THE EUROSYSTEM

THE CENTRAL BANKING SYSTEM OF THE EURO AREA

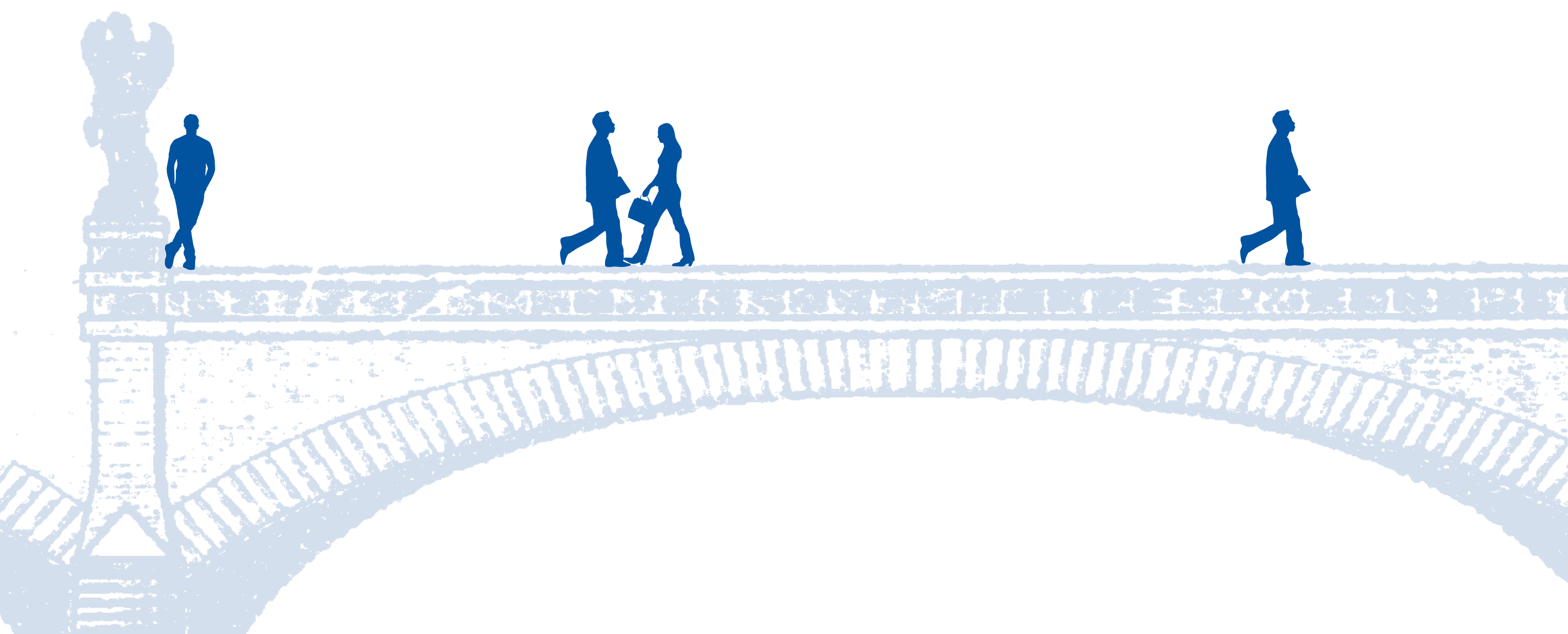
target2

CCBM2

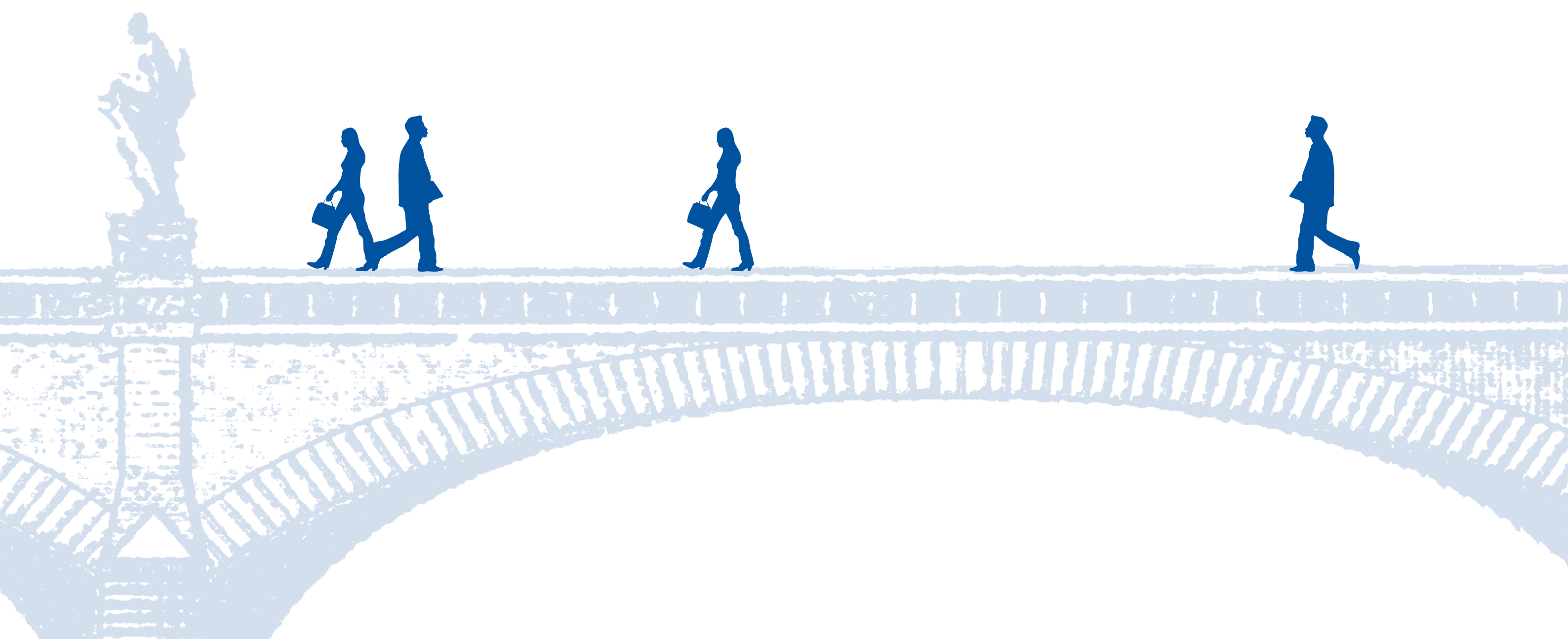
T2S TARGET2-SECURITIES

SEPA

# A SINGLE CURRENCY – AN INTEGRATED MARKET INFRASTRUCTURE



# A SINGLE CURRENCY – AN INTEGRATED MARKET INFRASTRUCTURE



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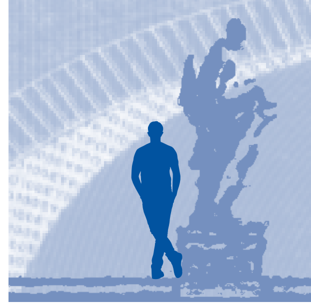
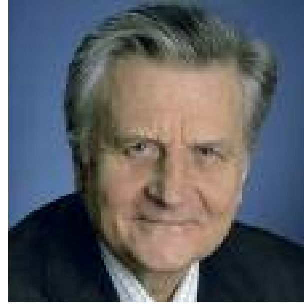




