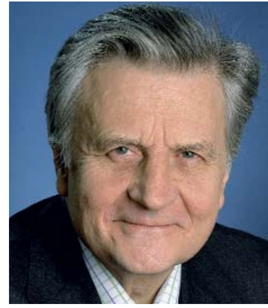
EUROPEAN CENTRAL BANK

EUROSYSTEM

THE SINGLE EURO PAYMENTS AREA(SEPA):

AN INTEGRATED RETAIL PAYMENTS MARKET

CONTENT



Jean-Claude Trichet

FOREWORD

With SEPA, there will be no difference in the euro area between national and cross-border payments

Since the introduction of the euro banknotes and coins in 2002, consumers have been able to make cash payments throughout the euro area from a single purse using a single currency. This having been achieved, the time has now come to allow consumers to make cashless payments throughout the euro area from a single account under the same basic conditions, regardless of their location.

For the Eurosystem, such a Single Euro Payments Area (SEPA) will become reality when all euro payments in the euro area are treated as domestic payments, and when the current differentiation between national and cross-border payments disappears. This requires not only the alignment of national practices for the banking industry, but also changes in customers' habits in all euro area countries. These changes are needed to move towards a more integrated payments market, which will bring substantial economic benefits. SEPA will not only introduce more comparable services, but will also foster competition and drive innovation. Institutions that are able to embrace new technological developments and offer customers additional services will benefit from this new integrated market. In a competitive and integrated economy, a forward-looking view is required so that retail payments have a level of safety and efficiency that is comparable with the best national payments today.

SEPA will foster competition and innovation, and improve conditions for customers

It is important that the SEPA project is not viewed as just a "one-shot operation", but rather as a continually evolving project that fosters European integration, seeking to improve all aspects of the euro area retail payments market on an ongoing basis. SEPA will also make a notable contribution to the so-called Lisbon Agenda, which aims at fostering competitiveness and ensuring the continuous development of the European economy. The SEPA project is fully part of the setting up of a single market for Europe, and requires the full support of all stakeholders, particularly the entire banking community. The Eurosystem strongly supports the SEPA project.

SEPA will also contribute to making Europe more competitive

Jean-Claude Trichet

President of the European Central Bank

INTRODUCTION

Since the establishment of the European Economic Community in 1958, the movement towards a more integrated European financial market has been marked by several events, the most visible of which were undoubtedly the launch of the euro in 1999, and the cash changeover in the euro area countries in 2002 in particular. Less visible, but also of great importance, was the establishment of the central banks' large-value payment system, known as TARGET, on 1 January 1999. TARGET provides the backbone of the financial system in euro, and is the implementation tool for the Eurosystem's single monetary policy.

The SEPA project represents the next major step towards closer European integration. SEPA will allow customers to make non-cash euro payments to any beneficiary located anywhere in the euro area using a single bank account and a single set of payment instruments. All retail payments in euro will thereby become "domestic", and there will no longer be any differentiation between national and cross-border payments within the euro area.

In 2002, the banking industry took up this challenging project by creating the European Payments Council (EPC). The EPC is defining the new rules and procedures for euro payments. In doing so, it involved not only the stakeholders in the euro area, but also those in other countries of the European Union (EU), Iceland, Liechtenstein, Norway and Switzerland. Communities outside the euro area will thus have the opportunity to participate in euro payment systems, and will be able to adopt SEPA standards and practices, thereby contributing to the establishment of a single market for payment services.

This brochure presents an overview of the SEPA project. The Eurosystem (the European Central Bank (ECB) and the national central banks (NCBs) of the euro area) is responsible for the smooth operation of payment systems in the euro area, and therefore places particular emphasis on the creation of SEPA in the euro area. This brochure therefore mainly focuses on the euro area.

CREATING A SINGLE EURO PAYMENTS AREA

> OVERVIEW OF SEPA

SEPA IS:

> an area in which consumers, companies and other economic actors will be able to make and receive payments in euro, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

THE AIM OF SEPA IS:

> to advance European integration with a competitive and innovative euro area retail payments market that can bring with it higher service levels, more efficient products and cheaper alternatives for making payments.

SEPA CONSISTS OF:

- the single currency,
- a single set of euro payment instruments – credit transfers, direct debits and card payments,
- efficient processing infrastructures for euro payments,
- common technical standards,
- common business practices,
- a harmonised legal basis, and
- ongoing development of new customer-oriented services.

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SEPA REQUIRES INTERACTION BETWEEN ALL OF THE FOLLOWING CONSTITUENCIES:

> The **European banking industry,** which is responsible for restructuring the payment systems of the euro area. This restructuring will, in the short term, generate considerable costs; however, in the medium to long term, the European banking industry will benefit from cost savings regarding euro area payments, and also from potential new revenue streams. To coordinate its efforts, the industry has set up a self-regulatory body to manage the SEPA project. This body, known as the European Payments Council (EPC), consists of 65 European banks, including the three European credit sector associations and the Euro Banking Association (EBA). Members from the EU, Iceland, Liechtenstein, Norway and Switzerland are represented in the EPC, whose work aims at all euro payments in these countries.

