

# THE EUROSYSTEM

THE CENTRAL BANKING SYSTEM OF THE EURO AREA

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**CCBM2**

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TARGET2-SECURITIES

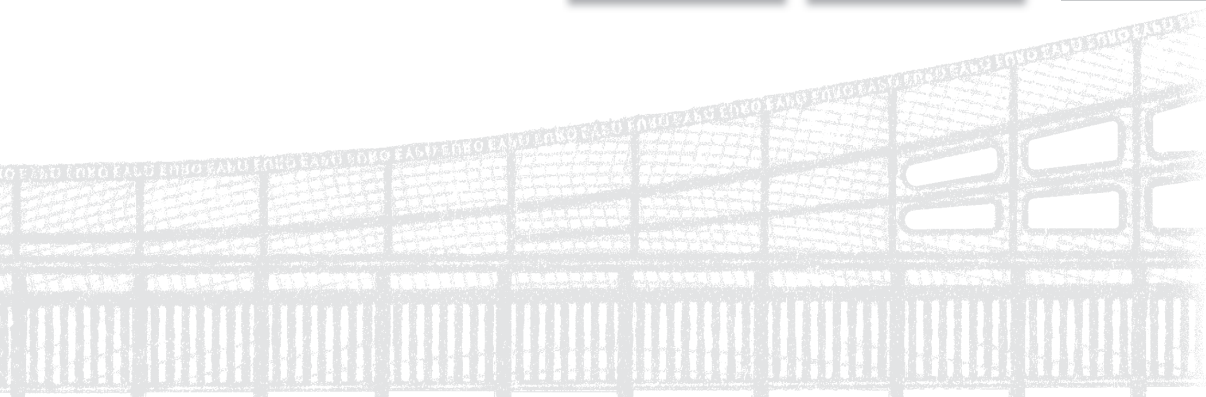
**SEPA**

A SINGLE  
CURRENCY –  
AN INTEGRATED  
MARKET  
INFRASTRUCTURE





A SINGLE  
CURRENCY –  
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MARKET  
INFRASTRUCTURE



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# CCBM2

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## FOREWORD



Jean-Claude Trichet

It is well-known that the Eurosystem is responsible for the conduct of the single monetary policy and for maintaining price stability in the euro area. In addition, the Eurosystem has a number of other tasks that are not so apparent to the public but are by no means less relevant. The aim of these tasks is to foster efficiency and security for all kinds of transfer of funds and securities in Europe.

The importance of payment and securities settlement systems in modern economies has grown considerably over the last two decades owing to the very rapid growth in the volume and the value of payments on money, foreign exchange and financial markets. Payment systems have also become more vulnerable because of their ever-increasing reliance on fast evolving electronic data-processing and telecommunications technology, as well as their complex interlinked structure.

In addition to payment instruments, systems and infrastructures, which are generally considered an integral part of the Eurosystem's responsibility, the European

Central Bank (ECB) and the national central banks of the euro area also have an interest in the field of securities clearing and settlement systems. This responsibility became even more apparent with the introduction of the euro as the single currency and the subsequent scale and speed of European financial integration. Moreover, the robustness and smooth operation of clearing and settlement infrastructures are indispensable for the stability of the currency, the financial system and the economy in general.

Looking ahead, further integration of European financial markets, as well as an increase in their competitiveness, cannot adequately progress without the integration of their clearing and settlement infrastructures. The Eurosystem is very much committed to fostering this process by playing its operational and catalyst role.

The Eurosystem believes that this brochure will promote a better understanding of these roles among all relevant stakeholders and the public at large.

A handwritten signature in blue ink, appearing to read 'J. C. Trichet', written over a set of horizontal lines.

Jean-Claude Trichet  
President of the European Central Bank

## INTRODUCTION

The rapid integration of the euro area money markets has been closely related to the establishment of the TARGET<sup>1)</sup> system, the real-time gross settlement (RTGS) system for the euro, which has been operational since the launch of the single currency. Following its inception in 1999, TARGET became a benchmark for the processing of euro payments in terms of speed, reliability, opening times and service level. It also contributed to the integration of financial markets in Europe by providing its users with a common payment and settlement infrastructure.

During the preparations for Economic and Monetary Union, the Eurosystem was concerned by the lack of a market solution for moving eligible collateral for central bank operations from one country to another and so set up a mechanism called

the correspondent central banking model (CCBM). This mechanism was introduced as a medium-term solution until an alternative was created by the market.

With the euro in place, as well as the infrastructure to transfer funds and collateral at the interbank level, the Single Euro Payments Area (SEPA) constitutes another major step towards closer European integration. The introduction of a euro area retail payment market means that all euro payments will become “domestic” and that citizens will be able to make non-cash euro payments to any recipient in the euro area using a single account and a single set of payment instruments. This challenging project was taken on board by the banking industry in 2002, with the Eurosystem acting as the catalyst to ensure the development of the best possible SEPA.

1) Trans-European Automated Real-time Gross settlement Express Transfer.



Both TARGET and the CCBM have been a huge success. TARGET has been the market's preferred system for large-value payments in euro. Likewise, the CCBM is the major channel for the cross-border use of collateral. However, both systems have suffered as a consequence of their decentralised set-up, which was based on the principle of minimum harmonisation. In terms of efficiency, they gradually became sub-optimal as they did not fully exploit the advantages of the single currency. The Eurosystem has, therefore, taken steps towards enhancing both TARGET and the CCBM.