Jean-Claude Trichet

# FOREWORD

It is widely known that the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks (NCBs) of the euro area, 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. Amongst these are tasks aimed at fostering the efficiency and security of all kinds of transfers 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 in 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 structures.

In addition to payment instruments, systems and infrastructures, which are generally considered an integral part of its responsibilities, the Eurosystem also has an interest in the field of securities clearing and settlement systems. This additional 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. With TARGET2-Securities (T2S), the future single platform for the settlement of securities in central bank money in Europe, the Eurosystem is leading a major initiative for the integration of European financial markets. 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 progress adequately without the integration of their clearing and settlement infrastructures. The Eurosystem is very much committed to fostering this process by playing its part both operationally (TARGET2, CCBM2 and T2S) and as a catalyst (SEPA).

With this brochure, the Eurosystem aims to promote a better understanding of its role among all relevant stakeholders and among the public at large.

Jean-Claude Trichet
President of the European Central Bank

# INTRODUCTION

The rapid integration of the euro area money markets has been closely linked to the development of TARGET[1)], 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 could be created by the market.

With regard to payments, the new generation of TARGET, TARGET2, went live on 19 November 2007 and completely replaced the, until then, decentralised technical infrastructure on 19 May 2008. Since then TARGET2 has become the flagship RTGS system at the global level. With regard to collateral, the Collateral Central Bank Management (CCBM2) project is under development.

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

The integration and harmonisation of clearing and settlement of securities is also crucial if Europe is to reap the benefits of a single market and single currency. Therefore, in July 2008, the Governing Council of the ECB decided to develop a single settlement engine – known as TARGET2-Securities (T2S) – which will have the capacity to cover all European markets, in order to make cross-border securities transactions as fast, cost-efficient and safe as domestic transactions. Once it goes live in September 2014, T2S is widely expected to have a significant impact on the post-trading landscape, fostering harmonisation, competition and innovation. It will play a significant role in the movement towards a truly integrated European capital 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 payments market means that all euro payments within the euro area will become domestic payments and that residents 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 by the banking industry, with the Eurosystem acting as a catalyst to ensure the best possible development of SEPA.

# TARGET2: THE RTGS SYSTEM FOR THE EURO

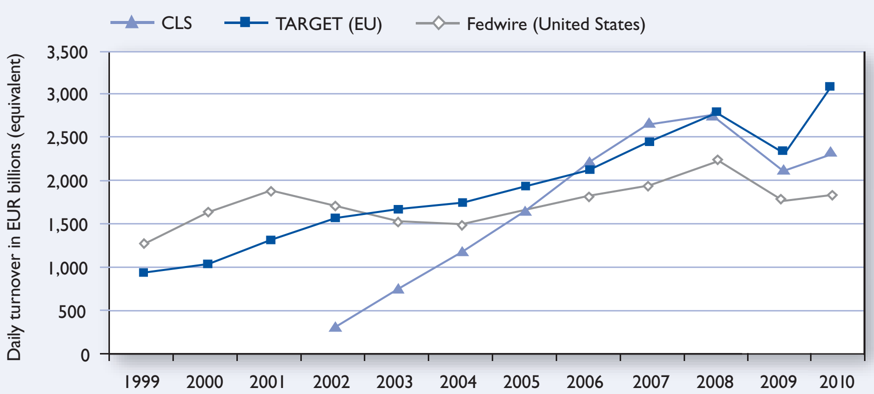
TARGET2 is the real-time gross settlement (RTGS) system for the euro operated by the Eurosystem. It is a payment system in which processing and settlement take place in real time (i.e. continuously) rather than in batch processing mode, and in which each transfer is settled individually (gross settlement) rather than on a net basis. TARGET2 enables transactions to be settled in central bank money and with immediate finality.

## Introduction to TARGET2

TARGET2 is the second-generation system which replaced the original TARGET. Like its predecessor, it serves the monetary policy needs of the Eurosystem and settles, inter alia, payments related to money market transactions as well as payments related to other payment and securities settlement systems.

Thanks to the move from the decentralised, multi-platform system of TARGET to the technically centralised platform of TARGET2, the system offers harmonised services and a single pricing structure across all banks and ancillary systems in Europe. This has contributed to and promoted the further integration of the related financial markets and the harmonisation of business practices in the euro area. The special focus on large-value payments related to interbank operations considerably helps to reduce systemic risk.

### Major large-value payment systems in the world



With an average of €2.3 trillion settled every day, TARGET2 is one of the world's three largest wholesale payment systems, 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 ensures a level playing field for banks across Europe, thus promoting further efficiency and financial integration.

TARGET2 also provides a harmonised set of settlement services in central bank money for all kinds of ancillary systems, 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 liquidity management tools 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 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 management tools.

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

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

The SSP of TARGET2 is set up using a modular approach (see the diagram below). Each 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 (the 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 (FIN, InterAct, FileAct and Browse) are used to enable standardised communication between TARGET2 and its participants.

