



EUROPEAN CENTRAL BANK

EUROSYSTEM



# THE SINGLE EURO PAYMENTS AREA (SEPA)

◀ AN INTEGRATED RETAIL  
PAYMENT MARKET ▶

29

10 EURO



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Jean-Claude Trichet

## FOREWORD

With SEPA, all euro payments will be domestic

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. It is now time to allow consumers to make cashless payments throughout the euro area from a single account under the same basic conditions, regardless of their location. To facilitate this, all the various retail payment markets in the euro area will merge to form one market – the Single Euro Payments Area (SEPA). Within SEPA, all euro payments will be treated as domestic payments and the current differentiation between national and cross-border payments will cease. This requires changes not only to the banking industry, but also to customers' habits in all euro area countries.

These changes are needed to move towards a more integrated payment market, which will bring with it substantial economic benefits. SEPA will not only introduce more comparable services, but 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 and competitive market. It is important that the SEPA project be viewed not as a “one-off operation”, but as a continually evolving project that fosters European integration, seeking to improve all aspects of the euro area retail payment market on an ongoing basis. SEPA will also make a notable contribution to the Lisbon agenda, which aims to foster competitiveness and ensure the continuous development of the European economy. The SEPA project is an important element of Europe's single market and requires the full support of all stakeholders. The Eurosystem strongly supports the SEPA project.

SEPA will strengthen European integration

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

Jean-Claude Trichet

President of the European Central Bank

## INTRODUCTION

Following 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 were the launch of the euro in 1999 and the cash changeover in the euro area countries in 2002. Less visible, but also of great importance, were the establishment of the large-value central bank payment system TARGET on 1 January 1999 and that of its successor, TARGET2, in 2007. TARGET2 is 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 launched this challenging project by creating the European Payments Council (EPC). The EPC is defining the new rules and procedures for euro payments. In so doing, it is involving 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 focuses mainly on the euro area.



# CREATING THE 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 within or across national borders, with the same basic conditions, rights and obligations, regardless of their location.

### THE AIM OF SEPA IS:

- > to strengthen European integration by establishing a single market for retail payments. Having a single market for all euro payments will drive competition and innovation and thus bring about better services for customers.

### 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;
- > ongoing development of new customer services.

# CREATING THE SINGLE EURO PAYMENTS AREA

## SEPA REQUIRES INTERACTION BETWEEN ALL OF THE FOLLOWING CONSTITUENCIES.

- > The **European banking industry** 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 and potential new revenue streams. To coordinate its efforts, the industry has set up a decision-making body to manage and coordinate the SEPA project. This body, the European Payments Council, consists of 74 European banks and banking associations, including the three European credit sector associations and the Euro Banking Association (EBA). Industry participants from the EU, Iceland, Liechtenstein, Norway and Switzerland are represented in the EPC, the work of which covers all euro payments in these countries.

[www.europeanpaymentscouncil.eu](http://www.europeanpaymentscouncil.eu)

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

[www.abe.org](http://www.abe.org)

- > **Euro area companies** (corporations, merchants, and small and medium-sized enterprises) are involved in the development of services to automate the payment process. These services range from invoicing to reconciliation services and help to ensure the end-to-end straight-through processing (STP) of all payments. This reduces the cost of making and receiving payments, as payments are effected without paper or manual intervention. Corporate treasurers are represented by the European Association of Corporate Treasurers (EACT).

[www.eact.eu](http://www.eact.eu)





# CREATING THE SINGLE EURO PAYMENTS AREA



- > **Public administrations** and **consumers** will be the users of the new SEPA payment instruments. Governments and public administrations make substantial payments on both a national and a cross-border level in areas such as pensions, social security and taxation. A firm commitment is therefore required from public administrations. The Economic and Financial Affairs Council (the ECOFIN Council) has repeatedly expressed its strong support for the creation of SEPA.

[www.consilium.europa.eu](http://www.consilium.europa.eu)

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

- > The **Eurosystem** has stressed its expectations for 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 simplify its rules. For example, it proposed the Payment Services Directive (PSD), which was approved by the European Parliament and the EU Council in 2007.
- > **National authorities** are expected to become increasingly involved and to be among the first to adopt the SEPA payment schemes.