The CCBM2 project, which will provide a common platform for the Eurosystem's collateral management of all eligible collateral used at both the domestic and the cross-border levels, was first considered in

March 2007 and finally launched in July 2008. The new generation of the TARGET system, TARGET2, went live on 19 November 2007 and completely replaced the previously decentralised technical infrastructure on 19 May 2008.

Integrating the securities market infrastructure is crucial for Europe. To this end, the Governing Council of the ECB decided in July 2008 to launch the TARGET2-Securities (T2S) project. The project is progressing according to schedule. It constitutes a major step forward in the delivery of a single integrated securities market for financial services, thus reinforcing the Lisbon strategy. T2S will provide a single, borderless pool of pan-European securities, as well as a core, neutral, state-of-the-art settlement process.

# TARGET2: THE RTGS SYSTEM FOR THE EURO

## From TARGET to TARGET2

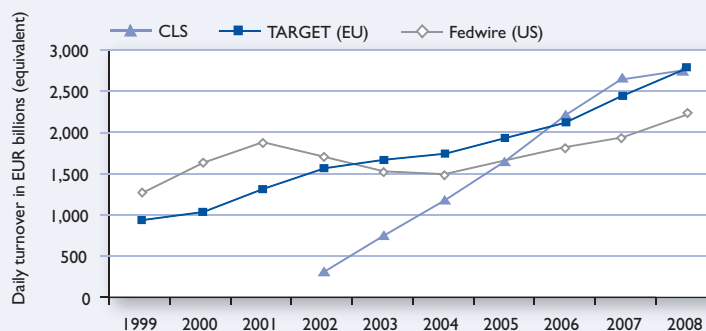
The first generation of TARGET began operations on 4 January 1999 in parallel with the launch of the euro. It provided a real-time payment processing service with intraday finality to almost all credit institutions in the European Union (EU). Moreover, TARGET served the monetary policy needs of the Eurosystem and promoted the integration of the euro money market as well as the harmonisation of business practices in the EU. With its special focus on large-value payments related to interbank operations, TARGET helped to reduce systemic risk.

Despite its success, the first generation of TARGET had a number of shortcomings that stemmed from its heterogeneous technical design. In view of this, and owing to developments such as the further enlargement of the euro area, the Eurosystem decided to build the second generation of TARGET, TARGET2, in order to better meet user needs by:

- providing a harmonised service level with a harmonised pricing scheme;
- ensuring cost efficiency; and
- preparing for future developments, including the enlargement of the EU and the euro area.

A real-time gross settlement system (RTGS) is a payment system in which processing and settlement take place in real time (continuously) rather than in batch processing mode. It enables transactions to be settled with immediate finality. Gross settlement means that each transfer is settled individually rather than on a net basis. TARGET and TARGET2 are examples of real-time gross settlement systems.

## The three biggest large-value payment systems in the world





## TARGET2 in operation

The smooth and very successful phased migration to the new TARGET2 system started on 19 November 2007 and ended on 19 May 2008.

The migration to TARGET2 was arranged in three “country groups”, allowing TARGET users to migrate to TARGET2 in different waves and on different predefined dates. Each wave consisted of a group of national central banks and their respective TARGET user communities.

With €2.7 trillion settled every day, TARGET2 is one of the three largest wholesale payment systems in the world, alongside Fedwire in the United States and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions.

## Harmonised service level

The Eurosystem developed the features and services of TARGET2 in close cooperation with TARGET users.

Three Eurosystem central banks – the Banca d’Italia, the Banque de France and the Deutsche Bundesbank – jointly provide the single technical infrastructure, the Single

Shared Platform (SSP), for TARGET2 and operate it on behalf of the Eurosystem.

The SSP for TARGET2 provides a uniform wholesale payment infrastructure. In TARGET2, all banks in the EU – irrespective of where they are located – are offered the same high-quality services, functionality and interfaces, as well as a single price structure. This means that banks operate under similar conditions across Europe, thus promoting further efficiency and integration in the related financial markets.

TARGET2 also provides a harmonised set of settlement services in central bank money for all kinds of ancillary system, such as retail payment systems, money market systems, clearing houses and securities settlement systems. The main advantage of TARGET2 for such ancillary systems is that they are able to access any account on the SSP via a standardised interface. In essence, the settlement of ancillary systems in TARGET2 provides participants with liquidity optimisation opportunities.

The new functionalities of TARGET2 enable multi-country banks to consolidate their internal processes, such as treasury and back office functions, and to integrate their euro liquidity management more successfully. For example, participants are able to group

# TARGET2: THE RTGS SYSTEM FOR THE EURO

some of their accounts and to pool the available intraday liquidity for the benefit of all members of the group if the legal requirements are fulfilled. In addition, TARGET2 users have uniform access to comprehensive online information and easy-to-use liquidity control measures.

As with TARGET, the business relationship with a participant continues to be exclusively dealt with by the central bank providing the account of the participant.

Although TARGET2 is legally set up as a multitude of systems under national law, the

conditions applicable to TARGET2 users are (almost) completely harmonised.

## System structure

A modular approach was taken in setting up the SSP of TARGET2 (see the chart below). Every module in the SSP is closely related to a specific service (e.g. the Payments Module for the processing of payments). Some of the modules (Home Accounting, Standing Facilities and Reserve Management Modules) can be used by the individual central banks on an optional basis. Central banks that do not use these modules offer the respective services via proprietary applications in their domestic technical environments.

