

## Glossary

<b>Availability</b>	A criterion for evaluating a system on the basis of its back-up facilities and the possibility of switching over to them. See <b>TARGET availability</b> .
<b>Ancillary system interface (ASI)</b>	A standardised interface to the TARGET2 payment module that can be used by ancillary systems to perform the cash clearing of their business.
<b>Bank Identifier Code (BIC)</b>	A universal means of identifying financial institutions in order to facilitate the automated processing of telecommunication messages in financial environments.
<b>Business continuity</b>	A payment system or securities settlement system arrangement that aims to ensure that the system meets agreed service levels even if one or more components fail or if it is affected by another abnormal event. This includes both preventive measures and arrangements to deal with these events. See <b>TARGET contingency measures</b> .
<b>Central bank credit (liquidity) facility</b>	A standing credit facility which can be drawn upon by certain designated account holders (e.g. banks) at a central bank. The facility can be used automatically at the initiative of the account holder. The loans typically take the form of either advances or overdrafts on an account holder's current account which may be secured by a pledge of securities or by repurchase agreements. See <b>daylight credit, marginal lending facility</b> .
<b>Clearing/ clearance</b>	The process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement. Sometimes the terms are used (imprecisely) to include settlement.
<b>CLS Bank</b>	Continuous Linked Settlement (CLS) Bank. CLS Bank provides global multi-currency settlement services for foreign exchange transactions, using a payment-versus-payment (PvP) mechanism, meaning that a foreign exchange operation is settled only if both counterparties simultaneously have an adequate position in the currency they are selling.
<b>Collateral</b>	Assets pledged (e.g. by credit institutions with central banks) as a guarantee for the repayment of loans, as well as assets sold (e.g. to central banks by credit institutions) as part of repurchase agreements.
<b>Correspondent banking</b>	An arrangement whereby one credit institution provides payment and other services to another credit institution. Payments through correspondents are often executed through reciprocal accounts (nostro and loro accounts), to which standing credit lines may be attached. Correspondent banking services are primarily provided across national borders, but are also provided in some domestic contexts, where they are known as agency relationships. A loro account is the term used by a correspondent to describe an account held on behalf of a foreign credit institution; the foreign credit institution would in turn regard this account as its nostro account.
<b>Correspondent central banking model (CCBM)</b>	A mechanism established by the ESCB within the TARGET system to enable counterparties to obtain credit from the central bank of the country in which they are based using collateral held in another country. In the CCBM, a national central bank acts as custodian for the other national central banks

with regard to the securities held in its domestic SSS.

<b>Counterparty</b>	The opposite party in a financial transaction (e.g. any party transacting with a central bank).
<b>Credit institution</b>	(i) An undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account; or (ii) an undertaking or any other legal person, other than those under (i), which issues means of payment in the form of electronic money.
<b>Credit risk/exposure</b>	The risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. Credit risk includes the replacement cost risk and the principal risk. It also includes the risk of settlement bank failure.
<b>Credit transfer</b>	A payment order or, sometimes, a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein move from the bank of the payer/originator to the bank of the beneficiary, possibly via several other banks as intermediaries and/or more than one credit transfer system.
<b>Credit transfer system</b>	A funds transfer system through which payment orders move from (the bank of) the originator of the transfer message or payer to (the bank of) the receiver of the message or beneficiary.
<b>Customer payment</b>	A payment where the originator or the final beneficiary, or both, are not financial institutions.
<b>Daily processing</b>	The complete cycle of processing tasks that needs to be completed in a typical business day, from start-of-day procedures to end-of-day procedures, including the backing-up of data.
<b>Daily settlement</b>	The completion of settlement on the day of value of all payments accepted for settlement.
<b>Daylight credit</b>	Credit extended for a period of less than one business day. Daylight credit may be extended by central banks to even out mismatches in payment settlements. In a credit transfer system with end-of-day final settlement, daylight credit is, in effect, extended by a receiving institution if it accepts and acts on a payment order even though it will not receive final funds until the end of the business day.
<b>Deposit facility</b>	A standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank, which are remunerated at a pre-specified interest rate.
<b>Direct debit</b>	A pre-authorized debit on the payer's bank account initiated by the payee.
<b>EEA (European Economic Area) countries</b>	The EU Member States plus Iceland, Liechtenstein and Norway.
<b>Economic and Monetary Union (EMU)</b>	The Treaty describes the process of achieving EMU in the EU in three stages. Stage One of EMU started in July 1990 and ended on 31 December 1993; it was mainly characterised by the dismantling of all internal barriers

