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Q&A ON INTERNET-BASED ACCESS TO TARGET2

The Internet-based access to TARGET2 is an alternative connection mode to the Single Shared Platform (SSP) that offers direct access to the main TARGET2 services without however requiring a fully-fledged connection to the SWIFT network. The Internet-based access will be developed by the Eurosystem to meet the needs of small and medium size banks. While having low-volume payment traffic, some smaller European institutions may be interested in holding an account with the Central Bank (i.e. for having direct access to the refinancing operations or for fulfilling the reserve requirements). This circumstance will materialise particularly in the countries where the Proprietary Home Accounts (PHAs) will be phased out. To address this need, the Eurosystem decided to offer an alternative access to TARGET2 however providing a limited range of services compared to the standard TARGET2 connection.

The Internet-based access to TARGET2 will be available starting from 22 November 2010 in production, and from September 2010 in the test&training environment. Additional information on the steps required to subscribe to the service can be received from the National Service Desks.

Functional issues:

Which functionalities will the Internet-based access support for an RTGS account?

The Internet-based access will support the following functionalities:

- Monitoring an RTGS account via the Information and Control Module (ICM), including the provision of online information on inward and outward (final and pending) transactions and on Ancillary System (AS) settlement and liquidity position.
- Issuing TARGET credit transfers via specific ICM screens, including MT103(+), MT202(COV) and liquidity transfers to both SWIFT-based and Internet-based participants.

- Displaying inward TARGET credit transfers, including MT103(+), MT202(COV), MT204 from SWIFT-based participants and liquidity transfers from both SWIFT-based and Internet-based participants.
- Displaying notifications, broadcasts and end-of-day reporting messages on the ICM.
- Managing limits and reservations and managing queues, including changing priorities, reordering items, changing execution times and revoking payments.
- Settling a participant's position in AS settlement, including procedure 6 of the AS settlement for which they can have sub-accounts.
- Settling payments in relation to Eurosystem open market operations.
- Consulting the TARGET2 directory online.

What will be the limitations of the Internet-based connection compared to the traditional SWIFT-based connection for an RTGS account?

A first limitation associated to the Internet-based access will be that the ICM is only available in User to Application (U2A) mode, not in Application to Application (A2A) mode. In addition, not all functionalities will be provided. In particular:

- MT 204 can be received (including connected payments) but cannot be sent. In case of inward MT 204 only one sequence B is allowed.
- It will not be possible to receive MT900/910 or MT940/950, but account statements similar to MT940/950 will be available for download at the end of the day.
- It will not be possible to use an Internet-based account in a group of account arrangement (aggregated liquidity or consolidated account information).
- It will not be possible to use an Internet-based account in a multi-addressee access arrangement.
- It will not be possible to download the TARGET2 directory, which can be instead consulted only online.

Beyond the Payments Module (PM), which other SSP module will the Internet-based participants be able to access via the ICM?

The Internet-based participants will be able to access the Home Accounting Module (HAM), and to use the functionalities of the Standing Facilities (SF) and Reserve Management (RM) modules, if the respective Central Banks have opted for these modules.

How can an Internet-based participant enter a TARGET payment?

New ICM screens will be made available and will provide templates where users can key-in information related to the payment transaction, equivalent to an MT103(+) or MT202(COV).

After successful validation, the payment will be forwarded via SWIFT to the receiving participant using the Y-Copy mechanism.

Which information will the ICM display?

The information displayed by the ICM will be very similar to the one displayed in the ICM of the SWIFT participants. This includes: inward TARGET payments MT103(+), MT202(COV), MT204 from SWIFT-based participants or liquidity transfers stemming from both SWIFT-based or Internet-based participants, broadcasts and end-of-day reporting messages. Internet-based participants will also be able to print and save statements of account, similar to MT940/950, for a period of 10 business days.

Will it be possible to set bilateral limits for/against an Internet-based participant?

Yes, both SWIFT-based and Internet-based participants will have the possibility to set limits against a specific Internet-based or SWIFT-based participant.

Will it be possible for a Central Bank to send mandated payments on behalf of an Internet-based participant?

Yes, Central Banks will have the possibility to send payments on behalf of an Internet-based participant either using mandated payments, if this service is offered by the central bank, or by connecting to the ICM on behalf of the Internet-based participant..