www.europeanpaymentscouncil.org

> The **European clearing and settlement industry,** whose aim is to ensure that any beneficiary in the euro area can be reached using SEPA instruments. Various infrastructure providers, such as the card processors, the European Automated Clearing House Association (EACHA) and the EBA, are actively participating in this work. EACHA is developing a set of procedures to secure interoperability between infrastructures (automated clearing houses – ACHs), while the EBA has developed STEP2, the first pan-European automated clearing house, or PEACH, for clearing cross-border as well as domestic retail payments in euro.

www.eacha.org
www.abe.org

> **Euro area companies** (corporates, merchants, small- and medium-sized enterprises) that are involved in the development of standards to reduce the extent of manual intervention in the handling of payments, ranging from the presentation of invoices to reconciliation services. Their focus is on the creation of automated processes (end-to-end straight-through processing – e2e STP), which will reduce the costs of making and receiving payments. Corporate treasurers are organised in the European-Associations of Corporate Treasurers (EACT).

www.eact-group.com

> **Public administrations** and **consumers** will be the users of the new SEPA payment instruments. Governments and public administrations make substantial payments both on a national level and cross-border, which are related to pensions, social security and other benefits or taxation-related issues. A firm commitment is therefore required from the public administrations. In October 2006 the EU Council of Ministers of Economic Affairs and Finance (the ECOFIN Council) expressed its strong support for the creation of SEPA.

www.consilium.europa.eu

The following **public authorities** are involved in the SEPA project:

> the **Eurosystem** (the ECB and the NCBs of the euro area) has underlined its expectations vis-à-vis the project in several publications, and is closely monitoring progress and developments in relation to SEPA.

> The **European Commission** has developed a strategy designed to remove barriers in the internal market and to simplify its rules, for example by proposing the Payment Services Directive (PSD).

> As the project evolves, the **national authorities** are expected to become increasingly involved in the preparations for the roll-out of the SEPA payment schemes.

www.ecb.int
http://ec.europa.eu/internal_market

CREATING A SINGLE EURO PAYMENTS AREA

> WHY SEPA?

Currently, the euro area economy is unable to exploit fully all the benefits of Monetary Union. Customers face difficulties when making euro retail payments to other euro area countries, as these payments often turn out to be more time-consuming. As long as this is the case, the euro cannot be viewed as a fully implemented single currency.

> The euro area economy is currently unable to exploit the benefits of the single market

Despite the introduction of the euro in 1999 and the development of TARGET, the common large-value payment system for euro, low-value electronic payments (i.e. retail payments) continue to be processed differently throughout the euro area. Overall, the number and variety of payment instruments, standards and processing infrastructures for retail payments has not really changed since the introduction of the euro. In such an environment, companies with a substantial number of cross-border payments therefore have to maintain bank accounts in many of the countries in which they do business, in order to allow them to manage their payment business.

This fragmentation not only affects cross-border payments but also national euro payments, as it prevents innovation and competition on the euro area level. Stakeholders may also be subject to different rules and requirements depending on their country of origin. The creation of a common framework will create the opportunity for innovative payment solutions to be offered irrespective of national borders.

> The fragmented European retail payments markets will progressively be replaced by a complete and competitive euro area market

The goal of SEPA is thus to create an integrated, competitive and innovative retail payments market for all non-cash euro payments which, in time, will be conducted entirely electronically. As such, SEPA will benefit all customers.

CREATING A SINGLE EURO PAYMENTS AREA

> BANKING INDUSTRY INITIATIVES

In the move towards SEPA, the main focus of the banking industry has been on the development of SEPA payment instruments. To facilitate the implementation of these payment instruments, three main fields had to be addressed. First, the industry developed new payment schemes for credit transfers and direct debits, and formulated a framework for card payments. Second, it investigated additional optional services which could improve the handling of payments. Third, it identified principles for the underlying processing infrastructures, and addressed standardisation issues.

The new **payment instruments** offered by the banking industry to its customers will be based on a new set of rules, practices and standards for euro payments.

The EPC has designed rulebooks for two new payment schemes, and one framework in which banks can develop SEPA payment products:

> SEPA credit transfers
> SEPA direct debits
> SEPA card payments.

With regard to credit transfers and direct debits, a "replacement" strategy has been chosen, with new common schemes designed for euro payments in each case. These schemes are recorded in a rulebook covering the rules, practices and standards applicable to such euro payments. For card payments, by contrast, an "adaptation" strategy has been chosen to allow existing schemes and their operator(s) to adjust to a new set of business and technical standards and processes. The EPC has defined a policy stance, covering issues such as how card schemes (as well as card issuers, acquirers and operators) should adapt their current operations to comply with the SEPA principles for euro card payments. A core feature of both approaches is the clear separation of schemes (rules, practices and standards) from infrastructures.

CREATING A SINGLE EURO PAYMENTS AREA

Financial institutions are responsible for the quality of their SEPA products, and are free to offer their customers improved SEPA products as long as they are in line with the schemes defined in the rulebooks and frameworks (see additional optional services below).

Additional optional services. Based on the SEPA schemes, financial institutions can individually or in cooperation with others design and offer improved products or services to their customers.

Product improvements include
> Faster settlement for payments
> Mapping the Bank Identifier Code (BIC) from the International Bank Account Number (IBAN)

Value-added services include
> E-invoicing
> E-reconciliation
> Payment solutions for internet banking

One example of a product improvement is the possibility for the fast settlement of credit transfers (priority payments), whereby the banking community could allow customers to settle urgent credit transfers within one banking day. Another product improvement will be the possibility for customers to provide only the IBAN without the additional BIC when making payments. A service provider will then map the BIC from the IBAN.

