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SINGLE EURO PAYMENTS AREA

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NOVEMBER 2008

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EXECUTIVE SUMMARY

The Eurosystem continues to strongly support the creation of the Single Euro Payments Area (SEPA), in which “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”. SEPA is needed to move towards a more integrated payments market in Europe, which will bring substantial economic benefits. It is also a necessary step in the completion of the introduction of the euro as the single currency of 15 and soon, with its adoption by Slovakia in January 2009, of 16 countries in Europe. As such, SEPA is not just a business project, but is also closely linked to the political ambition to move towards a more integrated, competitive and innovative Europe. The project to design and set up SEPA is coordinated and promoted by the European Payments Council (EPC), the European 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. With the introduction of the SEPA Credit Transfer (SCT) on 28 January 2008, the first benefits of SEPA have materialised for banks and, more importantly, have started to reach the end-users of payment services. Most Automated Clearing Houses (ACHs) that were processing credit transfers in euro have become SCT scheme-compliant. Also, in January 2008, SEPA for Cards started for card payments, but more effort is needed in this field to achieve the goals of the SEPA project, for example the emergence of at least one additional European card scheme. Preparations for the third type of payment instrument, SEPA Direct Debit (SDD), have continued over the past year, resulting in the adoption of one rulebook for the Core service and another for the Business-to-Business service for the planned launch on 1 November 2009. Moreover, the Payment Services Directive, which is crucial in providing a sound legal basis across the EU for the processing of payments instruments, and especially for direct debits, was adopted in November 2007.

Despite mostly positive developments since the publication of the 5th Progress Report in July 2007, the Eurosystem has observed that motivation for the project has been fading away among market participants, and that the constructive spirit of the preparation phase has turned into a downbeat attitude. Therefore, 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 overcome this weariness and to ensure the success of SEPA. The addressees of the report are not only the banks and future payment institutions, but all relevant stakeholders, such as corporates, public administrations, merchants and consumers. The goals of SEPA can only be fully achieved if all stakeholders combine their efforts.

The main messages are as follows:

- I. BANKS NEED TO ENSURE MORE COMMUNICATION, CLEAR PRODUCT OFFERINGS AND THE DELIVERY OF A CONSISTENT CUSTOMER EXPERIENCE IN ORDER TO STIMULATE THE UPTAKE OF SEPA CREDIT TRANSFER BY ALL CUSTOMERS, WITH PUBLIC ADMINISTRATIONS, IN PARTICULAR, BECOMING EARLY ADOPTERS.**

The Eurosystem is pleased with the successful launch of the SEPA Credit Transfer on 28 January 2008. In order to stimulate the uptake of the SCT, which stands currently at 1.5% according to the Eurosystem’s euro area SCT indicator, banks need to step up their communication efforts towards all customers, including by providing information on IBAN and BIC, and to make clear product offers. They also need to deliver a customer experience for SCT that is comparable to existing national credit transfers, instead of presenting SCT as a solution for cross-border payments only. Vendors of enterprise resource planning systems or software for payments also have a role to play in bringing SEPA to corporates, public administrations and SMEs. If they are not already using the SCT, major users, such as corporates and public administrations, should have preparations underway to do so by 1 November 2009, when the SEPA Direct Debit

will be launched. The Eurosystem is confident that the migration will pick up speed, especially when the EPC implements further improvements that respond to customer requirements.

The Eurosystem encourages public administrations to lead by example by becoming early adopters of the SEPA payment instruments, as SEPA is a major political objective for Europe and also an important facilitator for e-government projects.

2. THE LAST OBSTACLES FOR A TIMELY LAUNCH OF SEPA DIRECT DEBIT SHOULD BE OVERCOME, INCLUDING THE CLOSING OF THE DEBATE ON THE MULTILATERAL INTERCHANGE FEE (MIF); THE EPC IS TO OPEN THE ADHERENCE PROCESS AND MONITOR THE REACHABILITY FOR SDD.

The SEPA Direct Debit is scheduled to start on 1 November 2009, with Core and Business-to-Business services, as well as an e-mandate option. However, too many uncertainties may prevent the timely launch and successful take-up of the scheme. To move forward, solutions must be found urgently, e.g. by providing clarity on the launch date, ensuring the continued validity of existing mandates, meeting customer requirements, increasing communication efforts and closing the MIF debate.

To address the uncertainty regarding the applicability of a MIF, the European Central Bank (ECB), in close consultation with the European Commission, has suggested a way forward. Where a legacy default MIF exists for national direct debits, this could also be applied in the respective national context to the SDD. Any change or abolition of the legacy MIF (e.g. as a result of a decision by the respective national competition authority or the phasing out of the national direct debit scheme) should be applied to the SDD at national level as well. This will create a level playing field for SDD and legacy direct debit schemes, and will facilitate migration towards SDD. For the “cross-border” SDD, the idea of a default MIF would be accepted by the European Commission provided it is properly justified

and transitional, i.e. applicable for a limited period only. Building on this guidance provided by the ECB and the European Commission, the ECB has come forward with a further proposal of a SDD cross-border multilateral interchange fee for the interim period. The core elements of this further proposal are: 1) the level of the default interim MIF for cross-border SDD is set at 8.8 cents, which has to be understood as a maximum (“ceiling”) also; 2) immediate discussion on a long term financial model for SDD is to be launched between the European Commission and the EPC, ideally resulting in a concrete agreement by the end of the first quarter of 2009 and 3) the interim MIF for cross-border SDD is applied for a defined period which provides banks sufficient time to adapt to the long term financial model for SDD. This would support the launch of the SDD for cross-border euro payments, which is the truly new payment service at European level and, as such, vital for the success of SEPA.

The EPC, national SEPA migration committees, public authorities and national legislators should together focus on clearing up any uncertainties in this regard. Notwithstanding this, the EPC is invited to open the adherence process as soon as possible for the SDD launch on 1 November 2009 and to monitor the reachability of its SEPA Direct Debit product.

3. SEPA NEEDS TO ENABLE END-TO-END STRAIGHT-THROUGH-PROCESSING AND TO MOVE BEYOND CORE AND BASIC PRODUCTS.

The full benefits of SEPA will only be reached if SEPA responds to customer needs. End-to-end straight-through-processing is a major requirement for professional users. On a business level, the messages should be able to carry remittance information end-to-end in order to facilitate automatic reconciliation. The ISO standard under development for a “Structured creditor reference to the remittance information” should be made available to users in the SEPA messages as soon as it becomes an approved international standard. On a technical level, common message standards should be

offered all the way from one customer to the other customer, both in the customer-to-bank domain and in the bank-to-customer domain, i.e. respectively payment initiation and notification of payment, account report and account statement. The Eurosystem would like to invite every bank to offer the standardised messages as a minimum to their professional customers. This will also serve as a basis for industry to successfully develop a SEPA-wide framework for e-invoicing services.

Significant progress has been made towards developing SEPA online payments, which allow customers to use their own Internet banking application for the initiation of a payment at an online merchant. The Eurosystem encourages the EPC to finalise the e-Payments framework by the end of 2009. The Eurosystem welcomes the cooperation agreement signed by the EPC with the association of GSM mobile telephone operators in June 2008 to jointly develop mobile payment channels within SEPA.

4. SETTING A REALISTIC, BUT AMBITIOUS END-DATE FOR THE MIGRATION TO SCT AND SDD IS A NECESSARY STEP IN ORDER TO REAP THE BENEFITS OF SEPA EARLY.

To avoid a lengthy and costly migration process towards SCT and SDD and, in particular, to prevent an outcome whereby the benefits of SEPA are not achieved because SEPA payments are used for cross-border payments only, in a “mini-SEPA” scenario, it is important for major actors, such as corporates and public administrations, to migrate to the SCT and SDD as quickly as possible. Of course, good product offerings and clear communication by banks are the first steps in convincing these customers to migrate. The next move is to eliminate the misconception in some parts of the market that the migration to SEPA can be postponed indefinitely. It must be made clear to all market actors that national credit transfer and direct debit schemes will be phased out in the euro area by setting a realistic, but ambitious end-date. The Eurosystem will thus continue its efforts to foster a general understanding among stakeholders

that setting an end-date is a necessary step and will work on the modalities (e.g. self-regulation or regulation), as well as the end-date itself.

5. THE MARKET IS ENCOURAGED TO TAKE A MORE AMBITIOUS APPROACH TOWARDS THE SEPA FOR CARDS AND TO SUPPORT MARKET INITIATIVES TO CREATE A EUROPEAN CARD SCHEME.

The SEPA for Cards started on 1 January 2008, but has not been taken up by banks to the same extent as the SEPA Credit Transfer. The EPC, following discussions with the European Commission, has clarified key aspects of the SEPA Cards Framework (SCF). The Eurosystem is convinced that the clarifications regarding the geographical coverage of card schemes and the right of a merchant not to accept certain brands or to decide to levy a surcharge on certain card transactions have corrected certain misunderstandings in the market, where developments were potentially leading away from the SEPA goals of more effective competition and greater efficiency.

Nevertheless, given the importance of card payments for European citizens and the potential of cards to reduce the cost of cash for banks, merchants and society as a whole, the Eurosystem would like the market to set itself more ambitious goals in the field of card payments. The Eurosystem expects at least one additional European card scheme to emerge that meets the requirements of cardholders, banks, merchants, competition authorities and the Eurosystem. The Eurosystem has been discussing this topic with major European banks and other stakeholders and has observed a growing understanding of the need for and increasing support for a European card scheme. At the moment, there are three market initiatives to create such a European card scheme. The Eurosystem welcomes these projects and considers them to be a clear signal that the market recognises the need for a European card scheme.

In addition to these schemes and market initiatives, the EPC is called upon to take

into account the newest developments (e.g. standardisation, three-party card schemes and competition authorities' decisions). At the very least, the SCF needs updating and revising. Moreover, the EPC should start with the monitoring of the implementation of the SCF. The Eurosystem encourages all European banks to acknowledge the risks for the SEPA for Cards, become more involved, maintain or regain strategic control over the cards market and to seize all the opportunities that the SEPA for Cards can bring.

6. THE EUROPEAN PAYMENT INDUSTRY SHOULD ENSURE THAT IT HAS ADEQUATE INFLUENCE ON THE SEPA CARDS STANDARDS, WHICH SHOULD PREFERABLY BE NON-PROPRIETARY STANDARDS – EPC TO ADVANCE THE SEPA CARDS STANDARDISATION PROGRAMME.

