EPC Newsletter Issue 12 October 2011

FOCUS: SEPA MIGRATION

SEPA Regulation: Last Call to Legislators

EPC invites European lawmakers to align Regulation with bank customer requirements

27.10.11 BY GERARD HARTSINK

The proposal for a 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (commonly referenced as the 'SEPA Regulation'), remains under review by the European Parliament, the Council representing European Union (EU) Member States and the European Commission. The SEPA Regulation will stipulate mandatory deadlines for migration to harmonised SEPA payment schemes. These deadlines could come into force as of 2013 for euro credit transfers and 2014 for euro direct debits. Commenting on the progress of the legislative process, Chair of the European Payments Council, Gerard Hartsink, invites the legislator to align the Regulation with the preferences of European payment service users and makes a specific request for a review of provisions addressing direct debit; transactions. In addition, he outlines the EPC's main concerns with regard to the following aspects of the draft legislative act: the intended ban on multilateral interchange fees for direct debits, the suggestion to establish a centralised database to identify the unique Business Identifier Code (BIC) corresponding to a given International Bank Account Number (IBAN); and the powers to be given to the European Commission to determine payment functionalities. He also reiterates the need to establish one migration end date (as opposed to two separate end dates) to spare bank customers the duplication of efforts and resources. Finally, the EPC Chair clarifies that Recitals included in the draft SEPA Regulation, which indicate that there would be a need to review the EPC's governance, misrepresent the EPC and therefore do not belong in a legislative text and should be removed.

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Key Information in this Article

Main concerns of the European Payments Council (EPC) with regard to the proposal for a 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the 'SEPA Regulation'):

- Bank customers should be spared the duplication of SEPA implementation efforts and resources. The SEPA Regulation should therefore establish one end date (as opposed to two separate end dates) for migration to harmonised SEPA payment schemes.
- The European legislator intends to abolish the direct debit model, which is preferred by the vast majority of European citizens who make direct debit payments today. The European Payments Council (EPC) invites the legislator to reconsider and to align the forthcoming SEPA Regulation with the proven preferences of bank customers; i.e. the SEPA Core Direct Debit Scheme.
- The proposal for a SEPA Regulation foresees a ban on transaction-based multilateral interchange fees for direct debits. It is the EPC's opinion that a sunset clause should be included in the Regulation, which would allow affected banking communities to develop new direct debit business models over a transition period.
- The European Parliament suggests that payment service providers participating in a direct debit scheme should establish a centralised database designed to allow third parties to identify the unique Business Identifier Code corresponding to a given International Bank Account Number. The EPC considers that a cost-benefit analysis should be carried out prior to taking this initiative forward. The EPC believes it would be inappropriate to charge the payments industry with related costs.
- European Union lawmakers will confer the power upon the European Commission to amend the technical requirements set out in the annex to the SEPA Regulation through delegated acts. It must be ensured that amendments to these requirements are based on extensive market consultation and broad consensus among all stakeholders. All market participants must be able to rely on sufficient lead times to implement changes to SEPA payment schemes, as mandated by the European Commission.
- The EPC is a private initiative of the payment industry. The EPC therefore, does not see how such a private arrangement can be referred to in a legislative document. Recitals addressing EPC governance should be removed from the SEPA Regulation.

The SEPA Regulation should set one end date for migration to all Union-wide schemes

The European Payments Council (EPC) advocates setting one end date at European Union (EU) level for migration to harmonised credit transfer and direct debit schemes to spare bank customers, such as businesses and public administrations, the duplication of implementation efforts and required resources which would result from two separate end dates. The EPC therefore welcomes that the Economic and Monetary Affairs Committee (ECON) of the European Parliament also proposes to set one end date. The EPC urges the EU legislator to adopt the Single Euro Payments (SEPA) Regulation as soon as possible in order to finally provide planning security for all market participants.

The SEPA Regulation should refrain from making mandatory additional features for the checking of direct debit payments

The EPC once again draws attention to the fact that EU lawmakers intend to abolish the direct debit model, which is preferred by the vast majority of European citizens who make direct debit payments today. The proposal for a SEPA Regulation currently foresees a host of compulsory direct debit mandate [1] checks, which must be offered by the payer's payment service provider (PSP).

The EPC recently conducted a survey to identify the current mandate checking obligations in national direct debit schemes. Its survey findings (see 'related links' below) confirm existing European Central Bank (ECB) data highlighting that almost 75 percent of consumers making direct debit payments today do not request such checks. The average number of direct debit payments carried out per consumer each year is 68 in countries with a direct debit model not supporting compulsory mandate checks. In countries with more complex direct debit scheme models, the average is reduced to around 23. The low acceptance of direct debits in countries, which today rely on complex mandate checking features, implies that introducing such mandatory features into the SEPA Core Direct Debit (SDD Core) Scheme will not affect demand for direct debit in these countries. The findings are also in line with

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bank customer experiences whereby millions of direct debits are securely and correctly collected in Europe every day - without legally enforced mandate checks.

Making those features mandatory may prove detrimental to the actual needs of the majority of direct debit users who prefer this payment method because of its convenience. These payers and payees might regard the direct debit model, modified by the EU legislator, as too cumbersome. As a result, the market will either retain or revert to other - less efficient - payment instruments in the long run. To avoid this scenario, the right balance between efficiency and perceived security concerns must be found.

