Overview

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Motivation for the identification

- **Principle 17** of the Principles for Financial Market Infrastructures (**PFMI**) require an FMI to "*identify critical participants based on the consideration of transaction volumes and values (…) and the potential impact on other participants and the system as a whole in the event of a significant operational problem*"

- This principle is transposed to **Article 15** of the regulation on oversight requirements for systemically important payment systems (**SIPS regulation**)

- The **Information Guide for TARGET2 users** (section 3.7.2 of version 15.0) details the procedure developed by the TARGET2 operator for the identification of critical participants in TARGET2

Set-up of the identification

- The identification of critical participants in TARGET2 is a **yearly** exercise

- It encompasses **three user types**:

Credit institutions
(21 critical in 2021)

Ancillary systems
(20 critical in 2021)

Service bureaus/concentrators
(5 critical in 2021)

- A **dedicated methodology** is applied to each user type

- The designated critical participants are subject to **additional measures**

→ The next slides will focus on the **methodology for credit institutions**

Overview

Methodology for credit institutions

- The methodology is based on the combination of **two criteria**:

  TARGET2 turnover generated by the credit institution

  Unsettled TARGET2 payments generated by the simulation of a technical failure of the credit institution

- A credit institution is critical if **at least one of the two criteria** is met, with an additional element of time dependency

- The rationale is that, in general, a credit institution's **turnover** is a good proxy for its criticality in TARGET2

- However, the largest **repercussions in a network** may not always be caused by its largest credit institutions

Turnover criterion

- A credit institution is classified as critical if it generates **at least 1% of** the average daily **TARGET2 turnover** in the first quarter of the year

- The turnover is computed as the sum of the **traffic generated** by each credit institution at the technical platform level

- "Generated" means that **transactions** where the credit institution is debited but that are **not initiated by the credit institution** have to be filtered out

- The average daily traffic includes **customer, interbank and CLS transactions**, as well as **liquidity transfers to T2S**
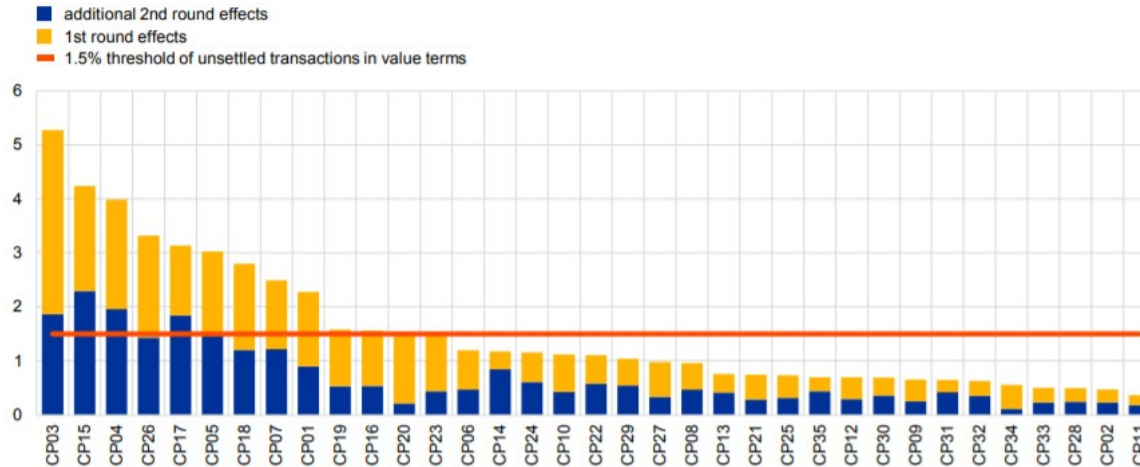
Simulation criterion

- A credit institution is classified as critical if it generates **at least 1.5% of unsettled payments** in the simulation of its technical failure

- The **simulation** scenario is built as follows:
  - A credit institution is no longer able to send payments to TARGET2 for an entire business day
  - However, it can still technically receive payments (credits on its account(s))
  - All the ancillary system payments debiting the account of that credit institution that are sent by the ancillary system itself can still take place, as well as payments related to changes in the intraday credit line

- Several **independent days** are simulated for each credit institution

- The tool used for the simulations is the **TARGET2 Simulator**

Illustration of the simulation criterion

Critical participants

(in percentages)

- ■ additional 2nd round effects
- ■ 1st round effects
- — 1.5% threshold of unsettled transactions in value terms

- As an example, if CP18, CP07 and CP19 do not meet the turnover criterion, they could still be classified as critical because they meet the simulation criterion

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Conclusion

- The analysis is carried out every year, in line with the **oversight requirements**

- Critical credit institutions are identified via a **comprehensive exercise** looking at their generated traffic as well as their interconnection in the TARGET2 network using simulations

- Critical participants have **obligations** they need **to fulfill due to** their **criticality**, in terms of business continuity, testing and incident reporting

- The **list** of critical participants is **not publicly available**, each institution is informed every year whether it is part of the critical participants list and its obligations