In the field of SEPA cards standardisation, the EPC, in cooperation with all stakeholders, is progressing towards finalisation of a comprehensive framework of requirements for all domains of card payments (i.e. card-to-terminal, terminal-to-acquirer, acquirer-to-issuer and certification and type approval) by the end of 2008. However, the framework as it now stands is a long way from being a set of standards that is ready to be implemented by the market. Moreover, certain elements seem to be missing, such as the newest developments in the context of ISO 20022. A new deadline of the end of 2009 at the latest should therefore be set. In order to meet this deadline, the EPC is invited to build on the work of the existing European standardisation initiatives with which it has been cooperating.

The Eurosystem recommends the European payment industry to use non-proprietary standards (such as ISO standards) where available and to actively work on creating such standards where they are not yet available. Moreover, it recommends the European payment industry to become more active in the relevant global standardisation initiatives in order to have adequate influence on standards development. Finally, the Eurosystem invites

the European payment industry, e.g. the EPC or a representative of European card schemes, to become a member of EMVCo and PCI SSC, for as long as these proprietary standards are used by the European payment industry. The Eurosystem recommends that the European payment industry, and especially the EPC, should involve stakeholders (e.g. terminal manufacturers, processors, but also merchants and cardholders) more, and in a more structured way in the SEPA cards standardisation programme.

7. SECURITY IS THE BASIS FOR TRUST IN SEPA PAYMENTS, AND ALL STAKEHOLDERS NEED TO INTENSIFY THEIR EFFORTS.

The security of payments deserves special attention. The Eurosystem welcomes the recent addition of security principles by the EPC to the SDD Rulebooks, making them mandatory for all scheme participants. The Eurosystem expects each bank to implement exemplary risk management procedures, with a view to contributing to the safety and attractiveness of the SDD scheme as a whole.

The Eurosystem is also pleased to see that the EPC has created a dedicated working group on information security and that it will define good practices by the end of 2008. It is necessary to safeguard trust in electronic payment channels, as well as the availability and usability thereof. If the full benefits of SEPA are to be realised, differing security practices or a “race to the bottom” competition for reduced security expenses must be avoided. A common, high level of security for Internet banking, card payments and online payments is needed. Banks are invited to commit to the appropriate security standards and recommendations, and to take into account not only the perspective of the banks, but also that of their customers when deciding on security issues. In recognition of the fact that the safety of Internet banking and online payments is dependent on many actors, coordination among stakeholders should be promoted. For example, improved cooperation with the European Commission is needed

to investigate the harmonisation of the legal framework for fighting e-crime.

8. INFRASTRUCTURES ARE LEADING BY EXAMPLE, BUT THE REMAINING RESTRICTIONS ON INTEROPERABILITY SHOULD BE REMOVED.

The effects of SEPA have so far been most visible at the infrastructures level, i.e. the entities that offer an inter-bank funds transfer system. The Eurosystem is pleased to note that most ACHs that were processing credit transfers in euro have become SCT scheme-compliant and have been processing SCTs since the scheme was launched in January 2008, supported by their messaging platforms. Several infrastructures are making the step from offering purely domestic operations towards becoming pan-European service providers in a true euro-domestic market. The Eurosystem fully welcomes this approach. Remaining obstacles to the SEPA for infrastructures should be removed: no bank or banking community should be forced by any entity to use a particular infrastructure (whether as a direct or an indirect participant) or to use specific proprietary technical standards. Furthermore, the Eurosystem encourages all stakeholders (i.e. EPC, EACHA and all euro area ACHs) to continue their work on achieving full interoperability of infrastructures. Infrastructures are expected to create a link with any other infrastructure upon request.

9. GOOD GOVERNANCE OF THE SEPA PROJECT REQUIRES CHANGES IN THE EPC'S MANDATE AND ORGANISATION.

The success of SEPA greatly depends on an adequate governance of the project. Good governance arrangements for a project such as SEPA means involving different stakeholders at both European and national levels and balancing their interests, with transparency as well as with mechanisms that ensure the delivery of the SEPA targets.

Given the crucial role played by the EPC in the SEPA project, the EPC's governance

arrangements deserve special attention. Although the EPC has made considerable progress in balancing the interests of different stakeholders in the SEPA schemes, there is still considerable room for improvement as regards involving the full range of stakeholders, from corporates to public administrations and from retailers to consumers, without suggesting that these should become members of the EPC Plenary. The Eurosystem would especially welcome the involvement of public administrations, which are major customers for payment services and should act in line with the political objectives of the SEPA project. Also, further progress needs to be made regarding transparency and delivering the SEPA goals. The EPC should consider making several improvements to its governance arrangements in response to valid criticism from stakeholders, regulators and the Eurosystem. One short-term remedy would be to strengthen the EPC Secretariat so that it can adequately support the EPC in its many tasks. In the medium to longer-term, more substantial changes are needed to improve the EPC's effectiveness, transparency and accountability.

10. CLARITY AND CERTAINTY WITH REGARD TO THE SEPA TASKS THAT THE EUROSISTEM EXPECTS TO BE FULFILLED – SEPA IMPLEMENTATION AND MIGRATION MILESTONES.

In order to provide clarity and certainty as to the tasks that it expects to be fulfilled, the Eurosystem has identified a list of milestones for SEPA implementation and migration. The list of SEPA milestones will enable better management of the SEPA project and improved measurement of the progress towards SEPA implementation and migration, while at the same time contributing to the preservation of momentum. In chronological order, the milestones are: ensuring the continued validity of existing mandates; SDD MIF; a review of Regulation 2560/2001; the setting of an end-date for the SCT; the SDD launch; the transposition of the Payment Services Directive; the e-invoicing framework; the setting of an end-date for the SDD; a decision on additional European card schemes; and the implementation of SEPA cards standards.



INTRODUCTION

The Eurosystem continues to strongly support the creation of the Single Euro Payments Area (SEPA), in which “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”. SEPA is needed to move towards a more integrated payments market in Europe, which will bring substantial economic benefits to society. It is also a necessary step in the completion of the introduction of the euro as the single currency of 15 and, soon, with its adoption by Slovakia on 1 January 2009, of 16 countries in Europe. As such, SEPA is not just a business project, but is also closely linked to the political ambition for a more integrated, competitive and innovative Europe. SEPA is a major European objective, which in ambition, size and complexity, is comparable with the changeover to the euro and the introduction of euro banknotes and coins. The project to design and set up SEPA is coordinated and promoted by the European Payments Council (EPC), the European 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. To date, the Eurosystem has published five progress reports on the topic, all of which assess the state of preparation and provide guidance to the market. Moreover, a report specifically addressing card payment schemes was published in November 2006.

Since the publication of the fifth progress report in July 2007, there have been many new developments. The successful launch of SEPA in January 2008 was a major milestone. With the introduction of the SEPA Credit Transfer (SCT) on 28 January 2008, the first benefits of SEPA have materialised for banks and, more importantly, have started to reach the end-users of payment services. National SEPA implementation and migration plans were drafted and published. Most automated clearing houses (ACHs) that were processing credit transfers in euro have become SCT scheme-compliant.

In January 2008, SEPA for card payments was also launched, but more effort is needed in this field to achieve the goals of the SEPA project, for example the emergence of at least one additional European card scheme.

With regard to the third type of payment instrument, SEPA Direct Debit (SDD), preparations have continued over the past year, resulting in the adoption of two Rulebooks for the Core service and the Business-to-Business service for the launch of the SDD on 1 November 2009. Even so, this important SEPA instrument is still beset by many uncertainties, which need to be resolved urgently.

Progress has also been made in the fields of e-payments and mobile payments.

Moreover, the governance of the SEPA project as a whole and of the EPC as its main promoter have been subject to discussion.

Despite the mostly positive developments since the publication of the 5th Progress Report, the Eurosystem has observed diminishing motivation among market participants for the project and that the constructive spirit of the preparation phase has been turning into a downbeat attitude. Therefore, the Eurosystem considers it helpful to issue a further progress report, focusing on areas where work remains to be done by the market in order to overcome this weariness and to ensure the success of SEPA. The addressees of the report are not only the banks and future payment institutions, but all relevant stakeholders such as corporates, public administrations, merchants and consumers. The goals of SEPA can be fully achieved only if all stakeholders actively combine their efforts. Besides guidance to the market on how the remaining problems could be overcome, this progress report also contains milestones, with the aim of providing clarity and certainty with regards to the tasks that need to be fulfilled to make SEPA implementation and migration a success. All stakeholders are requested to take up the guidance and tasks, so that the goals of SEPA can be achieved.



The report is divided into six chapters. Chapter 1 presents a review of the status of the SEPA Credit Transfer and SEPA Direct Debit instruments. Chapter 2 addresses SEPA card payments, including standardisation and the emergence of additional European card schemes. Developments in the infrastructures for processing, clearing and/or settlement of SEPA payments are covered in Chapter 3. The developments with regard to cash are described in Chapter 4. Chapter 5 deals with governance issues. Finally, Chapter 6 presents the SEPA milestones.



I SEPA CREDIT TRANSFER, SEPA DIRECT DEBIT AND THE END-DATE FOR MIGRATION

I.1 SEPA CREDIT TRANSFER: PROGRESS AND GUIDANCE

The SEPA Credit Transfer, which was launched on 28 January 2008, has had a successful start, with more than 4,000 banks adhering to the scheme (i.e. Version 2.3 of the SEPA Credit Transfer Scheme Rulebook). By the end of August, 4,350 banks had adhered and, according to the EPC, nearly all banks that are active in the payments business would adhere and be able to send and receive SCTs. It can therefore be concluded that reachability of banks in SEPA has not been problematic. In the start-up phase, there were some teething problems, for instance with regard to the use of incorrect BICs and the inaccurate application of the scheme rules when making a SCT return transaction, but these were quickly brought to the attention of the EPC by market participants and subsequently addressed.

In the run-up to the launch, national SEPA implementation and migration plans were drafted and published. The Eurosystem established 12 common provisions for the national plans and periodically monitored their transposition. The Eurosystem has decided to continue monitoring developments in the SEPA closely now that it has moved on from being a concept to become a reality. It has compiled the “Euro area SCT indicator” to monitor the take-up of the SCT in the euro area. The indicator is based on data supplied by infrastructures (ACHs) located in the euro area. As such, it does not exactly measure all SCT transactions, e.g. it does not include on-us transactions and transactions cleared via bilateral clearing or correspondent banking, but provides a valuable and unique indicator of the percentage share of SCT transactions in the total volume of credit transfer transactions. The indicator is updated monthly and is published on the ECB’s website.¹ According to the indicator, the use of the SCT (see graph below) has grown steadily since its launch on 28 January 2008. In September 2008, 7 million SCT transactions were processed by euro area CSMs, accounting for 1.5 % of the total credit transfer volume.