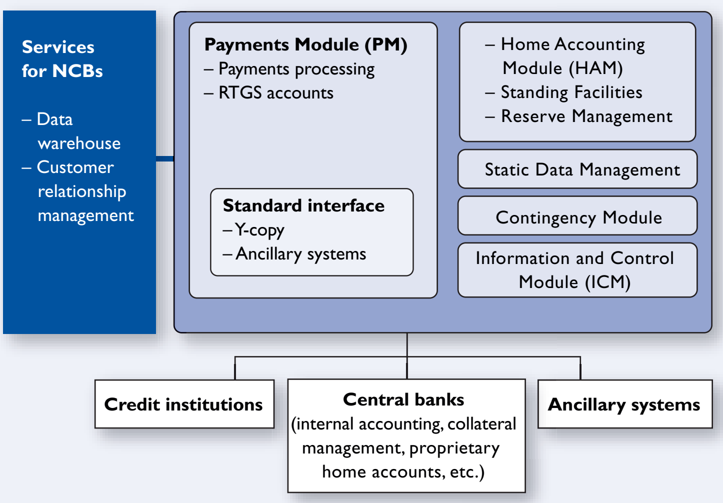
Since November 2010 TARGET2 has offered internet-based access for low-volume participants.

## 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[2)], and multi-addressee access.

### Structure of the SSP




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, identifies the financial institutions involved in financial transactions.

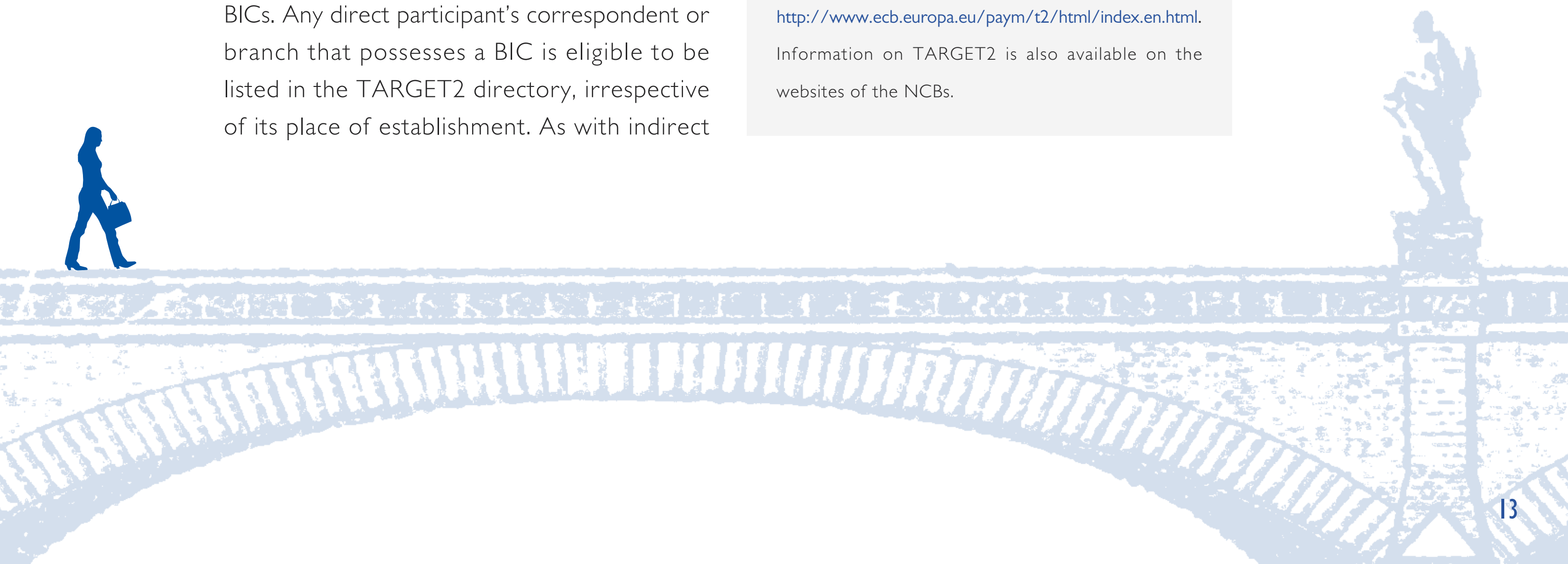
The criteria for direct participation in TARGET2 are broadly the same as they were for TARGET. Direct participants hold an RTGS account in the Payments Module of the SSP with access to real-time information and control features. Direct participants are responsible for all payments sent or received on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

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 possesses a BIC is eligible to be listed in the TARGET2 directory, irrespective of its place of establishment. As with 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 to 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 offers a direct participant's affiliate banks or a group of banks efficient features for their 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 credit institutions using TARGET2" 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 available on the websites of the NCBs.



# CCBM2: TOWARDS MORE EFFICIENT COLLATERAL MANAGEMENT

### From the CCBM to CCBM2

With the introduction of the euro, a need emerged for a mechanism to enable the cross-border use of collateral for the Eurosystem's monetary policy operations and TARGET intraday credit operations. In the absence of market alternatives that could enable the cross-border use of collateral between all euro area countries, the Eurosystem implemented the correspondent central banking model (CCBM) as a medium-term solution. Eurosystem counterparties can only obtain credit from the central bank in 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 which is granting the credit to the counterparty.[3)]

Although a number of eligible links exist between central securities depositories (CSDs), the CCBM remains the major channel for transferring cross-border collateral for Eurosystem credit operations, accounting on average for 24% of the total collateral provided to the Eurosystem at the end of 2010.

Despite the success of the CCBM, market participants identified some drawbacks in this procedure, namely the varying degree of automation between central banks, the difference between domestic and cross-border procedures and the resulting lack of standardisation (e.g. the use of different communication protocols). Furthermore, the upward trend in the use of cross-border collateral over recent years has increased the need to review the existing arrangements.

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

Collateral Central Bank Management (CCBM2) will be a shared platform for Eurosystem collateral management, providing increased efficiency and a harmonised level of collateral management services across the euro area. First and foremost, it will be a collateral management facility for the Eurosystem, but it will also provide opportunities for Eurosystem counterparties to further reduce back-office complexity, optimise the speed and cost-effectiveness of mobilising collateral, and optimise liquidity management.

3) For more details, see the brochure entitled "Correspondent central banking model (CCBM) – procedures for Eurosystem counterparties" (January 2011) which is available on the ECB's website at http://www.ecb.europa.eu.

