



EUROPEAN CENTRAL BANK

EUROSYSTEM

# SINGLE EURO PAYMENTS AREA (SEPA) FROM CONCEPT TO REALITY

JULY 2007



FIFTH  
PROGRESS  
REPORT

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JULY 2007

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## EXECUTIVE SUMMARY

The Eurosystem is supporting the creation of the Single Euro Payments Area (SEPA), which aims at enabling retail payments in euro to be made throughout the euro area under the same basic conditions from a single account, regardless of its location. These changes are needed to move towards a more integrated payments market, which will bring substantial economic benefits. As such, SEPA contributes to achieving the goals of the Lisbon agenda. In its role as a catalyst for change, the Eurosystem is closely monitoring developments in relation to SEPA.

In this respect, it should be noted that the Eurosystem greatly appreciates the work already done by the European banks, through the European Payments Council (EPC), to make SEPA reality. As in previous progress reports on SEPA, the Eurosystem again focuses on giving guidance to the market in those areas where additional work needs to be done or where greater efforts need to be made.

At this point in time, the project has entered into a critical phase, as the official launch of SEPA in January 2008 is only a few months away. However, continued efforts, not only on the part of the banks, but also by all other stakeholders such as corporate entities, public administrations and merchants, will still be necessary to ensure that the project becomes a success. This report therefore focuses on making recommendations as to how “gaps” in the project might be closed, i.e. on giving advice as to how remaining problems might be overcome. The gaps are either short-term problems that could hamper the timely start of SEPA in January 2008, or longer-term problems that could have a negative impact on the continued success of SEPA. The areas which still require most attention are card schemes and card payments, direct debits, as well as the awareness and preparedness of all stakeholders.

The Eurosystem expects the relevant stakeholders to deal with all of the issues mentioned in this report so as to ensure that SEPA will become a lasting success. In particular, the market is expected to address the key recommendations mentioned below.

### **1 THERE IS AN URGENT NEED FOR COMPLETE CLARITY ON ALL FEATURES OF SEPA DIRECT DEBITS BY DECEMBER 2007**

The EPC needs urgently to clarify the exact features of all elements that will be offered in addition to the core SEPA direct debits by December 2007. In this respect, it is of paramount importance that the SEPA direct debits are both simple and safe to use and do not present a deterioration in comparison with current service levels, so that customers will choose to use them, rather than current direct debit instruments. With regard to the development of a business-to-business scheme, wide acceptance by corporate users will be essential. Solutions that address the concerns of debtors and their banks regarding the secure handling of mandates, might be developed through the use of electronic mandates and the validation of mandates by debtor banks. The EPC has stated that banks can only launch the SEPA direct debit scheme on a euro area-wide basis after the transposition of the Payment Services Directive into all national laws (at the latest, this should happen by 1 November 2009). However, this should not discourage, or even prevent, any bank or banking community from offering SEPA direct debits to their customers at the national or banking community level at an earlier stage, provided that this occurs in full compliance with the SEPA Direct Debit Rulebook.

### **2 FURTHER CARD STANDARDISATION IS VITAL AND WORK IN THIS FIELD NEEDS TO MAKE PROGRESS**

The further definition of card standards is crucial in order to achieve full interoperability

between all parties involved in the processing of card payments (including merchants and processors), as well as to create more competition and to facilitate the emergence of additional European debit card schemes (see item 3 below). The Eurosystem expects the banking industry, the respective card schemes and standard-setting entities to continue their work in this field, which should be coordinated by the EPC, and to finalise the definition of these standards in 2008, at the latest. The final definition of card standards should be accompanied both by an analysis as to which of these should become mandatory for the creation of a SEPA for cards and by the publication of a clear timetable for their implementation. The Eurosystem view is that a SEPA-compliant scheme should use commonly defined, open standards wherever these are available (ISO, EMV, etc.); proprietary functional and technical specifications should not impair interoperability, nor interfere with minimum security requirements. To ensure that all relevant SEPA requirements are taken into consideration, card standards for SEPA should be elaborated by standardisation bodies in which the European banking industry is well represented.

### 3 THERE IS A NEED FOR AT LEAST ONE ADDITIONAL EUROPEAN DEBIT CARD SCHEME

The Eurosystem is of the opinion that there is a genuine need for at least one additional European debit card scheme, which could be used mainly in the euro area countries. Such a scheme would stimulate competition and would ensure the close involvement of European banks in the governance of the scheme. A wider coverage in all countries of the EU, for instance, would be welcomed. Global reach is just an option since banks could provide wider coverage via co-branding. Any additional European debit card scheme should operate under EU law and should, accordingly, process personal data in line with EU data protection laws. The Eurosystem understands that setting up a European debit card scheme will require time;

therefore, the Eurosystem does not necessarily expect the final establishment of such a scheme by 2008, or even by 2010. As soon as possible, however, the Eurosystem expects clear signals from banks, schemes and other market players that they are working on the setting-up of such a scheme.

### 4 CO-BRANDING CAN HELP CARD SCHEMES TO GAIN THE TIME NEEDED FOR THE DEVELOPMENT OF A LONG-TERM STRATEGY

Subject to the condition that all card schemes concerned are SEPA-compliant, co-branding is a way for issuing banks to provide their customers with a card that has a Europe-wide reach while current domestic card schemes – or a new European debit card scheme in its start-up phase – have not yet achieved a Europe-wide reach on the acquiring side. Co-branding is also one of the three options offered to card schemes to become SEPA-compliant in the long run. However, co-branding cannot be the only solution chosen by the European banking sector in this regard, nor should it be used as a “wait-and-see” approach, as substitute for the active development of (a) new European scheme(s).

### 5 REACHABILITY IS THE KEY

It is crucial for the successful launch of SEPA that those banks whose payment volumes represent the critical mass of payments are able to send and to receive SEPA credit transfers as from January 2008.<sup>1</sup> These banks should therefore have made appropriate arrangements with one or more banks, or clearing and settlement mechanisms (CSMs), by January 2008. However, the Eurosystem has accepted

<sup>1</sup> The new SEPA credit transfers will be available as from Monday, 28 January 2008. This date was chosen in order to decouple the go-live date for customers from the end-of-year routines common to both banking and industry, the traditional freeze on changes to banking processes imposed in the period around Christmas and the New Year and other mandatory changes scheduled for this period, such as the introduction of the euro in Malta and Cyprus.

the EPC's recently stated view that the remaining, smaller banks need only be capable of *receiving* SEPA credit transfers as from January 2008 and be capable of *sending* them in the course of 2008.

#### **6 INFRASTRUCTURES SHOULD COMPLY WITH THE EUROSISTEM'S SEPA-COMPLIANCE CRITERIA**

The Eurosystem has defined criteria to assess the compliance of infrastructures with the needs of SEPA, which address the issues of processing, interoperability, sending and receiving capacity, access conditions and transparency. These criteria will be complemented by more detailed terms of reference, and infrastructures will be requested to carry out a self-assessment on the basis of these terms of reference. Using common terms of reference will make the self-assessments, which should be made public, comparable for interested market players. The EPC has been invited to take these criteria into consideration when reviewing policies regarding payment system infrastructures (e.g. by updating their PE-ACH/CSM Framework).

#### **7 THE INVOLVEMENT OF ALL RELEVANT SEPA STAKEHOLDERS SHOULD BE REINFORCED**

The current level of involvement of non-bank stakeholders in the practical preparations for SEPA, and also the state of their operational preparedness, is seen by the Eurosystem as a cause for concern. The Eurosystem encourages the EPC, in cooperation with national migration bodies, to strengthen the involvement of, in particular, public administrations, corporate enterprises and merchants so as to ensure their readiness for SEPA by January 2008. The Eurosystem invites public authorities to transform their political support for the SEPA project into operational commitments aimed at using the SEPA payment instruments as soon as possible.

#### **8 THERE IS A CONTINUED NEED FOR BROADENING AND DEEPENING OF SEPA**

The Eurosystem acknowledges the tremendous amount of work undertaken by the EPC to make SEPA a success. The EPC, in its role as the market-driven decision-making body for the European payments industry, is encouraged to continue its activities once SEPA has become reality. In this regard, the EPC is expected to contribute to the broadening of SEPA in the field of payment innovation, such as e-payments for internet retailers, e-mandates for direct debits and new payment schemes such as a priority credit transfer scheme. In the same vein, the EPC is expected to contribute to the deepening of SEPA, mainly by ensuring standardisation in the customer-to-bank field.

#### **9 THE SECURITY OF SEPA PAYMENT INSTRUMENTS NEEDS TO RECEIVE MORE ATTENTION**

The Eurosystem would like to reiterate the urgent need for work on the security of payments, especially in the field of internet banking, card payments via the internet and e-payments. The EPC has taken primarily interbank security into account, but has not specified end-to-end security issues. Ensuring security in these domains is in the interests of the banking community, given that financial and reputational risks could ensue from a lack of security. These reputational risks should not be underestimated, as public confidence in new products will be decisive to ensure their successful adoption. The EPC is therefore requested to undertake a threat assessment encompassing the complete end-to-end process, to develop a set of best practices and to promote the use of these practices by the banks.