In addition to compiling the Euro area SCT indicator, the Eurosystem also assesses the take-up of SCT at the national level. The “National SCT indicators” give a more comprehensive view on the situation in each country with regard to the market share of national legacy products and SEPA Credit Transfers. They are compiled biannually and are based on data received from a larger number of sources. The national indicators will be published on the euro area NCB websites from the end of 2008.

The uptake of the SCT is influenced by the pace of changeover procedures at the level of banks, promotion of the new instrument by banks and preparations by users, for instance in updating their ERP (Enterprise Resource Planning) system or payment software. At present, a large number of banks have not yet finalised their operational preparations for the mass processing of SCT transactions, and processing still requires manual intervention. Moreover, communication by many banks has on average been minimal or was only addressed to specific customers. The ECB conducted a Corporate Survey in 2007 and 2008, to which over 300 companies, large and small, responded². In 2008, awareness of SEPA increased significantly to 80% (from 53% in 2007), but the main source of information remains the press, rather than banks, and survey respondents did not have a full appreciation of the impact of SEPA. Banks therefore need to step up their communication efforts, including by providing information on IBAN and BIC, and to make clear product offers to all customers. Vendors of ERP systems or software for payments also have a role to play in bringing SEPA to corporates, public administrations and SMEs. The Eurosystem invites those vendors that are lagging behind to ensure that their products are ready for SEPA and offer them to their customers. On the other hand, customers might want to time their changeover processes to the roll-out of the SEPA Direct Debit, which is scheduled for launch in November 2009. In

¹ See <http://www.ecb.europa.eu/paym/sepa/timeline/html/index.en.html>.

² The ECB Corporate Survey makes use of the European Commission’s “European Business Test Panel”.

any case, projects should already be in place to meet this November 2009 deadline.

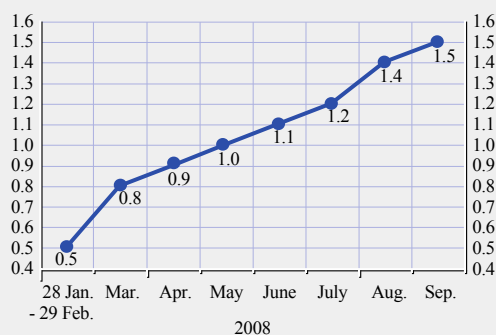
In the first eight months, the use of the SCT seems to have been mainly restricted to cross-border transactions in euro, which are commonly estimated to account for around 2% of credit transfers in Europe. However, the positive news is that SEPA migration has started. The Eurosystem is confident that this will speed up, especially when further improvements (see below) are implemented, when the SDD becomes available from 1 November 2009, and when broad agreement among stakeholders can be reached on setting an end-date for the migration of legacy credit transfers to the SCT. The Eurosystem expects that the migration to SCT transactions will have reached a critical mass by the end of 2010.

In parallel to the roll-out of the SCT, in 2008 the EPC has worked on a number of changes and improvements requested by customer representatives and/or banks. These updates have been incorporated in Version 3.2 of the SCT Rulebook, which was approved by the EPC in June 2008 and is scheduled to replace the current Version 2.3 on 2 February 2009³. In addition to some legal changes and factual corrections, the new version aims at improving the service quality of the product offered by banks. The Eurosystem welcomes these improvements to the SCT, mainly the “(category) purpose” codes given by the Payer to signal the purpose of the transaction (e.g. salary payment) and “reference party” codes to indicate that the Payer and/or Payee are acting on behalf of another (legal) entity. Both of these improvements were in response to requests by corporate users. Other changes resulted from the participation of Swiss financial institutions in the SCT Scheme⁴. The EPC also consulted stakeholders on implementation guidelines aimed at harmonising the customer-to-bank message standards and enabling customers to initiate SCT (and SDD) in a uniform manner and approved the customer-to-bank implementation guidelines for SCT. Furthermore, the EPC has recently started to

Migration to SEPA credit transfer

(percentages)

— volume of transactions processed in SEPA format as a percentage of total transactions



Source: ECB.

analyse the requirements for harmonising the bank-to-customer message standards, i.e. the messages for notification of payment, account report and account statement. Finally, the EPC addressed the requirements from corporates related to remittance information. The EPC approved a guidance document which will allow early movers to implement the ISO standard that is under development for a “Structured creditor reference to the remittance information” as soon as it is an approved international standard.

However, the Eurosystem has identified some remaining obstacles to the take-up of the SCT. Customer experience of the SCT cannot yet be fully compared with the experience of existing national credit transfers. For example, it is not always possible to make payments with a scheduled execution date and/or periodic payments, and some online banking applications

3 Version 3.2 of the SCT Rulebook is an update of Version 3.0 (approved in December 2006) and will replace the currently “live” Version 2.3 on 2 February 2009. Although a Version 3.1 was developed, it was not approved. Some changes in the Rulebook will only take effect as of 1 November 2009, the implementation deadline for the Payment Services Directive.

4 SEPA now comprises 31 countries, i.e. the 27 EU Member States, Norway, Iceland, Liechtenstein and Switzerland, as well as territories that are deemed to be a part of the EU under Article 299 of the Treaty of Rome (Martinique, Guadeloupe, French Guiana, Réunion, Gibraltar, the Azores, Madeira, Canary Islands, Ceuta and Melilla, and the Aland Islands). The EPC has developed general principles and criteria for countries and territories wishing to become part of SEPA.

require a specific screen to be opened or a SEPA country to be selected from a list of all countries in the world. This shows that SEPA payments are being offered by many banks in the euro area as cross-border payments in euro, instead of as normal “domestic” payments. With regard to IBAN and BIC, the Eurosystem would like to invite banks to start consistently using these identifiers instead of the national ones and to encourage all creditors to present these identifiers on their invoices or tax invoice statements. The Eurosystem welcomes the fact that banks have agreed to facilitate or offer conversion services to IBAN and BIC for (corporate) customers that would like to update their account number databases. To stimulate the use of SCT by smaller users, i.e. citizens and SMEs, it would be helpful if banks would require them to use IBAN only; the bank of the ordering customer would then add the correct BIC by retrieving this from databases available on the market. Furthermore, the Eurosystem would welcome the abolition of national restrictions on the use of SCT, such as the requirement to use pricing options other than SHARE for certain payments. In the same vein, the market, together with the relevant national authorities, should resolve as soon as possible the lack of clarity on Balance-of-Payments reporting via payment instructions. The Governing Council of the ECB gave clear guidance on this issue in February 2008.

It should be recalled that the benefits of switching to SEPA payments for large users, such as corporates and public administrations, are as follows. First, there will be a single, streamlined procedure for all European payments, instead of separate and sometimes laborious procedures for domestic and intra-European cross-border payments. Second, there will be a larger choice of banks competing for this service. Finally, prices for SEPA instruments will also reflect increased economies of scale in their processing. In order to bring these professional users on board, banks also need to deliver a service that includes common message standards all the way from one customer to the other customer, both in the customer-to-bank domain and in the bank-to-customer domain, i.e. respectively

the messages for payments initiation and notification of payment, account report and account statement. The EPC is invited to also develop the technical XML-schemas for the messages. The Eurosystem would like to invite every bank to provide the message standards as a minimum offer, meaning that bank proprietary messages could be used in the customer-to-bank and bank-to-customer domain, but only in addition to the standardised messages.

The Eurosystem encourages public administrations, in accordance with the ECOFIN conclusions of 22 January 2008, to lead by example and become early adopters of the SEPA payment instruments, as SEPA is a major political objective for Europe and also an important facilitator for e-government projects. Central banks will migrate early to the SCT for their own payments, and promote the use of the SCT by the public administrations for which they may act as payment service provider.

In the medium term, further improvements will be needed to make the SCT a lasting success, especially as far as eSEPA is concerned, as SEPA should not end with only core and basic products, but should respond to valid user requirements. Paragraph 1.3 describes some of these required improvements. Moreover, the Eurosystem reaffirms its view that, in the long term, the payment industry needs to develop a more user-friendly account identifier than the IBAN.

The security of payments deserves special attention. The Eurosystem is pleased that the EPC has set up a dedicated working group on information security and will define good practices by the end of 2008. Electronic payment channels provide outstanding efficiency for both banks and their customers. Therefore, trust, availability and usability of e-channels must be safeguarded. Moreover, cyber crime is dynamic and innovative, and all market participants, authorities and customers need to fight it together. To reap the benefits of SEPA, we must avoid differing security practices or a “race to the bottom” competition for reduced security

expenses. A common, high level of security for SEPA transactions is essential, especially in the field of Internet banking, card payments and online payments. Banks are invited to commit to the appropriate security standards and recommendations, and to take into account the perspectives of the banks, as well as those of their customers when deciding on security issues. Given that the safety of Internet banking and online payments is dependent on many actors (e.g. banks, software/hardware vendors, end-users, legislators, law enforcement), coordination between stakeholders should be encouraged. For example, improved cooperation with the community legislator is needed to investigate the harmonisation of the legal framework for fighting e-crime.

1.2 SEPA DIRECT DEBIT: PROGRESS AND GUIDANCE

In the past year, the EPC has made solid progress towards finalising the two direct debit schemes foreseen. In June 2008, the EPC approved Version 3.1 of the SEPA Core Direct Debit Scheme Rulebook and Version 1.1 of the SEPA Business-to-Business (B2B) Scheme Rulebook. These two Rulebooks currently form the basis for the roll-out of SDD, which is scheduled for 1 November 2009⁵. The EPC is urgently invited to reconfirm this launch date in order to give clarity to all stakeholders. The EPC is also in the process of developing an e-mandate solution, i.e. a solution which allows the involved parties to issue and process the necessary authorisation for a direct debit transaction in a paperless, fully electronic manner, which uses the validation services of the debtor's bank to provide increased security. The EPC released the e-mandates Service Description for stakeholder consultation in June-July 2008 and is working on the description of the "e-Operating Model" (which could also serve as a technical basis for SEPA e-Payments; see Section 1.3), which has been submitted for stakeholder consultation in October-November 2008. The Security Concept will be the third aspect of the e-mandate services. It is envisaged that the final version of the e-mandate solution will be approved by the EPC

in December 2008 as part of the Core SDD Rulebook.