Value-added services are defined as forward-looking services often linked to SEPA payment instruments. These services can in principle be offered by banks as well as non-banks. The Eurosystem has encouraged the EPC and corporates – such as the EACT – to cooperate on developing solutions and minimum standards for some of the most frequently used value-added services. Work has started on **electronic invoicing** (e-invoicing), which is a service offered to customers before payment, whereby bills are sent directly to the payer's internet banking application and, after the payer accepts the bill, an automatic payment instruction is created containing the relevant information on the payer and payee. Another service is **electronic reconciliation** (e-reconciliation), which is a service offered to customers

after payment: here bills are electronically matched with the payment, and the payee's records are automatically updated. Combining value-added services with the SEPA payment instruments creates large potential savings for the economy, as this eliminates paper and achieves end-to-end STP.

End-to-end straight-through processing:

Value-added services offered before payment → Processing the payment → Value-added services offered after payment

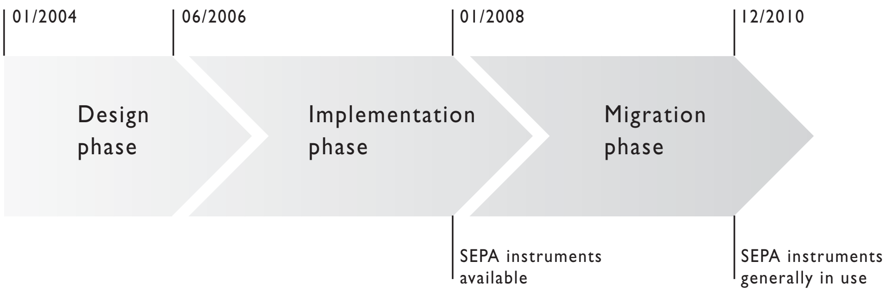
The **infrastructures** provide the operational side of the clearing and settlement of euro payments.

The EPC has defined a framework that clarifies the rules and procedures to be followed by infrastructure providers (i.e. ACHs, card scheme processors and other processors that handle, transfer and exchange payment-related information for financial institutions). Traditionally, these infrastructure providers have been responsible for the management of the rules, practices and standards related to payments made within a country, and they also typically offer their processing services to financial institutions. In the new SEPA environment, the rules and standards are defined in the SEPA schemes, which are generally separated from the processing infrastructures. This separation will allow infrastructure providers to compete and offer their processing services to any bank or card scheme provider.

The first PEACH (STEP2) is managed by EBA Clearing. EACHA is developing a framework which facilitates interoperability between different European infrastructures. The framework should thus permit all SEPA credit transfers and direct debits to be sent and received by any customer in Europe.

> THE TIMELINE

The EPC has planned its timeline for the SEPA project around three main phases: a design phase, an implementation phase and a migration phase.



The **first phase,** the design phase, began in 2004 and is now almost complete. This phase involves the design of the new credit transfer and direct debit schemes and the frameworks for cards and clearing and settlement infrastructures. The necessary standards and specification of security requirements have also been developed.

The **second phase,** the implementation phase, started in mid-2006 and will continue until end-2007. This phase of the project will concentrate on preparation for the roll-out of the new SEPA instruments, standards and infrastructures. Testing exercises will also be carried out in this phase. National implementation/migration bodies that have now been established in each euro area country will assist by monitoring the different stakeholders' preparations for SEPA roll-out. These stakeholders are very diverse, consisting of a number of parties such as banks, infrastructure operators, public administrations, companies and other users.

The **final phase** will be a migration period, in which national payment schemes will coexist with the new SEPA schemes. Customers will be offered both "old" national and new SEPA instruments, and the clearing and settlement infrastructures will be able to process payments made using both types of instruments. The goal is to achieve a gradual market-driven migration to SEPA, so that by end-2010, a critical mass of transactions has migrated.

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IMPACT OF SEPA ON STAKEHOLDERS

The SEPA project will have a major impact on all stakeholders, creating opportunities as well as challenges. SEPA will bring more competition by making the euro area an integrated market in which providers can offer their services to the entire euro area market. The increased choice of service providers, coupled with economies of scale, will ensure that customers are offered a wider range of competitive payment solutions. In addition, SEPA will provide the following benefits:

IMPACT OF SEPA ON STAKEHOLDERS

> FOR CONSUMERS

SEPA payment instruments will be available throughout the euro area, making life easier for consumers generally.

> Consumers will **only need one bank account.** From this account, they will be able to make euro credit transfers and direct debit payments anywhere in the euro area as easily as they make national payments. They could, for instance, pay rent for children studying abroad, pay for a holiday home, or pay for services provided by European companies, e.g. mobile telephone services, insurance, utilities, etc. People who live, work or study outside their home country will no longer need one bank account at home and another one abroad.

> The use of **payment cards** will be more efficient, as consumers will be able to use the same card for all euro payments. This will reduce the necessity for people to carry cash.

> **Innovative services** can be offered to consumers irrespective of national borders. The long-term goal of the banking industry is that SEPA payment instruments will only be used in electronic form. Payments can then easily be combined with value-added services, i.e. services designed to make the payment process before and after settlement of a payment simpler for the consumer and business. These include e-invoicing, mobile or internet payment initiation, airline e-tickets, credit advice or e-reconciliation. As a consequence, consumers will spend less time handling payments.