## **10 CONCRETE IMPLEMENTATION AND MIGRATION PLANS SHOULD BE PUBLICLY AVAILABLE**

All national implementation and migration plans must be finalised and published by the end of 2007. The plans should be concrete and precise, and should provide guidance to all stakeholders. The Eurosystem expects all plans to be translated into English, as they will be published online on the new SEPA link directory ([www.sepa.eu](http://www.sepa.eu)) to increase transparency. National migration bodies should be aware that the SEPA migration period should not be too lengthy, so as to avoid a long and costly period of dual processing. The migration bodies should elaborate criteria that determine the end of the phase of migration from national payment instruments to SEPA instruments. Once this has been done, a precise end date for the use of national payment instruments should be agreed. Multi-country customers, in particular, as well as multi-country banks, request a clear end date. In this context, it should be borne in mind that a phasing-out of national payment instruments will be necessary, as the continued parallel processing of national and SEPA instruments will not allow stakeholders to realise the efficiency gains that SEPA can bring about.

## **11 MORE CONCRETE COMMUNICATION ON SEPA IS NEEDED**

The SEPA communications programme is aimed at informing all stakeholders about the long-term goals, challenges and benefits of SEPA. The key target groups at this stage (i.e. in mid-2007) are corporates and public administrations in their function as large users of payment services, on the one hand, and the associations of small and medium-sized enterprises (SMEs) and consumers as the representatives of the smaller users, on the other. Most of the communication efforts should be undertaken by banks, by national migration entities and by public authorities, as they have access to all key information and have direct links to all relevant

target groups. Communication efforts aimed at other end-users should be stepped up in 2008. In particular, banks should present their actual service offerings, so that their customers know what to expect from SEPA.

## **12 REPORTING REQUIREMENTS IN THE LIGHT OF SEPA**

All barriers and obstacles that could hamper the implementation of SEPA should be removed in order to allow effective cross-border competition in the field of retail payment services. The Eurosystem asks the European Commission to finalise its work on the review of Regulation 2560/2001 as soon as possible. The Eurosystem has already suggested raising the threshold for balance of payments reporting to €50,000 as from 1 January 2008 and, in this regard, welcomes the decisions by the relevant authorities in several countries to raise the reporting threshold without waiting for a European decision.

## INTRODUCTION

The Eurosystem supports the creation of the Single Euro Payments Area (SEPA), which aims at enabling retail payments in euro to be made throughout the euro area under the same basic conditions from a single account, regardless of its location. These changes are needed to move towards a more integrated payments market, which will bring substantial economic benefits. As such, SEPA contributes to achieving the goals of the Lisbon agenda. As already pointed out by the Eurosystem in the past, SEPA is aimed at achieving a situation where *“individuals and corporations are able to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payment instruments as easily, efficiently and safely as they can make them today at the national level”*. The establishment of SEPA is a market-driven project, which is coordinated and promoted by the European Payments Council (EPC), the banking industry’s self-regulatory body in the field of payment services.

In its role as a catalyst for change, the Eurosystem is closely monitoring the developments towards SEPA. Four progress reports on the topic have been published by the Eurosystem so far, all of which assessed the state of preparations and provided guidance to the market. Moreover, a report specifically addressing card payment schemes has also been published. Since the publication of the fourth progress report in February 2006, many new developments have taken place. In addition, the project is reaching a critical phase, as the official launch of SEPA in January 2008 is now only a few months away.

At this stage, the Eurosystem considers it helpful to issue a further progress report, which focuses on those areas where work remains to be done by the market in order to ensure the success of SEPA. The addressees of the report are not only the banks, but all relevant stakeholders such as corporate enterprises, public administrations and merchants. The

goals of SEPA can be fully achieved only if all stakeholders combine their efforts. The focus of this “gap analysis” is on short-term problems that can hamper the timely start of SEPA in January 2008, as well as on longer-term problems that could have a negative impact on the continued success of SEPA. Analysis of the gaps in the project is combined with recommendations that should provide the market with advice on how the remaining problems could be overcome. The market is requested to take up these recommendations, so that the goals of SEPA can be achieved.

The report is divided into three chapters. Chapter 1 presents a review of the status of SEPA instruments and infrastructures. Chapter 2 addresses the implementation and migration efforts towards SEPA. The legal framework for SEPA, which focuses on the issues arising from the Payment Services Directive, and the governance of the SEPA schemes and frameworks are covered in Chapter 3.

## I STATUS OF, AND RECOMMENDATIONS CONCERNING, SEPA INSTRUMENTS AND INFRASTRUCTURES

### I.1 CURRENT STATUS IN THE FIELD OF SEPA INSTRUMENTS

#### I.1.1 CREDIT TRANSFERS

In June 2007, the EPC approved the basic structure for a SEPA credit transfer scheme (“SEPA Credit Transfer Scheme Rulebook”, version 2.3, or “SCT Rulebook”, as well as the Implementation Guidelines). This version of the SCT Rulebook will be the basis for the SEPA credit transfers that will be offered as from January 2008. In the view of the Eurosystem, this constitutes an important step forward on the way towards the creation of SEPA.

#### Maximum execution time for credit transfers

Among the issues that still need to be addressed in the field of credit transfers is the inclusion in the SCT Rulebook of the new maximum timeframe for the execution of credit transfers mandated by the Payment Services Directive.<sup>2</sup> The Directive stipulates that, by 2012 at the latest, a credit transfer should reach the final recipient within one business day (i.e. the payee’s account should be credited on the business day after the day the payment is initiated by the payer, i.e., on “D+1”). This change should be incorporated into one of the envisaged regular updates of the SCT Rulebook, replacing the current standard of crediting of the payee’s account on “maximum D+3”.

#### Customer-to-bank domain

The Eurosystem has taken note of the EPC’s recommendation to use the ISO 20022 XML standard, which is mandatory in the bank-to-bank domain, in the customer-to-bank domain of the SEPA credit transfer. Efforts in this field need to be increased to meet user requirements (see Section 1.3 for standardisation efforts in the customer-to-bank domain).

The Eurosystem has also taken note that several individual communities have started to develop

implementation guidelines for paper-based credit transfers for special customer groups. Even though the Eurosystem would not like to promote the use of paper-based instruments in SEPA, the Eurosystem encourages the EPC to develop common solutions for these user requirements in order to avoid renewed fragmentation within the euro area.

#### Priority credit transfer scheme

Furthermore, as already pointed out in the Eurosystem’s previous progress report, the core credit transfer scheme should be supplemented with additional common features that will help to make the basic SEPA credit transfer at least as attractive to customers as the current additional national equivalents already are. In the view of the Eurosystem, this will require, inter alia, the development of a priority credit transfer scheme with same-day settlement. The Eurosystem welcomes the work done by market participants in this field to develop an interbank payment service with a settlement time of four hours maximum, assumes that the work will continue with the development of open standards and expects this priority payment service to be transformed into a SEPA scheme and transferred to the EPC’s scheme management function, in order to ensure that it is adequately coordinated with the other SEPA schemes.

#### Reachability of banks

It is a precondition for the success of SEPA that banks that currently have receiving and sending capacity for domestic credit transfers are also able to receive and send SEPA credit transfers. Each bank should put into place whatever arrangements are necessary, either by agreeing suitable mechanisms with other banks and/or by connecting to one or more clearing and settlement mechanism(s) (CSM(s)). Although it is entirely in the spirit of SEPA that banks reduce their existing connections to CSMs, this does presuppose that CSMs are in a position to offer reachability to their clients. The Eurosystem has therefore developed criteria for

<sup>2</sup> The Directive of the European Parliament and of the Council on payment services in the internal market is also covered in Chapter 3.

infrastructures that include a requirement to be interoperable with other CSMs.

However, the Eurosystem accepts the EPC's recently stated view that those banks whose payment volumes represent the critical mass of payments should be capable of both sending and receiving SEPA credit transfers as from January 2008, while the remaining, smaller banks are only expected to *receive* SEPA credit transfers as from January 2008 and should be able to *send* them in the course of 2008. The EPC envisages setting up a database that would show which banks are adhering to the scheme and are reachable. The Eurosystem would like to see which banks form part of this critical mass defined in the national migration plans.

