

# Tiered participation arrangements

Results for T2 and comparison with TARGET2



Sara Testi, Livia Polo Friz DG-MIP/MIM

16 October 2024 T2-CG meeting

# **Overview**

#### 1 Background

- 2 Results at aggregate level
- 3 Results at individual level
- 4 Conclusion

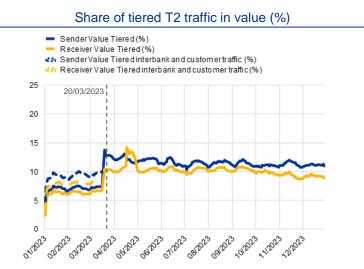
### 1 Background

- Tiered participation arrangements arise when a direct participant (in TARGET2) offers its services to settle transactions on behalf of another institution, i.e. a form of correspondent banking
- Article 17 of the SIPS Regulation requires a SIPS operator to identify, monitor and manage the risks arising from the indirect participation in the SIPS
- The TARGET operator has elaborated a framework for identifying and monitoring indirect participation, both at aggregate and individual level.
- With the migration to the T2-T2S consolidated platform the framework previously developed for TARGET2 was adapted to T2 and the changes system configuration

### 1 Methodology

- Tiering levels are calculated from transaction-level data, by comparing a payment's sender and receiver with its originator and beneficiary and excluding intragroup transactions.
- Differently than TARGET2, in T2 only customer and interbank transactions settled in the RTGS are considered as eligible for the tiering computations. CLM is not in scope, as it is only used for liquidity management and central bank operations.
  - All CLM activity, ancillary system-related activity in the RTGS and liquidity transfers are excluded from the methodology
  - These are typically high-value low-volume payments and were part of the methodology for TARGET2, causing a reduction in the total traffic considered "eligible" for tiering, which is the denominator in the share of tiered traffic

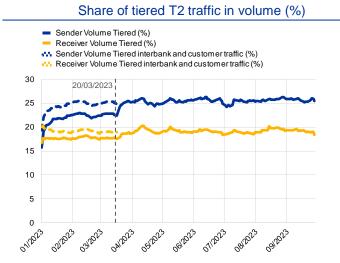
# 2 Tiering levels in value in 2023



- Largely due to the methodological changes, we observe a level shift in the tiered values in RTGS (11.5% on sending side and 10.2% on receiving side) compared to TARGET2 (7.0% and 6.2%)
- When re-computing TARGET2 traffic according to the new methodology, the shares of TARGET2 tiered payments increase to 9.2% and 7.8% respectively, partially closing the gap with the RTGS levels, suggesting continuity in the customer and interbank payment traffic in TARGET2 and RTGS

Source: TARGET2, T2. Note: 10-day moving averages.

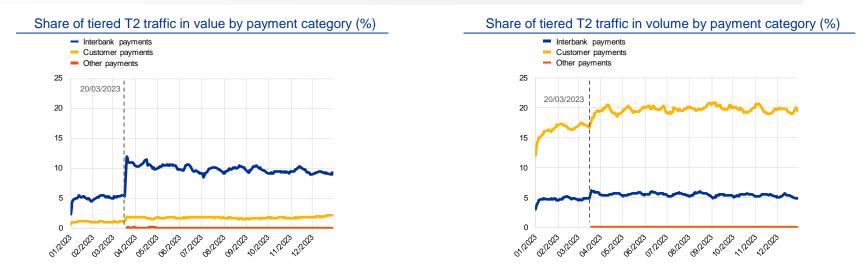
# **2** Tiering levels in volume in 2023



- The tiered volumes in RTGS (25.4% on sending side and 19.0% on receiving side) are closer to TARGET2 (21.9% and 17.7%) than the values. The asymmetry with values can be mainly explained by the methodological changes, which led to the exclusion of a set of high-value/low-volume payments
- When re-computing TARGET2 traffic according to the new methodology, the shares of TARGET2 tiered payments increase to 24.5% and 19.2% respectively, fully closing the gap with the RTGS levels

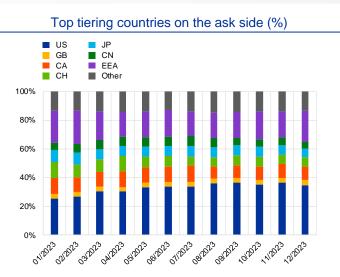
Source: TARGET2, T2. Note: 10-day moving averages.