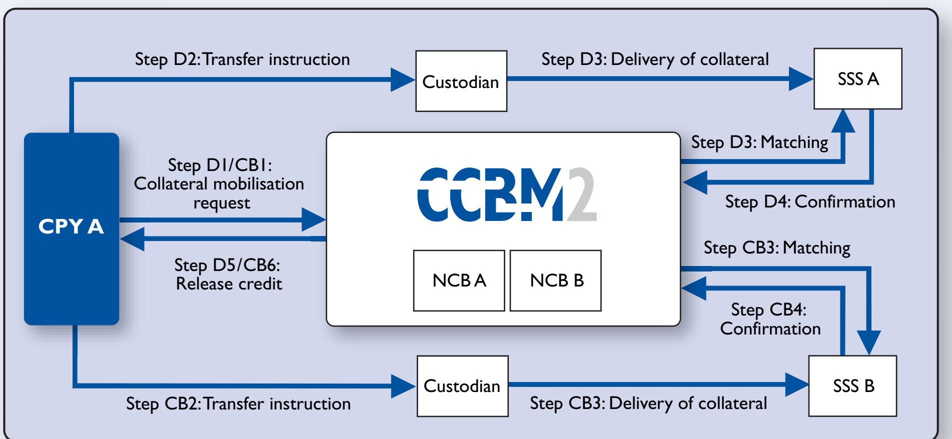
CCBM2 will offer central banks a shared IT solution, while preserving the decentralised relations with their respective monetary policy counterparties. The scope of CCBM2 will go beyond that of the current CCBM, which is restricted to cross-border use only, in that it will provide a single set of procedures for use on both a domestic and cross-border basis.

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

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

More detailed information on the CCBM2 can be found on the ECB's website at http://www.ecb.europa.eu.

**CCBM2 – single harmonised procedure for domestic and cross-border use of collateral**



# T2S: SETTLING WITHOUT BORDERS

## Fragmented securities settlement infrastructure in Europe

Although the euro was introduced more than ten years ago, securities settlement in Europe remains highly fragmented. This is clearly illustrated by the fact that there are still around 40 central securities depositories (CSDs) operating in the EU. Although some progress towards integration and harmonisation has been made by EU authorities and the market, the persisting fragmentation of securities settlement means that it is still very cumbersome and costly for investors to buy equities and bonds from another country. This inhibits progress towards a fully integrated capital market, in which issuers would be able to reach investors across the whole of Europe, and investors would be able to have access to a geographically diversified pool of securities. It also means that the cost of capital for issuers is higher than would otherwise be the case and that investors suffer from lower returns and reduced opportunities for risk diversification.

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

In July 2008, following positive feedback from EU authorities, CSDs and the market in general, the Governing Council of the ECB decided to launch the T2S project.

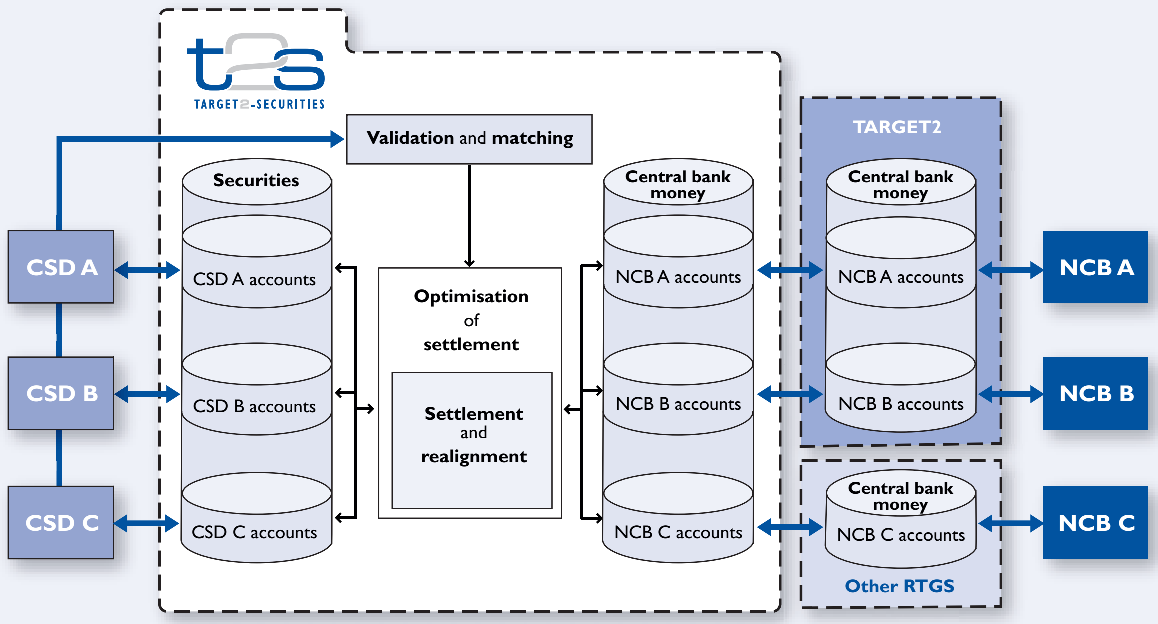
T2S will be a single settlement engine, with the capability to cover all European markets, settling securities transactions in euro and other currencies. T2S will, for the first time, enable market participants to benefit from harmonised and commoditised delivery-versus-payment settlement in central bank money for virtually all securities in Europe. With T2S, cross-border settlement will be treated as domestic settlement in the future borderless market.

T2S will thus be a major step forward in the delivery of a single integrated securities market.

T2S has the following key features.

- **All securities and cash accounts will be held on the same platform:** Instead of having securities and cash accounts spread out across 40 different CSDs and several different central banks, they will be held in a single place – on the T2S settlement platform. This will create an "integrated model" for securities settlement and represent a huge leap forward in terms of the efficiency, speed and safety of processing cross-border transactions.
- **Delivery versus payment in central bank money:** T2S will use the safest form of settlement in central bank money, known as "CPSS Model 1 DvP". This means that the

## T2S – a cooperative project between CSDs and NCBs




As the diagram above indicates, CSDs will hold all of their clients' securities positions in T2S, which will be mapped by each CSD to its own account structure (including direct holdings). CSDs will continue to maintain their clients' securities accounts, including ancillary account information. Each securities account held in T2S will be attributable to only one CSD. CSDs will maintain legal relations with their customers, including custody and notary functions. T2S will have legal relations with CSDs, not with banks. Banks will access T2S via one or more CSDs. Similarly, central banks will be able to open dedicated central bank money accounts for their payment banks in T2S. Each cash account may be used to settle transactions relating to the client's securities accounts in one or more CSDs. This cash account structure will permit efficiency improvements for clients using more than one CSD.

cash and securities legs of a transaction are settled in real time and on a "gross" basis, eliminating counterparty default risk.