#### 1.1.2 DIRECT DEBITS

In June 2007, the EPC approved the basic structure for a SEPA direct debit scheme ("SEPA Direct Debit Scheme Rulebook", version 2.3, or "SDD Rulebook", as well as the Implementation Guidelines). The SDD Rulebook contains a set of interbank rules, practices and standards that will allow the banking industry to offer a basic, or "core", direct debit scheme, which is based on the so-called creditor mandate flow, to their customers. In the view of the Eurosystem, this is also a major step towards the creation of SEPA. However, the core SEPA direct debit scheme does not fulfil the needs of all debtors and debtor banks. In some countries, it does not fulfil the needs of some creditors either. In order to make SEPA direct debits a success, the needs of all stakeholders must be satisfactorily addressed.

##### **Need for clarity on the final features of the SEPA direct debit scheme**

The EPC has started to introduce additional features to the core direct debit scheme. These features aim at addressing the concerns of debtors and debtor banks regarding the secure handling of mandates, and at establishing a scheme for business-to-business ("B2B") direct debits. The features under development relate to electronic mandates and the validation of

mandates by debtor banks, and could be a solution to concerns of debtors and debtor banks in some banking communities. However, some communities might still face problems in mapping the existing domestic direct debit scheme onto the SEPA core direct debit scheme so as to match current service levels and to continue to meet customers' needs, mainly in the corporate sector. In this sense, there is concern about a non-migration of these communities to the SEPA direct debits. The EPC is invited to find a solution that answers these customer needs.

Overall, there is an urgent need for the EPC to clarify the features of all of these new elements of the SEPA direct debits in precise detail. All stakeholders involved should have certainty about the final features of the SEPA direct debit schemes by the end of 2007 at the latest.

##### **Customer acceptance and reachability are the key factors for success**

The Eurosystem believes that some areas remain in which banks must continue to be vigilant in order to make the SEPA direct debit scheme a success. The major factors in achieving acceptance of SEPA direct debits by customers are, first, that all banks offer adequate services, at least within the euro area, and, second, that all banks are operationally ready to receive and send direct debits in the new SEPA formats. These factors, referred to as "reachability", are vital for the success of SEPA. They can ensure that a critical mass of direct debits can be moved from existing national formats to the SEPA formats within a reasonably short period of time. It is the ultimate test for banks as to whether their initial willingness to commit to the goals of SEPA will be followed by concrete actions. In the event of insufficient reachability, the migration to SEPA direct debits could be endangered, since customers might either choose to use other payment instruments or remain with their national direct debit schemes, thereby also endangering the formation of a critical mass of users in the new scheme.

### Roll-out of SEPA direct debits to the customer on the earliest possible date

As for the other SEPA payment instruments, the launch of SEPA direct debit products was initially scheduled for 1 January 2008, and it was expected that a critical mass of transactions would have migrated to the new scheme by the end of 2010. On account of delays in the adoption of the Payment Services Directive (PSD), however, the EPC has recently stated that banks can only launch the scheme on a euro-area wide basis as from November 2009, when the PSD must have been fully transposed into national law throughout the EU. In the view of the Eurosystem, this should, however, neither discourage nor prevent any bank or banking community from offering SEPA direct debits to their customers before 1 November 2009, for example, at the national level only. Preparatory work for launching SEPA direct debits should continue in any case.

For the launch of SEPA direct debits, clarity is also needed on the applicability of an interchange fee. The Eurosystem's public stance on interchange fees is neutral, as this is an issue within the field of competence of the European Commission's DG Competition. The Eurosystem has taken note of the EPC's proposal for a maximum-default multilateral balancing fee. In general, given the fact that, in the processing of direct debit transactions, costs are concentrated at debtor banks and revenues are more easily generated at the creditor banks, a rebalancing between the creditor and the debtor bank could be a valid means of inciting debtor banks to adhere to the new SEPA direct debit scheme and thereby to create broad reachability. The Eurosystem calls upon the Commission to provide clarity or give guidance on the applicability of an interchange fee as soon as possible, which the market as a whole could use as starting point for formulating future-proof scheme rules for SEPA direct debits.

### Changeover from old to new mandates should be facilitated

Some banks raised the issue that the migration of mandates from existing national direct debit

schemes to the new SEPA scheme could be problematical, since new mandates might be required in some countries. The national banking communities should investigate this matter in cooperation with their national legislators and the national central banks (NCBs), and should try to find a pragmatic solution that does not place any undue burden on either the banks or their customers. This would greatly facilitate a smooth migration to the new SEPA direct debit schemes.

### 1.1.3 CARD PAYMENTS

The Eurosystem published a report entitled "The Eurosystem's view of a SEPA for cards" in November 2006. Subsequently, meetings and discussions took place with market participants, as well as with the European Commission, to receive feedback on the issues raised in the report.

### Recommendation to set up a European debit card scheme

The Eurosystem strongly recommends setting up at least one additional European debit card scheme, which could be used mainly in the euro area countries. A wider coverage, for instance, in all countries of the EU, would be welcomed. Global reach is not considered to be necessary. Banks could provide wider coverage via co-branding. Such a scheme could be set up either by establishing a completely new scheme, or via an alliance between existing national schemes, or by expanding an existing national scheme. The rationale behind this request by the Eurosystem is that most of the national debit card schemes and card processors are currently efficient and have low fee levels, and that these advantages should not be lost with the creation of SEPA. A new scheme could enhance competition between card schemes, between processors and between banks. It could also allow for diversity in the banks' positions and roles in card scheme governance and in scheme ownership models. Competition among card schemes, among processors and among banks is essential to provide the widest possible choice for cardholders (i.e. choice as to which scheme to use), merchants (i.e. choice as to which



scheme to accept and which acquiring bank to select) and banks (i.e. choice as to which scheme to issue and/or acquire and which processor is to provide transaction processing and other card services). Furthermore, European banks need to consider the long-term view on governance aspects of card payment schemes and processors now, deciding how much control of their card business they would like to retain and how they see their future role in this field, which is critical from a customer-relations point of view.

The Eurosystem recognises that designing and implementing a European card scheme (irrespective of whether it is a completely new scheme or the result of alliances or expansion) is a complex matter and involves significant investment. However, the Eurosystem would draw the industry's attention to the fact that, as a result of (i) the separation of scheme and processing services, and (ii) the development of standards for card payment schemes, the cost and complexity of setting-up a new scheme should be substantially lower than it has been in the past. The Eurosystem encourages the EPC to review the option of creating a SEPA debit card scheme in addition to the SEPA credit transfer and SEPA direct debit schemes.

Finally, it should be recognised that the creation of an additional European debit card scheme that is equivalent to the schemes originated in the United States, Japan or China is a largely political objective, which the Eurosystem invites the banks to share.

The Eurosystem understands that some more time will be needed to set up a new pan-European card payment scheme. Therefore, the Eurosystem accepts that such a scheme does not have to be in place on 1 January 2008; however, a signal is nonetheless expected from the European banking industry indicating its intentions to move in this direction.

#### The Eurosystem stance vis-à-vis co-branding

Co-branding is a plausible option for card payment schemes to become SEPA-compliant by 1 January 2008, in order to give the banking

industry – or other relevant parties – enough time to develop a European proposal.

The Eurosystem has never been against co-branding per se (provided that the schemes involved are themselves all SEPA-compliant). Co-branding is a valid option, also for the long term. At some point, however, the whole market seemed to be considering co-branding as the one and only solution for making card payment schemes SEPA-compliant. The Eurosystem had to warn that this could not be the only SEPA option. The Eurosystem has emphasised its neutrality with regard to the three options<sup>3</sup> presented in the SEPA Cards Framework (SCF), provided that all three materialise, so as to ensure variety in the market. Certainly, widespread co-branding does not correspond to the long-term SEPA vision of an integrated market, as it could simply perpetuate a situation similar to that prevailing at present.

Some market participants believe that, once all card schemes meet SEPA requirements and national markets are opened up, the result would already be quite different than the current nationally fragmented markets. The Eurosystem recognises this, but would point out that such opening-up of national markets has yet to materialise. To speed-start SEPA for cards, banks should aim to ensure that general-purpose cards issued after 1 January 2008 are EMV + PIN-compliant. Banks should strive to deliver euro area-wide reach to the cardholder (provided that the merchant accepts the brand and technical standards), and all general-

3 The SCF defines three options that a card scheme can follow in order to offer SCF-compliant products (the options may also be combined):

(1) replace the national scheme with an international scheme (provided the latter is SCF-compliant). In this case, co-branding is no longer needed, as cross-border and national transactions are automatically covered by the same schemes;

(2) evolve through alliances with other card schemes or through expansion to the entire euro area. In the case of card scheme alliances, the participants could agree, for example, on mutually accepted relevant brands. Should a scheme be expanded to cover the euro area, the cards in the scheme could be issued and acquired by banks and accepted by merchants located anywhere in the euro area;

(3) co-brand with an international card scheme (as is already the case in most countries today), provided that both schemes in question are SCF-compliant.

purpose cards without euro area-wide reach should be phased out by the end of 2010.

