point in time the migration takes place. These RTGS accounts may be held at the Bundesbank or at another central bank taking part in TARGET2. Clearing Members/settlement institutes, which have not been set up as Direct Participant in TARGET2, must use a correspondent bank, which is a Direct Participant in TARGET2.

Compared to the present-day situation, the following scenarios will arise for Clearing Members/settlement institutes:

Home Country	**Current Participation in Euro Payment Transactions**	**Future Participation in Euro TARGET2 Payment Transactions**	**Comments**
Germany	own Bundesbank home account	own RTGS account at Bundesbank*	including refinancing possibility
Euro zone	own Bundesbank account	cross-border access by means of RTGS account at the home country's central bank (one account approach)*	refinancing possibility depends on the respective rules of the central bank of the home country
Switzerland	own Bundesbank account	correspondent bank (Direct Participant) within euro zone**	no refinancing possibility
Great Britain	own Bundesbank account	own RTGS account at a central bank in the euro zone*	no refinancing possibility
All other countries	German correspondent bank	correspondent bank (Direct Participant) within euro zone	possibly, existing bilateral contracts would need to be changed

* or participation via a correspondent bank (Direct Participant)

** For Swiss Clearing Members, who cannot take part directly in TARGET2 for their euro monetary transactions with Eurex Clearing AG, Eurex Clearing AG intends to offer the possibility to settle their euro payments via the euroSIC platform of SECB (Swiss Euro Clearing Bank GmbH).

Registration Process

For the migration of Eurex Clearing AG mid 2008, a separate registration process of the Clearing Members/settlement institutes at the respective central bank and Eurex Clearing AG is required. Each Clearing Member/settlement institute is obliged to designate an RTGS account before the migration takes place. We will inform you about the registration process and the necessary forms needed to name the RTGS accounts in a later circular.

General Information

TARGET2 is based on an integrated, centralized technical infrastructure, the SSP. In order to fulfil the requirements of all users (European bank industry, national central banks and European Central Bank), this platform offers a variety of functions and services. A distinction is made between the following participants:

- direct members from the European banking industry, who by means of the "Participant Interface" (PI) take part in the TARGET2 payment system and
- supporting systems, the AS, that take part via the standard interface "Ancillary System Interface" (ASI).

The upcoming TARGET2 migration will take place in several steps. The following table provides an overview of the migration groups and the respective migration dates:

Group 1 Nov. 19, 2007	Group 2 Feb. 18, 2008	Group 3 May 19, 2008	Group 4 Sep. 15, 2008
Austria Cyprus Germany Latvia Lithuania Luxembourg Malta Slovenia	Belgium Finland France Ireland Netherlands Portugal Spain	Denmark Estonia ECB Greece Italy Poland	Reserved for contingency

The first group, which amongst other countries Germany is part of, will migrate its payment transactions to the new TARGET2 platform on November 19, 2007. However, the “Bundesbank home accounts“ will continue to be used for certain services of the German Central Bank, such as intraday and overnight credit lines or minimum reserve. Eurex Clearing AG as Ancillary System will migrate to the TARGET2 payment system in mid 2008, after successful migration of all euro countries. Provided that all euro countries are taking part in the TARGET2 payment system by then, Eurex Clearing AG will be able to use cross-border payments to the full extend.

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