[www.ecb.europa.eu](http://www.ecb.europa.eu)  
[www.ec.europa.eu/internal\\_market](http://www.ec.europa.eu/internal_market)

# CREATING THE SINGLE EURO PAYMENTS AREA

## > WHY SEPA?

Currently, the euro area economy is unable to fully exploit all of the benefits of Economic and Monetary Union. Customers face difficulties when making retail payments in euro to other euro area countries, as these payments often require different payment formats and are more time-consuming. As long as this is the case, the euro cannot be regarded 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/TARGET2, the common large-value payment system for the euro, low-value electronic payments (i.e. retail payments) continue to be processed in different ways across the euro area. Overall, the number and variety of payment instruments, standards and processing infrastructures for retail payments have not changed significantly 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. National legislation further complicates cross-border business, as stakeholders may face different rules and requirements depending on the country with which they are doing business.

This fragmentation affects not only cross-border payments, but also national euro payments, as it prevents innovation and competition at the euro area level. The creation of a single market will allow innovation to increase irrespective of national borders.

The fragmented European retail payment 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 payment market for all non-cash euro payments, with such payments eventually being conducted entirely electronically. SEPA will thereby benefit all customers.



# CREATING THE SINGLE EURO PAYMENTS AREA



## > BANKING INDUSTRY INITIATIVES

In the move towards SEPA, the banking industry has focused mainly on the development of SEPA payment instruments. First, the industry developed new payment schemes for credit transfers and direct debits, as well as formulating a framework for card payments. Second, it identified principles for the underlying processing infrastructures and addressed standardisation issues. These steps helped to facilitate the implementation of the new common payment instruments in the euro area. While originally that work focused primarily on the bank-to-bank domain, in 2008 the banking industry started to look at how to improve the handling of payments between customers and banks (i.e. the customer-to-bank and bank-to-customer domains).

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

The EPC has designed rulebooks for the SEPA credit transfer scheme and the SEPA direct debit schemes – as well as a framework for SEPA card payments – within which banks can develop SEPA payment products.

With regard to credit transfers and direct debits, new common schemes have been designed that allow customers to send/receive euro transfers to/from any counterpart in the euro area. These schemes are defined in rulebooks covering the rules, practices and standards applicable to such euro payments. For card payments, 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 established a framework that explains how card schemes (as well as card issuers, acquirers and operators) need to adapt their current operations to comply with the SEPA principles for card payments in euro. A core feature of the new payment instruments is a clear distinction between schemes (i.e. rules, practices and standards) and infrastructures. This will allow any infrastructure to process SEPA payments.

# CREATING THE SINGLE EURO PAYMENTS AREA

Financial institutions are responsible for the quality of their SEPA products and are free to offer their customers improved products, as long as they are in line with the various schemes and frameworks.

The **infrastructures** handle 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 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.

STEP2, the first pan-European automated clearing house, is managed by EBA Clearing. Other European clearing houses, which are represented by EACCHA, have developed a framework which facilitates interoperability between different European infrastructures. This framework should thus allow SEPA credit transfers and direct debits to be sent and received by any customer in Europe.

## **Services in the customer-to-bank domain**

On the basis of the SEPA schemes, financial institutions can, either individually or in cooperation with others, design improved products and offer them to their customers. These services must be transparent, and the EPC must be notified once they are operational.

In the development of the SEPA schemes and frameworks, the EPC has focused on the bank-to-bank domain. In 2008 the EPC decided to widen its scope and



# CREATING THE SINGLE EURO PAYMENTS AREA



intensified its work in the customer-to-bank domain. The goal is to develop SEPA-wide services that enhance the SEPA payment instruments.

Work has started on services which allow customers to initiate SEPA payments at online merchants via their internet banking applications (i.e. **online payment initiation**) or by using their mobile telephones (i.e. **mobile payment initiation**). Other services allow electronic confirmation of payments. The **e-reconciliation** service, for instance, is offered to customers after payment. Bills are matched with payments electronically, and the payee's records are automatically updated. The Eurosystem has encouraged the EPC to continue its work on these value-added services.