- **State-of-the-art settlement functionalities:** T2S will provide the most up-to-date and sophisticated settlement facilities to all markets. These services will include auto-collateralisation, night-time settlement, and continuous optimisation and recycling mechanisms. T2S will therefore be extremely efficient and ensure that settlement fail rates are extremely low.
- **Harmonisation of market practices:** T2S will directly and indirectly foster harmonisation of market practices. Further harmonisation of post-trading in Europe is crucial if market participants are to be able to reap the full benefits of T2S. T2S will directly foster harmonisation by promoting a "lean T2S", i.e. avoiding the replication of national specificities in T2S. This will be achieved through the adoption of a number of standards and agreements within the T2S community. Typical examples include a standardised communication protocol, a single settlement schedule and calendar, a single set of matching standards, and the development of standards for the processing of corporate actions. T2S indirectly contributes to harmonisation by exposing the various types of inefficency that are still blocking progress towards a fully competitive market in post-trading and by escalating issues to the relevant authorities for resolution. For further information, see also the sub-section entitled "The way forward".

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

T2S will bring about a number of important benefits, including:

- a significant reduction in the cost of settlement, by processing all transactions on a single platform rather than in a fragmented way across 30 different platforms;
- standardised access to settlement and further harmonisation of the post-trading environment, which will have "dynamic" effects on trading activity and liquidity, leading to even lower prices in T2S in the long run, to the benefit of the whole market;
- a large increase in the efficiency of market participants' collateral management activities, freeing up cash liquidity and providing market participants with the opportunity to optimise their financing across all securities settled on the single platform;
- a lower cost of capital for issuers as a result of increased market liquidity and access to a wider investor base;
- a better return for investors as a result of lower portfolio diversification costs;

- a reduction in intermediaries' back-office costs, thanks to greater harmonisation, the ability to access all securities and cash accounts from a single location and increased settlement efficiency, owing to simplified processing.

The neutrality of the Eurosystem, with its 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.

## Close cooperation with the market

T2S will take advantage of the synergies with other market infrastructures provided by the Eurosystem – i.e. TARGET2 and CCBM2 – to offer an extremely attractive solution for CSDs and their users. The "golden triangle" of T2S, TARGET2 and CCBM2 working seamlessly together will provide state-of-the-art liquidity management mechanisms.

T2S is being built in close cooperation with the market, in a fully transparent manner. Ever since the concept of T2S was first put forward in July 2006, the market has been very closely involved in a number of ways. These include:

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

T2S has received strong support from all key players who have an interest in a safe, efficient and integrated European financial market. These include the political stakeholders (i.e. ECOFIN, the European Parliament and the European Commission), the securities regulators and the central banking community, the banking and securities market industry and CSDs. 30 CSDs are currently involved in the contractual negotiations which could eventually lead to a decision to participate in T2S. These include all CSDs in the euro area plus 12 CSDs from outside the euro area, i.e. Denmark, Estonia, Iceland, Hungary, Latvia, Lithuania, Norway, Poland, Romania, Sweden, Switzerland and the United Kingdom. In addition, Danmarks Nationalbank, Norges Bank and Sveriges Riksbank have indicated that they are considering allowing their national currencies to be settled in T2S.

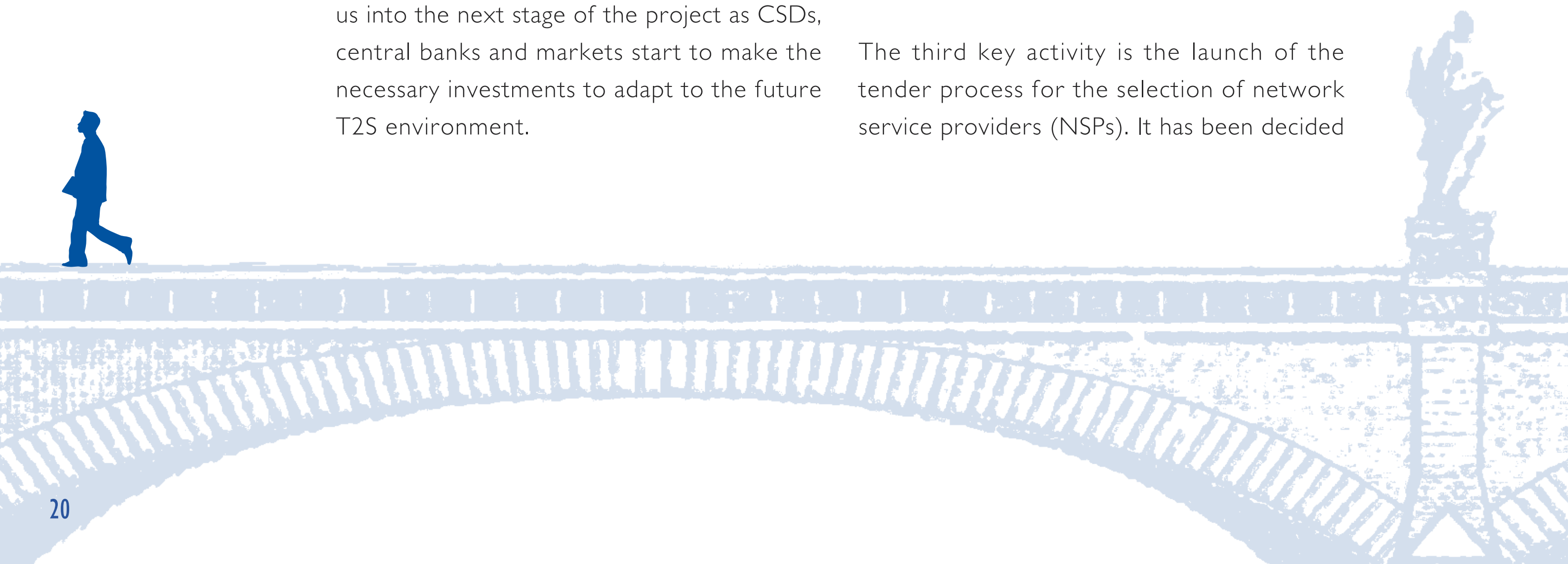
### The way forward

There are three very important activities for the T2S project in 2011.

First, there is the finalisation of the contractual agreements with the CSDs and central banks. Thanks to the hard work and cooperation between the Eurosystem and the CSDs, the T2S Framework Agreement is almost ready for signature. In parallel with the Framework Agreement, the Currency Participation Agreement with central banks that are considering outsourcing settlement in their national currencies to T2S is also almost ready. The signing of the Framework Agreement and Currency Participation Agreement, due at the end of 2011, will take us into the next stage of the project as CSDs, central banks and markets start to make the necessary investments to adapt to the future T2S environment.