The harmonisation of the European legal framework is key for the SDD. The Payment Services Directive⁶ (PSD) was formally adopted in November 2007 and contains a number of provisions, which are crucial to provide a sound legal basis across the EU for the processing of payment instruments, such as direct debits. Another aim is to increase competition in the payment market by introducing the concept of Payment Institutions, which can provide certain payment services under a lighter supervision framework. According to the European Commission, the EU Member States are well on track with regard to transposing the PSD into national law before the deadline of 1 November 2009. The PSD will facilitate the operational implementation of SEPA, especially of the SDD. In the light of the importance of the PSD for the implementation of SEPA, the Eurosystem would like to encourage Member States to transpose the Directive into national legislation in a timely and coherent way. Moreover, the transposition process provides an excellent legislative opportunity to ensure the continued validity of existing direct debit mandates for use with the SDD, thereby avoiding a costly and time-consuming mandate renewal process. The continued validity of existing mandates is a major critical success factor for a swift migration to the SDD. The Eurosystem welcomes the establishment by the European Commission of a transposition working group to ensure a harmonised transposition.

5 Version 3.1 of the Core SDD Rulebook is an update of Version 2.3 (approved in June 2007). Although a Version 3.0 was developed, it was not approved. The changes consist of legal changes, factual corrections and changes resulting from the adoption of a B2B Rulebook. The new version also aims at improving the service quality, mainly by adding "(category) purpose" and "reference party", which were also changed in the SCT Rulebook, as well as new detailed exception handling procedures and a change in the validity of mandates from 18 to 36 months.

6 Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

A second Community legislative process which has major consequences for the SDD is the review of Regulation 2560/2001 on cross-border payments in euro⁷. It is widely recognised that the adoption of the Regulation was the trigger for the banking industry to start developing SEPA in 2002. The European Commission has now adopted a proposal adapting the Regulation to the current payments landscape, i.e. by extending it to include direct debit transactions⁸. This will mean that the prices for SDD products may not exceed those for the corresponding national direct debit product. The review also entails raising the exemption threshold for Balance-of-Payments (BOP) reporting from €12,500 to €50,000 by 1 January 2010 at the latest and a “sunset clause” for BOP reporting up to 1 January 2012 at the latest, meaning that reporting based on payment messages should cease on that date. A revised Regulation would further facilitate the implementation of SEPA.

A year ahead of its launch, many uncertainties remain with regard to the SDD, and these pose an obstacle to its timely launch and successful take-up. Of these, the ongoing debate about a multilateral interchange fee (MIF) is the most important. To support a timely launch, the ECB, in close consultation with the European Commission, has suggested a way forward⁹. For an interim period starting 1 November 2009, the default MIF for the SDD at national level could be equal to the MIF for the domestic direct debit, provided that a domestic MIF is in place on that date and for as long this domestic MIF is allowed under national (competition) law. This would leave banks’ business models unaffected in the short term, create a level playing field for the SDD at national level and legacy direct debit schemes and thus facilitate the migration towards the SDD at national level. Under this approach, the payment accounts are the basis for deciding whether a transaction is considered domestic or cross-border (e.g. by the country codes in the two IBANs or BICs). The idea of a default MIF for a cross-border SDD would be accepted by the European Commission provided that it is objectively justified and transitional, i.e. applicable for a limited period only. Building

on this guidance provided by the ECB and the European Commission, the ECB has come forward with a further proposal of a SDD cross-border multilateral interchange fee for the interim period. The core elements of this further proposal are: 1) the level of the default interim MIF for cross-border SDD is set at 8.8 cents¹⁰, which has to be understood as a maximum (“ceiling”) also; 2) immediate discussion on a long term financial model for SDD is to be launched between the European Commission and the EPC, ideally resulting in a concrete agreement by the end of the first quarter of 2009 and 3) the interim MIF for cross-border SDD is applied for a defined period which provides banks sufficient time to adapt to the long term financial model for SDD.

One potential obstacle to the subsequent take-up of the SDD is the dissatisfaction of end-users in major direct debit markets with the current service level and security of the SDD. With regard to the latter issue, the EPC has recently added security principles to the SDD Rulebooks, making them mandatory for all scheme participants. The Eurosystem expects each bank to implement exemplary risk management procedures, with a view of contributing to the safety and attractiveness of the entire SDD scheme. Regarding the service level, banks should offer tailor-made solutions, and banking communities should create transparent community Additional Optional Services (AOS) for those clients or communities that are used to certain domestic service levels that are not or not yet encompassed by the SDD. In addition, the benefits of the SDD could be made more visible by the EPC, national banking associations and individual banks, starting with communication towards prospective users who stand to gain the

7 Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro.

8 See http://ec.europa.eu/internal_market/payments/crossborder/index_en.htm.

9 See ECB press release of 4 September 2008; http://www.ecb.europa.eu/press/pr/date/2008/html/pr080904_1_en.html

10 The median calculated on the basis of the current national multilateral interbank arrangements.

most, such as corporates and SMEs with clients in multiple countries.

The EPC, national migration committees, public authorities and national legislators should together focus their attention on eliminating uncertainties and overcoming the obstacles to the SDD launch and take-up, for example by providing clarity on the launch date, ensuring continued validity of existing mandates, closing the MIF debate, meeting customer requirements and increasing communication efforts. In addition, it seems advisable that the EPC should ensure that a testing plan and testing facilities for SDD processing are in place. Notwithstanding this, the EPC is invited to open the adherence process as soon as possible for the SDD launch on 1 November 2009 and to monitor the reachability for its SEPA Direct Debit product, so that migration can start swiftly.

1.3 BUILDING ON THE SCT AND SDD

The SEPA payment instruments ensure that euro payments between any two payment accounts within SEPA are processed smoothly and without manual intervention. This is commonly referred to as straight-through-processing (STP). For corporates, public administrations, SMEs and consumers, real benefits will emerge once all euro payments become “end-to-end STP”, i.e. are smoothly processed from customer to customer without requiring manual intervention. This requires that the SEPA payment instruments allow any customer to initiate a payment electronically and receive electronic confirmation once the payment is settled. As described in Section 1.1, the Eurosystem invites banks to deliver as a minimum offer the standardised messages in the customer-to-bank and bank-to-customer domain. In addition, attention should be devoted to the standardisation of the technical exchange of messages between banks and customers, i.e. the messaging layer, enabling for instance multi-country users to use the same technical applications with multiple banks.

The Eurosystem encourages the development of new inter-bank business rules and standards that take the SCT and/or SDD as their basis. In October 2007, in a follow-up to the “European E-invoicing Initiative”, the European Commission decided to establish an e-invoicing expert group whose goal is to develop a European e-invoicing framework. The purpose of the framework is to establish a common conceptual structure to support the provision of e-invoicing services in an open and interoperable manner across Europe. Current e-invoicing services should thus not become obsolete, but the framework should define requirements that allow these solutions to become fully compatible with SEPA. An interim report will be issued before the end of 2008. The final report is due by the end of 2009 and will address, inter alia, legal requirements, business requirements, network models and standards. Based on the framework, service providers should be able to offer e-invoicing services to their customer across SEPA. The expert group has organised the work into three parallel work streams: 1) legal and regulatory requirements; 2) business requirements; and 3) network solutions supported by standards. A number of European countries already use e-invoicing services. E-invoicing saves considerable costs and resources as almost all paper and manual work is deleted from the payment process. By means of e-government, including public procurement, large potential savings can also be made. E-invoicing is an essential element in any e-government initiative and could preferably be implemented jointly with SEPA. The work conducted by the expert group is thus of great importance for SEPA and should proceed at full speed to avoid the emergence of fragmented national solutions.

In December 2007, the EPC decided to develop a framework that allows customers to initiate SEPA payments at online merchants. The technical side of the e-Payments framework is being prepared in conjunction with the e-Operating Model for the e-mandate solution

for the SDD. The framework benefited from a national consultation conducted in the second half of 2007. The overall idea is that the framework can be applied to any SEPA payment instrument. However, the first step is the online initiation of SEPA Credit Transfers. Customers will use their own Internet banking application for the initiation of online payments. The Eurosystem encourages the EPC to finalise the e-Payments framework by the end of 2009.

With regard to m-payments, the EPC decided to seek the active involvement of the mobile telephone industry. In June 2008, the EPC signed a cooperation agreement with GSMA, the association of GSM mobile telephone operators. The purpose is to create a framework for cooperation between banks and mobile operators to develop services that allow consumers to initiate SEPA payments via their mobile telephone. The first project is aimed at using the SIM card in the cell phone and Near Field Communication (NFC) technology for payments via mobile phones. Similar pilots are currently running in national communities, but the goal is for the cooperation agreement to ensure that applications can be used SEPA-wide. Such services could broaden SEPA as they provide new, efficient ways for consumers to make SEPA payments. This initiative is thus supported by the Eurosystem and any progress made is welcomed.

By designing a Priority Payments service, EBA has shown that initiatives for European payments can also be taken outside the EPC. The Eurosystem welcomes the fact that the EBA (Euro Banking Association) has made the business rules and standards for the service processor-neutral (i.e. Priority Payments can be processed and settled via EURO1 and TARGET2). The EBA has asked the EPC to consider transforming the service into a SEPA scheme and transferring it to the Scheme Management Entity of the EPC, which is the natural organisation for the management of all SEPA schemes.

1.4 AN END-DATE FOR THE MIGRATION TOWARDS THE SCT AND SDD

During the migration phase, national payment schemes and SEPA schemes exist in parallel. The dual processing of the SEPA schemes next to the legacy credit transfer and direct debit schemes is therefore unavoidable for an initial period. However, handling dual processes for a longer period would be expensive for both the banking industry and its customers, as documented in the Eurosystem's 5th Progress Report, in the study by the ECB on "The economic impact of the Single Euro Payment Area"¹¹, and in the study by Capgemini commissioned by the European Commission entitled "SEPA: potential benefits at stake"¹². This view is shared by a growing number of corporates and SMEs, which are increasingly asking for a discontinuation of the legacy instruments, because maintaining both legacy and SEPA instruments will be very costly for them.

Furthermore, if national credit transfer and direct debit schemes continued to exist for a longer period in parallel with the SCT and SDD, there could be a risk that the SCT and SDD are used for cross-border transactions only, while national credit transfer and direct debit schemes continue to be used for national transactions in a "mini-SEPA" scenario. This separate use would mean that the SCT and SDD would find it very difficult to attain the number of transactions necessary for recovering the investments made and to benefit from the economies of scale that SEPA brings. In this way, fragmentation would persist, and the competitive advantages for users arising from a single payment market would not materialise.