> FOR MERCHANTS

Payment cards are becoming a favourite payment instrument with consumers, and are increasingly replacing cheques and cash payments. The use of cards is thus expected to grow in the future. To accept card payments, merchants need an agreement with an acquiring bank, which processes card payments for the merchant by handling information on the payment and cardholder, and forwarding this via the clearing infrastructure to the cardholder's bank. SEPA offers the following advantages in this regard:

> Acquirers will be able to process all SEPA-compliant card payments, even across borders. In the SEPA environment, merchants will be able to **choose any acquirer** in the euro area to process their card payments; this will increase competition and drive down costs.

> Point-of-sale terminals in the euro area will become **increasingly standardised.** As a consequence, there will be a wider choice of terminal providers, and merchants will be able to accept a wider range of cards with a single terminal. The increased competition between card schemes should also drive down fees.

IMPACT OF SEPA ON STAKEHOLDERS

> FOR COMPANIES

SEPA will help companies simplify their management of payments.

> Companies will be able to perform all of their euro-denominated financial transactions centrally from **one bank account, using SEPA payment instruments.** The handling of payments will be simplified, as all incoming and outgoing payments will use the same format. By consolidating their payment and liquidity management in one location, companies with euro area-wide business will also save not only on costs but also on time.

> **Value-added services,** such as e-invoicing and e-reconciliation, will help companies to optimise further their handling of payments. Today, these services are often only offered nationally, as different payment formats make cross-border use difficult. Standardised SEPA payment schemes will make this obstacle easier to overcome.

> FOR BANKS

By providing new payment instruments and euro area-wide infrastructures, SEPA will benefit banks in the following ways:

> Banks will be able to **expand** their business and compete on a euro area level, as any bank can offer its services more easily to any individual in the euro area. Banks can also expand their business by offering their customers value-added services in addition to SEPA products.

> Further European integration and **market efficiency** will ensue as a result of SEPA. By aligning the conditions under which payments are made, SEPA will provide a single set of rules, equal and open access, reachability, transparency and interoperability which will encourage competition, thereby allowing banks to negotiate better conditions with their service providers.

> Regulation No 2560/2001, which established the principle of equal charges for a cross-border and a comparable domestic payment within the EU, has created an imbalance between bank fees and costs for cross-border payments. This imbalance can only be overcome if the handling of cross-border payments – in terms of processing, clearing and settlement – is reorganised to become as **efficient and inexpensive** as the handling of national payments, which is the primary goal of SEPA.

Regulation No 2560/2001 was introduced to make charges for comparable domestic and cross-border payments the same. From 1 July 2002 it applied to card payments and withdrawals from automated teller machines (ATMs), and from 1 July 2003 for credit transfers up to 12,500. Since 1 January 2006 it has also applied to transfers in euro of up to 50,000 in value made between two euro-denominated accounts within the EU.

IMPACT OF SEPA ON STAKEHOLDERS

> FOR INFRASTRUCTURE PROVIDERS

The separation of scheme management from the infrastructure providers will increase competition among infrastructure providers (such as ACHs and card processors).

> Infrastructure providers will **no longer be bound by national borders,** but will instead be able to provide their services in support of the SEPA instruments throughout the euro area
> **Interoperability** or interlinking among different infrastructure providers will become possible through a common set of technical standards.
> Card processors will be able to **serve different card schemes and acquirers** throughout the euro area.

MIGRATION EFFORTS FOR CUSTOMERS

The overall impact of the changeover to SEPA on customers is expected to be as minor as possible, although this will ultimately depend on the type of service offered by their respective banks. Customers could experience some changes when the domestic payment instruments are replaced by SEPA payment instruments. For example, a customer's national bank account number could be replaced by their IBAN and BIC, and the layout of forms used to initiate payments could also differ from current national equivalents.

