



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Upper limit to TARGET2 transactions?

Business practices  
proposal

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AMI-Pay meeting



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DISCLAIMER:

*The author of this presentation is member of one of the user groups with access to TARGET2 data in accordance with Article 1(2) of Decision ECB/2010/9 of 29 July 2010 on access to and use of certain TARGET2 data. The ECB, the MIB and the MIPC have checked the presentation against the rules for guaranteeing the confidentiality of transaction-level data imposed by the PSSC pursuant to Article 1(4) of the above mentioned issue.*

# Overview

- Introduction
- High-value payments in TARGET2
- Risks associated to high denominations
- Simulations on split amounts
- Discussion points

# Introduction

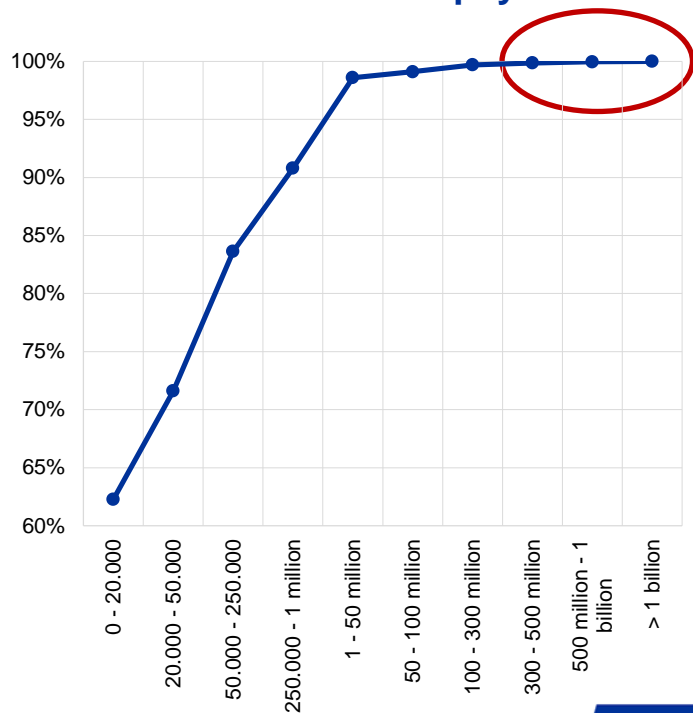
- Today there is **neither a lower nor an upper limit** to the transaction amount in TARGET2.
- This is true **both as “hard” limit** in the system, and as **“best practice”** among participants.
- Transactions of **high denomination** however can create the **risk of hampering the circulation of liquidity**.



Consider the **introduction of and upper limit** to transactions **in TARGET2?**

# High-value payments in TARGET2 (1/2)

## Distribution of TARGET2 payments across value bands in 2019



- High-denomination payments represent **very small fraction** of TARGET2 traffic.
- Transactions with **amount > € 500 million** were **0.16%** of TARGET2 flows in 2019.
- Transactions over € 300 million and over € 1 billion were 0.35% and 0.05% of traffic respectively.

# High-value payments in TARGET2 (2/2)

## Daily average number of transactions by size in 2019

Payment category	> €300 M	> €500 M	> €1 Bio
Overall	1040	478	160
Customer	70	23	3
Interbank	220	76	13
Intragroup	485	239	91
Ancillary Systems	162	77	20
Central bank operations	104	63	32

Source: TARGET2 data, ECB calculations.

- Intragroup flows were the vast majority of high-denomination transactions in 2019.
- On average 140 daily transactions > € 500 million were AS payments or central bank operations.
- Customer and interbank payments above 500 million were less than 100 per day.

# Risks associated to high denominations

- A high value payment may **block the sender's queue** and, especially if sent with high priority, hinder the settlement of other transactions, possibly equally or more important.
- High amounts can also be **erroneously inserted** (there were examples in TARGET2), which have the potential to jeopardize the whole system.
- Risks associated to high-denominations may **limit the circulation of liquidity** and therefore spill over to the whole community of participants.
- Informal contacts with market participants confirmed **concerns**, especially once going back to normal liquidity conditions.

# Simulations on split amounts

An attempt was made to assess the **impact on settlement speed of splitting a high-value payments into smaller denominations** using simulations.

**Example 1 (May 2019)**

Simulation	Payment(s) size	(Avg) queueing time hh:mm
Benchmark	€1.34 bn	01:05
Scenario A	5 x €268 mn	00:36
Scenario B	15 x €89 mn	00:26

**Example 2 (Sept. 2019)**

Simulation	Payment(s) size	(Avg) queueing time hh:mm
Benchmark	€590 mn	01:45
Scenario A	3 x €197 mn	01:05
Scenario B	12 x €49 mn	00:36

Source: TARGET2 data, ECB calculations.

- Results for the two analysed interbank transactions indicate that when the amount is split into smaller tranches the **overall queuing time decreases**.
- In particular, in the two simulated scenarios some tranches queue for shorter time while others settle at entry.



# Discussion points

While current liquidity conditions are favourable, a **discussion could be started to prepare for the future:**

- What are the views of AMI-Pay members in relation to the possibility to introduce an upper limit to the transaction denomination in TARGET2?
- Would there be support and interest for such an initiative?
- If the introduction of a limit would be considered, what could be the next steps?

Thank you!