#### Co-branding in the case of a European scheme

The Eurosystem recognises the difficulties that card-issuing banks may have under an emerging European debit card scheme if they want to offer their cardholders wide geographical coverage. For a new scheme to be successful, it is considered critical that the issuing banks have the possibility for co-branding the new European scheme with an international scheme. It should be borne in mind that the EU Commission's Sector Inquiry Report mentions "the prohibition on co-branding with networks which are deemed competitors and with non-banks might limit competition ...".<sup>4</sup> The Eurosystem calls upon all international schemes to adopt a cooperative stance in relation to co-branding, and to allow alternative schemes to be co-branded with their's, thereby providing a wider reach within and beyond SEPA. At the same time, it is clear that national markets are expected to open up to competition from other schemes and processors; this is also a prerequisite for being compliant with the SCF. The use of national brands should therefore not be favoured by a pre-assignment priority at the POS (point-of-sale) terminal, but the choice of brand in a payment transaction should be left to the merchant and/or the cardholder.

#### Interchange fees

The Eurosystem's public stance on interchange fees is neutral, as this is an issue within the field of competence of the European Commission's DG Competition. The Eurosystem neither anticipates an abolition of interchange fees nor does it wish to enter into the defence of these arrangements. However, the Eurosystem calls upon the Commission to reach a decision on current interchange fee cases as soon as possible, which the market as a whole can use as starting point for formulating future-proof scheme rules, as the current uncertainty in the market is hampering the transformation of existing domestic schemes and the start of potential new schemes offering a European alternative.

The Eurosystem continues to emphasise that a geographical differentiation of interchange fees (if any) within a given scheme is not compatible with the SEPA concept in the long term, in which an integrated domestic euro area market should have evolved. However, such differentiations could be accepted during a transition period in order to facilitate change in national markets, given the differences in the underlying cost elements and market structures across the various euro area countries. The Eurosystem's objective in this regard is to avoid dramatic price increases at the national level, which would stigmatise the SEPA project in the eyes of the public.

Furthermore, from the perspective of promoting the smooth operation of payment systems and the use of socially efficient payment instruments in particular, it is important that interchange fees (if any) do not lead to price signals for end-users (merchants and cardholders) that will cause them to move away from using the more efficient payment instruments.

#### Standardisation work in the fields of cards

The EPC has taken on a coordinating role in the definition of card standards. It has brought together existing standardisation initiatives and has developed business requirements in conjunction with these initiatives. These business requirements prescribe the need for interoperability, security and market access. As such, these card standards will greatly facilitate the development of European debit card schemes as these standards could easily be used in their own scheme rules. Moreover, these standards will cater for scheme-independent card transaction and terminal standards. The Eurosystem supports the banking industry, card schemes and standard-setting bodies in their work. As some card standards are developed at the global level, it is crucial that the European banking industry is well represented in global standardisation bodies to push the SEPA requirements.

4 Communication from the Commission (final report), paragraph 21, p. 6.

In the card-to-terminal domain, the EMV standard (which was named after its initiators Eurocard, MasterCard and VISA, and aims at technical interoperability of the chips on the cards with POS terminals) and its improved implementation guidelines are accepted by the entire industry. It has been complemented by the CPA standard (i.e. Common Payment Application Specification), which deals with the software on the chip used to conduct a payment transaction. A similar payment transaction standard (FAST, which stands for Financial Application Specification for SCF-Compliant EMV Terminals) is now being developed for POS terminals. These three standards, EMV, CPA and FAST, jointly provide market-driven cards and card payment transaction standards, so that intervention by authorities seems unnecessary at this stage, although concerns exist about their timely availability and their subsequent implementation. It is clear that the success of standardisation in this field requires clear definition, communication and implementation, so that local interpretation is avoided.

In the second standardisation domain, namely that of terminals and their connection to acquirers, several market-driven standardisation initiatives are at hand; it is mainly in this field that the definition of standards is difficult, due to traditional national approaches to data and message standards, and the implementation of newly-defined standards will be a time-consuming process on account of the large installed base of what might be termed “legacy” hardware. The Eurosystem will carefully monitor progress in the design of standards and their timely availability in this standardisation domain.

The EPC has set up a specific task force to examine that part of the card transaction process for which there is no industry-wide standardisation initiative, the acquirer-to-issuer domain. The Eurosystem understands that in this domain a common European standard would increase competition between processors and reduce the costs of clearing and settlement.

In this light, efforts should be undertaken to harmonise the different implementations of the ISO 8583 standard, and use of the ISO 20022 XML standard should be investigated.

In addition, special attention should be paid to the domain of certification and type approval, in which the current fragmentation leads to high costs for POS terminals. A security evaluation, which is based on an open and stable methodology, is crucial to maintaining a high level of security for cards and terminals. Both security evaluation and functional testing should be organised in a way that allows one-stop-shopping for terminal manufacturers. For this, certification authorities should be allowed, in principle, to provide certification for all SEPA card schemes. Consequently, the Eurosystem encourages all stakeholders to participate constructively in relevant initiatives in this field.

The Eurosystem emphasises that implementation of card standards needs to be mandatory in the areas of security and the interoperability of all involved parties (including merchants and processors). This is crucial, because standardisation is a precondition for the expansion of card schemes to several SEPA countries, for the creation of a new pan-European debit card scheme, for pan-European card processing, for market consolidation and for ensuring independence in choice of service providers and processors. All standards that have resulted in the national segmentation of the euro, or a segmentation into “scheme areas”, should be eliminated and replaced by at least pan-European or, preferably, global standards.

With regard to the timing, given that standards are a driving force for change, the Eurosystem expects their definition and implementation to be completed as soon as possible, so that the SEPA-for-cards project does not lose momentum. For the definition of standards, end-2008 should be the deadline.

### SEPA-compliance of three-party schemes

In general, the Eurosystem would see an interest that three-party schemes (i.e. schemes that handle card-issuing and transaction-acquiring without involving banks in the fulfilment of these functions) that issue general-purpose cards, especially for cross-border use, conform to the provisions of the Eurosystem's report.<sup>5</sup> However, some adaptations will have to be made, and this issue will be investigated further by the Eurosystem in due course, after a dialogue with market players.

For the Eurosystem, a SEPA-compliant card scheme is one that complies with the provisions of the SCF and takes into consideration the need:

- to offer the same service to merchants and cardholders, wherever the scheme operates in the euro area, without any “add-ons” hampering interoperability;
- in the long-term, to have a merchant and cardholder fee within a given brand (if any) that is independent of the geographical location within the euro area;
- to define and publicly disclose a medium to long-term strategy for SEPA-compliance that is consistent with the long-term objectives of the SEPA project;
- to contribute to the design of a consensus-based selection of standards, with a clear commitment for implementation on time;
- to avoid any transfer of personal data in a non-aggregated form to countries that are not compliant with the EU's data protection rules;
- to put in place an effective strategy to combat fraud, especially cross-border fraud; and
- to effectively separate card scheme management and processing services, so that no possibility exists for cross-subsidisation or other practices that might favour “own processing” services.

In the case of a “pure” three-party card scheme, the requirement of a separation of scheme management from processing services may not appear relevant. However, in the case of three-party schemes with licensees (i.e. partner banks that deal with the issuing of cards and/or the acquiring of card transactions under the scheme's logo), the separation of scheme management and processing services seems necessary for two reasons.

When the issuer and the acquirer is the same licensee bank, any processor can be used, and clearing and settlement takes place within the bank (on-us transactions). When different banks are involved, it is mandatory that processing, clearing and settlement take place via the scheme processor. If the separation of scheme and processor applies, banks will be able to choose their processor.

Four-party schemes will be required to implement extensive changes to their business model as a result of SEPA – e.g. unbundling their scheme and their processor, and placing their proprietary processor at least at “arm's length”. If three-party schemes with licensees were exempted from the requirement to separate scheme and processing, they would have a competitive advantage over four-party schemes. Separation would benefit the development of a true market for processing services.

The issues mentioned above will be investigated further by the Eurosystem in due course.

### Evolution of card fees and prices within SEPA

Several market stakeholders have been emphasising that SEPA will unavoidably entail increases in card fees for consumers and merchants in some countries, due to convergence on average price levels and due to declining possibilities of cross-subsidisation. This is a very sensitive issue for the Eurosystem. In general, the price level and the service level should be the outcome of a market-driven

<sup>5</sup> See the report entitled “The Eurosystem view on a SEPA for cards”, November 2006.

process. SEPA cannot in any circumstances be used as an excuse to increase the general price level. In line with the messages it has already conveyed, the Eurosystem confirms its policy stance on the need to preserve the high efficiency and low fee levels currently offered by card payment schemes and processors in several countries in this report.