Outside the EPC, work has started on one of the most frequently used value-added services: **electronic invoicing**. This service is offered to customers before payment. Bills are sent directly to the payer's internet banking application, and once the payer has accepted the bill, an automatic payment instruction is created containing the relevant information on the payer and payee. This work is being undertaken by the European Commission's expert group on e-invoicing. The goal is to develop an e-invoicing framework by the end of 2009. Such initiatives are strongly encouraged by the ECB, as combining value-added services with the SEPA payment instruments creates large potential savings for the economy, eliminating paper and achieving end-to-end STP.

Value-added  
services offered  
before payment

Processing of  
the payment

Value-added  
services offered  
after payment

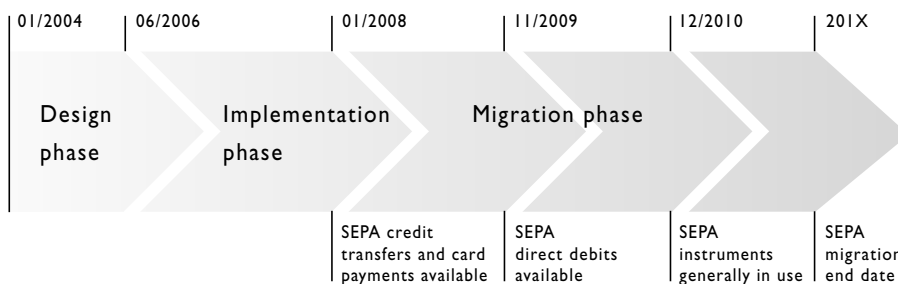
**End-to-end straight-through processing**

# CREATING THE SINGLE EURO PAYMENTS AREA

## > 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 EPC's timetable



The first phase, the **design phase**, began in 2004. This phase involved the design of the new credit transfer and direct debit schemes and the frameworks for cards and clearing and settlement infrastructures. The necessary standards were developed and security requirements were also specified.

The second phase, the **implementation phase**, started in mid-2006 and continued until end-2007. This phase of the project concentrated on preparations for the rollout of the new SEPA instruments, standards and infrastructures. Testing exercises were also carried out in this phase. The national implementation/migration bodies established in each euro area country assisted by monitoring the various stakeholders' preparations for the rollout of SEPA. The stakeholders were very diverse, consisting of a number of parties, such as banks, infrastructure operators, public administrations, companies and other users.

The final phase is the **migration phase**, 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 instrument. The goal is to achieve a gradual market-driven migration to SEPA, with a critical mass of transactions migrating by end-2010.

After the migration period, services for sending and receiving euro payments which are based on the current domestic credit transfer and direct debit schemes (or equivalent schemes) will no longer be available to customers.



## IMPACT OF SEPA ON STAKEHOLDERS



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

# IMPACT OF SEPA ON STAKEHOLDERS

## > FOR CONSUMERS

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

- > Consumers will **only need one bank account**. From this account, they will be able to effect credit transfers and direct debit payments in euro throughout 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 (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 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 need for people to carry cash.
- > It will be possible to offer **innovative services** to consumers irrespective of national borders. The long-term goal of the banking industry is for SEPA payment instruments to be used only in electronic form. Payments can then be easily 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 businesses). These include e-invoicing, mobile or internet payment initiation, e-tickets for airlines and e-reconciliation. As a consequence, consumers will spend less time handling payments.

## > FOR MERCHANTS

Payment cards are becoming extremely popular 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 to the cardholder's bank via the clearing infrastructure. SEPA offers the following advantages in this regard.

- > Acquirers will be able to process all SEPA-compliant card payments, even cross-border payments. 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 for merchants.





# IMPACT OF SEPA ON STAKEHOLDERS

## > FOR COMPANIES

SEPA will help companies to 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 have the same format. By consolidating their payment and liquidity management in one location, companies with euro area-wide business will save not only in terms of costs, but also in terms of time.
- > **Value-added services** such as e-invoicing and e-reconciliation will help companies to optimise their handling of payments. Today, these services are often offered only nationally, as the existence of different payment formats and legal requirements makes cross-border use

difficult. Standardised SEPA payment schemes will make this obstacle easier to overcome and companies will benefit from end-to-end STP.