	<p>to the free movement of capital within the EU. Stage Two began on 1 January 1994, and provided for, inter alia, the establishment of the EMI, the prohibition of financing of the public sector by the NCBs, the prohibition of privileged access to financial institutions by the public sector, and the avoidance of excessive government deficits. Stage Three started on 1 January 1999 with the transfer of monetary competence to the ECB and the introduction of the euro. The cash changeover on 1 January 2002 completed the set-up of EMU.</p>
<b>EONIA (euro overnight index average)</b>	<p>A measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.</p>
<b>ERM II (exchange rate mechanism II)</b>	<p>The exchange rate arrangement that provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States that are not participating in Stage Three of EMU.</p>
<b>Exchange-for-value settlement system</b>	<p>A system which involves the exchange of assets, such as money, foreign exchange, securities or other financial instruments, in order to discharge settlement obligations. These systems may use one or more funds transfer systems in order to satisfy the payment obligations which are generated. The links between the exchange of assets and the payment system(s) may be manual or electronic.</p>
<b>Final (finality)</b>	<p>Irrevocable and unconditional.</p>
<b>Final settlement</b>	<p>Settlement which is irrevocable and unconditional.</p>
<b>Final transfer</b>	<p>An irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer. The terms “delivery” and “payment” are both defined as a final transfer.</p>
<b>Financial application (FIN)</b>	<p>A SWIFT-offered application enabling financial institutions to exchange structured message-based financial data worldwide in a secure and reliable manner.</p>
<b>Financial risk</b>	<p>A term covering a range of risks incurred in financial transactions, e.g. liquidity and credit risks. See also <b>liquidity risk, credit risk/exposure</b>.</p>
<b>Foreign exchange settlement risk</b>	<p>The risk that one party to a foreign exchange transaction will pay in the currency it sold, but not receives the currency it bought. This is also called cross-currency settlement risk or principal risk. (Sometimes it is additionally referred to as Herstatt risk, although this is an inappropriate term given the differing circumstances in which this risk materialised. See <b>Herstatt risk</b>)</p>
<b>Gridlock</b>	<p>A situation which can arise in a fund or securities transfer system, in which the failure of some transfer instructions to be executed (because the necessary funds or securities balances are unavailable), prevents a substantial number of other instructions from other participants from being executed. See also <b>queuing, systemic risk</b>.</p>
<b>Gross settlement system</b>	<p>A transfer system in which the settlement of funds or securities occurs individually (on an instruction-by-instruction basis).</p>
<b>Herstatt risk</b>	<p>The risk of loss in foreign exchange trading as a result of one party delivering foreign exchange, while the counterparty financial institution fails</p>

	to complete its end of the contract. This is also referred to as settlement risk. See <b>foreign exchange settlement risk</b> .
<b>Hybrid system</b>	A payment system which combines characteristics of RTGS systems and netting systems.
<b>Information and control module</b>	A mandatory and unique functional interface between the TARGET2 direct participants and the Single Shared Platform.
<b>Inter-Member State payment:</b>	A payment between counterparties maintaining an account with different central banks.
<b>International Bank Account Number (IBAN)</b>	The IBAN concept was developed by the European Committee for Banking Standards (ECBS) and by the International Organization for Standardisation (ISO), and is an internationally agreed standard. It was created as an international bank identifier, used uniquely to identify the account of a customer at a financial institution, to assist error-free customer payments between Member States, and to improve the potential for STP, with a minimum amount of change within domestic schemes.
<b>Incident</b>	A situation that prevents the system from functioning normally or causes substantial delays.
<b>Interbank payment</b>	A payment where both the originator and the final beneficiary are financial institutions.
<b>Interlinking mechanism</b>	One of the components of the TARGET system. The term is used to designate the infrastructures and procedures which link domestic RTGS systems in order to enable the processing of inter-Member State payments within TARGET.
<b>Intraday credit</b>	See <b>daylight credit</b> .
<b>Intraday liquidity</b>	Funds which can be accessed during the business day, usually to enable financial institutions to make payments in real time. See also <b>daylight credit</b> .
<b>Intra-Member State payment:</b>	A payment between counterparties maintaining an account with the same central bank.
<b>Irrevocable and unconditional transfer</b>	A transfer that cannot be revoked by the transferor and is unconditional (and therefore final).
<b>Large-value funds transfer system</b>	A funds transfer system through which large-value and high-priority funds transfers are made between participants in the system for their own account or on behalf of their customers. Although as a rule no minimum value is set for the payments they carry, the average size of payments passed through such systems is usually relatively large. Large-value funds transfer systems are also known as wholesale funds transfer systems.
<b>Large-value payments</b>	Payments, generally of very large amounts, which are mainly exchanged between banks or between participants in the financial markets and usually require urgent and timely settlement.
<b>Legal risk</b>	The risk of loss because of the unexpected application of a law or regulation or because a contract cannot be enforced.