To avoid a lengthy and costly migration process towards the SCT and SDD or a "mini-SEPA" outcome in which the full SEPA benefits are not

11 The economic impact of the Single Euro Payments Area, by Heiko Schmiedel, ECB Occasional Paper No 71 (August 2007) <http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp71.pdf>

12 See http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-capgemini_study-final_report_en.pdf

achieved, it is important for major actors, such as corporates and public administrations in the euro area, to migrate to the SCT and SDD as early as possible. Of course, attractive product offerings and clear communication by banks are the first steps in convincing these customers to migrate. The next step is to eliminate the misconception in some parts of the market that the migration to SEPA can be postponed indefinitely. It must be made clear to all market actors that national credit transfer and direct debit schemes will be phased out in the euro area. Setting a realistic, but ambitious end-date for each of these services would bring such clarity. The Eurosystem will continue to work towards fostering a general understanding among stakeholders that setting an end-date is a necessary step. There would be several, possibly incremental ways to implement an end-date: IBAN could be made mandatory for payments; SEPA message standards could be made mandatory for euro payments; clearing of non-SEPA credit transfers and direct debits with domestic proprietary standards could be phased out; or banking communities could agree to migrate their national payment schemes to SEPA. It can be argued that since payment instruments were collectively introduced by banks, these could be collectively phased out and replaced by similar instruments providing SEPA-wide reach to all users in the euro area and thus eliminating the current barriers to pan-European competition in the European retail payments market. There are also different ways of implementing the measures chosen: self-regulation by the banking industry, national legislation, Community legislation or an ECB regulation. The Eurosystem will seek the input of stakeholders on the modalities and timing of setting an end-date, as well as on the date(s) itself.



2 SEPA FOR CARDS AND THE EMERGENCE OF ADDITIONAL EUROPEAN CARD SCHEMES

2.1 SEPA FOR CARDS: PROGRESS AND GUIDANCE

SEPA for Cards started on 1 January 2008, with banks beginning to distribute, issue, and acquire or otherwise process SEPA Cards Framework-compliant payment cards. The migration to EMV, which is an important building block for the SEPA for Cards, is advancing well. Moreover, several individual card schemes have adapted their rules to the SEPA requirements. However, doubts remain as to whether all card schemes have effectively unbundled and untied processing activities from their scheme management functions. On the whole, the SEPA for Cards launch has been less visible than that of the SEPA Credit Transfer. This is mainly owing to the fact that the EPC chose not to create a SEPA scheme for card payments, but instead developed the SEPA Cards Framework (SCF) in 2005. In its 4th Progress Report, the Eurosystem deemed the SCF to be a general and multi-interpretable document.

In the meantime, the EPC has published “Questions & Answers clarifying key aspects of the SEPA Cards Framework” (June 2008), as a result of discussions with the European Commission. These have, among other things, clarified that, under the SEPA for Cards, all card schemes should review their rules and amend them if necessary, so that acceptance, acquiring and issuance is not restricted by national borders. On the other hand, there is no obligation for them to be effectively issued, acquired and accepted throughout the whole of Europe, as this involves commercial decisions on the part of banks, merchants and cardholders. One other major clarification concerns the right of a merchant not to accept certain brands or to levy a surcharge on certain card transactions¹. The Eurosystem sees this as an important counterbalance to certain card schemes and card types (e.g. commercial cards) that, through their MIFs or otherwise, place a heavy financial burden on the merchant. The decision to use a card for a specific purchase and the conditions for acceptance should be taken jointly by the customer and the merchant. To be crystal clear, the Eurosystem is not promoting surcharging

on all card transactions, as cards are often a more efficient means of payment to society than other means of payments e.g. cash or cheques. However, cost differences between cards should be transparent and adequately priced so that when selecting a payment instrument, the user is aware of the relative costs of different payment instruments. The Eurosystem is convinced that these and other clarifications have corrected certain misunderstandings in the market, where developments were potentially leading away from the SEPA goals of more effective competition and greater efficiency.

The EPC is invited to make further clarifications on the SCF where needed, e.g. on the requirement for card schemes to separate scheme management functions from processing. In addition, the EPC should urgently establish mechanisms to monitor the implementation of the SCF by banks and card schemes.

The Eurosystem, in order to help the European banking industry to create a SEPA for Cards, is considering developing SEPA compliance criteria for card schemes and corresponding Terms of Reference. Just as with the SCT, the take-up of the SEPA for Cards is being monitored by the Eurosystem. Information will be gathered from card schemes, banks (via the EPC), card acquiring processors and possibly from acquiring banks to compile “SEPA cards indicators”. The Eurosystem investigated, as announced in the 5th Progress Report, the

1 This is in line with the PSD, which allows surcharging in Article 52.3: “The payment service provider shall not prevent the payee from requesting from the payer a charge or from offering him a reduction for the use of a given payment instrument. However, Member States may forbid or limit the right to request charges taking into account the need to encourage competition and promote the use of efficient payment instruments.”. Recital (42) provides the background: “In order to promote transparency and competition, the payment service provider should not prevent the payee from requesting a charge from the payer for using a specific payment instrument. While the payee should be free to levy charges for the use of a certain payment instrument, Member States may decide whether they forbid or limit any such practice where, in their view, this may be warranted in view of abusive pricing or pricing which may have a negative impact on the use of a certain payment instrument taking into account the need to encourage competition and the use of efficient payment instruments”.

concept of a monitoring framework for card fees, in response to signals that the SEPA for Cards will lead to increased card fees for consumers and merchants in some countries. Although it has not been possible to establish such a framework, the Eurosystem will closely monitor the market situation.

2.2 CARDS STANDARDISATION

In the field of cards standardisation, the EPC, in cooperation with many stakeholders, is progressing towards finalisation of a comprehensive framework of requirements for card payments (EPC SEPA Cards Standardisation Volume document) by the end of 2008 deadline. This framework covers all domains of card payments, i.e. card-to-terminal, terminal-to-acquirer, acquirer-to-issuer, and certification and type approval. The EPC has been successful in influencing and aligning the efforts of existing European standardisation initiatives.

However, partly owing to the complexity of the topics at hand, the framework as it currently stands is far from being a set of standards ready for implementation by the market, as it does not contain the functional and technical specifications as foreseen earlier. In this sense, it is more likely that the actual standards will not be set by the EPC, but rather delivered by the abovementioned standardisation initiatives and endorsed by the EPC as SEPA cards standards. A new deadline for this stage should be set for the end of 2009 at the latest, since the work on these standardisation initiatives has been progressing well. In any case, the EPC has to ensure a solid follow-up in terms of communicating and promoting the implementation of the SEPA cards standards.

With regard to the content of the standards, in the context of ISO 20022, work started in 2008 on developing message standards for card authorisation, clearing and settlement. Simultaneously, the Berlin Group, which is made up of various market participants in the cards market, has been working on a set of rules for

the clearing of card transactions inspired by the ISO 20022 work. So far, the EPC seems not to have recognised that ISO 20022 has the potential to become the industry standard for cards messages. As an open standard, it would offer the European banking industry independence from the owners of proprietary standards and/or implementations. The EPC is therefore invited to consider the newest developments in ISO 20022 and to integrate them into the EPC cards standardisation programme.

Some of the standards being selected by the EPC may not fully meet the requirements of European stakeholders. The Eurosystem recommends that the EPC should arrange for greater and more structured involvement by stakeholders (e.g. by terminal manufacturers, processors, but also by merchants and cardholders) in the SEPA cards standardisation programme. Moreover, the dependence on global standardisation efforts led by the international card schemes, without proper European representation, leads to less than optimal results for European stakeholders. All effects of standardisation should be taken into account, as it may also have negative side effects alongside the positive direct effects. An example is the investment mandated by international card schemes in terminal and data security measures aimed at processing data taken from the magnetic stripe of cards, which will no longer be the case for cards issued in the SEPA for Cards, where the EMV chip is the chosen technology in combination with a PIN for card authentication and cardholder verification. Here, in addition to investing in the migration to EMV cards and EMV terminals, European stakeholders (schemes, processors, banks and merchants) will also have to invest in terminals that offer protection for processing non-EMV cards, because other, non-European communities are not investing in the safer EMV technology. The Eurosystem recommends that the European payment industry should use non-proprietary standards (such as ISO standards) where available and actively work on creating such standards if they are not yet available.

Regarding certification for the security evaluation for cards and terminals, the Eurosystem notices that a variety of certification frameworks are currently applied in Europe. A certification framework consists of the security requirements for cards and terminals as set by the card schemes, the evaluation by test laboratories of new cards and terminals, the certification of the test results by a certification authority, and finally the type approval of the new cards and terminals by the card schemes. Three conditions need to be fulfilled in order to achieve a harmonised framework: first, the need to establish trust in such a framework; second, the need for an appropriate and equivalent level of security for cards and terminals used in SEPA; and finally the possibility for card and terminal manufacturers to receive certificates for the whole of SEPA from one of the certification authorities (under the “one-stop shopping” concept). The Eurosystem underlines the need for a trusted pan-European certification framework and will continue to investigate the way forward, e.g. towards mutual recognition of certification authorities. The EPC is invited to acknowledge those certification authorities which meet the SCF requirements.

The Eurosystem recommends that the European payment industry should become actively involved in the relevant global standardisation initiatives in order to have adequate influence on standards development. The EPC could do more by establishing the common positions of European banks towards these standardisation initiatives. It could use its liaison relation with the relevant ISO committee to do so, as well as its seats on the advisory boards of EMVCo and PCI SSC. Finally, the Eurosystem invites the EPC or a representative of European card schemes to become a member of EMVCo and PCI SSC as long as these proprietary standards are used by the European payment industry.

2.3 SEPA COMPLIANCE OF THREE-PARTY CARD SCHEMES

In its 5th Progress Report (July 2007), the Eurosystem stated that the issue of SEPA

compliance for three-party card schemes would be further investigated. The results are presented in this section. First of all, the Eurosystem is of the opinion that SEPA compliance shall apply to all card market participants, according to the requirements and deadlines set in the EPC’s SEPA Cards Framework (SCF) and “The Eurosystem’s view on a SEPA for cards” (November 2006). From the cardholder’s perspective, the differences between three and four-party card schemes are hardly noticeable. Three-party card schemes compete with four-party schemes that offer similar kinds of services. The general aim should therefore be for three-party card schemes to become SEPA-compliant to the maximum extent possible.