## > 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 at a euro area level, as banks will be able to offer their services more easily to customers throughout the euro area. Banks will also be able to expand their business by offering their customers value-added services in addition to SEPA products.
- > SEPA will lead to further European integration and increased **market efficiency**. By aligning the conditions under which payments are made, SEPA will result in 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** 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 it applied to credit transfers with a value of up to €12,500. Since 1 January 2006 it has also applied to transfers in euro with a value of up to €50,000 made between two euro-denominated accounts within the EU. The European Commission has proposed extending the rules on cross-border payments in euro to cover direct debits and will complete its review of the Regulation in 2009 with a view to facilitating SEPA.

# IMPACT OF SEPA ON STAKEHOLDERS

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

## > FOR INFRASTRUCTURE PROVIDERS

Detaching the development of the payment schemes from the infrastructure providers (e.g. ACHs and card processors) should increase competition among infrastructure providers.

- > Infrastructure providers will **no longer be bound by national borders** and will instead be able to provide their services throughout the euro area.
- > **Interoperability** or interlinking between 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

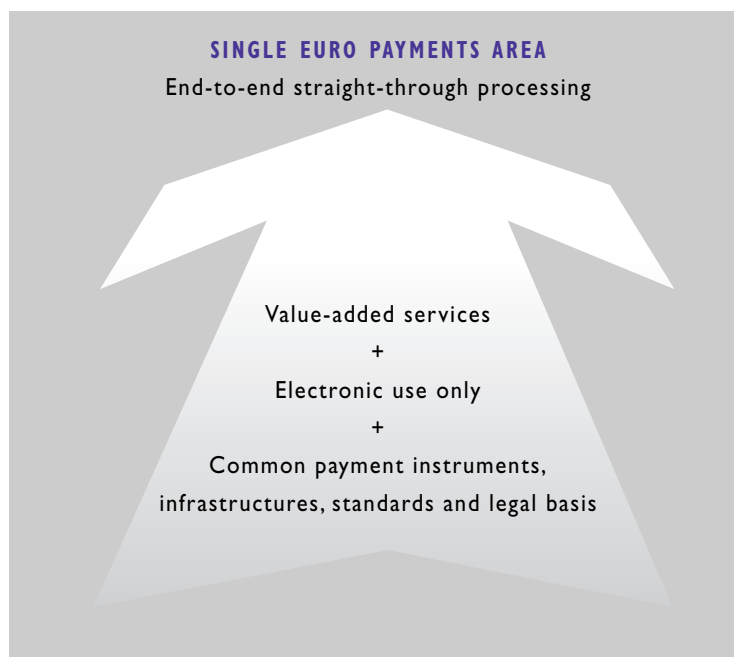
The overall impact that the changeover to SEPA will have on customers is expected to be minor. Customers could experience some changes when domestic payment instruments are replaced by SEPA payment instruments. For example, a customer's national bank account number will be replaced by an IBAN, and the forms used to initiate payments could differ, in terms of their layout, from those currently used at the national level.



## COMPONENTS OF SEPA



Creating a single retail payment market in the euro area is an ongoing process. However, with the building blocks almost in place, one significant milestone has been achieved. The next step will be to develop and offer value-added services for customers. These will enhance the SEPA payments and guarantee their user-friendliness, thereby fostering the establishment of a paperless payments area with end-to-end STP for all payments.



### > SEPA PAYMENT INSTRUMENTS

The EPC has established 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 lays down a common set of rules and processes for credit transfers denominated in euro. The scheme establishes a common service level and a time frame within which financial institutions participating in the scheme must conduct individual SEPA credit transfers. The scheme was launched in January 2008.

### 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 days.<sup>1)</sup>
- > The scheme is separated from the processing infrastructure.
- > IBANs and BICs are used as account identifiers.
- > There is a comprehensive set of rules for rejected and returned payments.

### What is a credit transfer?

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

<sup>1)</sup> Under the Payment Services Directive, which enters into force on 1 November 2009, the maximum settlement time will be three business days until 1 January 2012 and one business day thereafter.



# COMPONENTS OF SEPA

## SEPA DIRECT DEBITS

The SEPA direct debit (SDD) scheme is an interbank payment scheme that lays down a common set of rules and processes for direct debits denominated in euro. The scheme establishes a common service level and a time frame within which financial institutions participating in the scheme must conduct individual SEPA direct debits. The SDD scheme will be launched on 1 November 2009.