# 2 Tiering by payment type in 2023

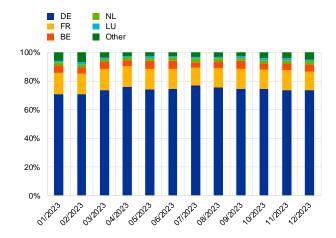


- In RTGS only customer and interbank payments are considered eligible for tiering. The weight of each category in the tiered traffic is fully aligned to TARGET2, with interbank payments representing the largest category in value and customer payments in volume
- In line with the overall developments, the interbank tiered traffic in value increased from 5.0% in TARGET2 to 9.8% in RTGS, whereas customer tiered traffic in volume stood at 16.5% and 19.8% in the two systems, respectively

# 2 Tiering by country in 2023



Top tiering countries on the offer side (%)



- US-headquartered banks were the largest indirect participants, followed by EEA banks and Canadian banks
- Banking groups located in Germany remained the largest providers of tiering services, followed by France
- These results are in line between TARGET2 and T2 and they reflect the overall trend in the correspondent banking business

Source: TARGET2, T2. Note: the location is defined as the country where the banking group is headquartered on the ask side and as the central bank through which the direct participant connects on the offer side.

Direct participants per indirect participants at group level in T2

## 2 Direct participants per indirect ones

Direct participants per indirect participants in T2

10.000 5.000 8.000 4.000 **Tiered** participants **Fiered groups** 6,000 3,000 4,000 2,000 2,000 1,000 Λ Λ 2 3-4 5-7 8-10 11-50 16-30 31-50 2 16-30 31-50 +50+503-4 5-7 8-10 11-50 **Direct participants** Direct groups

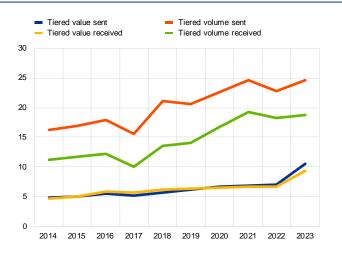
- Out of 22,477 indirectly participating BIC11 (3,517 banking groups), the majority (60.9% of banks and 73.9% of groups) asked two or more direct participants to send payments to RTGS on their behalf at least once
- In 2022, 24,223 individual participants participated indirectly in TARGET2 (4,684 banking groups); the majority (59.3% of banks and 79.7% of groups) asked two or more direct participants to send payments to TARGET2 on their behalf at least once

Source: TARGET2, T2.

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#### 2 Tiering over time

#### Evolution of the share of tiered traffic over time



- In the last ten years, the share of payments sent or received by direct participants in TARGET2 and in T2 has followed an increasing trend, especially in volume
- There is persistent asymmetry in the share of tiered traffic in value and in volume, as well as in the payments that are tiered on the sending or on the receiving side, suggesting that:
  - Indirect participants use direct participants to settle transactions more frequently on the sending side than they asked to receive on their behalf
  - The average tiered transaction size is larger on the receiving than on the sending side
- The results are consistent between TARGET2 and T2

#### 4 Conclusion

- The results for the first year of operation of T2 were fully consistent with TARGET2, although with a level shift in the share of tiered traffic, mainly explained by the methodological changes in the exercise, which affected the pool of transactions considered eligible for tiering
- There was full continuity between TARGET2 and T2 in terms of payment types that were predominantly tiered, as well as in the geographical location of the indirect banking groups and the directly participating groups that offered such services
- Most direct participants did not send any payment on behalf of others in 2023, while most indirect participants relied on at least two direct participants
- Overall, the risks arising from tiering in T2 did not materially change compared to TARGET2 and remained at an acceptable level in 2023

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# Thank you! Questions?