The second major activity for 2011 is the completion of the first version of the User Detailed Functional Specifications (UDFS). The UDFS is a comprehensive technical description of the services that T2S will provide to users and of how users will be able to interact with T2S. The UDFS acts as a bridge between the internal architecture of the T2S platform and the user's view of the system. From the perspective of T2S users, the UDFS makes it possible for them to bring their business applications into line with what is actually expected by the T2S application-to-application interface. From a functional design perspective, the UDFS presents an opportunity for those behind the T2S project to make sure that the design will allow users to fulfil all their business needs. The first version of the UDFS was released in early 2011, and CSDs and market participants had the opportunity to provide their feedback until the end of May. In the autumn, version 1.2 of the UDFS will be released.

The third key activity is the launch of the tender process for the selection of network service providers (NSPs). It has been decided



to offer users the choice of connecting to T2S via value-added networks (VANs) or by using "dedicated links". The latter will strengthen the T2S business case for users who expect to exchange large volumes of data with the T2S platform. With a dedicated link, the NSP is only requested to provide basic connectivity services, while the required functionality will be implemented directly in T2S by the Eurosystem and in their own systems by users. Meanwhile, small and medium-sized users will be able to connect to T2S with only limited investment cost by making use of the value-added connectivity services provided by their NSP.

In parallel to the work on the contractual and technical side of the project, the T2S project has also further strengthened its commitment to post-trade harmonisation. In 2011 a Harmonisation Steering Group, composed of senior-level representatives from the industry and the public sector, was established in order to support the T2S Advisory Group in formulating and monitoring the T2S harmonisation agenda. The Harmonisation Steering Group does not aim to duplicate the work of other harmonisation fora, but rather make sure that what T2S needs in terms of harmonisation is achieved in time for the launch of the single platform in September 2014. The Group is to be "modest" but "tough": modest in the sense of focusing on the removal of barriers that would hinder the launch of T2S; tough in the sense of adopting a clear and transparent traffic light system. This will enable the Group to highlight very clearly when progress has been achieved or when there is a delay in each T2S harmonisation activity. It will enable the T2S Advisory Group to send clear messages to national markets and relevant actors and to exert peer pressure. The Harmonisation Steering Group will thus be at the core of the T2S harmonisation agenda, giving a concrete boost to T2S and the wider post-trade harmonisation work in Europe, in cooperation with the European Commission and other relevant actors.

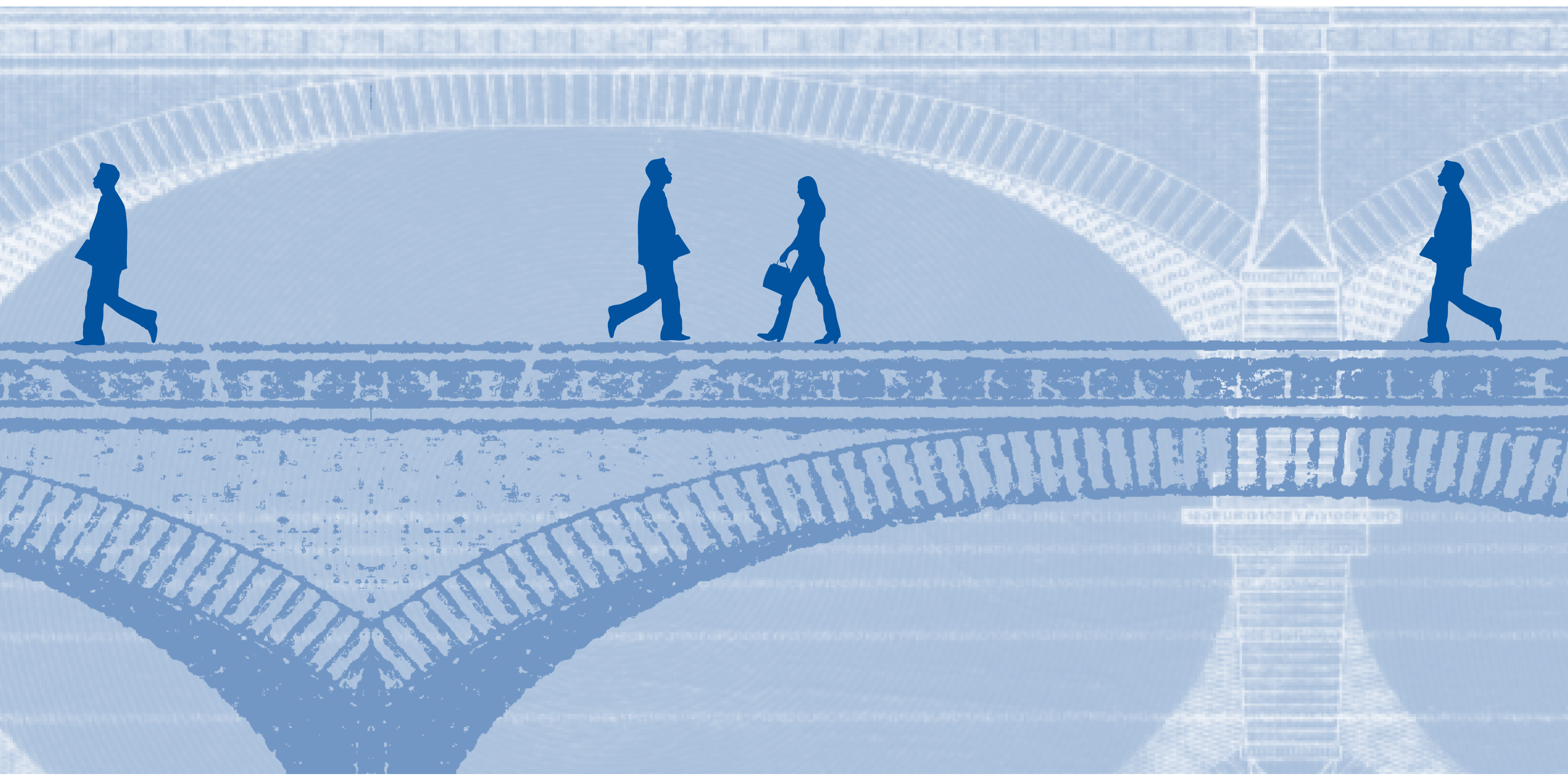
More detailed information on T2S can be found on the ECB's website at http://www.t2s.eu.

# SINGLE EURO PAYMENTS AREA (SEPA): TOWARDS A EUROPEAN INTEGRATED RETAIL PAYMENTS MARKET

The euro area will have one retail payments market within which all euro payments will become domestic payments. With a single set of payment instruments, citizens will be able to make euro payments throughout SEPA as quickly, easily and securely as they make national payments today.