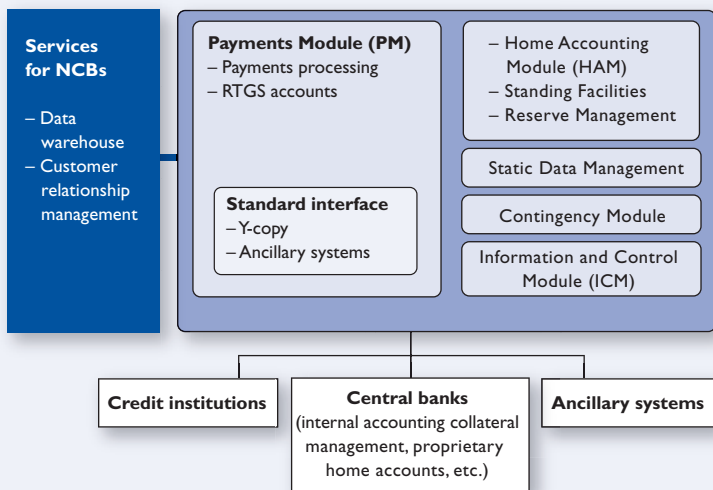
SWIFT standards and services are used (FIN, InterAct, FileAct and Browse) to enable standardised communication between the TARGET2 system and its participants.

## Participation

All countries in the euro area are covered by TARGET2. Other EU countries may join TARGET2 on a voluntary basis.

A number of options are available to participants in terms of access to TARGET2, including direct and indirect participation, addressable BICs<sup>2)</sup>, and multi-addressee access.

### Structure of the SSP





The criteria for direct participation in TARGET2 are broadly the same as for TARGET. Direct participants hold an RTGS account in the Payments Module of the SSP with access to real-time information and control features. Direct participants are responsible for all payments sent or received on their account by any TARGET2 entity (i.e. indirect participants, addressable BICs and multi-addressee access entities) registered through them.

Indirect participation implies that payment orders are always sent to/received from the system via a direct participant. Payments are settled in the direct participant's account on the SSP. Indirect participants are listed in the TARGET2 directory. Only supervised credit institutions established within the European Economic Area (EEA) can become indirect participants.

Another category of access is that of addressable BICs. Any direct participant's correspondent or branch that holds a BIC is eligible to be listed in the TARGET2 directory, irrespective of its place of establishment. Like indirect participants, addressable BICs send and receive payment orders to/from the system via a direct participant, and their payments are settled in the account of the direct participant on the SSP.

Finally, multi-addressee access in TARGET2 enables direct participants to authorise branches and other credit institutions belonging to their group to channel payments through the direct participant's main account without its involvement. This provides a direct participant's affiliate banks or a group of banks with efficient features for its payments business. The payments are settled in the account of the direct participant.

Further detailed information on TARGET2 can be found in the "Information guide for TARGET2 users" and in the latest "TARGET Annual Report". All relevant documents can be downloaded from the ECB's website at <http://www.ecb.europa.eu/paym/t2/html/index.en.html>.

Information on TARGET2 is also provided on the websites of the national central banks.

- 2) In order to ensure error-free identification of parties in automated systems, SWIFT developed the Bank Identifier Code (BIC). The BIC is a unique address which, in telecommunication messages, precisely identifies the financial institutions involved in financial transactions.



# TARGET2-SECURITIES (T2S): SETTLING WITHOUT BORDERS

## **Fragmented securities settlement infrastructure in Europe**

Despite the single currency, the European securities settlement market remains highly fragmented. Owing to, among other things, the large number of national settlement systems, EU cross-border settlement costs are much higher than domestic ones. At the same time, the increase in cross-border securities transactions requires an integrated European settlement infrastructure.

## **T2S: a single platform for the whole of Europe**

In July 2008, the Governing Council of the ECB decided to launch the TARGET2-Securities (T2S) project to overcome the current fragmentation of the European settlement infrastructure. The decision was the result of the feedback received on the Governing Council's invitation to all European central securities depositories (CSDs) to join the T2S initiative. T2S constitutes a major step forward in the delivery of a single integrated securities market. The objective is to achieve harmonised and commoditised delivery-versus-payment settlement in central bank money in euro (and possibly other currencies) in virtually all securities in Europe. By using standardised communications protocols, as well as offering facilities such as

auto-collateralisation, continuous optimisation, recycling mechanisms and night-time settlement, T2S will increase the efficiency of collateral management, reduce banks' liquidity needs, and provide position-takers with the ability to optimise their financing across all securities settled on the single platform.