Can the Internet-based connection be used by Ancillary Systems?

No, the Internet-based access can be used only by credit institutions.

Reachability and payment flows:

How will the payment flow work for Internet-based participants?

In case of outward payments, the SSP will convert the Internet-based payment messages into SWIFTNet FIN equivalent messages. These messages will be transmitted using the platform Bank Identifier Code (BIC) TRGTXEPMLVP as sender-BIC in the header of the SWIFT messages. Similarly, inward flow messages, where the platform BIC will show as receiver-BIC in the header of the SWIFT messages, will be converted by the SSP into a format that can be displayed on the ICM of Internet-based participants.

How will the participants using the Internet-based connection be identified?

The Internet-based participants are expected to be identified with a non-SWIFT BIC (also known as BIC-1). However, the use of a SWIFT BIC in combination with an Internet-based access is also possible.

Will all participants reach/be reachable for an Internet-based participant?

There are no restrictions in terms of reachability. Internet-based participants and SWIFT-based participants will be able to reach each other without limitations.

Will the Internet-based participants be listed in the TARGET2 directory?

All Internet-based participants, unless they explicitly requested to use the “unpublished BIC” feature, will be listed in the TARGET2 Directory similarly to the other participants. The field “Addressee” will show the technical platform BIC, through which payments are routed from/to Internet participants. Their participation type will be “1”, i.e. direct participant.

Example:

BIC	BANKBEB1
Addressee	TRGTXEPLVP
Account holder	BANKBEB1
Institution name	Bank S.A. Brussels
City Heading	Brussels
National Sorting Code	-
Main BIC Flag	Yes
Type of Change	A
Valid from	201011XX
Valid till	99991231
Type of participation	01 – Direct participant

This means in particular that SWIFT-based participants willing to reach Internet-based participants can route them according to the TARGET2 directory (if the BIC is not unpublished) and do not have to change their internal applications.

Will it be possible to connect to the same account via SWIFT and via the Internet?

For one given account, the Internet-based access and the SWIFT-based access will be mutually exclusive (i.e. the account holder would have the possibility to opt for one of the two services but not for both). If a participant wants to manage the two types of connections, it must be using different BICs and will have to handle two accounts.

Will it be possible to be at the same time connected via the Internet and to settle payments in an indirect way?

It is possible for a bank to become a direct participant using the Internet-based access and to continue to settle its payments in an indirect way via another direct participant. Banks may indeed use the Internet-based connection for managing an account with a limited purpose (e.g. for carrying out operations with the Central Bank), while continuing to route their payment traffic via another direct participant. However, it should be pointed out that this will be possible only using two different BICs, if the Internet-based participant holds the account in the PM

(direct participation). If the Internet-based account is held in the HAM (HAM account holder), the same BIC can be used.

It is expected that the banks that plan to use the Internet-based access also for sending and receiving payments will publish the associated BIC in the TARGET2 directory, and that they will not route their payment traffic via another direct participant. Adversely, it is expected, that the banks that plan to use the Internet-based access for processing Central Banking services whilst continuing to route their payments via another direct participant will opt for an unpublished BIC (intended as unpublished in the TARGET2 directory) in combination with the Internet-based connection. The Eurosystem will ensure that the unpublished BIC feature is not misused by the participants, e.g. that payments are exchanged only with a very limited number of counterparties on the basis of explicit agreements, and to this end it will put in place a specific monitoring.

Can an Internet-based connection be used as a back-up for SWIFT-based participants?

The Internet-based access to TARGET2 was primarily designed for addressing the specific business case of small and medium size credit institutions that were not yet connected to the SSP. However, in principle, the use of the Internet-based access as a back-up solution to the SWIFT-based connection is not prevented, in case the SWIFT connection is unavailable at participant's level. The SWIFT-based participants that may wish to opt for it are invited to carefully consider the issues such a choice may raise. Firstly, the Internet-based connection would be associated to a different account having a different BIC. Therefore, before using the account associated to the Internet connection, participants would need to shift liquidity from their SWIFT-based account to the Internet-based one. Due to the unavailability of the SWIFT connection at the participant's level, the participants will have to contact their national Central Bank that would move the liquidity from one account to the other on their behalf. Secondly, the functional restrictions applying to the Internet-based connection may not allow the participant to conduct its normal operations from the back-up account. In particular, the absence of an A2A mode and the necessity to key-in all payments may limit the volume of transactions that can be handled in contingency which is de facto limited (typically the volume is expected to be max 10 payments per day per account).