In contrast to TARGET2, T2S and CCBM2, the Eurosystem is not the main driver of SEPA. However, the Eurosystem considers SEPA to be an extremely important project for Europe and is using its influence to ensure that the new retail payments market will be in the best interests of all EU citizens and firms. SEPA represents another key factor in ongoing European integration and is, therefore, not a one-off operation. SEPA must continue to evolve and keep up with cutting-edge technology in order to fulfil the needs of end users.

The project was started by the European Payments Council (EPC), which was established by European banks in 2002. The EPC has already finalised the major building

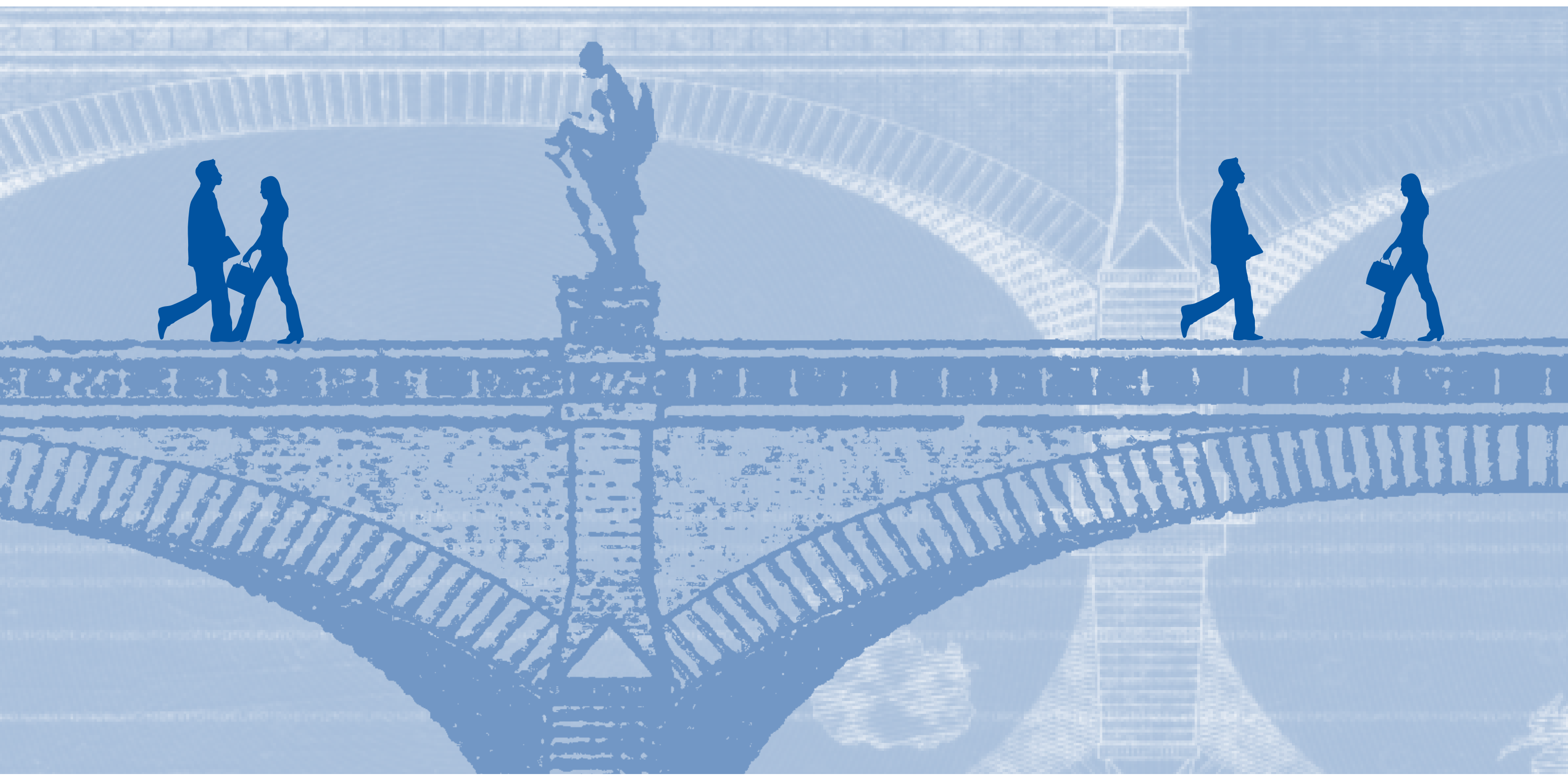


blocks of SEPA. The European clearing and settlement industry provides the infrastructures needed for processing payment transactions. As an initiator of EU legislation, the European Commission contributes to a common legal framework for retail payments. Finally, the ECB and Eurosystem act as a catalyst to ensure the best possible development of SEPA. The Commission and ECB co-chair the SEPA Council[4], which aims to promote the realisation of an integrated euro retail payments market by ensuring the proper involvement of all stakeholders and by fostering consensus on the next steps towards the realisation of SEPA.

[4] http://www.sepacouncil.eu

## Why SEPA?

Since the introduction of 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 using a



# SINGLE EURO PAYMENTS AREA (SEPA): TOWARDS A EUROPEAN INTEGRATED RETAIL PAYMENTS MARKET

single account, subject to the same basic conditions, rights and obligations, regardless of their location.

To facilitate this, all euro area retail payments markets will join to form one market – the Single Euro Payments Area (SEPA). 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 in the banking and payments industry, but also changes for customers. SEPA consists of:

- transactions in one currency, i.e. the euro;
- a single set of payment instruments, including credit transfers, direct debits and payment cards; and
- a harmonised legal framework, based on the Payment Services Directive (see below).

SEPA will lead to greater competition among service providers and more choice for end users.

## 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. The goal is to gradually phase out the national legacy instruments, replacing them with their SEPA equivalents. So far, however, migration to SEPA credit transfers and SEPA direct debits has not taken off as expected. In view of the fact that the costs of maintaining dual processes for many years would be expensive, both for the payments industry and for its customers, in December 2010 the Commission issued a proposal for a regulation which would establish end dates for migration to SEPA.[5)] This proposal is strongly supported by the Eurosystem and other major stakeholders, such as the members of the SEPA Council.