### The core SDD model

In the new SDD scheme, the debtor will give the mandate directly to the creditor. An e-mandate solution will allow consumers to initiate electronic mandates via their online banking application.

### Features of the core SDD scheme

- > It offers full SEPA-wide reach – direct debits can be made to any recipient.
- > It covers both recurrent and one-off payments in euro.
- > The required transaction time is five business days for a one-off payment or the first in a series of recurring payments, and two business days for subsequent recurring payments.
- > The scheme is separated from the processing infrastructure.
- > Both IBANs and BICs are used as account identifiers.
- > It ensures a comprehensive set of rules for rejected and returned payments.

### Special features

- > A business-to-business direct debit scheme has also been developed. This is based on the core direct debit scheme, with specific additional features for use in business-to-business transactions.

#### What is a direct debit?

A transfer initiated by the payee (i.e. the recipient) via the payee's bank following an agreement between the payee and the payer (i.e. the sender). Direct debits are often used for recurring payments (such as utility bills), with a schedule of payment being preauthorised by 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 be made in accordance with a set of high-level principles which issuers, acquirers, card schemes and operators will have to observe. These principles have been developed by the EPC and are referred to as the “SEPA card framework”.

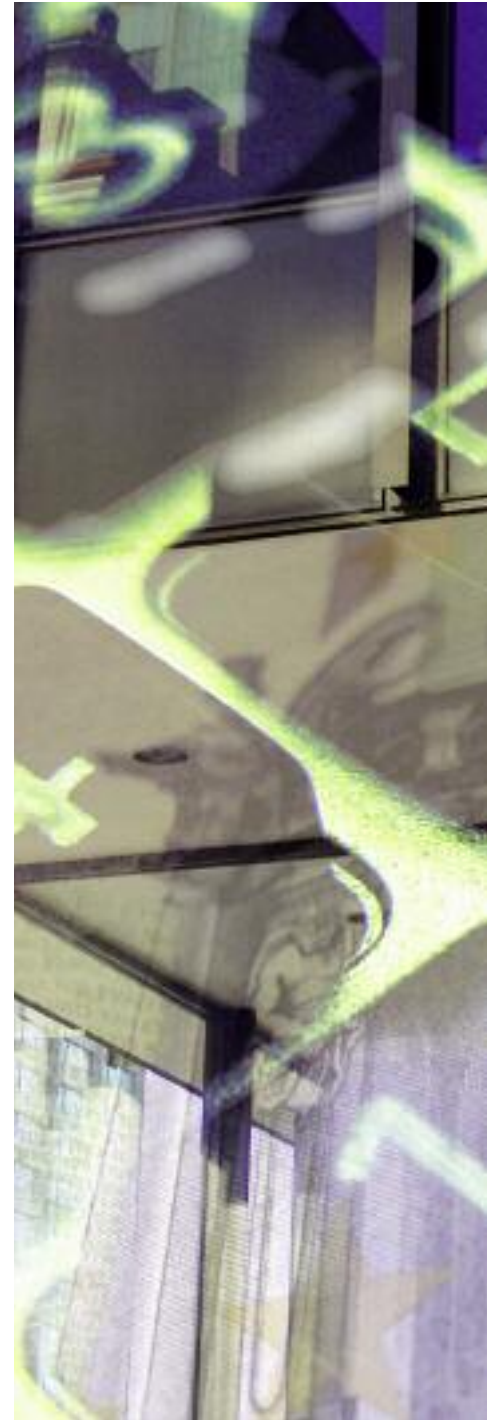
### Features of SEPA card payments

- > Cardholders will be able to pay with one card all over the euro area (limited only by brand acceptance on the part of 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 market for the processing of card payments more competitive, reliable and cost-efficient.