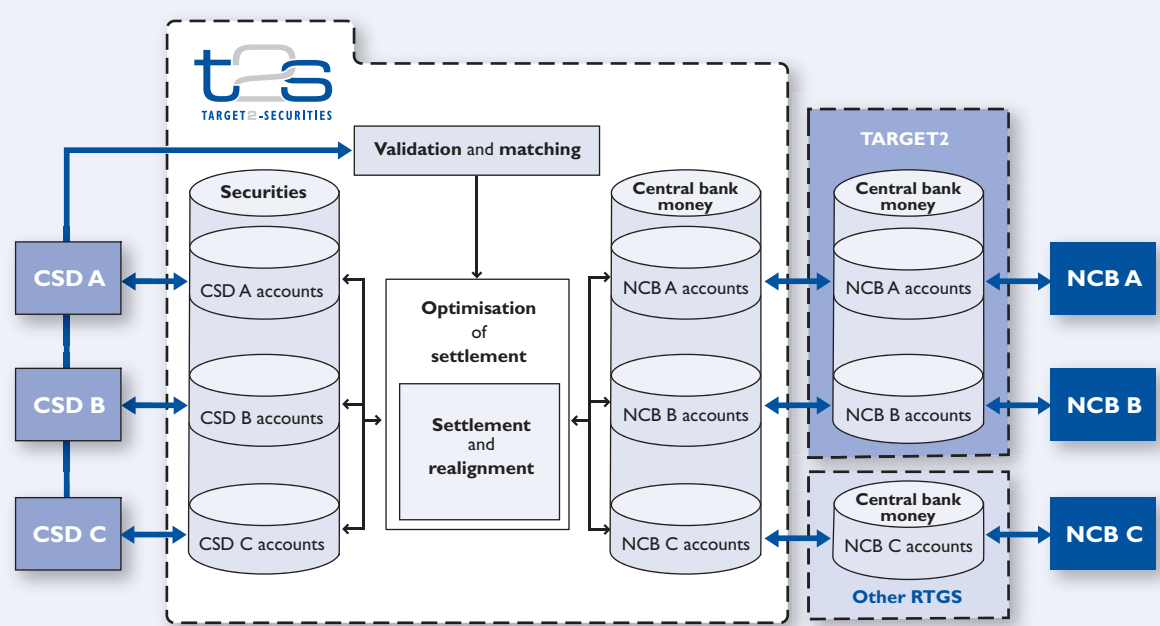
With T2S, cross-border settlement will become the domestic settlement of tomorrow in the future borderless market.

## **Integration and economies of scale: prerequisites for approaching the highest levels of efficiency in Europe**

T2S will bring about a number of important benefits:

- cross-border settlement within the system will become as efficient as domestic settlement;
- dynamic effects of trading volumes and liquidity owing to increased competition in trading, better pricing of securities and unencumbered access to settlement will generate larger trading volumes, which in turn will lead to lower T2S unit processing costs;

### What is T2S? A cooperation between CSDs and NCBs



As the diagram indicates, CSDs will keep all of their clients' securities positions in T2S, which will map to each CSD's account structure (including direct holdings), without accommodating all of the ancillary account information maintained by CSDs for their clients. Each securities account held in T2S will be attributable to only one CSD. Furthermore, CSDs will still maintain legal relations with their customers, including custody and notary functions. Similarly, T2S will maintain dedicated central bank money accounts representing a CSD client's claims in central bank money on that client's chosen national central bank. Each account may be used to settle transactions relating to the client's security accounts in one or more CSDs. This cash account structure will foster efficiency improvements for clients that use more than one CSD.

# TARGET2-SECURITIES (T2S): SETTLING WITHOUT BORDERS

- increased market liquidity and access to a wider investor base will lead to a lower cost of capital for issuers;
- lower cost of portfolio diversification and increased market liquidity will lead to a better return for investors;
- reduction of intermediaries' back-office costs through economies of scale;
- further savings from reduced fail rates owing to simplified processing;
- pooling the liquidity of a pan-European settlement system as well as integrating securities and central bank money on a single platform (the so-called integrated model) will increase both efficiency and stability;
- the neutrality of the Eurosystem with a clear commitment to financial integration and financial market stability will ensure that a truly Europe-wide settlement infrastructure can be built on a not-for-profit basis for the benefit of the users.

Consequently, T2S will offer a genuine chance to approach the lowest levels in cost of capital in the world. Moreover, this will lead to growth in the capital market and therefore to an increase in overall productivity and economic growth.

## **Close cooperation with the market**

T2S will take advantage of the Eurosystem's infrastructure to provide an efficient solution for CSDs and their users. The close links between T2S, TARGET2 and the CCBM2 will provide enhanced liquidity management mechanisms.

T2S is being built in close cooperation and in full transparency with the market. Since the first announcement of the project in July 2006, the market has been involved in the project in various ways. These include:

- official market consultations;
- meetings with all the stakeholders, including the banks and CSDs at all levels;
- the close involvement of CSDs and banks in the governance of the project, in particular in the Advisory Group, its sub-structures and numerous workshops;
- a dedicated T2S team comprising experts with central bank, CSD and market participant backgrounds.

T2S has received strong support from virtually all major T2S stakeholders: the political stakeholders (ECOFIN Council, European Commission, European Parliament), the banking industry and European CSDs. On 16 July 2009, a Memorandum of Understanding





was signed between the central banks of the Eurosystem and the CSDs, which shows the commitment towards the T2S project and sets out the mutual obligations and responsibilities of the CSDs and central banks in preparation for the next important stage of the project, which will involve a contractual agreement on the building of the T2S. All CSDs of the euro area as well as the CSDs from nine non-Eurosystem countries, namely Denmark, Estonia, Iceland, Latvia, Lithuania, Romania, Sweden, the United Kingdom and Switzerland, have signed the Memorandum of Understanding. In addition, Danmarks Nationalbank, Sveriges Riksbank and Lietuvos bankas have indicated that they intend to settle transactions also in their national currency.

**The way forward**

With the decision of the Governing Council of 17 July 2008 to launch the T2S project and to provide the resources until completion, T2S entered the so-called Specification

Phase. Based on the User Requirements Document (URD), the four central banks assigned with the development and operation of T2S (the Deutsche Bundesbank, the Banco de España, the Banque de France and the Banca d'Italia – the so-called 4CB) have developed the draft General Functional Specifications (GFS) and the GFS have been discussed with the T2S team and market participants. The final version of the GFS is currently under preparation and is expected to be published in autumn 2009.

Besides the GFS and the User Detailed Functional Specifications (UDFS), a first version of which will be released in early 2010, the T2S team is working intensively with the T2S stakeholders in the context of the T2S Advisory Group and its sub-structures, where matters of a technical nature, or with a focus on harmonisation, are being discussed.