However, in the opinion of the Eurosystem, “pure” three-party card schemes, i.e. card schemes which undertake both issuing and acquiring within their own entity, should be exempted from the SCF requirements regarding open access to the scheme, separation of scheme and processing and cross-border issuing and acquiring, since this would not be compatible with their specific business model and organisational structure. The other SCF requirements, for instance regarding technical standards for cards and terminals, should apply.

Three-party card schemes with licensees require a tailored approach, given their specific business models and currently relatively small market shares. Following a dialogue with market participants, it has been agreed that partial exemptions from SEPA compliance could be considered, at least for the time being. The exemptions relate to open access to the scheme, separation of scheme and processing, and SEPA-wide licensing. The SCF requirements for open access to the scheme and separation of scheme and processing for authorisation, clearing and settlement are aimed at removing obstacles to competition for services in network industries with an essential facility (i.e. offering competitive card services over a neutral processing infrastructure). These SCF

requirements are less appropriate for three-party card schemes with licensees, provided that all licensee contractual relations are indeed strictly with the card scheme². Nevertheless, a licensee should be allowed to work with the issuing or acquiring processor of his choice, as this promotes the development of an efficient and competitive market for card processing. The scheme should only be able to restrict authorisation, clearing and settlement to the scheme itself. Furthermore, schemes should be transparent regarding their business model and licensing criteria (i.e. the method of applying for a licence and the selection criteria), without this limiting their discretionary powers regarding the issuing of a licence. As regards SEPA-wide licensing, it is understood that some three-party card schemes have granted their licensees the right to operate within a single country only, but on an exclusive basis. Those schemes should work towards allowing their licensees active cross-border issuing and acquiring, which could be done in a stepwise approach by first allowing passive cross-border issuing and acquiring. However, within a period of five years, i.e. by the end of 2013 at the latest, licensees should be allowed to be active in the entire SEPA.

Finally, three-party card schemes operating on a national or even a regional basis with a small market share of the cards market (less than 5% of the total number of card transactions in the respective market) can be allowed exemptions if the respective national central bank deems it to be necessary.

The Eurosystem will closely monitor the development of three-party card schemes and the effect that the abovementioned exemptions may have on other market participants in the SEPA for Cards. Where necessary, this may lead to a reassessment of the above exemptions or exemption conditions.

2.4 THE EMERGENCE OF ADDITIONAL EUROPEAN CARD SCHEMES

In light of developments in the SEPA for Cards, the Eurosystem has further elaborated on its

ideas on the emergence of additional European card schemes. It had already outlined these in its 5th Progress Report (July 2007) and in the report entitled “The Eurosystem’s view on a SEPA for cards” (November 2006). The Eurosystem would like to see the market being more ambitious in the field of card payments. Cards are becoming the most important payment instrument (only cash is used more often) in the euro area, and many European citizens rely on cards every day. It is a safe, efficient and reliable payment instrument. There is still plenty of growth potential for cards in many countries. Moreover, cards present an excellent opportunity for banks to reduce the use of cash, which is often said to be quite costly for them, as well as for merchants and society as a whole.

The SEPA for Cards should bring more choice and efficiency through the gradual elimination of legal, technical and scheme-imposed obstacles and the introduction of competition in the field of schemes, issuing, acquiring, acceptance and processing. The Eurosystem observes, however, that the market is still very fragmented along national borders and that cross-border card transactions are almost exclusively effected using two international card schemes. Meanwhile, national card schemes are at risk of extinction as banks are evidently reconsidering their participation. Competition might become reduced to a duopoly of international schemes that both have a similar business model, which no longer meets the requirements of merchants, banks and competition authorities in full.

These circumstances call for a European-led initiative. The Eurosystem expects at least one additional European card scheme that meets the requirements of cardholders, banks, merchants, competition authorities and of the Eurosystem to emerge in the coming years. The Eurosystem has been discussing this topic with

2 All the licensee contractual relationships should be strictly with the card scheme, i.e. the agreements are on a bilateral basis, there are no links or undertakings between licensees, licensees are not allowed to agree fees or membership rules with each other or on a collective basis, and licensees are not allowed to participate in the management and/or governance of the scheme.

major European banks and other stakeholders since April 2008, and has observed an increase in understanding and support. At the moment, there are several market initiatives to create such a European card scheme, which the Eurosystem considers as a clear signal that the market recognises the need for one. The Eurosystem is aware of the Euro Alliance of Payment Schemes (EAPS), the Monnet initiative and the PayFair initiative and has been in contact with their representatives. The EAPS interlinks six card schemes from Germany, Italy, Spain, Portugal, the UK and EUFISERV, whereby cards of participating issuers will be accepted at all terminals of participating acquirers. The Monnet initiative investigates the creation of a new scheme and is – for the time being – driven by German and French banks. Payfair is a private initiative aimed at delivering a merchant-oriented debit card scheme. The Eurosystem welcomes all initiatives and praises the effort and dynamism of the driving entities. The Eurosystem does not favour any one of these initiatives or any new initiative that may appear. That said, although the existing initiatives have some positive features, other features need further enhancement. For example, a clear commitment by EAPS to integrate and become a normal scheme at some point in time, or the involvement of more euro area countries in the Monnet project.

Despite the efforts made by these three market initiatives to create an additional European card scheme, one of the main obstacles seems to be the gridlock over a possible MIF, although the decision of the European Commission in the MasterCard case (December 2007) and the subsequent abolition by MasterCard of its intra-EU fallback MIF gave an important signal to the market. The Eurosystem recommends that all stakeholders in current and new card schemes should take an approach towards MIF that would allow banks to offer card products to cardholders and merchants that can truly compete with cash. To offset the consequently lower revenues for (issuing) banks, the new scheme should focus on delivering cost-efficiency to banks by

allowing a free choice of processing, offering at least a core and basic service (additional services could also be offered, but separately), avoiding high-risk payment applications in the core service (e.g. “card-not-present” payments, or other applications with relatively high fraud rates and costs), keeping scheme adherence fees low, and by establishing cost efficient and lean governance structures.

In addition to the activities of the schemes and initiatives, the EPC is called upon to consider a more active, balanced and forward-looking role in the cards dossier. To elaborate, the EPC could reconsider the position it has taken with regard to the SEPA for Cards, i.e. its choice not to create a SEPA scheme for card payments, but instead only to develop a SEPA Cards Framework. The abovementioned unfavourable developments in the card scheme market (i.e. continued national fragmentation and risks of decreased competition), the latest signals from competition authorities in Europe and beyond, the slow progress in cards standardisation, the dependence on other actors and the opposition from merchants could well be the symptoms of an inadequate positioning of the European banks in the cards dossier. At the minimum, the SCF needs to be revised in order to take into account the newest developments (e.g. effective separation of scheme and processing, standardisation, three-party card schemes, competition policy). Substantially more than just a revision of the SCF is needed if the EPC would like to better promote the development of the SEPA for Cards.

The Eurosystem encourages all European banks to acknowledge the risks for the SEPA for Cards, become more involved, maintain or regain strategic control over the cards market vis-à-vis international card schemes and to seize the opportunities that the SEPA for Cards can bring.



3 SEPA FOR INFRASTRUCTURES

3.1 SEPA FOR INFRASTRUCTURES: PROGRESS AND GUIDANCE

The effects of SEPA have so far been most visible at infrastructure level, i.e. the entities that offer an inter-bank funds transfer system. Most ACHs that were processing credit transfers in euro have become SCT scheme-compliant and have been processing SCTs since their launch in January 2008, supported by their messaging platforms. Several infrastructures have taken the step from being pure domestic operations to become pan-European service providers in a true euro-domestic market. Choice is also available between core clearing and settlement services providers and those that offer additional optional services (AOS) to banks and banking communities, additional processing services to banks, or direct access to corporates and public administrations. The Eurosystem welcomes this approach and expects that any current geographical access restrictions to infrastructures for euro area participants should disappear. Moreover, no bank or banking community should be forced by any entity to use a particular infrastructure (be it as direct or indirect participant), or to use specific proprietary technical standards. To achieve interoperability, all infrastructures are expected to establish a link with any other infrastructure upon request. To address these issues, in its 5th Progress Report, the Eurosystem defined four criteria to assess the SEPA compliance of infrastructures: processing capability, reachability, interoperability and choice. More detailed Terms of Reference were published by the Eurosystem in April 2008¹. Infrastructures were invited to use these Terms of Reference as guidance for self-assessment and to make them publicly available from September 2008, so that market participants are able to seek reassurance about the SEPA compliance of the infrastructures they are using. To date, the first infrastructures have published self-assessments on their websites², and the Eurosystem invites other to follow suit. Full transparency should ensure the self-assessments to be compared and help to avoid inconsistencies and errors.

In 2006, the EPC developed a PEACH/CSM Framework to guide the processing of payments made with the SEPA Schemes. In September 2007, the EPC requested infrastructures to disclose their intention to become a SEPA scheme-compliant CSM in order to obtain assurance about the processing of the SCT, and 15 infrastructures made declarations to that effect. Infrastructures themselves started working on the development and implementation of an interoperability framework for retail payment infrastructures, recognising that the PEACH/CSM Framework was not enough to create a SEPA for Infrastructures. In the second half of 2007, the European Automated Clearing House Association (EACHA) published the “Technical Interoperability Framework for SEPA-compliant Giro Payments Processing”, which ACHs may use as the basis for bilateral interoperability agreements, i.e. for the uniform exchange of payment orders between them. The Framework also covers the interface between ACHs and their customers (i.e. banks and, in some cases, corporates and public administrations), allowing for a single exchange format to be used with any ACH. Subsequently, in October 2007, five ACHs announced their joint agreements to establish interoperability for the exchange of SEPA transactions. The bilateral exchange of payment instructions between some of these ACHs commenced in spring 2008. The EPC meanwhile published a document on SEPA CSM Market Practices that fills part of the gap between the SCT Rulebook, the implementation guidelines and the CSM reality when it comes to interoperability. The Eurosystem therefore encourages all stakeholders (i.e. the EPC, EACHA and all euro area ACHs) to continue their work on interoperability issues, including common governance rules for the bilateral agreements between ACHs.

1 See <http://www.ecb.europa.eu/paym/sepa/components/infrastructures/html/tor.en.html> for the SEPA compliance criteria for infrastructures and the Terms of Reference.

2 BI-COMP/Banca d'Italia, Equens, Iberpay, RPS/Deutsche Bundesbank, Seceti and SIA-SBB have published their self-assessments by the start of November 2008.

