

#### **Box 4**

##### Advances in market infrastructures and implications for the international use of the euro

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The Eurosystem promotes the safe and efficient functioning of the euro payment infrastructure. This task is closely interlinked with its responsibilities in the field of monetary policy. All actions taken by the Eurosystem in this field also indirectly support the international standing of the euro by making euro-denominated financial markets more efficient and more attractive to foreign investors.

Since the launch of the euro the Eurosystem has played a major part in reshaping and consolidating the infrastructure for large-value payments, for post-trading services for financial instruments and, most recently, for instant retail payments. The goal is to create a truly single financial market in Europe where payments, securities and collateral can be moved safely and efficiently between participants active in European markets, without friction or restrictions.

The Eurosystem's market infrastructure services for the settlement of payments and securities in central bank money include TARGET2, TARGET2-Securities (T2S) and TARGET Instant Payment Settlement (TIPS) – the so-called TARGET Services.

TARGET2 and its predecessor are the longest-standing components of the Eurosystem's financial market infrastructure. TARGET, the first-generation RTGS system, commenced operations just a few days after the launch of the euro in January 1999. In 2008 it was fully replaced by TARGET2, which offers harmonised services on a single technical platform. Today TARGET2 is one of the largest payment systems in the world, processing 90% of the total value settled by large-value payment systems in euro.

T2S, the integrated technical platform which processes the real-time settlement of securities transactions against central bank money across Europe, was launched in 2015. Full migration took place in waves over the following two years to ensure a smooth transition. T2S provides banks and intermediaries with a single pool of collateral for the entire T2S market comprising 21 central

securities depositories from 20 European countries, thereby optimising settlement and triparty procedures.

Last but not least, in November 2018 the Eurosystem delivered TIPS, a market infrastructure for instant payments with settlement in central bank money. TIPS enables payment service providers to offer fund transfers to their customers in less than ten seconds throughout the day, every day of the year.

The upcoming technical and functional convergence of TARGET2 and T2S will further optimise liquidity management and generate new cost efficiencies. The consolidation project, which will run until 2021, will introduce a central liquidity management system that will allow participants to monitor and manage their liquidity for all TARGET Services. It will enable centralised management and control over the payment capacity with a clear allocation of liquidity for the different settlement purposes. This will make the use of central bank money even more efficient for market participants and, in turn, benefit the financial market and its domestic and foreign participants.

In contrast to the major steps taken to overcome the fragmentation in the European payments market and in the securities trade and post-trade area, there is still room for progress at the front end of the securities process chain. The issuance and distribution of securities still hinges on fragmented legacy standards, structural constraints and complex market practices at the national level. Facilitating interactions and procedures between some participants still entails high costs and risks. European issuers and EU institutions in particular need to be able to collect funds from investors across the continent in a fair and well defined manner. Reflection on pan-European issuance would be in line with the endeavour to deepen the single capital market in the EU.

Finally, whilst noting the progress achieved in better integrating the retail payments market through the SEPA project, recent global trends in this field call for capitalizing on European strengths and develop a European strategy for retail payments, taking into account the instant payment infrastructure (TIPS) and instrument (SEPA Instant Credit Transfer).

In summary, through its provision of safe and efficient market infrastructure services, the Eurosystem plays an integral role in strengthening the international role of the euro. The full deployment of TIPS and the consolidation of TARGET2 and T2S will underpin the progress in the RTGS and retail payments market. Simultaneously, discussions on how best to remove the remaining barriers and obstacles that still exist in some segments of the securities market are under way.

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