COMPONENTS OF SEPA

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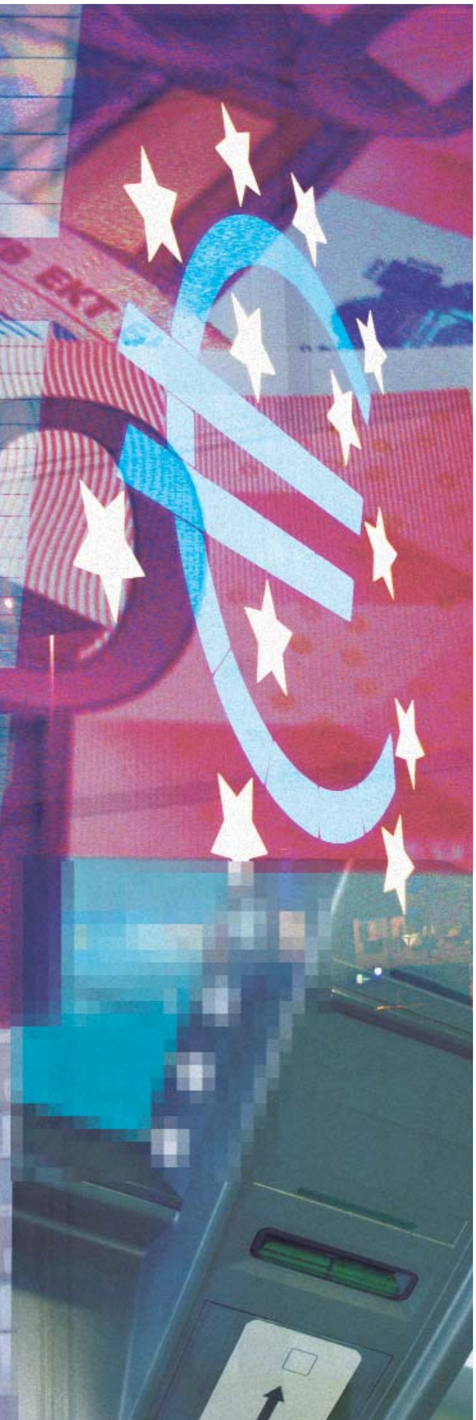
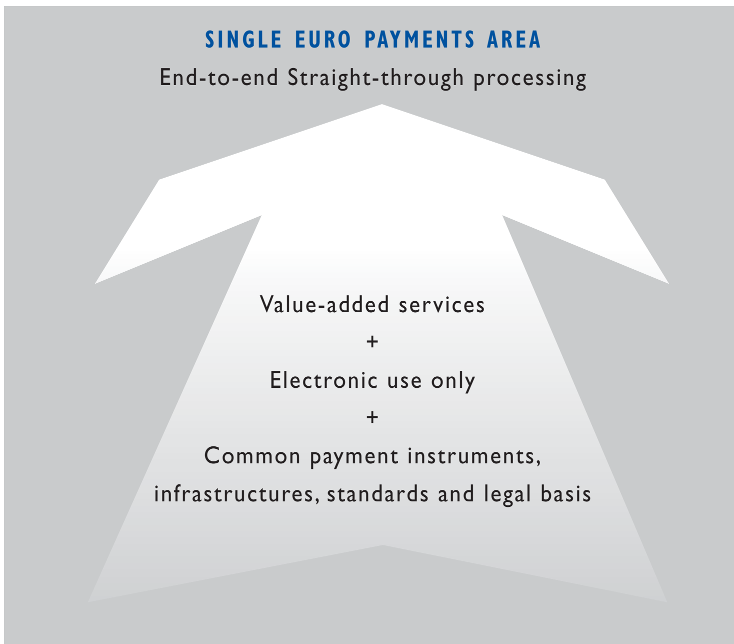


The SEPA project is an ongoing one, with the purpose of making the current fragmented euro retail payments markets into a single domestic market. The EPC is developing the building blocks upon which the SEPA project is founded. Once these building blocks for SEPA are in place, the next step will be to develop value-added services which can stimulate a paperless payments area, with end-to-end STP of all SEPA-compliant payments.



> SEPA PAYMENT INSTRUMENTS

The EPC has defined two new payment schemes – the SEPA credit transfer and SEPA direct debit schemes – as well as a SEPA card framework. The current national instruments will gradually be replaced by SEPA instruments based on these common SEPA schemes and frameworks.

COMPONENTS OF SEPA

SEPA CREDIT TRANSFERS

The SEPA credit transfer (SCT) scheme is an interbank payment scheme that defines a common set of rules and processes for credit transfers denominated in euro. The scheme defines a common service level and a time frame under which financial institutions participating in the scheme must as a minimum conduct SCTs.

Features of the SCT scheme

> There is SEPA-wide reachability – any customer can be reached;
> The full amount is credited to the beneficiary's account;
> There is no limit on the value of the payment;
> The maximum settlement time is three business days1);
> The scheme is separated from the processing infrastructure;
> IBAN and BIC are used as account identifiers;
> There is a comprehensive set of rules for rejected and returned payments.

1) The settlement time depends on the final outcome of the PSD.

What is a credit transfer?

A payment initiated by the payer. In the case of a credit transfer, a payment instruction is sent to the payer's bank (the sender's bank), which moves the funds to the payee's bank (the receiver's bank), possibly via several intermediaries.

SEPA DIRECT DEBIT

The SEPA direct debit (SDD) scheme is an interbank payment scheme that defines a common set of rules and processes for direct debits denominated in euro. The scheme defines a common service level and a time frame stating when financial institutions participating in the scheme must as a minimum be able to act in their role as debtor banks.

The two SDD models

The new SDD scheme will consist of two different models. In the first model, the debtor gives the mandate directly to the creditor. The second model differs in that the debtor gives the mandate directly to its bank.

Features of the SDD scheme

- It offers full SEPA-wide reach – direct debits can be made to any receiver;
- It covers both recurrent and one-off payments in euro;
- The maximum settlement time is five business days for the first payment, and two business days for recurring payments[2)];
- It offers a separation of scheme and processing infrastructure;
- IBAN and BIC are used as account identifiers;
- It ensures a comprehensive set of rules for rejected and returned payments.

Special features

- A business-to-business (B2B) direct debit scheme is also being developed.

2) The settlement time depends on the final outcome of the PSD

What is a direct debit?

A transfer initiated by the payee (the receiver) via the payee's bank after agreement between the payee and payer (the sender). Direct debits are often used for recurring payments (such as utility bills) with a pre-authorised agreement being put in place with the payer.

Direct debits are also used for one-off payments where the payer authorises an individual payment.