In this respect, a monitoring framework for card fees could play an important role. The Eurosystem has emphasised that banks should benefit from such a monitoring framework, as it should help them to defend themselves against unfounded accusations in the area of pricing; they should therefore adopt a positive stance towards the framework. The concept of a monitoring framework for card fees (i.e. the collection of data without any intention of controlling prices) has been particularly welcomed by users. Some banks have contested the competence of the Eurosystem, and the simultaneous involvement of the Eurosystem and the EU Commission, which, as they have claimed, could lead to non-coherent results; they also suspect that the framework might be used as a price-control mechanism. On the contrary, DG Competition was particularly supportive of the idea of a monitoring framework for card fees. The Eurosystem is currently investigating whether, and how, a monitoring framework for card fees could be set up.

#### **Role of merchants in SEPA migration**

As end-users, there is still scope for merchants to influence the development of the SEPA project. SEPA migration should be driven not only by supply, but also by demand. With SEPA, POS terminals, for instance, will become increasingly standardised, and merchants will be able to choose any terminal supplier and/or acquirer in the euro area to process their payments.

The Eurosystem invites merchants (i) to adopt SEPA standards for POS terminals, (ii) to support new European card schemes by accepting these cards if there is a sufficiently strong business case and (iii) to cooperate in

the combat of fraud. Furthermore, the EPC is asked to involve merchants in the validation of SEPA standards and in fraud prevention programmes.

## **1.2 DEVELOPMENTS IN THE FIELD OF INFRASTRUCTURES**

### **1.2.1 WORK CARRIED OUT BY THE MARKET**

#### **Interoperability and reachability for infrastructures**

In the fourth progress report on SEPA, the Eurosystem invited retail clearing and settlement infrastructures in the euro area (irrespective of whether they were provided by the private sector or by NCBS) to establish an appropriate forum to discuss how full interoperability could be achieved. Interoperability is the ability of an infrastructure – directly or indirectly – to process payments based on the SCT Rulebook and/or the SDD Rulebook from any bank in the euro area. The European Automated Clearing House Association (EACHA) took up this invitation and worked on the development of an interoperability framework for retail payment and settlement infrastructures. It defined criteria that support a technical interoperability for information and settlement streams. These criteria were submitted to the Eurosystem and the EPC for consultation in May 2007. The Eurosystem encourages the EACHA to continue its work on interoperability issues, invites all infrastructures to contribute to this work and expects the EACHA to finalise its agreement on a common set of interoperability criteria soon.

As already mentioned by the Eurosystem, once common interoperability conventions are available, no infrastructure should refuse to establish a link with another infrastructure, provided that the cost for establishing the link is borne, in principle, by the requesting infrastructure. However, this does not imply that each infrastructure must establish a direct link with every other infrastructure in the euro area; links can also be established indirectly. It is the Eurosystem's expectation that a network

between infrastructures will emerge that enables individual infrastructures to provide full reachability to their clients. How this is achieved is considered by the Eurosystem to be a business decision to be made by each individual infrastructure. In order to achieve interoperability from a technical point of view, common interface specifications are necessary to allow infrastructures to link to each other easily. From a business perspective, interoperability requires common business procedures. Taking into consideration costs, technical complexity and processing times, it does not seem efficient to use more than two intermediaries (either CSMs or banks).

Access to any infrastructure should be fair and open, provided that participants are protected against undue risks resulting from the participation of other parties. The Eurosystem considers it worthwhile to re-state this requirement, so as to stress that any current geographical access restrictions to infrastructures for euro-area participants should disappear. Moreover, no bank or banking community should be obliged by any entity to use either a particular infrastructure (be it as direct or indirect participant) or specific proprietary technical standards. If this were to be the case, banks or banking communities would be “locked into” one infrastructure without having the freedom to move to another.

#### Parallel processing

For an interim period, a parallel processing of SEPA payment instruments and their national equivalents will be unavoidable. The conversion of national payment transactions into SEPA formats, and vice versa, may be more problematical. Some banks might rely on services provided by external providers (i.e. the infrastructures) to effect conversion from SEPA formats to national formats if their internal systems have not yet been adapted to handle the SEPA formats. This would give rise to the risk that information contained in incoming payments using the SEPA format will be lost

during conversion or, alternatively, that information necessary for the processing of an outgoing payment in the SEPA format cannot be included, because it is not supported by the national format. If conversion facilities are used by banks that have not yet updated their internal systems, these banks and their processor or automated clearing house (ACH) must ensure that there is no such truncation of information.

#### Transparency of services and pricing

Transparency of both services and pricing may drive competition, so that it may be particularly useful to small users with little or no negotiating power. However, given that prices for clearing services are to a certain extent negotiable between the parties to any given contractual arrangement (unlike retail consumer prices), it may only be viable to publish basic prices in the public sphere. These published prices might well differ from the actual price agreed for a particular contract, after negotiation of variables such as service packages, volumes and the duration of the contract. All infrastructures, including those operated by NCBs, which should set an example in this area, should publish their prices.

#### Emergence of different business models for infrastructures

In their preparations for SEPA, retail payment clearing and settlement infrastructures are in the process of establishing different business models; concepts like “narrow” and “wide”, as well as “hub and spokes” have been used to describe these models. ACHs that focus on offering the clearing and settlement only of SEPA core payments would be described as “narrow” ACHs, while those also offering additional services – such as back office processing, notifications and booking information, additional functionalities for specific products (e.g. additional optional services), specific communities and specific clients – would be deemed “wide” ACHs. The Eurosystem welcomes the emergence of different competing business models, as these will provide banks with a choice.

### **1.2.2 THE EUROSISTEM'S CRITERIA FOR THE SEPA-COMPLIANCE OF INFRASTRUCTURES**

The Eurosystem has defined criteria to assess the SEPA-compliance of infrastructures. All infrastructures are invited to comply with these criteria, which address the processing of payments, interoperability among infrastructures, sending and receiving capacity, as well as access conditions and transparency.

#### **Four criteria to become SEPA-compliant**

The Eurosystem requires infrastructures to fulfil some requirements in order to become SEPA-compliant. They are asked to:

- (i) comply with the requirements of the PE-ACH/CSM Framework, the SCT Rulebook and/or the SDD Rulebook, the Implementation Guidelines and the associated UNIFI (ISO 20022) XML standards, and to be ready to support scheme testing as planned by the EPC;
- (ii) adopt interoperability rules, i.e. interface specifications and business procedures for the exchange of SEPA credit transfer and SEPA direct debit payment orders between banks and infrastructures, and between infrastructures, that are preferably mutually agreed upon by the relevant CSMs, and undertake to establish a link with any other infrastructure upon request, based on the principle that the cost for establishing the link is borne by the requesting infrastructure;
- (iii) be able to send or receive euro payments to and from all banks in the euro area, either directly or indirectly through intermediary banks, or through links between infrastructures (in other words, to provide full reachability); and
- (iv) enable financial institutions to make infrastructure choices based on service and price, and therefore not to apply undue access restrictions, nor to set obligations for users to process certain types of payment in a specific infrastructure, or via

specific proprietary standards, nor to impose participation obligations on users of other infrastructures, and to ensure full transparency of services and pricing.

#### **Deadline for compliance**

The first requirement should be met by the start of SEPA in January 2008, while the other requirements should be met by the infrastructures by end-2010 at the latest.

The Eurosystem expects infrastructures that are not SEPA-compliant after the end of 2010, and that have no plans to become SEPA-compliant, to ultimately close down.

#### **Evaluation of compliance**

Compliance with these requirements should be checked by the infrastructure operators themselves, via a self-assessment process. In this respect, the Eurosystem intends to develop and communicate more detailed terms of reference in the second half of 2007, which should be used by the infrastructure as guidance for self-assessment. Infrastructures' self-assessments should be made publicly available, so that market participants have the opportunity to reassure themselves about the SEPA-compliance of the infrastructures they are using. Full transparency should ensure the comparability of the self-assessments, and help in the avoidance of inconsistencies and errors. The EPC is invited to take these criteria into consideration when reviewing policies regarding payment systems infrastructure (e.g. by updating the PE-ACH/CSM Framework).

### **1.3 STANDARDISATION**

#### **STANDARDISATION EFFORTS SHOULD NOW ALSO FOCUS ON THE CUSTOMER-TO-BANK DOMAIN WITH THE AIM OF INCREASING EFFICIENCY**

So far, the EPC has concentrated on standards in the bank-to-bank domain, and has hesitated to enter into the definition of standards for the customer-to-bank and bank-to-customer domains, as these are regarded as belonging to the competitive domain. Nevertheless, the Eurosystem considers that a minimum degree

of harmonisation is also necessary in this field, and that this would not be detrimental to competition. End-users, in particular multi-country end-users, will accept the costs related to SEPA and participate in the migration only if SEPA allows them to reach a high degree of end-to-end straight-through processing (STP) without national deviations, which is essential for making payment processing more efficient and effective.

Therefore, the Eurosystem calls upon the EPC to start working on customer-to-bank and bank-to-customer standards and implementation guidelines, in particular for structured remittance data and automatic reconciliation in SEPA credit transfers and SEPA direct debits.