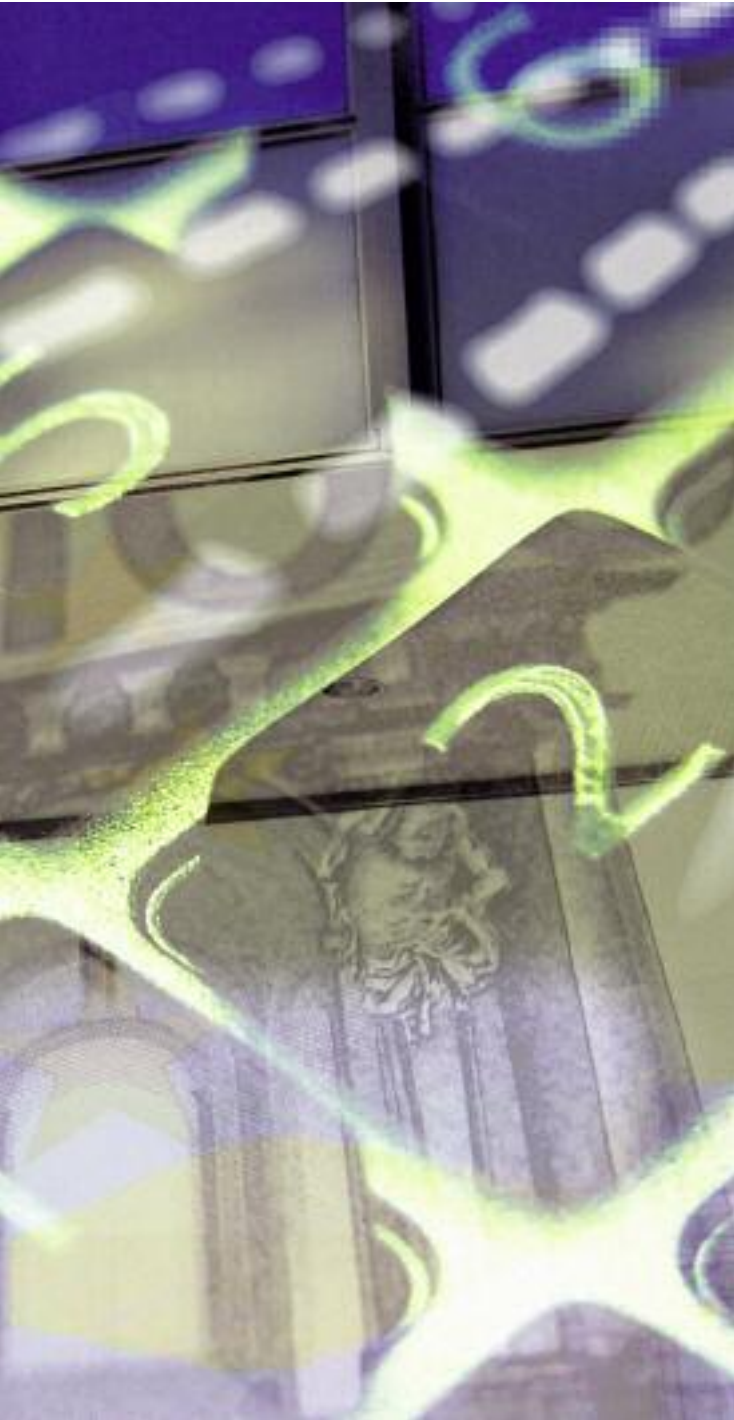
What is a card payment?

Of the many types of payment card 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 either settled in full by the end of a specific period, or settled 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 mixture of instruments, including cash.

In order to create a “single euro cash area” for professional cash handlers, the ECB has agreed on a number of measures with a view to contributing to a fair competitive environment as regards the Eurosystem’s cash services. These measures concern 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 in order to further harmonise NCBs’ cash services in the medium term.

### Who issues banknotes?

The ECB has the exclusive right to authorise the issuance 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 EPC framework governing clearing and settlement mechanisms within SEPA sets out the principles that allow infrastructure providers to clear payments made using the SEPA credit transfer and direct debit schemes. The framework distinguishes between the roles and responsibilities of schemes (i.e. the rules for the different payment instruments) and those of 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. The framework for clearing and settlement mechanisms within SEPA came into force in January 2008.