<b>Liquidity risk</b>	The risk that a counterparty will not settle an obligation at its full value when due, but instead on some unspecified date thereafter.
<b>MAC (message authentication code)</b>	A hash algorithm parameterised with a key to generate a number which is attached to the message and used to authenticate it and guarantee the integrity of the data transmitted.
<b>Marginal lending facility</b>	A standing facility of the Eurosystem which counterparties may use to receive overnight credit from an NCB at a pre-specified interest rate against eligible assets. See also <b>central bank credit (liquidity) facility</b> .
<b>MT202COV</b>	The MT202COV is a general-use message, which means that no registration in a Message User Group is necessary to send and receive this message. The message contains a mandatory sequence to include information on an underlying customer credit transfer and has a maximum message length of 10,000 characters.
<b>Net settlement system (NSS)</b>	A funds transfer system, the settlement operations of which are completed on a bilateral or multilateral net basis.
<b>Obligation</b>	A duty imposed by contract or by law.
<b>Operational risk</b>	The risk of human error or a breakdown of some component of the hardware, software or communications system which is crucial to settlement.
<b>Oversight of payment systems</b>	A central bank task, principally intended to promote the smooth functioning of payment systems. The objectives of oversight are to protect the financial system from the possible domino effects which may occur when one or more participants in the payment system encounter credit or liquidity problems, and to foster the efficiency and soundness of payment systems. Payment systems oversight is aimed at a given system (e.g. a funds transfer system) rather than at individual participants. It also covers payment instruments.
<b>Payment</b>	The payer's transfer of a monetary claim to a party acceptable to the payee. Typically, claims take the form of banknotes or deposit balances held at a financial institution or at a central bank.
<b>Payment message/instruction/order</b>	An order or message to transfer funds (in the form of a monetary claim on a party) to the account of the beneficiary. The order may relate either to a credit transfer or to a debit transfer. See also <b>credit transfer, direct debit, payment</b> .
<b>Payment system</b>	A payment system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems which facilitate the circulation of money.
<b>Payment settlement message notification (PSMN)</b>	The response to a payment settlement message request (PSMR) (see below), which can be either positive or negative. It is normally positive (indicating that the beneficiary's settlement account in the receiving national central bank's/the ECB's books has been successfully credited), but may also be negative, in which case it is returned to the sending central bank with an error code.
<b>Payment settlement message request</b>	The settlement of TARGET payments between Member States involves the exchange of PSMRs from the sending national central bank/the ECB and

<b>(PSMR)</b>	PSMNs (see above) from the receiving national central bank/the ECB. The sender of the PSMR requests the receiver to process a payment; this message requires a positive or negative PSMN from the receiver.
<b>Payment versus payment (PvP)</b>	A mechanism in a foreign exchange settlement system which ensures that a final transfer of one currency occurs if, and only if, a final transfer of the other currency or currencies takes place.
<b>Principal risk</b>	The risk that a party will lose the full value involved in a transaction (credit risk). In the settlement process, this term is typically associated with exchange-for-value transactions when there is a lag between the final settlement of the various legs of a transaction (i.e. the absence of delivery versus payment). The principal risk which arises from the settlement of foreign exchange transactions (foreign exchange settlement risk) is sometimes called cross-currency settlement risk or Herstatt risk. See <b>credit risk/exposure</b> .
<b>Queuing</b>	An arrangement whereby transfer orders are held pending by the originator/deliverer or by the system until sufficient cover is available in the originator's/deliverer's clearing account or under the limits set against the payer; in some cases, cover may include unused credit lines or available collateral.
<b>Real-time processing</b>	The processing of instructions at the time they are received rather than at some later time.
<b>Remote participant</b>	A participant in a system which has neither its head office nor any of its branches located in the country where the system is based.
<b>Remote access to TARGET</b>	The possibility for an institution established in one country in the European economic area (EEA) to become a direct participant in the RTGS system of another country and, for this purpose, to have a settlement account in euro in its own name with the national central bank of the second country without necessarily having established a branch or subsidiary in that country.
<b>Repurchase agreement</b>	An agreement to sell an asset and to repurchase it at a specified price on a predetermined future date or on demand. Such an agreement is similar to collateralised borrowing, although it differs in that the seller does not retain ownership of the assets.
<b>Repurchase operation (repo)</b>	A liquidity-providing reverse transaction based on a repurchase agreement.
<b>Reserve requirement</b>	The minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over a maintenance period of around one month.
<b>Retail payments</b>	This term describes all payments which are not included in the definition of large-value payments. Retail payments are mainly consumer payments of relatively low value and urgency.
<b>RTGS (real-time gross settlement)</b>	The continuous (real-time) settlement of funds or securities transfers individually on an order-by-order basis with intraday finality (without netting).
<b>RTGS system</b>	A settlement system in which processing and settlement take place on an order-by-order basis (without netting) in real time (continuously).