Furthermore, a major goal of the SEPA project is to endorse forward-looking features and to foster innovation; therefore, the Eurosystem recommends that infrastructures should have the capability to process the full SEPA subset of the ISO 20022 XML standards (i.e. the so-called yellow and white data fields). This will enable banks and infrastructures to cope with future developments in the field of additional optional services, and any new schemes that might emerge. The EPC should develop the usage rules for these messages, which will allow end-to-end STP, as soon as possible. In order to allow banks to offer innovative services, infrastructures have to ensure that the complete transmission of the necessary information for such innovative services is not endangered.

#### **NEED FOR CONTINUED WORK ON SECURITY STANDARDS FOR PAYMENTS**

The Eurosystem would like to reiterate the need to work urgently on the security of payments, especially in the areas of internet banking, card payments via the internet and e-payments. Ensuring security in the bank-to-customer domain is in the interests of the banking community, given that financial and reputational risks could ensue from a lack of security. These reputational risks should not be underestimated, as public confidence in using new products will

be decisive for a successful migration to SEPA. The Eurosystem does not believe that it is appropriate to leave the scope of risk management entirely to the discretion of individual banks. The EPC – in its role as owner of the SEPA credit transfer and SEPA direct debit schemes – is therefore requested to make a threat assessment, to develop a set of best practices and to promote the use of these practices by the banks.

#### **ACTIVE PROMOTION OF THE IBAN AND BIC**

Apart from the above-mentioned standardisation efforts, banks should strongly promote the use of the IBAN and BIC by their customers. Banks should increase their efforts to make the IBAN and BIC known among their customers, for example by including it on account statements, in their internet banking environments and on payment cards. The changeover to the IBAN will require that corporates change the account numbers of all their clients. However, as corporates (in particular, large corporates with many customers, such as telecommunications or insurance companies) may have problems obtaining IBAN and BIC data from their customers, there should be some common solution for converting national account numbers and identifiers into the IBAN and BIC. The EPC and the national banking communities should therefore develop a common approach for migration to the IBAN and BIC.

At the same time, the Eurosystem would like to repeat its request for the EPC to devise a long-term solution to provide a more user-friendly account identifier than the IBAN. While elaborating a long-term solution, the concept of account number portability should be reviewed. Filling out a payment order with the IBAN only will inevitably be both cumbersome and prone to error, as an IBAN can have up to 31 characters in SEPA. Some initial work has been done in this respect, in that the two different standards for the IBAN (i.e. those from the ECBS and ISO) have recently been aligned into one standard (i.e. ISO 13616). Moreover, the EPC has set requirements for IBAN/BIC databases, enabling banks to make conversions from the

respective national routing coordinates to the BIC.

#### **MOVE TOWARDS XML-BASED STANDARDS**

In the customer-to-bank domain, the new XML standards are recommended by the EPC, but have not been made mandatory. For users, it is therefore not clear whether, and for how long, the old standards and formats will be supported by their banks. Corporates and SMEs, in particular multi-country ones, are also uncertain as to how SEPA transactions might be initiated without using the new XML standards, and therefore need more guidance on the changes related to XML standards. In addition, it should be ensured that the implementation of the XML standard is carried out in the same manner, irrespective of the implementing country, banking community or individual bank. The EPC is invited to ensure that problems in this field are addressed, and that full explanations are always provided to users.

#### **1.4 ADDITIONAL OPTIONAL SERVICES**

##### **COMPLEMENTING CORE SEPA SCHEMES WITH ADDITIONAL FEATURES**

Additional optional services potentially comprise a large variety of different services that add features to the core SEPA payment schemes defined by the EPC. These additional optional services, which are to be found mainly in the customer-to-bank and bank-to-customer domain, can range from rules on how to comply with regulatory requirements (e.g. balance of payments reporting requirements) to complementing core SEPA schemes in order to satisfy end-users' needs, and to adding innovative features to the core SEPA schemes (e.g. e-invoicing and e-reconciliation). Furthermore, it is expected that additional optional services will be used by national banking communities to complement the core SEPA schemes with national specificities, so as to ease the changeover for customers from existing national formats to the new SEPA formats.

##### **NO PERPETUATED OR RENEWED FRAGMENTATION DUE TO ADDITIONAL OPTIONAL SERVICES**

These different types of additional optional services can have widely different repercussions for the success of SEPA. Some such services, such as e-invoicing or e-reconciliation, are considered helpful in driving innovation and in fostering more efficient payment services, as they add value to the core payments. Other additional optional services, aimed solely at preserving national specificities, bear the risk of perpetuating a fragmentation of the European payments landscape into national strongholds. This would be the exact opposite of what SEPA aims to achieve, and must therefore be avoided. The Eurosystem requests the EPC to find the common denominator in these national additional optional services and to incorporate them as far as possible in a harmonised way in the upcoming upgrades of the SCT and the SDD Rulebooks.

##### **PRINCIPLES FOR SETTING UP ADDITIONAL OPTIONAL SERVICES**

The Eurosystem believes that the use of inventive additional optional services should be welcomed, as they are vital for fostering innovation. The key task for the payment services industry in this field will be to find the right balance between the conflicting forces of fostering innovation and adding value, on the one hand, and preserving fragmentation, on the other.

The EPC has addressed the risk of fragmentation by stipulating that additional optional services must comply with three principles: (i) an additional optional service should not compromise the interoperability of the SEPA schemes; (ii) transparency should apply; and (iii) they should evolve on the basis of market needs (in this regard, the EPC may incorporate commonly used additional optional services into the SEPA schemes). The Eurosystem supports the three principles defined by the EPC.

In order to ensure a competitive, forward-looking and innovative SEPA, the banking

industry should ensure that all additional optional services are fully transparent. In March 2007, the EPC agreed on some basic rules to ensure that this is achieved. It was decided that there should be transparency in relation to banking community-wide additional optional services and, in particular, that details of community-wide additional optional services relating to the use of data elements present in the UNIFI ISO 20022 XML SEPA payment standards (including any community-wide usage rules for the SEPA core mandatory subset) should be disclosed on a publicly available website (in both local language(s) and English). The Eurosystem recommends that infrastructures stand ready to transmit both the mandatory and the optional fields of the SEPA payment messages, so that no obstacles in the processing chain for additional optional services are created.

Transparency will bring a general understanding of which services are widely offered and used throughout Europe, and should apply not only to innovative services, but also to those originating in regulatory requirements and to those that are intended to ease the transition between national and SEPA formats.

#### PROMOTING INVENTIVE VALUE-ADDED SERVICES

One main task in this area should be the development of value-added services that can be combined with electronic SEPA payments, thereby stimulating a paperless payment area with end-to-end STP. Value-added services comprise a wide range of services with one main purpose – to make the supply chain process before and after payment more efficient and paper-free for customers. E-invoicing and e-reconciliation are value-added services that allow customers to receive fully electronic bills (e-invoicing), or businesses and public administrations to have their records automatically updated once bills are settled (e-reconciliation). Combining value-added services with payments brings time and cost-savings for all parties involved, as paper-based services and manual work are replaced by automated processes. These value-added

services will make SEPA dynamic and forward-looking, and should therefore be encouraged.

In the national retail payment markets today, a number of value-added services already exist, but they are often only offered in connection with national payments. To complete the work on SEPA, it is necessary to ensure that these services advance to a SEPA level, where they can be offered to customers in combination with SEPA payments.

#### ONLINE PAYMENTS AND M-PAYMENTS

The EPC has worked on the development of a common scheme for initiating payments at online merchants – SEPA online payments. In June 2007, the EPC decided to organise a national consultation. The proposal builds on current national solutions that are combined with the SEPA credit transfer. It is a value-added service that will offer consumers who use online banking an easy payment solution when shopping online. The Eurosystem welcomes this initiative and encourages the EPC to continue this work, with the aim of reaching a conclusion by December 2007, and to devise a framework or even a rulebook in this regard.

Online payment initiation is only one of many value-added services that will, on the one hand, make the payment process more efficient for customers and, on the other, create new revenue sources for the payment industry. Other value-added services that can be combined with SEPA payments are e-invoicing, e-reconciliation and payment initiation/confirmation via mobile telephones (so-called m-payments). With respect to m-payments in particular, the Eurosystem encourages the EPC to take up work and to come up with a proposal by the end of 2007.

#### COMPETITION VERSUS COOPERATION

The Eurosystem acknowledges that the field of value-added services is a competitive domain, in which both banks and non-banks may compete with one other. There are currently different initiatives outside the EPC that are

aimed at harmonising existing national value-added services, so that these can be used throughout SEPA. Examples are the “Corporate Action on Standards” (CAST) project of the European Association of Corporate Treasurers (EACT) and the “European E-invoicing Initiative” (EEI) of the European Commission. The Eurosystem supports such initiatives, as a minimum degree of standardisation between different offerings will be necessary to avoid the risk of fragmentation.