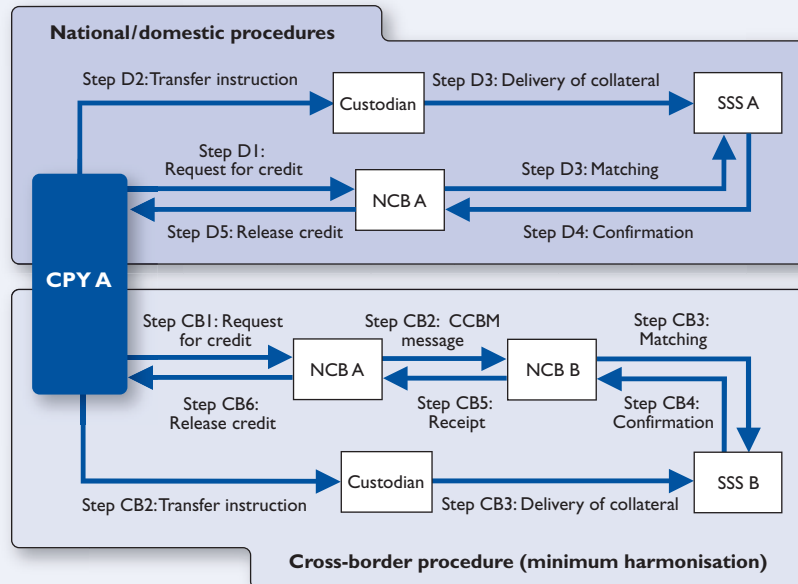
In March 2009, the Governing Council clarified the internal governance structure of the T2S project by establishing the T2S Programme Board. The T2S Programme Board will assist the ECB's decision-making bodies in ensuring the successful and timely completion of the T2S programme in 2013. The Eurosystem will continue to cooperate closely and transparently with CSDs, their users and other relevant stakeholders.

# CCBM2: TOWARDS A CONSOLIDATED MANAGEMENT OF COLLATERAL

## From CCBM to CCBM2

With the introduction of the euro, there emerged a need for a mechanism enabling the cross-border use of collateral for the Eurosystem's monetary policy operations and TARGET intraday credit operations. In the absence of market alternatives, the Eurosystem implemented the correspondent central banking model (CCBM) as a medium-term solution. Eurosystem counterparties can only obtain credit from the central bank of

the country in which they are located by collateralising eligible assets. With the CCBM, counterparties can obtain credit from the central bank in their country (the home central bank – HCB) on the basis of collateral issued in other countries and transferred to another Eurosystem central bank (the correspondent central bank – CCB). The CCB holds the collateral on behalf of the HCB granting the credit to the counterparty.<sup>3)</sup>