3.2 CREDIT TRANSFER, DIRECT DEBIT AND CARD PAYMENT PROCESSING

The Eurosystem expects efficiency to be enhanced in the medium term if the processing of “giro” and card payments can make use of the same message standards (ISO 20022 UNIFI) and the same infrastructures. Moreover, the entry of “giro” processors in the processing of card payments would increase the number of competitors. Needless to say, for competition purposes, it is crucial for processing to be truly independent (i.e. not proprietary, linked or tied to a card scheme). It is likely that, with increased competition, the fees for card processing, clearing and settlement will fall significantly.

The Eurosystem notes that within SEPA, owing to technical progress, the arguments for having a distinct set-up for giro and card processing are no longer valid. In many euro area countries, the processing of domestic credit transfer and/or direct debit transactions has traditionally been performed by entities other than those which conduct the processing for (domestic) card transactions (i.e. switching for authorisation, and clearing and settlement). The reasons for this division of labour included the industry set-up (e.g. the presence of an ACH), distinct business needs owing to the requirement of switching in real-time for card authorisation and different technical standards.

Furthermore, the Eurosystem notes that the development by the EPC of the PEACH/CSM Framework has been beneficial in starting up a SEPA for infrastructures for credit transfers. Therefore, the Eurosystem now invites the EPC to develop a similar framework for the processing of card transactions, or to amend the existing PEACH/CSM Framework to explicitly include this. The framework would lay down the rules for SEPA card processing (i.e. authorisation, clearing and settlement) in the same way as the existing PEACH/CSM Framework set them for SEPA credit transfer and SEPA direct debit. Although the SEPA Cards Framework (SCF) already contains some guidelines for the processing of card transactions, a separate

“Framework for the processing of card transactions” would clarify the requirements. Infrastructures would be invited by the EPC to adhere to the framework, giving the EPC a clearer basis to combat non-compliance with important requirements currently contained in the SCF, such as the separation of card scheme and processing. An effective separation should entail legal, financial and information separation, as well as separate governance arrangements. In a second step, and similar to that needed for credit transfers, the relevant infrastructures are invited to develop a technical interoperability framework for SEPA-compliant card payments processing. In addition, and similarly to the SEPA compliance criteria for credit transfer and direct debit infrastructures, the Eurosystem is considering defining SEPA compliance criteria for card infrastructures.



4 CASH

Six years prior to the launch of SEPA, the “Single Euro Cash Area” was already a reality for European citizens, whereby the same euro banknotes and coins are used throughout the euro area. For all other parties in the cash cycle, such as merchants and banks, national fragmentation has persisted, also with regard to the cash services of central banks. After consulting European stakeholders, in February 2007 the Eurosystem adopted a roadmap for procedural steps towards the increased convergence of cash services offered by euro area NCBs.

Since then, two measures included in the roadmap have been implemented. First, “remote access” to NCB cash services in all euro area countries was implemented by June 2007. This ensures that, upon request, NCBs provide cash services to credit institutions located outside their jurisdiction (“non-resident banks”). It should be noted that credit institutions have to comply with the rules governing the access to cash services of the NCB where they withdraw and lodge banknotes and coins. However, there are still some restrictions on large-scale cross-border cash operations, such as different national rules governing cash transports and the use of fire arms. With a view to eliminating these obstacles, the European Commission set up a working group on cross-border cash transport by road in July 2008. The aim is to adopt a Commission Proposal for an EU Regulation by the end of 2009. This initiative is fully supported by the Eurosystem.

Second, as of the end of 2007, coin lodgements from professional clients are accepted at all euro area NCBs. Stakeholders at national level have been consulted when appropriate. The need for an efficient use of coins, including appropriate ordering by commercial banks, has been underlined in discussions between NCBs and credit sector associations.

The other four measures included in the roadmap that are under development are as follows:

- *electronic data exchange with professional clients for cash lodgements and withdrawals.*

The Eurosystem is considering a harmonised approach for electronic communications with professional clients that ensures the interchangeability of data;

- *dropping the requirement to face and orientate banknotes for lodgements and withdrawals at NCBs.* The Eurosystem has agreed that all euro area NCBs will drop the requirement to face and orientate banknotes for lodgements and withdrawals at NCB counters as a basic free-of-charge service by 1 January 2011 at the latest. This gives euro area NCBs sufficient flexibility for the implementation, in order to accommodate the needs of the stakeholders in the respective euro area countries;
- *extension of opening hours and measures with similar effects.* The Eurosystem found that the opening hours of all euro area NCBs exceed the common time window of at least six hours per working day in at least one facility; in several euro area countries, the opening hours are significantly longer. Recent consultations with stakeholders in the euro area countries have shown that there is currently no need to improve on the current arrangements;
- *common packaging standards for NCB’s free-of-charge cash services.* After harmonising the packaging for Eurosystem-internal banknote transactions, the Eurosystem is now considering a limited number of packaging standards with common contents for free-of-charge cash services for professional clients. NCBs may use additional packaging formats, if requested at national level. The requirements of the main stakeholders, represented by the EPC and the European Security Transport Association, have been gathered and compared to existing packaging formats and cash handling arrangements at the NCBs in order to identify common elements as well as constraints. Following the definition of common packaging standards, it is foreseen that specifications will be developed in 2009.

Taking due account of the investment cycles, a transitional period for the implementation of the standards will be allowed.



5 GOVERNANCE OF SEPA

The success of SEPA greatly depends on the appropriate governance of the project. Good governance arrangements for a project such as SEPA consists of involving different stakeholders at European and national levels, balancing their interests and ensuring transparency, as well as mechanisms that ensure the delivery of the SEPA targets. Given the crucial role of the EPC within the SEPA project, the EPC's governance arrangements merit special attention. It should be noted that the EPC governance arrangements are different from those of other communities, because the latter depend on the national setting and legal framework.

The Eurosystem observes that the EPC has made considerable progress on balancing the interests of different stakeholders in the SEPA schemes. The EPC is encouraged to use a combination of tools (e.g. consultations, dialogue, etc.) to this end. At national level, the necessary arrangements have also been put in place to organise national stakeholder consultations. However, there is still considerable room for improvement, as the goal should be to address the interests of all key stakeholders, ranging from corporates to public administrations and from retailers to consumers, without suggesting that these should become part of the decision-making bodies in the EPC (i.e. Plenary and Scheme Management Committee). In particular, the EPC has made some progress on involving customer stakeholders. In its Customer Stakeholder Forum, the EPC provided additional clarification on features of the SEPA Schemes, and several workshops were organised to further explain the technical specifications of the schemes, facilitating the more in-depth involvement of stakeholders. It would be particularly beneficial for public administrations, which are major customers for payment services and, moreover, should act in line with the political objectives of the SEPA project, to participate in this Forum. Unfortunately, although expressly invited by the EPC, no public authority representatives have indicated their intent to participate in this Forum. The EPC has also tried to foster dialogue with stakeholders in the area of cards

standardisation. In this regard, talks with terminal manufacturers have been particularly productive. However, more attention should be paid to the dialogue with retailers, both in terms of actively involving a representative share of retailers and providing them with adequate information to ensure a productive consultation process.

Some progress has also been made on the second component of governance arrangements, namely ensuring transparency. The EPC's website has been updated with the relevant EPC documents. However, the decision-making process and agreements reached by the EPC still remain unclear for the interested public. On several occasions, the Eurosystem repeated its request for the EPC to publish summaries of its decisions in order to inform stakeholders. In addition, there is insufficient transparency on the EPC's project planning and a clear articulation of future goals (and reporting thereof) is lacking. The level of transparency with regard to implementation at national level is also inadequate. To remedy this, the Eurosystem provided on its website an overview of national links in order to raise awareness. Furthermore, so as to improve coordination at EU level and provide a means of exchanging information and best practice on SEPA migration, the European Commission has organised an EU Forum, which brings together national SEPA coordination committees at European level.

Some progress was made on the governance arrangements to facilitate innovative and better payments services for customers, in particular the cooperation agreement with GSMA in the field of mobile payment channels (see Section 1.3). However, concrete arrangements to embrace further forward-looking initiatives are still lacking. In particular, the EPC should consider how it could improve its interaction with customers on future changes, for example through the formulation of "user requirements" together with stakeholders when starting a new work item in the cooperative space.

The Eurosystem considers that the EPC should make several improvements to its governance arrangements in response to valid criticism from stakeholders, regulators and the Eurosystem. In the short term, these relate to the functioning of the EPC Secretariat, which should be furnished with the necessary resources to fulfil its tasks, i.e. to provide management and administrative support to EPC activities. The EPC Secretary General should be capable of delivering adequate project management and coordination of the different work streams of the EPC to achieve deliverables in a timely manner. In addition, the EPC should also put in place the necessary tools to monitor the implementation of the SCT and SDD. This would allow for the migration to be better planned in coming years. The dialogue between the payment industry and other stakeholders should be better structured by improving the organisation of the Customer Stakeholder Forum.

In the medium term, the EPC could further develop into a more effective, accountable and transparent organisation. In particular, the EPC should focus on becoming the voice of the European payments industry on all payment issues. However, this would require a rebalancing of the EPC's Charter, as it currently restricts the role of the EPC to core payments only. The Eurosystem nevertheless expects that the EPC will be the decision-making body for the payment industry, including for the cooperative development of innovative solutions, such as online payments and payments through mobile channels, as well as priority payments. The EPC also needs to elaborate a suitable solution for the inclusion of the future payment institutions on a non-discriminatory basis, depending on their volume of payments; if the future payment institutions were to organise themselves in a European association, this could be the starting point for representation in the EPC Plenary. Moreover, the EPC should improve and formalise its links and influence through permanent participation in "standard-setting organisations", such as ISO.

In the long term, the EPC and the banking industry in general should make an assessment

of the different functions performed by the EPC and propose improvements towards more robust and future-proof governance arrangements. In particular, the Eurosystem notices that the EPC is acting as a "standardisation body" for payments-related standards, which provides guidance to and liaises with other standardisation bodies in order to achieve its objectives. The EPC also plays the role of a "membership body", which defines common positions of member financial institutions on payment services, and defends these positions towards regulators and stakeholders. The EPC is also the "scheme owner", and has set up a more independent body for the scheme administration function. The EPC should analyse how it would operate in the long-term interest of the payment schemes, its member banks and stakeholders. For example, it could analyse together with all interested parties whether the current governance arrangements are sufficient in setting and enforcing the rules of the payment schemes in dialogue.