### 1.5 THE SINGLE EURO CASH AREA

Even if the “Single Euro Cash Area” has been reality for European citizens for more than five years now, this is not necessarily the case for all other parties in the cash cycle. Therefore, the Eurosystem has underlined the importance of a fair competitive environment for cash operations on several occasions and has, accordingly, implemented a number of measures regarding its cash services. Most recently, in February 2007, the Eurosystem adopted a roadmap for procedural steps contributing, in the medium term, to increased convergence of cash services offered by euro area NCBs. More convergence is important because it would allow different stakeholders – in particular, those with important cross-border cash activities – first, to fully reap the benefits of the common currency and, second, to achieve a fair competitive treatment of all parties.

At the same time, it was underlined that the Eurosystem does not envisage developing a “one size fits all” cash supply system. The different national economic and geographical environments need to be taken into account and the process of convergence will require some flexibility regarding customer requirements, cash infrastructure and transitional periods for implementation. The Eurosystem has agreed on the following measures:

- *Implementation of “remote access” to NCB cash services:* this measure addresses the issue of NCBs providing cash services to credit institutions established outside their

jurisdiction (“non-resident banks”). Remote access to NCB cash services will be implemented in all euro area Member States by June 2007. In this context, it may be worth noting that, currently, the main inhibitor of large-scale cross-border cash operations in the euro area, namely the different national rules governing cash transports and the use of firearms, is outside the competence of the Eurosystem. However, the Eurosystem supports the initiative for facilitating cross-border cash transports.

- *Acceptance of coin lodgements at NCB counters:* responsibility for the issuance of euro coins generally falls within the competence of the national authorities and, in most euro area Member States, the NCBs put euro coins in circulation on behalf of the respective Ministry of Finance. In a few euro area Member States, there have been restrictions on commercial parties’ lodging of (surplus) coins at NCB cash departments. The Eurosystem has agreed that coin lodgements from professional clients shall be accepted at all euro area NCBs by end-2007.
- *Electronic data exchange with professional clients for cash lodgements and withdrawals:* the Eurosystem will consider a harmonised approach for electronic communications with professional clients that ensures the interchangeability of data. In particular, a common definition of the data format and content should prevent any differences in applications for clients in the euro area. At the national level, NCBs have the possibility to offer additional alternative standards.
- *Dropping the requirement to face and orientate banknotes for lodgements and withdrawals at NCBs:* technological developments for both banknote processing machines and cash dispensers (ATMs) today allow a reading and processing of banknotes in all four orientations. In view of its objective of carrying out its statutory tasks efficiently and, at the same time, of making

use of machines and resources of all stakeholders in the cash cycle in the most efficient way, the Eurosystem will reconsider the requirement of most euro area NCBs that banknotes lodged or withdrawn at their counters must be faced and orientated.

- *Extension of opening hours and measures with similar effects:* in September 2002, the Eurosystem agreed on a common approach to opening hours and debiting/crediting rules. The Eurosystem will explore the scope for a further harmonisation of opening hours or measures with similar effects, taking into account the different cash infrastructures.
- *Common packaging standards for NCB's free-of-charge cash services:* the Eurosystem will explore the possibility of developing a limited number of packaging standards (suitable for e.g. small, medium and large transports of banknotes) for free-of-charge cash services. NCBs may use additional packaging formats, upon request at the national level.

As the issues to be addressed have a bearing on other stakeholders in the cash cycle and as they could have operational and cost implications, consultations and discussions will be held at both the national and the European level. It is expected that the timetables would become clear towards the end of 2007.

## 2 IMPLEMENTATION AND MIGRATION TOWARDS SEPA

### 2.1 NATIONAL IMPLEMENTATION AND MIGRATION PLANS

#### IMPLEMENTATION PLANS SHOULD BE IN PLACE BY THE END OF 2007 AND SHOULD BE MADE AVAILABLE TO THE PUBLIC

In its fourth progress report on SEPA, the Eurosystem requested all stakeholders to prepare detailed national implementation and migration plans to facilitate a smooth start of SEPA and the subsequent migration of a critical mass of payments to the SEPA environment. While most national communities did not have their plans available by the end of 2006, as had originally been requested by the Eurosystem, efforts have been stepped up in the meantime. At present, almost all national communities have defined and published comprehensive national implementation plans, although some are still in the process of finalisation or refinement. All national implementation and migration plans must be finalised and published by the end of 2007. The plans should be concrete and precise, and provide guidance to all stakeholders. The Eurosystem expects that all plans will be translated into English to increase transparency and that they will be published online on the new SEPA link directory ([www.sepa.eu](http://www.sepa.eu)).<sup>6</sup>

#### MONITORING THE PREPARATIONS

The EPC and the Eurosystem, with the national implementation committees that are often co-chaired by the NCBs, together with representatives of the banks and of the users, are monitoring the implementation of SEPA at the national level. The Eurosystem carries out regular surveys among the NCBs to monitor the situation. Feedback is given to the national implementation bodies to ensure consistency of work across the euro area; a consistent approach towards implementation has been requested by, in particular, multi-country banks and users.

To ensure the operational readiness of the banks, the EPC has developed a SEPA testing

framework, which will be used by banking communities and payment systems to develop their individual test programmes.

While the banks have made substantial efforts to become ready for the launch of SEPA, the preparedness of public administrations, corporates, small and medium-sized enterprises (SMEs), merchants and software providers gives rise to some concern. At the October 2006 meeting of the Ecofin Council, national public authorities committed themselves to supporting SEPA. The Eurosystem urges the national public authorities to transform this political support into concrete action, by their becoming operationally ready to send and receive SEPA payments, ideally, by the start of SEPA in January 2008.

#### END DATE FOR THE MIGRATION PERIOD

Migration to SEPA is seen as a gradual, market-driven process, so that a critical mass of transactions will have migrated by end-2010. To encourage “first movers”, the Eurosystem sees the need for national methodologies that define clear objectives for phasing out national solutions. The national migration bodies should be aware that the migration period should not take too long, so as to avoid a lengthy period of dual processing. The migration bodies should elaborate criteria that determine the end of the migration phase from national payment instruments to the SEPA equivalents. Once this has been done, a precise end date for the use of national payment instruments should be set and any party displaying a reluctance to adopt the new payment instruments should be pressed to finalise its migration. The Eurosystem is aware of the request of multi-country end-users for a common end date across SEPA. In this context, it should be borne in mind that a phasing-out will be necessary, as a continued parallel processing of national and SEPA instruments would not allow stakeholders to realise the efficiency gains that SEPA can bring.<sup>7</sup>

<sup>6</sup> See the Annex for the current list of national migration plans on the website: [www.sepa.eu](http://www.sepa.eu).

<sup>7</sup> The ECB will publish a paper on the potential economic consequences of SEPA for the banking industry.

## 2.2 COMMUNICATION TO STAKEHOLDERS

### ENSURING CONSISTENCY OF MESSAGES AT THE EUROPEAN LEVEL

SEPA communication efforts aim at informing all stakeholders about the long-term goals, the challenges and the benefits of SEPA. This communication policy is coordinated at the European level by the Eurosystem, the European Commission and the EPC. The aim is not to replace the communication efforts of national communities and individual banks, but rather to complement these by an overarching framework at the European level. Through these communications efforts, all stakeholders should have a clear view of the actions that need to be taken in order to gauge all SEPA benefits and challenges.

### MORE CONCRETE COMMUNICATION ON SEPA IS NEEDED

The key target groups at this stage (i.e. in mid-2007) are corporates and public administrations in their capacity as large users of payment services, as well as consumer associations and associations of SMEs, as representatives of the smaller users. The majority of communication efforts should be undertaken by banks, national migration entities and public authorities, as these are aware of all key information and have direct links to the relevant target groups. More precise communication by individual banks on their actual service offerings will help customers with their preparations for the start of SEPA in January 2008.

Communication efforts aimed at other end-users should be stepped up in 2008. In particular, banks should present their actual services on offer, so that customers will know what they can expect from SEPA. In addition, national “SEPA launch events”, including high-level representatives of banks, public authorities and central banks, should be organised in January 2008 to mark the official start of SEPA and to capture the broad attention of the general public.

### MAIN WORK HAS TO BE DONE AT THE NATIONAL LEVEL

Following the establishment of an overarching communication framework, the main efforts are now needed at the national level, i.e. the micro-level. Practical measures can include, for example, the organisation of national events, an intense dialogue with national stakeholders and a substantial communication and information campaign by banks in which they present their SEPA products and services. National public authorities should be actively supporting the communications on the objectives of SEPA at the national level.