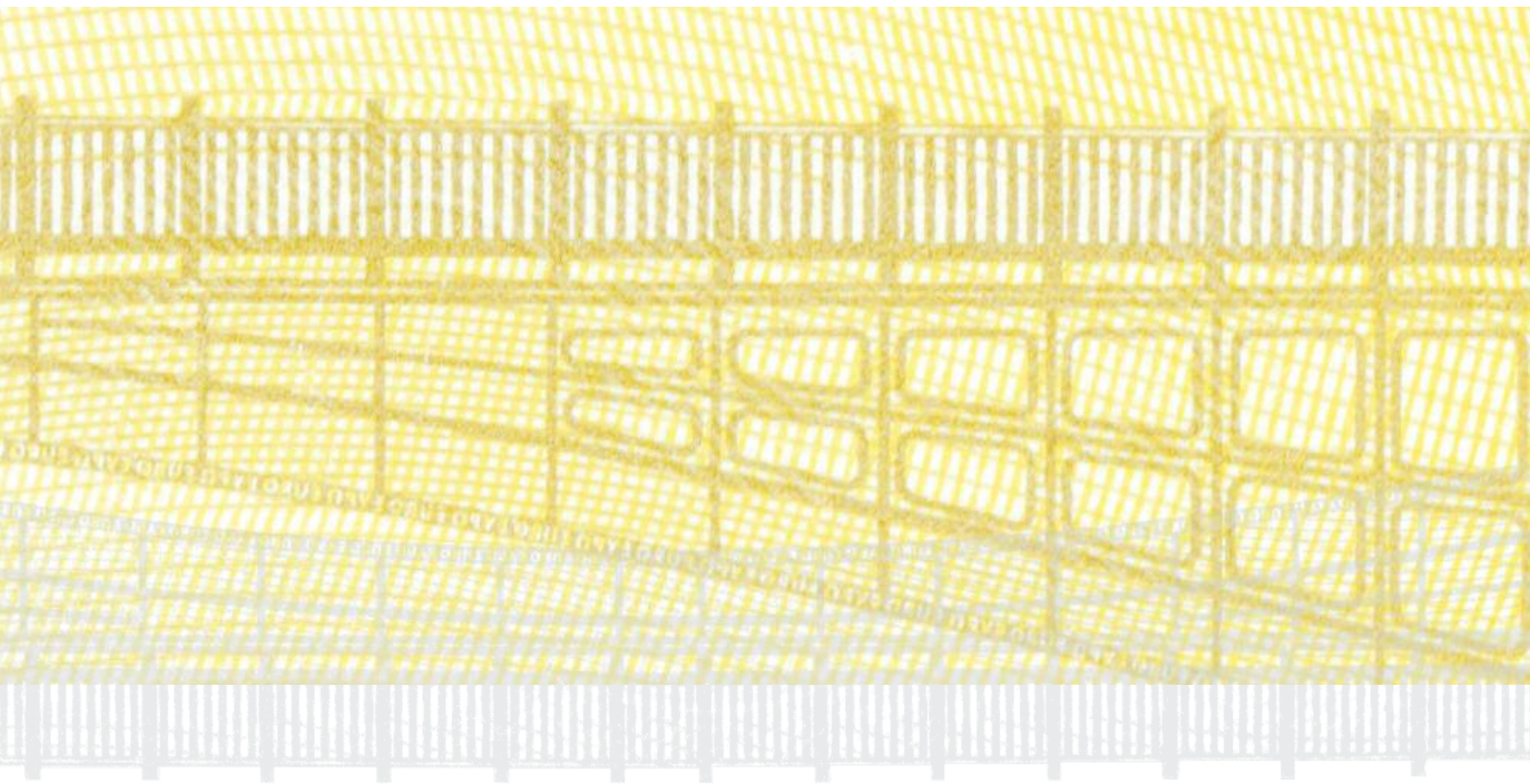


3) For more details, see <http://www.ecb.int/pub/pdf/other/ccbm2006en.pdf>

Notwithstanding the existence of links between CSDs, the CCBM remains the major channel for the cross-border use of collateral for Eurosystem credit operations: in 2008, 83% of cross-border operations were channelled via the CCBM, while the share of collateral transferred via links amounted to 17%.

Despite the success of the CCBM, market participants identified some drawbacks to

this procedure, namely the varying degrees of automation between central banks, the difference between domestic and cross-border procedures and the resulting lack of standardisation (e.g. the use of various communication protocols). Furthermore, the increase in cross-border use, which rose from around 10% in 1999 to 45% in 2008, emphasised the need to review the existing arrangement.



# CCBM2: TOWARDS A CONSOLIDATED MANAGEMENT OF COLLATERAL

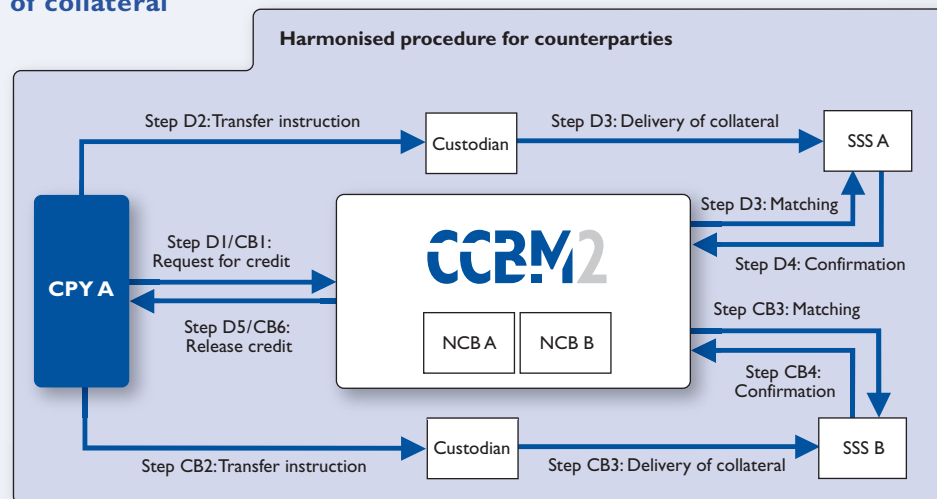
## CCBM2: a harmonised solution for collateral management within the Eurosystem

The CCBM2 will be a common platform for Eurosystem collateral management, providing increased efficiency and a harmonised level of service across the euro area. First and foremost, it will be a collateral management facility for the Eurosystem, but it will also provide significant opportunities for Eurosystem counterparties to further reduce back-office complexity, optimise the cost-effectiveness of mobilising collateral and enhance liquidity management.

The CCBM2 will offer a centralised IT solution while preserving the decentralised account relations with counterparties. The scope of the CCBM2 will go beyond that of the current CCBM, which is restricted to cross-border use only, in that it will provide for a single set of procedures for all eligible collateral (both securities and non-marketable assets) used on both a domestic and cross-border basis.

The CCBM2 will realise efficiency gains in that it will operate in real time and on a straight-through processing (STP) basis. It will

### CCBM2 – Single procedure for domestic and cross-border use of collateral





be based on the Euro Collateral Management System (ECMS) platform shared by the Nationale Bank van België/Banque Nationale de Belgique and De Nederlandsche Bank.

Furthermore, the CCBM2 will be fully compatible with TARGET2 and T2S, in particular with the communication interfaces of both these platforms and the settlement procedures of T2S for the delivery of securities.

There will be four CCBM2 modules: (i) the message router (handling all communication, particularly with external parties); (ii) the credit and collateral module (managing counterparties' collateral positions); (iii) the securities module (mobilising marketable assets); and (iv) the credit claims module (recording and mobilising credit claims). For central banks wanting to join the CCBM2, only participation in the message router module will be compulsory.

Finally, it is worth noting that links between CSDs will remain an alternative for the cross-border use of collateral.

### **CCBM2 development**

In order to maximise the synergies with the T2S project, the Eurosystem decided to launch both projects in parallel. On the one hand, the CCBM2 could benefit from the

envisaged T2S platform in terms of the settlement services and, on the other, T2S could make use of some of the CCBM2 services in terms of self-collateralisation.