The effects of SEPA have been very visible at the infrastructure level, i.e. among entities that offer an interbank funds transfer system. Most retail payment infrastructures that process credit transfers in euro have been processing SEPA credit transfers since their launch in January 2008. Several infrastructures have taken the step from being purely domestic operators to becoming pan-European service providers. However, market consolidation has not yet materialised to the extent expected.

5) Proposal for a Regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009.

## Next steps – innovation and eSEPA

The basic elements of SEPA – payment instruments, standards and legal basis – are the building blocks on which further innovative services can evolve. Some users, such as those who make a significant number of payment transactions each day, are used to making payments in a highly advanced

### SEPA building blocks

*The EPC has developed two schemes:*

***SEPA credit transfer scheme*** – roll-out started in January 2008

***SEPA direct debit scheme (core scheme and B2B scheme)*** – roll-out started in November 2009

The schemes allow customers to send and receive euro transfers to/from any beneficiary in the euro area.

Both schemes 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:*

***SEPA cards framework*** – roll-out started in January 2008

Cardholders will be able to pay with one card throughout the euro area. The point-of-sale terminals will be standardised and merchants will be able to accept a wide range of cards with a single terminal.

***SEPA PE-ACH/CSM framework for 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.

*Recent EU legislation to support a harmonised payment market:*

***The Payment Services Directive (PSD), Directive 2007/64/EC*** – transposed into national law by 1 November 2009

***Regulation (EC) No 924 / 2009 on cross-border payments in the Community*** – entered into force on 1 November 2009

The PSD provides the legal foundation for SEPA, and it protects and reinforces the rights of payment service users in the EU. Among other things, Regulation (EC) No 924/2009 on cross-border payments in the Community stipulates that all banks in the EU must be reachable for SEPA direct debits from 1 November 2010 at the latest.

electronic environment. SEPA products must develop to match their needs.

At the same time, innovation should not lead to new fragmentation: new solutions should be offered not only in a national context, but throughout Europe, with equal user experience and high service levels.

The long-term goal of SEPA is to create a dynamic retail payments market that makes the best use of available technologies, so that best practice and high user acceptance can evolve for all economic situations in which payments are made, including, for instance, online and mobile commerce. The latter are referred to as eSEPA.

The Eurosystem is encouraging work in this field. It supports the EPC's initiative to work on an interoperability framework for online payments and to develop a framework for mobile payments. 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.

More detailed information on SEPA can be found on the ECB's SEPA website at http://www.sepa.eu.

**What are eSEPA services?**

eSEPA goes beyond the scope of payments. The aim of eSEPA is to offer efficient, customer-friendly access to credit transfers and direct debits and to ensure easy and fast processing of payments, for example by embedding electronic payments into commercial products and services. Such innovative services are already offered in many countries, but they often do not facilitate cross-border use. Within SEPA, national fragmentation should, of course, also disappear in this context.

**Examples of eSEPA**

**Mobile payment initiation:** mobile phones can be used to initiate SEPA credit transfers and card payments across SEPA, both for remote and proximity payments at the point of sale.

**Online e-payment initiation:** at the checkout, an online shopper can choose online banking-based e-payments as the payment method. By doing so, a secure connection to his/her bank is established and a SEPA credit transfer is usually initiated by confirming a pre-filled online form in the familiar online banking environment.

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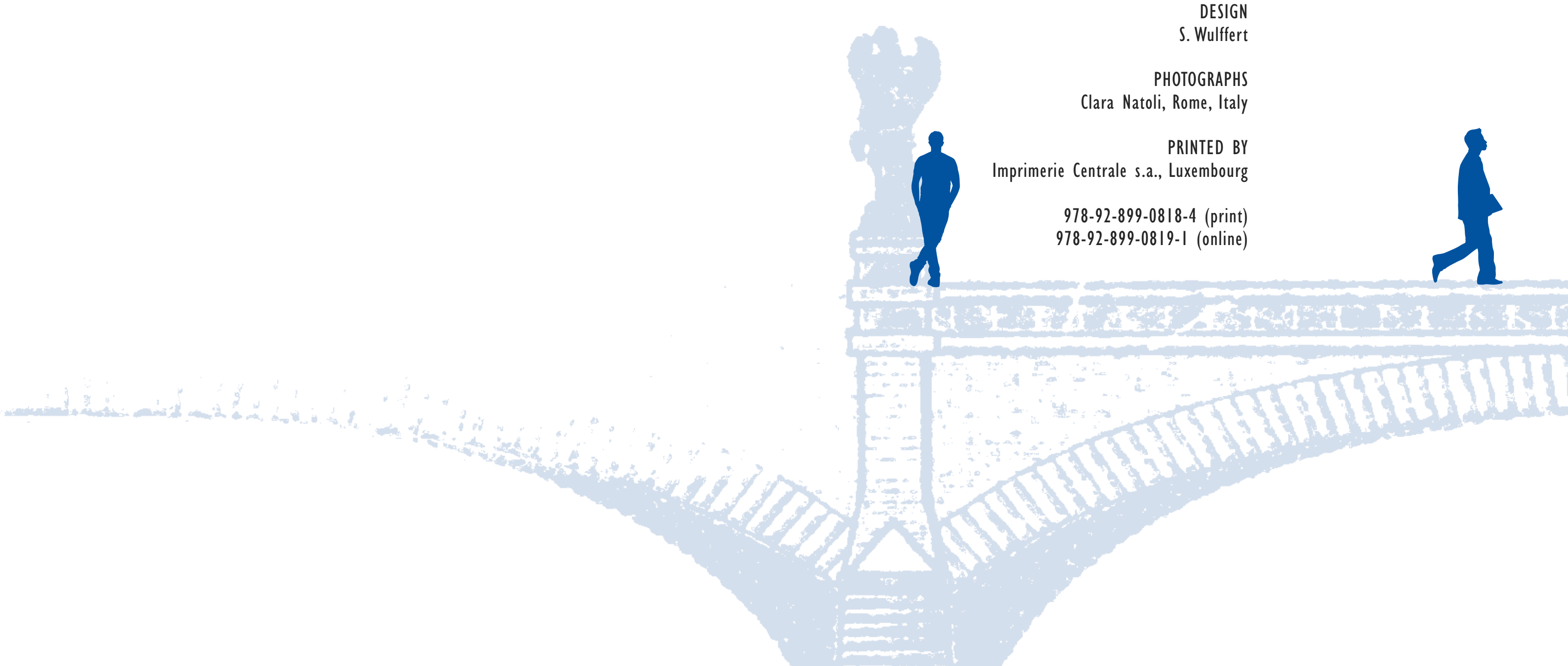

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