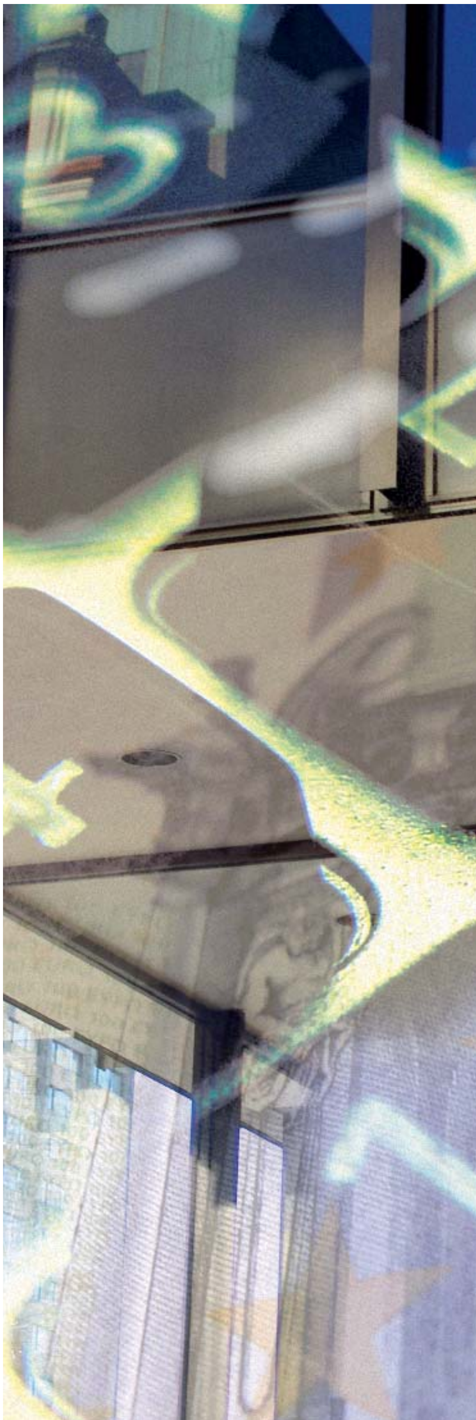
COMPONENTS OF SEPA

SEPA CARD PAYMENTS

SEPA card payments will take place according to a set of high-level principles which issuers, acquirers, card schemes and operators will have to adapt to. These principles have been developed by the EPC and are referred to as the SEPA card framework (SCF).

Features of SEPA card payments

> Cardholders can pay with one card all over the euro area (limited only by brand acceptance by merchants);
> Cardholders and merchants will be able to make and receive card payments throughout the euro area in a common and consistent manner;
> Payment card processors will be able to compete with each other and offer their services throughout the euro area, making the processing payment card market more competitive, reliable and cost-efficient.

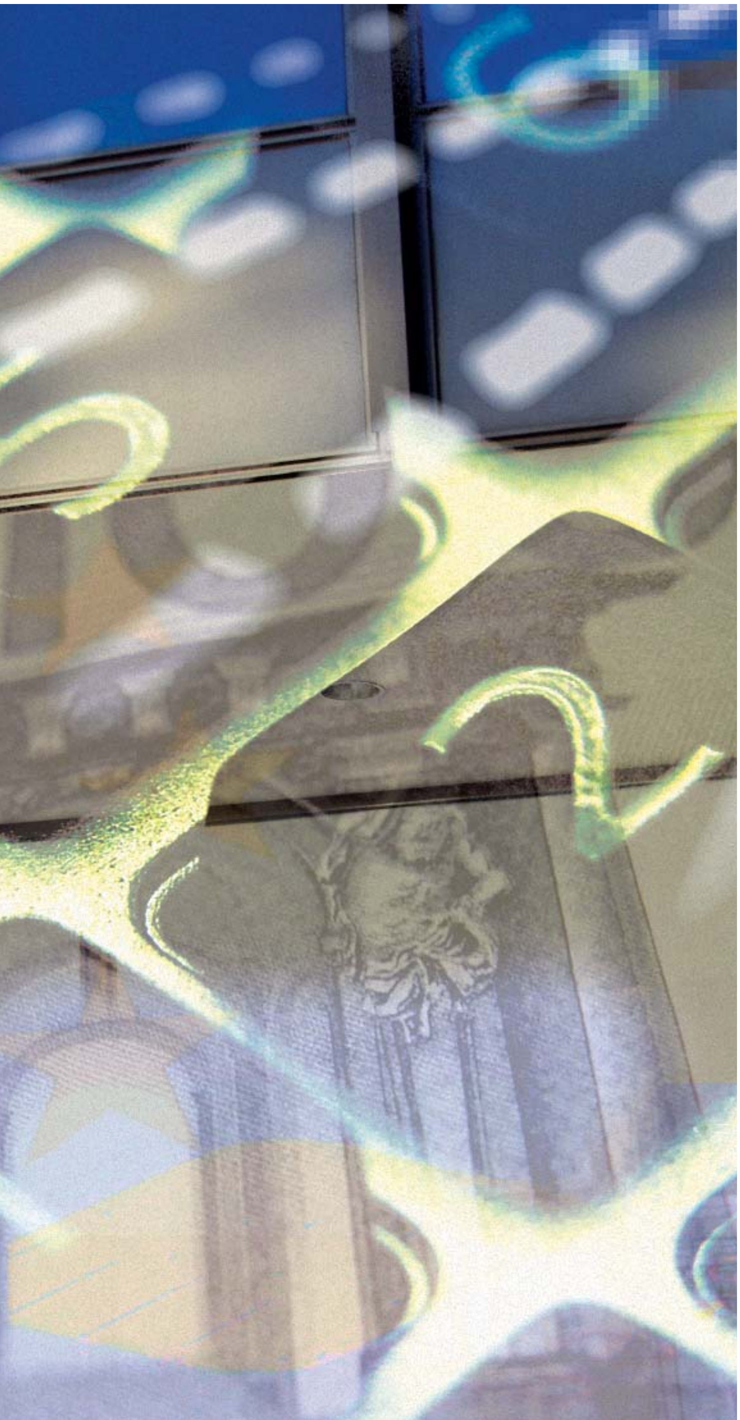


What is a card payment?