### STRONGER INVOLVEMENT OF PUBLIC AUTHORITIES NEEDED

As mentioned earlier, the state of preparations of some non-bank stakeholders, in particular public administrations, just a few months before the launch of SEPA is a matter of concern to the Eurosystem. The Ecofin Council agreed in October 2006 that public authorities should support the SEPA project. At this stage, however, few public authorities have declared their intention to become early users of SEPA products, nor has there been any high-profile political support. As an initial step to improve this situation, the European Commission, in cooperation with the ECB and the EPC, held a SEPA conference entitled “SEPA: an opportunity for Europe – role of the public sector” for public administrations in May 2007. It is suggested that similar conferences are organised at the national level.

## 2.3 BARRIERS THAT COULD HAMPER THE IMPLEMENTATION OF SEPA

### MEETING CUSTOMERS' NEEDS IS ESSENTIAL

To make SEPA a success, the needs of customers must be met. It is crucial that the service levels experienced by customers today do not deteriorate in a SEPA environment. Price developments should not become an obstacle to smooth migration. The Eurosystem invites market participants to report any shortcomings in this regard to the EPC, or to the relevant public authorities. It is essential that SEPA

continues on a smooth development path, and the Eurosystem expects governance arrangements to be put in place that will promote innovation and transparency. All relevant stakeholders should be involved in these governance arrangements.

#### **BALANCE OF PAYMENTS REPORTING REQUIREMENTS**

All barriers and obstacles that could hamper the implementation of SEPA should be removed in order to allow effective cross-border competition in the field of retail payment services. Balance of payments reporting is an important element of the framework for statistics on national accounts.

Owing to the dynamics of SEPA, the information gathered in this way will gradually lose its validity for, in particular, balance of payments statistics, if there is a general use of “foreign” banks to make “domestic” and “cross-border” payments and “domestic” banks to make payments within another country or between two other countries. Pragmatic solutions should be found to address the issues currently being raised in this regard. In 2005, the Eurosystem suggested that the threshold for balance of payments reporting be raised to €50,000 as from 1 January 2008. The Eurosystem would also ask the European Commission to finalise its work on the review of Regulation 2560/2001 as soon as possible. The Eurosystem welcomes the decisions of the relevant authorities in several countries to raise the reporting threshold without waiting for a European decision.

### 3 OTHER ISSUES

#### 3.1 PAYMENT SERVICES DIRECTIVE

##### MAJOR PROGRESS HAS BEEN MADE

On 24 April 2007, the European Parliament adopted the proposal for the Payment Services Directive (PSD), after the Ecofin Council had already agreed on a general approach on 27 March 2007. Currently, the translation into all official EU languages is taking place. Once this has been finalised, it is expected that the proposal will be finally adopted by the EU Council in the third quarter of 2007. The Member States will then be required to transpose the PSD into national law as soon as possible, by 1 November 2009 at the latest. National legislators are called upon to effect the transposition in the most harmonised way possible, and the NCBs stand ready to assist.

The aim of the PSD is to ensure that payments within the EU – in particular credit transfers, direct debits and card payments – become as easy, efficient and secure as domestic payments are now within an individual Member State by providing the legal foundations to make SEPA possible. The PSD will reinforce the rights and protection of all users of payment services, whether consumers, retailers, large or small companies, or public authorities.

The Eurosystem regards the adoption of the PSD as a decisive step towards the realisation of SEPA. The PSD will greatly facilitate the operational implementation of SEPA payment instruments by the banking industry, as well as their adoption by end-users, by harmonising the underlying legal framework. This will provide the foundations for a single “domestic” euro payments market. The PSD will also underpin consumer protection, and enhance competition and innovation, by establishing an appropriate prudential framework for new entrants to the market for retail payments. This should encourage technological progress and the realisation of new product opportunities, such as e-payments, e-invoicing and e-reconciliation,

which can provide major benefits to the wider economy.

##### SWIFT TRANSPOSITION INTO NATIONAL LAW IS NOW NEEDED

The Eurosystem therefore urges Member States to transpose the PSD into national law as soon as possible, so as to pave the way for a successful and timely introduction of SEPA payment instruments.

With the adoption of the PSD, the Eurosystem also urges the banking industry and all other stakeholders to maintain momentum and intensify their preparations for the launch of SEPA in January 2008, and for its subsequent successful and timely implementation. The Eurosystem will continue to support these efforts.

#### 3.2 GOVERNANCE OF SEPA SCHEMES AND FRAMEWORKS

##### GOVERNANCE ARRANGEMENTS FOR THE SEPA SCHEMES HAVE BEEN DEFINED

In June 2007, the EPC approved the governance arrangements for the SEPA credit transfer and direct debit schemes. The Eurosystem welcomes the clarification provided on the roles of the different stakeholders and the decision-making procedures.

##### SCHEME GOVERNANCE SHOULD ENABLE THE PROMOTION OF INNOVATIVE FEATURES

To ensure a smooth development of SEPA that is also of benefit to end-users, the Eurosystem expects that the governance arrangements of the SEPA payment schemes will promote innovation, transparency and an adequate involvement of stakeholders. The Eurosystem expects the EPC governance arrangements to be based on good governance principles and welcomes the fact that they explicitly commit the EPC to innovation and to the further enhancement of the SEPA schemes with innovative features. The Eurosystem expects that the EPC will adopt an open and non-biased approach towards all communities and

stakeholders, and will consider all suggestions for change regardless of their source.

#### **TRANSPARENCY OF DECISION-MAKING IS VITAL**

The Eurosystem also invites the banking industry to be fully transparent on the management of the change vis-à-vis all stakeholders. In particular, suggestions for changes that are not adopted should be published and explained on the basis of broad criteria.

The Eurosystem supports the creation of both national and European SEPA fora, which should be recognised as independent bodies that can initiate suggestions for change and that are consulted on all changes.

#### **EUROSYSTEM WILL MONITOR THE ADEQUATE INVOLVEMENT OF CONCERNED STAKEHOLDERS**

The Eurosystem welcomes the involvement of independent members in the EPC's administration and compliance functions relating to the SEPA schemes. The EPC has created a forum with representatives of all customer stakeholders, building on the dialogue with the representatives of corporates over the past year. This Stakeholders Forum is co-chaired by the EPC and the users. The Eurosystem will monitor the dialogue between banks and other stakeholders, and also the adequate involvement of all stakeholders. It could be considered to involve stakeholders at an earlier stage of the work and in a more intensive manner, for instance by setting up working groups under the Stakeholders Forum. Furthermore, it could be investigated whether the Stakeholders Forum should be aimed at the current schemes only, or whether it should also be a European platform for discussions on potential new schemes. If necessary, this dialogue could be facilitated by the Eurosystem in its role as catalyst.

## ANNEX

### SCREENSHOT OF THE LINKS WEBPAGE VIA WWW.SEPA.EU (AVAILABLE IN ENGLISH ONLY)

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EUROSYSTEM

The European Central Bank | Press | Events | Publications | Statistics | Banknotes & Coins | Monetary Policy | Payments & Markets

Home > Payments & Markets > SEPA > About the project > Timeline and progress

## Timeline and progress

The SEPA project has three phases:

- Design
- Implementation
- Migration

### Design (January 2004 - June 2006)

The design phase has been completed. The European Payments Council (EPC) has established the rules, practices and standards for the new payment instruments. The European Commission has created the legal basis in the form of a Directive.

Deliverable	By whom	Ready?	Related documents
Develop schemes for credit transfers and direct debits	European Payments Council (EPC)	yes	SEPA Credit Transfer Scheme Rulebook SEPA Direct Debit Scheme Rulebook
Develop cards framework	EPC	yes	SEPA Cards Framework
Develop a framework for clearing and settlement of payments	EPC	yes	Framework for the Evolution of the Clearing and Settlement of Payments in SEPA
Legal basis	European Commission	yes	Commission's web page on the  Directive on Payment Services (PSD)

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### Implementation (June 2006 - January 2008)

Last updated: 16 July 2007

In this phase banks must design the products they want to offer their customers. They will also test the new SEPA products. Each participating country has set up national implementation and migration bodies which prepare the roll out of the new SEPA instruments, standards and infrastructures.

#### National migration plans

Austria,  pdf 620 kB, en	Italy,  pdf 784kB, it
Belgium,  pdf 205 kB, en	Luxembourg
Cyprus,  pdf 490 kB, en	Malta
Éire/Ireland,  pdf 540kB, en	The Netherlands,  194 kB, en . nl. Migration concerns:  15.6 kB, en . nl
Finland,  pdf 78kB, en	Portugal,  pdf 382kB, pt
France,  pdf 620kB, en	Slovenia,  pdf 472kB, en
Germany,  pdf 620kB, de	Spain:  www.sepaesp.es
Greece:  www.sepa.gr	

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### Migration (January 2008 - December 2010)

Last updated: 23 May 2007

The migration is planned to start on 1 January 2008. Customers will be offered both "old" national and new SEPA instruments. The goal is to achieve a gradual market-driven migration to SEPA.

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