In order to integrate the counterparties' needs, the Eurosystem is developing the CCBM2 in close cooperation with market participants. The project work has already benefited from two market consultations: one on the CCBM2 objectives<sup>4)</sup> and one on the CCBM2 User Requirements<sup>5)</sup>. The feedback received was generally very positive and supportive of the project.

In July 2008, the CCBM2 entered the so-called Specification Phase. Based on the CCBM2 User Requirements, the two central banks assigned with the development and operation of the CCBM2 (the Nationale Bank van België/Banque Nationale de Belgique and De Nederlandsche Bank) have prepared the detailed functional specifications, which are currently in the process of being finalised at the Eurosystem level.

More detailed information on the CCBM2 can be found on the ECB's website at <http://www.ecb.europa.eu/paym/coll/coll/ccbm2/html/index.en.html>

4) See <http://www.ecb.europa.eu/ecb/cons/html/ccbm2.en.html>  
5) See <http://www.ecb.europa.eu/paym/cons/html/ccbm2-2.en.html>

## SEPA: A SINGLE SET OF PAYMENT INSTRUMENTS

The euro area will have one retail payments market and all euro payments will be “domestic”. With one set of payment instruments, citizens will be able to make payments throughout the euro area as quickly and easily as they make national payments today.

By contrast with TARGET2, T2S and the CCBM2, the Eurosystem is not the main driver of the Single Euro Payments Area (SEPA). However, the Eurosystem considers SEPA an extremely important project for Europe and guides the market with a strong voice to ensure that the new retail payments market will be in the best interests of all European citizens and corporations. SEPA will constitute another key feature of the continual process of European integration and is, therefore, not a “one-shot operation”. SEPA must continue to evolve and move with cutting-edge technology so customers’ needs and requirements remain satisfied.

The project is being run by the European Payments Council (EPC), which was established by the European banks in 2002. The EPC has finalised the major building blocks for SEPA.

### Why SEPA?

Since the introduction of the euro banknotes and coins in 2002, consumers have been able

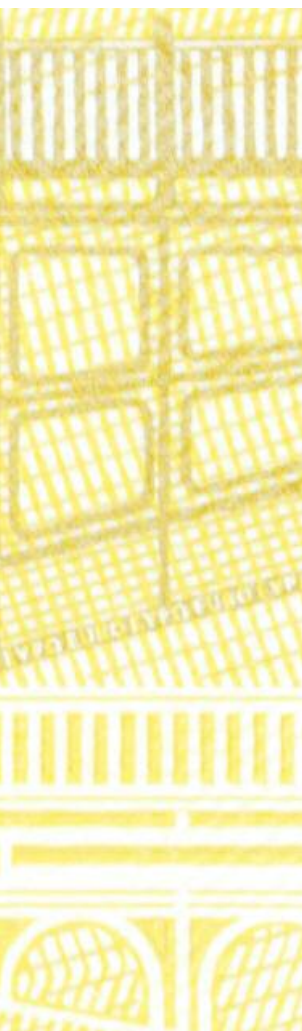
to make cash payments throughout the euro area using a single currency. The aim now is to enable customers to make cashless payments throughout the euro area from a single account under the same basic conditions, regardless of their location.

To facilitate this, all the euro area retail payments markets will become one market – the Single Euro Payments Area. In SEPA, all euro payments will be treated as domestic payments and the current differentiation between national and cross-border payments will disappear. This will involve not only the alignment of national practices for the banking industry, but also changes for customers. In SEPA there will be:

- one currency;
- one set of instruments – credit transfers, direct debits and payment cards;
- one legal framework – based on the Payment Services Directive (see below);
- greater competition among service providers and greater choice for end-users.

### The SEPA building blocks

Credit transfers, direct debits and payment cards are well-known payment instruments that for decades have proved their efficiency and popularity throughout the euro area.



A detailed scheme for SEPA credit transfers has already been developed, on the basis of which banks have started to provide their customers with SEPA credit transfer

products. The work on developing a scheme for SEPA direct debits has also been finished. It will enable banks to provide their customers with direct debit products as

## SEPA building blocks

The EPC has developed two schemes:

1. **SEPA credit transfers** – roll-out started in January 2008
2. **SEPA direct debits** – roll-out to start in November 2009 at the latest

The schemes will allow customers to send and receive euro transfers to/from any payee/payer in the euro area. Both schemes will use well-known international standards:

- IBAN (international bank account number),
- BIC (bank identifier code), and
- UNIFI (ISO 20022) XML message standards.

The EPC has also developed two frameworks:

1. **SEPA card payments** – roll-out started in January 2008  
Cardholders will be able to pay with one card throughout the euro area and there will no longer be cards for national use only. The point-of-sale terminals will be standardised and merchants will be able to accept a wide range of cards with a single terminal.

2. **SEPA clearing and settlement infrastructures** – roll-out started in January 2008

The main infrastructures should be able to reach all euro area banks and process euro payments made with the three SEPA payment instruments. Reachability can be guaranteed either directly or indirectly through intermediary banks or through links between infrastructures.

The European Commission has developed:

**The Payment Services Directive (PSD)**, which is to be transposed into national law by 1 November 2009 at the latest.

**The Regulation on cross-border payments**, which is scheduled to enter into force on 1 November 2009.

The PSD was approved by the European Parliament and the ECOFIN Council in early 2007. It provides the legal foundation for SEPA, as it protects and reinforces the rights of all payment service users. Among other issues, the Regulation on cross-border payments stipulates that all banks in the EU have to be reachable for SEPA direct debits as from 1 November 2010 at the latest.