Of the numerous types of payment cards that are available to cardholders, two main types can be identified:

> **debit cards,** which allow the cardholder to charge purchases directly and individually to an account.
> **credit cards,** which allow the cardholder to make purchases within a certain credit limit. The balance is settled in full by the end of a specified period, or in part, with the remaining balance taken as extended credit on which the cardholder is charged interest.

COMPONENTS OF SEPA



SEPA CASH

The smooth operation of payment systems requires a mix of instruments including cash.

In order to create a so-called single euro cash area (SECA) for professional cash handlers, the ECB has agreed on a number of measures with a view to contributing to a fair competitive environment regarding the Eurosystem's cash services. These measures affect the banking industry, which is the Eurosystem's main counterpart for cash services, and its intermediary in the provision of cash to the general public. Further steps will be implemented to achieve greater convergence of NCBs' cash services in the medium term.

Who issues banknotes?

The ECB has the exclusive right to authorise the issue of banknotes within the euro area. The NCBs of the Eurosystem put euro banknotes into circulation by providing them to the banking sector. The main distribution channel to the general public is via ATMs.

COMPONENTS OF SEPA

> SEPA INFRASTRUCTURES

The SEPA clearing and settlement framework sets out the principles upon which infrastructure providers will support the SEPA credit transfer and direct debit schemes. It separates the roles and responsibilities between schemes (i.e. the rules for the different payment instruments) and infrastructures (i.e. providers that offer processing services to financial institutions). The framework also contains a classification of different infrastructure types, ranging from PEACHs and inter-group arrangements to purely bilateral arrangements.

FEATURES OF THE SEPA CLEARING AND SETTLEMENT INFRASTRUCTURES

The aim is to create an infrastructure in which all euro payments can be made, received and settled, directly or indirectly. By the end of 2010, all infrastructures should be able to process SEPA payment instruments. Another aim is to ensure full transparency in terms of infrastructure providers' services and prices. The SEPA clearing and settlement framework will thus be designed to ensure:

> reachability of all euro area banks, and
> a separation of scheme and infrastructure.

What are clearing and settlement?

Clearing is the process of transmitting, reconciling and confirming payment orders, and establishing a final position for settlement (either based on individual transactions or bundles of transactions).
Settlement is the transfer of funds between the payer and the payee (and between the payer's bank and the payee's bank).

> STANDARDISATION

The EPC has adopted a common approach to developing standards to allow automated (straight-through) processing of all euro-denominated payments.

> The EPC has identified the **business requirements** that describe the data elements to be exchanged between financial intermediaries. These elements are available in the Rulebooks for SEPA Credit Transfers and Direct Debits.

> The EPC has translated the business requirements into **logical data elements.** These agreed data elements were published in the SEPA Data Model.

> The International Organization for Standardization (ISO) has translated these logical data elements into universal financial industry (UNIFI) message standards, namely the UNIFI (ISO 20022) XML **message standards.** These standards will form the basis for building messages in a standardised language. The EPC has developed a set of SEPA implementation guidelines that define the use of the UNIFI message standards.

The EPC has decided that the UNIFI standards will be compulsory in the bank-to-bank domain, and recommended in the customer-to-bank domain.

What are standards?

Standards are rules that govern technology, behaviour and interactions. Technical standards are necessary to allow interaction and interoperability between IT systems and to foster automation of the payment process.

COMPONENTS OF SEPA

> LEGAL FRAMEWORK

The proposed Payment Services Directive (PSD) establishes the necessary legal framework for SEPA payments, and will also apply to existing national payment products. The proposal contains three main building blocks:

THE RIGHT TO PROVIDE PAYMENT SERVICES TO THE PUBLIC

The aim of the Directive is to harmonise the market access requirements for non-bank payment service providers. This will create a level playing-field with enhanced competition in national markets, and will reflect the latest market developments in cases where new service providers have entered.

TRANSPARENCY AND INFORMATION REQUIREMENTS

The Directive will provide a clear and concise set of harmonised information requirements that all payment service providers must fulfil, whether they are offering SEPA payment products or existing national payment products. This will improve transparency for customers, and will fully harmonise the national rules, which currently vary to a great extent.

