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To all PM and HAM account holders
with SWIFT access

Your ref	Our ref Z 11/CRM	Tel/Fax, Name +49 (0)69 9566 6800	Date 2 April 2014
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Dear Sir or Madam

**Important change to payments via TARGET2
Implementation of the “ISO 20022 strategy” in November 2017**

We would hereby like to inform you of an important change to payments via the TARGET2 platform that will take effect from November 2017. We are informing you at this early stage to give you plenty of time to consider the effects it will have on your IT systems and processes. You should plan to make the necessary changes to your applications on a timely basis, as the changes are mandatory and the deadline of November 2017 has already been fixed.

Context

Payment messages within the TARGET2 platform environment are currently exchanged on the basis of SWIFTNet FIN messages (known as message types, MTs).¹ In the payments module (PM), messages/MTs are exchanged directly between users and booked in TARGET2 using the Y-copy procedure.² In the home accounting module (HAM), messages/MTs are sent directly to or from the platform. Both modules also send credit and debit notifications and account statements to the account holders via MTs.

¹ One exception being internet users who enter payment messages directly in a screen on the user interface of the TARGET2 platform and are therefore not affected by the changes.

² The payer sends the MT directly to the payee (the service code TGT is also provided in the user header). This message is entered into a queue in the SWIFT network and a copy is sent to the TARGET2 platform. Once the bookings have been made to the accounts, the original message is forwarded to the payee.

What is behind the “ISO 20022 strategy”?

The Eurosystem, as the provider of the TARGET2 platform, decided in consultation with the user community to replace the MTs currently used for payments in TARGET2 with MX messages in future. These messages in XML format are similar to those currently used in SEPA, for instance, and those that will be used in TARGET2-Securities³ (T2S) in future. The SWIFT network will continue to be used exclusively to exchange messages in the TARGET2 platform environment.

This strategic decision was taken with a view to migrating the TARGET2 platform to a future-proof technology. Similar developments are currently being driven forward for other individual payment systems worldwide (for example, in Switzerland and Japan) and similar decisions will soon be made for even more systems.

MX messages will be introduced to the TARGET2 platform along with release 11.0 in November 2017 and the migration will initially be purely technical. In terms of content, the MX messages will therefore, when first introduced, contain the same information as the current MT messages to ensure interoperability with the previous standard for a transitional period (like-for-like approach). In the medium term, the content of the messages is to be expanded in consultation with users to generate added value.

What form will the migration to MX messages take?

In consultation with the user community, a big bang approach will be taken to the MX migration in the TARGET2 platform. This means that all MT messages used in the TARGET2 platform will be replaced by their MX equivalents on the same date (November 2017). There will be no coexistence or parallel use of old and new standards within the TARGET2 platform. Furthermore, migration services will not be provided by the TARGET2 platform. Consequently, the exchange of messages in the TARGET2 environment must be migrated to the new formats by the user by the given deadline. This applies to both senders and recipients of TARGET2 payment messages.

In the interest of completeness, we would like to mention that this mandatory migration affects only the use of the TARGET2 platform. As things currently stand, the SWIFT network will continue to support the exchange of SWIFTNet FIN messages (eg for correspondent banking transactions), even after November 2017.

³ This is the Eurosystem's platform, currently in development, for the integrated and harmonised settlement of securities transactions in central bank money.

Which messages are affected?

It will not be possible to use the following MT messages on the TARGET2 platform from the date of migration to MX. Your internal systems/the systems made available to you must be migrated to the new format for the following messages.

MT 103	Customer payment
MT 103 STP	Customer payment (STP)
MT 202	Bank-to-bank payment – general payment message
MT 202 COV	Bank-to-bank payment – message for cover method including customer credit transfer details
MT 204	Direct debit payment
MT 900	Confirmation of debit
MT 910	Confirmation of credit

At the request of the user community, the message types MT 940 and MT 950, which are used to send account statements, will not be migrated until a later date. Initially, it will therefore be possible to continue to use these message types on the TARGET2 platform, even after November 2017.

Which customers are affected by the ISO 20022 strategy?

Affected customers:

- All direct TARGET2 participants (including their internal systems) that settle payment orders via SWIFT using the TARGET2 payments module
- All HAM account holders that use SWIFT to send payment orders directly to the home accounting module or to receive payment orders from this module
- Co-managers that administer HAM accounts via SWIFT-MTs

It will be necessary to make adjustments if you use your own systems and applications for communication in the SWIFT environment and if you use the software/infrastructure of a service provider or have completely outsourced the exchange of SWIFT messages to a service provider or service bureau. In the latter case, we recommend you contact your contracting party as soon as possible.

What do you need to do?

We strongly recommend that you familiarise yourself now with the migration to MX messages and the associated adjustments in the systems you use. In particular, it is important to identify all areas

of your institution that exchange messages via the TARGET2 platform or deliver corresponding orders internally. We also recommend that you initiate an appropriate internal adjustment project at an early stage and allocate the resources necessary for this, where applicable.

The technical information required for the analysis of the effects on your institution can be found in the General Functional Specification (GFS). The latest version of these (version 1.2) is available on our website (www.bundesbank.de -> Tasks -> Payment systems -> TARGET2 -> ISO 20022 migration). This document contains all the information you need to plan your internal migration activities. We would like to draw your particular attention to the description of the functional changes and processes and the detailed description of the new message content. The User Detailed Functional Specifications (UDFS) are scheduled to be published in June 2015.

Please also pass on the GFS information to your service providers and service bureaux to ensure that they also have sufficient time to initiate software/infrastructure adjustment projects.

The Bundesbank's own planning has already started. Within the Working Group "Zahlungs- und Verrechnungssysteme" (AK ZVS), initial consideration is currently being given to the test and migration phase in liaison with representatives of banks and associations. The results will be factored into planning at a European level. Corresponding information will be made available after coordination within the Eurosystem.

If you have any questions about the MX migration of the TARGET2 platform, please do not hesitate to contact our customer service team at:

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Yours faithfully

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