## SEPA: A SINGLE SET OF PAYMENT INSTRUMENTS

from November 2009. For cards, the situation is different, as only high-level principles have been developed. The Eurosystem strongly recommends that a European card scheme be set up. This could be either a completely new scheme, an alliance between existing schemes or an expansion of an existing scheme.

The goal is that national paper-based instruments and non-SEPA payment instruments gradually be phased out and be replaced by the new SEPA instruments. It has been recognised that handling dual processes for a longer period would be expensive for both the banking industry and its customers. In order to avoid a lengthy and costly migration process towards the new SEPA instruments in which the SEPA benefits cannot be fully achieved, it is important that all stakeholders migrate as early as possible. Therefore, the Eurosystem considers it important that a clear end-date for phasing out national payment instruments and replacing them with SEPA instruments be set.

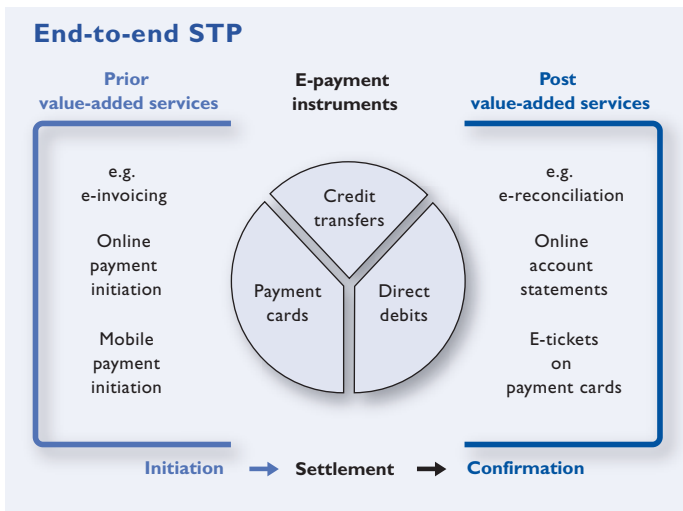
The effects of SEPA have been very visible at the infrastructure level, i.e. the entities that offer an interbank funds transfer system. Most retail payment infrastructures that were processing credit transfers in euro have been processing SEPA credit transfers

since their launch in January 2008. Several infrastructures have taken the step from being pure domestic operators to become pan-European service providers. The Eurosystem expects there to be further consolidation and for the number of infrastructures to diminish.

### **Next steps – greater innovation and effectiveness**

With the majority of the building blocks in place, the ground is set for SEPA. The full set of basic SEPA payment instruments will be available as from 1 November 2009. However, SEPA is not only about providing basic retail payment services. In order to meet the objectives of the EU's Lisbon agenda, which aims to make Europe more modern and forward-looking, payment services must continue to evolve. They must embrace cutting-edge technology, create inventive service offerings, and thus help to create a truly innovative, efficient European retail payments market. To achieve this, attention should now also turn towards the customer-to-bank domain. This will help to ease the migration and guarantee the user-friendliness of the SEPA payments. SEPA-wide services linking the customer and the bank should be free to evolve. Such services, which are offered to customers before and after payment, include e-invoicing, e-reconciliation, online payment solutions and mobile payment





The Eurosystem encourages work in this field and supports the EPC's initiative to develop a common online payment service allowing customers to initiate SEPA payments with online merchants in a safe and well-known environment (i.e. via their internet banking application). The Eurosystem also welcomes the EPC's work on creating a framework for mobile payments, whereby mobile telephones could be used to initiate SEPA payments, as well as the efforts of the European Commission's e-invoicing expert group to align existing e-invoicing solutions and set up SEPA e-invoicing. It sees such initiatives as very important, as they will help SEPA to become a success for all stakeholders as well as for the European economy.

initiation. They allow customers to initiate payments electronically and receive electronic confirmation once a payment has been settled. When these services are combined with SEPA payments, paper is eliminated from the payment chain and end-to-end STP can be achieved.

**E-invoicing:** bills are sent directly to the payer's internet banking application. If he/she accepts, an automatic payment instruction is created containing the relevant information on the payer and payee.

**E-reconciliation:** bills are electronically matched with the payment and the payee's records are updated automatically.

**Online payments:** the payer can initiate a payment in an online merchant's shop. The payer is transferred to his/her internet banking application where the bill is shown. If the payer accepts, an automatic payment instruction is created containing the relevant information about the payer and the payee.

**Mobile payment initiation:** the payer can initiate a payment and receive confirmation once the payment has been settled via his/her mobile telephone.

# IMPRINT

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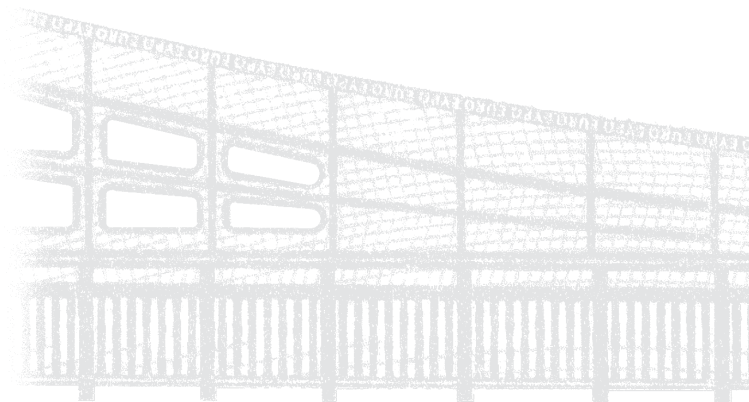
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