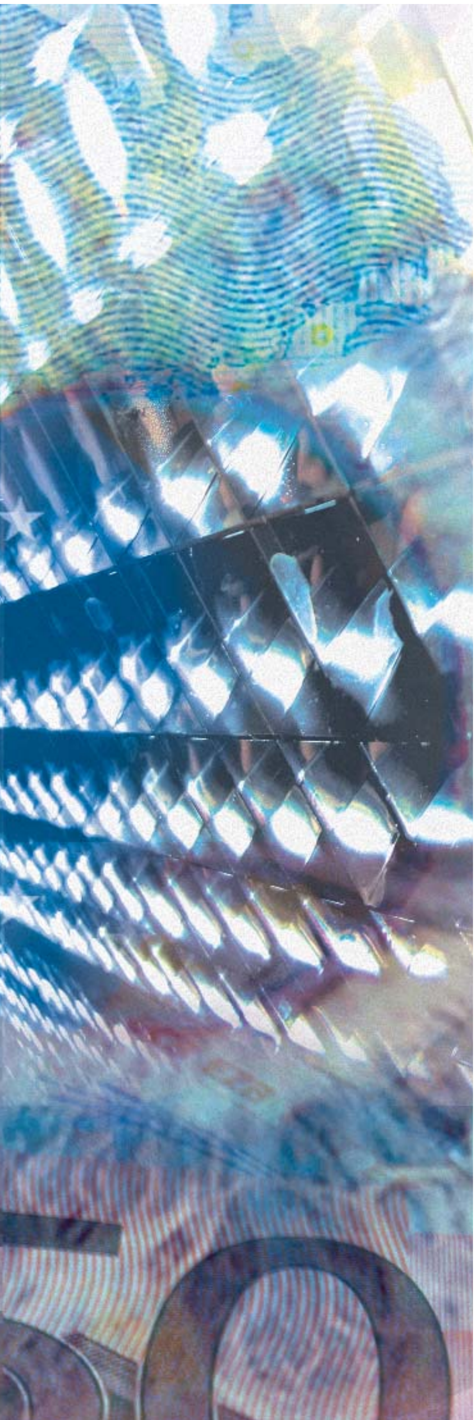
What is the PSD?

On 1 December 2005 the European Commission presented its proposal for a Directive of the European Parliament and of the Council on payment services in the internal market. This Directive will ensure that the same legal framework applies to all payments made within Europe.

THE RIGHTS AND OBLIGATIONS OF USERS AND PROVIDERS OF PAYMENT SERVICES

The Directive will provide clarity and certainty with regard to the core rights and obligations of users and providers of payment services. It will also provide the necessary legal framework for SEPA, as it will harmonise existing, and differing, national legal requirements.

4 SEPA AND THE EUROSYSTEM



> THE EUROSYSTEM'S VISION OF SEPA

The Eurosystem's vision of SEPA is defined as follows:
The Eurosystem foresees SEPA as an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the euro area. Joint statement from the European Commission and the European Central Bank, May 2006

Why is the Eurosystem involved in SEPA?

The Eurosystem's interest in the SEPA project and in the financial integration of payment systems in general is based on its statutory role as laid down in the Treaty establishing the European Community to promote the smooth operation of payment systems and to safeguard financial stability.

> FOCUS OF THE EUROSYSTEM

The Eurosystem calls for the removal of all technical, legal and commercial barriers between current national payments markets, and to:

> make the SEPA credit transfer and direct debit schemes available to all users;
> remove the technical barriers that prevent the full and widespread cross-border acceptance of cards; and
> establish the conditions that allows all beneficiaries to be reached.

> ENSURING THE EMERGENCE OF SEPA

To achieve SEPA, the Eurosystem will support the project by acting as a catalyst for private sector activities, and will:

- provide guidance and cultivate expectations in order to obtain a retail payments market that is in the best interests of the EU;
- work with the public sector to ensure that the public sector becomes an early adopter of SEPA payment products in all countries;
- work with users in general to ensure that their expectations are acknowledged by the EPC;
- contribute to the coordination of communication efforts:
  - on a cross-border level with the European Commission and EPC so as to coordinate their communication activities;
  - on a national level with the coordination bodies that have been set up in all euro area countries. These bodies mainly consist of representatives from the national governments, the national banking associations and the NCBs. Their purpose is to ensure the implementation of the building blocks of SEPA and to make sure that the national banking communities are informed about and ready for SEPA.

> THE EUROSYSTEM'S LONG-TERM EXPECTATIONS

Ongoing development of the domestic euro retail payments market will foster the innovation, consolidation and reorganisation of current practices. Over the long term, the Eurosystem expects that all euro area payments will become domestic, reaching a level of safety and efficiency that is at least on par with the best performing national payment systems today.

QUALITY

SEPA will lead to a euro payments area where payments are equal to and ideally will surpass the speed and convenience of the best performing current national payments.

STAKEHOLDER INVOLVEMENT

All stakeholders will be informed and consulted on their requirements in the development of SEPA. Although SEPA represents a challenge for all in the short term, in the long term it offers a significant opportunity to benefit from both European integration and technological progress.

SECURITY

Customers will feel more secure when using SEPA payment instruments, with consistency in this regard ensured by a minimum set of security standards for SEPA payment instruments.

STANDARDISATION

All euro area payments will support end-to-end STP, based on open and non-proprietary standards.

CHOICE

All stakeholders will be able to choose between fully transparent SEPA payment instruments, and will not be confined by national borders. All payment product customers will have a wide choice between banks, payment cards and options for handling direct debit mandates. Finally, financial institutions will be able to choose between a wide range of payment system infrastructure providers and card processors.

COMPETITION

SEPA will bring more competition by making the euro area an integrated market in which providers can offer their services to the entire euro area market.

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