Pricing issues:

How will the Internet-based connection be priced?

The Internet-based connection will be offered as an optional service. The price for the service will consist of a fixed monthly fee of EUR 70, irrespective of whether the account is hold in the PM or in the HAM. This includes the provision of the services as specified in the section

“Functional issues”, as well as the cost of the issuance and maintenance of the certificates, with a limit of 5 certificates per account.

What is the level of service provided by the National Service Desks?

The level of service offered by the National Service Desks will be the same as the one offered to the SWIFT-based participants.

Which additional fees will be the Internet-based participants subject to?

- The additional costs the users will be subject to are relative to the TARGET2 core services: EUR 100 per month for the PM account, EUR 0.80 for each submitted payment transaction in the PM and a monthly fee of EUR 30 for the unpublished BIC, where applicable.

How will the Internet-based participants be billed?

The billing rules for the Internet-based participants will be the same as those for the SWIFT-based participants.

Will the pricing be reviewed after the go-live of this feature?

The pricing of the Internet-based access will be reviewed after 1 year based on the actual use of the service. The underlying principle is that the costs of the service should be fully recovered without cross-subsidization from other services.

Security issues:

Which level of security will be associated to the service?

Similarly to the traditional connection, the Internet-based access will ensure that the total confidentiality and integrity of the messages are preserved via encryption functionality. Non-repudiation will also be granted.

Which authentication will be requested to access the system?

The user authentication will be based on certificates. The Banca D'Italia, as recognised Certification Authority (CA), will issue certificates for the users on behalf of the Eurosystem. Pending a compliance check, also certificates of other CAs will be accepted. The certificates will need to be renewed after 3 years, in line with the EU legislation. In physical terms, they will be handled on cards for the first year¹ and later on USB sticks.

Who will distribute the certificates and what are they usable for?

¹ Participants will have to purchase a card reader for it.

The national central banks will distribute the certificates to the participants. While the usage is limited in the first stage to TARGET2, it may be extended later on to other Eurosystem applications.

Will it be possible to make use of the 4-eyes-principle for some critical action?

Similarly to the ICM for the SWIFT-based participants, the Internet-based participants will have the possibility to secure the access to sensitive actions and to apply the 4-eyes-principle (e.g. for payment queue operations). For the issuing of TARGET credit transfers (MT103(+)/MT202(COV)) the 4-eyes principle will be mandatory.

Legal issues:

What will be the legal status of the Internet-based participants and which will be the rights and obligations associated to them?

From a legal viewpoint the Internet-based participants will be direct participants since they would comply with the definition laid down in the TARGET2 guideline where a direct participant is defined as “an entity that holds at least one PM account with a Eurosystem Central Bank” (ref. Article 2 of the Guideline ECB/2007/2). Their rights and obligations will be similar to those of the other participants in terms of credit lines, access to intraday credit, liquidity provisions, suspension and termination. However, the technical limitations to some services will also have to be reflected.

Where will be the legal provisions laid down?

The legal provisions will be laid down in the TARGET2 Guideline, where a section dedicated to the Internet-based participants will be added. The TARGET2 legal documentation will be updated to introduce the new feature and to clarify the specificity applicable to it (e.g. technical aspects, functional restrictions).

Which are the necessary steps to become an Internet-based participant?

Please contact your national Central Banks for the necessary tests and certifications. Like for the new participants using a SWIFT-based connection, it is expected that the connection of a new Internet-based participant requires between 3 and 6 months of technical, operational and legal preparation.

Participation and Volumes:

What are the Eurosystem expectations in terms of number of Internet-based participants?

The Eurosystem expects that around 1,000 participants will be connected to TARGET2 via the Internet after 1 year. However, it is likely that the big majority of them will not be active in terms

of payments business and will exclusively handle operations with their Central Banks. For that reason, it is also expected that most of them will make use of the unpublished BIC service.

What is typically the volume of transactions expected for Internet-based participants?

According to different surveys conducted in 2008 and 2009, the vast majority of the Internet-based participants will submit less than 5 payments per day. It is expected that the Internet-based connection will be mainly used to access Central Banking services and that the payment activity of the Internet-based participants will be very limited.