### FEATURES OF THE CLEARING AND SETTLEMENT INFRASTRUCTURES WITHIN SEPA

The Eurosystem's aim is for the main infrastructures to be able to send/receive euro payments made using SEPA payment instruments to/from all banks in the euro area. Banks can be reachable directly, indirectly through intermediary banks, or indirectly through links between infrastructures. For an efficient exchange of payment messages, infrastructure providers should adopt uniform rules on interoperability. Another aim is to ensure full transparency in terms of infrastructure providers' services and prices.

What are clearing and settlement?

**Clearing** is the process of transmitting, reconciling and confirming payment orders, and establishing a final position for settlement (on the basis of either 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).





# COMPONENTS OF SEPA



Clearing and settlement in SEPA will thus be designed to ensure:

- > the reachability of all euro area banks;
- > the separation of schemes and infrastructures.

## > STANDARDISATION

The EPC has chosen to use well-known international standards for the SEPA payment schemes. The goal is to ensure automated (straight-through) processing of all euro-denominated payments. This is a three-layer process.

- > In the rulebooks for SEPA credit transfers and direct debits, the EPC has **business requirements** describing the data elements that are to be exchanged between financial intermediaries. On the basis of those business requirements, the EPC has identified **logical requirements**.
- > In the final layer, those logical requirements become concrete **message standards**. The standards selected are UNIFI (ISO 20022) XML message standards developed by the International Organization for Standardization. The EPC has also 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 interaction. Technical standards are necessary to allow interaction and interoperability between IT systems and to foster the automation of the payment process.

# COMPONENTS OF SEPA

## > LEGAL FRAMEWORK

The Payment Services Directive establishes the legal framework necessary for SEPA payments and will also apply to existing national payment products. The PSD was adopted by the European Parliament and the EU Council in 2007. It must be transposed into national law by November 2009 at the latest. The Directive contains three main building blocks, which are described below.

### 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 help to foster innovation and create a level playing field with enhanced competition.

### TRANSPARENCY AND INFORMATION REQUIREMENTS

The Directive will establish 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 national rules, which currently vary greatly.

#### What is the PSD?

In 2007 the European Parliament and the EU Council adopted the Directive on payment services in the internal market, the “Payment Services Directive”. 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 legal framework necessary for SEPA, as it will harmonise the differing national legal requirements currently in force.



## SEPA AND THE EUROSISTEM

### > THE EUROSISTEM'S VIEW OF SEPA

The Eurosystem views 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 by 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 the financial integration of payment systems in general is based on its statutory obligation, 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 EUROSISTEM

The Eurosystem encourages the continual development of SEPA to ensure that customers' needs and requirements are met. The immediate aim should be to:

- > make SEPA direct debit schemes available to all users from November 2009;
- > continue initiatives to develop an additional European card scheme;
- > enhance the SEPA payment instruments with value-added services (e-invoicing, e-reconciliation, online payment initiation, etc.), ensuring end-to-end STP for all SEPA payments.



# SEPA AND THE EUROSISTEM

## > ENSURING THE CREATION OF SEPA

To establish SEPA, the Eurosystem is providing support by acting as a catalyst for change and will continue to:

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



# SEPA AND THE EUROSISTEM

## > THE EUROSISTEM'S LONG-TERM EXPECTATIONS

The Eurosystem encourages the EPC to continue its efforts to develop a single, innovative retail payment market in the euro area that satisfies the needs and requirements of European citizens. In 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 a par with that of the best-performing national payments today.

### QUALITY

In SEPA, euro payments will match and ideally surpass the best-performing national payments currently available in terms of speed and convenience.

### STAKEHOLDER INVOLVEMENT

All stakeholders will be involved in the continual development of SEPA. Although SEPA represents a challenge for everyone in the short term, it offers a significant opportunity for both European integration and technological progress in the long term.

### SECURITY

Customers will feel more secure when using SEPA payment instruments, which are protected by a set of minimum security standards.

### STANDARDISATION

In the long term, all euro area payments will support end-to-end STP on the basis of open and non-proprietary standards.

### CHOICE

Stakeholders will be able to choose between fully transparent SEPA payment instruments and will not be confined by national borders. All customers will have a wider choice of banks and payment products. Finally, financial institutions will be able to choose between a wide range of infrastructure providers and card processors.

### COMPETITION

SEPA will create more competition by making the euro area an integrated market in which providers can offer their services to the entire euro area, irrespective of national borders.

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