The creation of a European SEPA "payment forum" outside of the realm of the EPC could be considered for the further development of the governance arrangements for SEPA. It would comprise the main representatives of all stakeholders in Europe, be directly accountable to the Eurosystem and the European Commission and report yearly on the progress made towards the realisation of a true SEPA. In some national communities, dialogue with the different stakeholders has already been organised, but a more consistent approach (i.e. in every community) could be considered.



6 SEPA MILESTONES

To provide clarity and certainty with regards to the tasks that it expects to be fulfilled, the Eurosystem has identified a list of ten milestones for SEPA implementation and migration. This list contains the respective deadlines, entities in charge and stakeholders. Although it is not a detailed project plan, it

will allow for better management of the project and better measurement of the progress made towards SEPA implementation and migration, while at the same time helping to maintain momentum. The fulfilment of these milestones will be decisive for the success of SEPA migration.

Topic	What	Who	Stakeholders	Explanation
By end-March 2009				
1. SDD mandate migration	Ensuring the legal continuity of mandates.	EU Member States (European Commission/ NCBs)	Corporates, SMEs, consumers, ACHs, public administrations	Ensuring the legal continuity of mandates and e-mandates, if relevant, is key to the success of the SDD. Clarification of the issue by March 2009 is essential for SDD migration.
2. SDD multilateral interbank arrangements (MBP, MIF, etc.)	Long-term proposal for the methodology of the multilateral interbank arrangement for national and cross-border SDDs.	EPC, banks, European Commission, ECB		Clarity is needed in order to build the long-term business case and make offers for SDD.
By end-June 2009				
3. Regulation (EC) No 2560/2001	Review of Regulation (EC) No 2560/2001 adopted.	Council of the European Union, European Parliament, EU Member States	Banks, payment service providers, corporates, SMEs, consumers, ACHs, public administrations	Revised Regulation will: a) ensure the equal pricing treatment of payment services across the EU, including the equal pricing of SDDs and national direct debits and b) clarify the long-term situation regarding the use of payments for balance of payments reporting purposes. Entry into force of the Regulation by 1 November 2009.
4. Definition of SCT migration end-date	Definition of a European end-date from which only SCT will be offered to end-users and infrastructures will process only SCT.	EPC, European Commission, ECB, national SEPA committees, national anti-trust authorities, NCBs	Corporates, SMEs, consumers, ACHs, public administrations, processors, vendors	Communities can decide to migrate exclusively to SCT earlier. Customers should be provided with clear SCT offers.
1 November 2009				
5. SDD start date	Full adherence to the SDD Rulebook by SCT banks currently offering direct debits at national level.	Banks, payment service providers	Corporates, SMEs, consumers, ACHs, public administrations, processors	All banks currently offering direct debits at national level and which have adhered to the SCT Rulebook are also expected to adhere to the SDD Rulebook. Payment service providers which will be active in the direct debit domain are expected to offer SDD. Customers should be provided with clear SDD offers. Banks and payment service providers not offering direct debit services are invited to adhere as debtors as a minimum.
6. PSD	Consistent PSD implementation.	EU Member States (European Commission/ NCBs)	Banks, payment service providers, corporates, SMEs, consumers, ACHs, public administrations	The PSD ensures the equal legal treatment of payments across SEPA. The implementation of the PSD also pre-supposes the timely technical adaptation of banks' and payment service providers' systems to the PSD requirements (information requirements, value dating, consumer protection, etc.).

Topic	What	Who	Stakeholders	Explanation
By end-December 2009				
7. E-invoicing	Framework available.	European Commission expert group	Banks, payment service providers, corporates, SMEs, consumers, ACHs, public administrations, vendors	Framework that addresses the business requirements, standards and regulatory basis for e-invoicing.
8. Definition of SDD migration end date	Definition of a European end-date from which only SDD will be offered to end-users and infrastructures will process only SDD.	EPC, European Commission, ECB, national SEPA committees, national anti-trust authorities	Corporates, SMEs, consumers, ACHs, public administrations, processors, vendors	Communities can decide to migrate exclusively to SDD earlier.
9. Decision on additional European card scheme(s)	A decision and declaration of intention regarding the creation of additional European SEPA-compliant card scheme(s).	Banks, payment service providers, card schemes	Consumers, merchants, processors, vendors	The actual start-up of the scheme could take place later. Pan-European coverage from the start of the operation is not required (potential versus effective coverage). Non-participation in an initiative has no implications in terms of SEPA compliance.
By end-December 2010				
10. Entry of full-scale "SEPA for cards" into effect	Only SEPA-compliant general purpose cards issued, only SEPA-compliant ATMs and POSs in operation.	Banks, payment service providers, card schemes, processors	Consumers, merchants, vendors	From the standards point of view, full EMV migration will have to be completed. This is not the case for all other standards for which longer implementation deadlines may apply.

The list is not intended to be exhaustive. It identifies the conditions which are deemed necessary for SEPA implementation, but which are currently not fulfilled. This list focuses on the major steps that need to be taken, although other measures are needed for SEPA to be a success. Furthermore, as time goes on and in response to new developments, other priorities may be identified. For example, at the beginning of the SEPA project, priority was given to creating the basic features of the SDD and SCT. However, as work progressed, aspects such as e-mandates, e-invoicing and so on gained particular importance.

The list of milestones has been complemented with a list of necessary tasks for the fulfilment of the SEPA milestones; these are subordinate tasks to the list of milestones in the sense that they are actions that have to take place so that the milestones on the main list are achieved.

ANNEX I

NECESSARY TASKS FOR THE FULFILMENT OF THE SEPA MILESTONES



Topic	What	Who	Stakeholders	Explanation
By end-December 2008				
11. SDD multilateral interbank arrangements (MBP, MIF, etc.)	Interim proposal (with the definition of a deadline) on the methodology of the multilateral interbank arrangement for cross-border direct debits.	EPC, banks, European Commission		The interim proposal will facilitate banks and payment service providers in their SDD migration, but is less critical than the long-term proposal.
12. SDD e-mandate	E-mandate: technical requirements to be defined.	EPC	Banks, payment service providers, corporates, SMEs, consumers, ACHs, public administrations	E-mandate will encourage the use of SDD.
By end-January 2009				
13. SDD testing	Harmonised framework for end-to-end testing of SDD transactions (core and B2B), with the end-objective being full-STP.	EPC	Banks, payment service providers, ACHs	For core and B2B SDDs, reachability of banks and payment service providers and stability of SDD arrangements have to be tested based on one harmonised set of rules with the end-objective being full-STP.
By end-February 2009				
14. M-payments	Roadmap for work on m-payments, which will allow payment initiation by mobile telephones.	EPC in cooperation with GSMA (association of mobile operators).	Banks, payment service providers, mobile operators, consumers	Not mandatory for banks, payment service providers and mobile operators to offer this service.
By end-June 2009				
15. Card payments: SEPA compliance assessment of card schemes	Self-assessment of SEPA compliance against the Terms of Reference for card schemes.	Card schemes	Consumers, merchants, banks, payment service providers	The Terms of Reference are currently being drawn up by the Eurosystem.
16. Card payments: framework for card transaction processing	Complementing the PEACH CSM framework for issues concerning the authorisation, clearing and settlement of card transactions by any CSM.	EPC	Banks, payment service providers, processors, schemes	Describing the rules for SEPA card transaction processing (complementing or amending the PEACH/CSM framework).
17. SDD e-mandate	E-mandate: implementation guidelines to be defined.	EPC	Banks, payment service providers, corporates, SMEs, consumers, ACHs, public administrations	The implementation of e-mandate is optional and should be offered ideally as of 1 November 2009.

Topic	What	Who	Stakeholders	Explanation
18. SDD in the C2B domain	Definition of the SDD implementation guidelines in C2B domain.	EPC	Corporates, SMEs, public administrations, consumers, vendors	The SDD implementation guidelines in the C2B domain need to be defined so that banks and payment service providers are able to offer a harmonised product from the end of 2009 onwards.
By end-November 2009				
19. SDD start date	SDD launch event.	ECB, NCBs, European Commission	Banks, payment service providers, EPC, SMEs, public administrations, corporates, consumers	Launch of the SDD by 1 November 2009 should be used as an opportunity to create public attention for SEPA (in a similar way to the SCT launch event in January 2008).
20. SEPA online payments	Framework available for implementation.	EPC	Banks, payment service providers, consumers, vendors	Work closely linked to the e-mandate dossier. Not mandatory for banks and payment service providers to offer this service.
By end-December 2009				
21. SCT migration	IBAN and BIC on invoices.	Corporates, SMEs, public administrations as payees	Public administrations as payers, consumers	All "billers" are expected to put their IBAN and BIC on their invoices so as to facilitate the SCT migration.
22. Card standards	a. Definition of concrete technical specifications for cards standards.	EPC	Card schemes, ISO community, European standards initiatives, EMVCo and PCI SSC	As a follow up to the EPC cards standardisation document, technical specifications need to be defined.
	b. Decision on migration/ implementation path regarding the technical specifications.	EPC	Card schemes	Implementation of SEPA cards standards is necessary to ensure the desired level of interoperability, security and market access.
23. SCT and SDD in the B2C domain	Definition of the SCT and SDD guidelines in the B2C domain.	EPC	Corporates, SMEs, public administrations, consumers	The SCT and SDD implementation guidelines in the B2C domain need to be defined so that banks and payment service providers are able to offer a harmonised product as of the end of June 2010.

Topic	What	Who	Stakeholders	Explanation
24. SCT and SDD in the C2B domain	Implementation of the SCT and SDD implementation guidelines in the C2B domain.	Banks, payment service providers	Corporates, SMEs, public administrations, consumers, vendors	By December 2009 banks will offer in the C2B domain SCT and SDD messages as a minimum according to the SCT and SDD implementation guidelines.
By end-June 2010				
25. SCT and SDD in the B2C domain	Implementation of the SCT and SDD guidelines in the B2C domain.	Banks, payment service providers	Corporates, SMEs, public administrations, consumers, vendors	By the end of June 2010, banks and payment service providers offer in the B2C domain SCT and SDD messages as a minimum, according to the SCT and SDD implementation guidelines.
By end-December 2010				
26. SCT migration	Public administrations to be using SCT exclusively.	Public administrations	Consumers	Public administrations, as big initiators and receivers of payments, have a key role in a successful SEPA migration. As early adopters, they can contribute relevantly to the critical mass of SEPA payments.
27. SDD migration	Public administrations to be using SDD exclusively	Public administrations	Consumers	Public administrations, as big initiators and receivers of payments, have a key role to play in making SEPA migration a success. As early adopters, they can contribute relevantly to the critical mass of SEPA payments.