<b>Settlement</b>	An act which discharges obligations in respect of funds or securities transfers between two or more parties. Settlement may be final or provisional. See <b>gross settlement system, net settlement system, final settlement.</b>
<b>Settlement risk</b>	A general term used to designate the risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.
<b>Single Shared Platform:</b>	TARGET2 is based on a single technical platform, known as the Single Shared Platform, which includes payment and accounting processing services and customer-related services.
<b>Standing facility</b>	A central bank facility available to counterparties on their own initiative. The Eurosystem offers two overnight standing facilities: the marginal lending facility and the deposit facility.
<b>Straight-through processing (STP)</b>	The automated end-to-end processing of trades/payment transfers, including the automated completion of generation, confirmation, clearing and settlement of instructions.
<b>Swap</b>	An agreement on the exchange of payments between two counterparties at some point(s) in the future in accordance with a specified formula.
<b>SWIFT (S.W.I.F.T. s.c.r.l.) (Society for Worldwide Interbank Financial Telecommunication )</b>	A cooperative organisation created and owned by banks which operates a network designed to facilitate the exchange of payment and other financial messages between financial institutions (including broker-dealers and securities companies) throughout the world. A SWIFT payment message is an instruction to transfer funds; the exchange of funds (settlement) subsequently takes place through a payment system or through correspondent banking relationships.
<b>Systemic risk</b>	The risk that the inability of one institution to meet its obligations when due will cause other institutions to be unable to meet their obligations when due. Such failure may cause significant liquidity or credit problems and, as a result, could threaten the stability of or confidence in markets.
<b>Systemically important payment system</b>	A payment system is deemed systemically important if, in the event of being insufficiently protected against risk, disruption within it could trigger or transmit disruption to participants or cause broader systemic disruption in the financial area.
<b>TCP/IP (transmission control protocol/ internet protocol)</b>	A set of commonly used communications and addressing protocols; TCP/IP is the de facto set of communication standards of the internet.
<b>TARGET availability</b>	The ratio of time when TARGET is fully operational to TARGET opening time.
<b>TARGET</b>	Trans-European Automated Real-time Gross settlement Express Transfer system: the Eurosystem's real-time gross settlement system for the euro. The first-generation TARGET system was replaced by TARGET2 in May 2008.

<b>TARGET2</b>	The second-generation TARGET system. It settles payments in euro in central bank money and functions on the basis of a single shared IT platform, to which all payment orders are submitted for processing.
<b>TARGET2-Securities</b>	The Eurosystem's single technical platform enabling central securities depositories and NCBs to provide core, borderless and neutral securities settlement services in central bank money in Europe.
<b>TARGET business continuity</b>	The ability of each national TARGET component to switch to a remote secondary site in the event of a failure at the primary site, with the goal of enabling normal operations to resume within the shortest time possible.
<b>TARGET contingency measures</b>	Arrangements in TARGET which aim to ensure that it meets agreed service levels during abnormal events even when the use of an alternative site is not possible or would require too much time.
<b>TARGET market share</b>	The percentage processed by TARGET of the large-value payments in euro exchanged via all euro large-value payment systems. The other systems are EURO I (EBA) and Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS).
<b>Transfer</b>	Operationally, the sending (or movement) of funds or securities, or of rights relating to funds or securities, from one party to another party by (i) the conveyance of physical instruments/money; (ii) accounting entries on the books of a financial intermediary; or (iii) accounting entries processed through a funds and/or securities transfer system. The act of transfer affects the legal rights of the transferor, the transferee and possibly third parties with regard to the money, security or other financial instrument being transferred.
<b>Transfer system</b>	A generic term covering interbank funds transfer systems and exchange-for-value systems.