If it becomes obligatory for PSPs to offer compulsory mandate checks, almost 4,000 PSPs and their clearing and settlement mechanisms that have already invested in payment architecture upgrades to participate in the SDD Core Scheme, will have to re-invest to make further adaptations. These costs would have to be borne by all European consumers, including the majority of direct debit payers, who have never asked for obligatory mandate checks to be performed by their PSPs. Consequently, direct debits will become more costly - directly or indirectly - for all consumers. This will counteract the objective of the European Parliament, the European Commission and the ECB, that SEPA should trigger a downward spiral in the pricing of payment services.

Additionally, the EPC clarifies that the compulsory mandate checks, which the legislator is currently contemplating were introduced as optional features into the SDD Core Scheme in response to earlier requests of the European Commission and the ECB. This approach allows PSPs to offer these options in response to market demand. As such, the EPC invites EU lawmakers to respect user preferences as reflected in the SDD Core Scheme and to refrain from agreeing compulsory direct debit mandate checks.

Should these mandatory checking obligations be included in the Regulation, direct debit schemes such as the SEPA Business to Business Direct Debit Scheme, exclusively focused on payers which are businesses authorised by the Payment Service Directive (PSD), to waive their refund right as defined in the PSD, should be excluded from such obligations. It should therefore be left to these professional contracting parties to agree on these checks.

Interchange fees for direct debit transactions: at a minimum, a sunset clause regarding the phasing out of transaction-based multilateral interchange fees should be included in the SEPA Regulation

It is the EPC's opinion that Articles and Recitals related to interchange fees for direct debits should be removed from the forthcoming SEPA Regulation. Should the legislator however, endorse the ban on transaction-based multilateral interchange fees as set out in Article 6 of the European Commission proposal for the SEPA Regulation introduced in December 2010, a sunset clause as detailed in the draft ECON report of March 2011 should be included. This would allow PSPs to adapt to the new market environment over a longer period of time, in particular in light of the substantial investments required for the SEPA migration.

The concept of a centralised database to identify a Business Identifier Code corresponding to an International Bank Account Number requires further analysis

The ECON suggests that PSPs participating in a direct debit scheme should establish and regularly update a centralised database designed to allow third parties to identify the unique Business Identifier Code (BIC) corresponding to a given International Bank Account Number (IBAN). The EPC considers that a cost benefit analysis should be carried out prior to taking this initiative forward. It is the EPC's view that it would be inappropriate to charge the payments industry with related costs.

Should such a database be established, it would have to be maintained by a European third party able to ensure the necessary security of the stored data, for example the ECB. PSPs could only make the required data available but would however, not be in a position to develop and manage such a database.

Should the legislator endorse this concept, then the scope of such a database should be limited to the minimum set of information required to allow the deduction of the BIC from the IBAN, without requiring a complete list of matching sets of BIC and IBAN.

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The process of amending the 'technical requirements' through delegated acts must be specified

Should the legislator decide to confer the power upon the European Commission to amend the technical requirements applicable to euro credit transfer and direct debit schemes set out in the annex to the forthcoming SEPA Regulation through delegated acts, it is necessary that any suggestions for changes be evaluated based on an accepted cost-benefit analysis methodology. Extensive market consultation should enable broad consensus amongst stakeholders to be reached. Both the demand and supply sides must be able to rely on sufficient lead times to implement changes to the technical requirements. For details on the subject, refer to the article 'Brave New World: the European Commission Becomes the SEPA Scheme Manager' (see 'related articles in this issue' below).

Recitals addressing EPC governance should be removed from the SEPA Regulation

A clear distinction needs to be made between the governance of SEPA and the governance of the EPC. The EPC is a private initiative of the payment industry: the EPC therefore, does not see how such a private arrangement can be referred to in a legislative document.

The EPC has developed the SEPA Credit Transfer (SCT) and SDD Schemes in close dialogue with customer representatives, as, since the late 1990s, the European authorities have requested that industry deliver the harmonised SEPA payment schemes required to realise SEPA. The evolution of the schemes is subject to an open and inclusive change management process set out prominently on the EPC Website. For details on the subject, refer to the article 'SEPA Scheme Rulebooks: Next Edition Available in November 2011!' (see 'related articles in this issue' below). Changes to the schemes reflect feedback received from the entire stakeholder community during annual public consultations and are discussed in the Customer Stakeholders Forum of the EPC, where all EU associations of user groups are invited.

The SEPA Schemes developed by the EPC serve as master agreements, which are only binding to PSPs delivering SCT and SDD Scheme based services. The schemes are based on global technical standards developed by the International Organization for Standards (ISO). The ISO process also ensures proper stakeholder representation. Last but not least, the EPC's governance structure and the principles governing scheme development have been under close scrutiny of the authorities since the inception of the EPC. The ECB acts as an observer in all EPC working and support groups and in the EPC Plenary.

The EPC publishes in full all feedback received from any public consultation on the evolution of the SEPA Schemes. Some suggestions for changes to the schemes repeatedly brought forth by specific interest groups may fail to find broad support on both the demand and supply sides of the entire European payment market. As a result, the EPC cannot incorporate such requests into the SEPA payment schemes. It is the EPC's opinion that it is inappropriate to describe a process designed to identify majority views as 'ignoring user requests'.

Recitals included in the draft SEPA Regulation, which indicate that there would be a need to review the EPC's governance, misrepresent the EPC and do not belong in a legislative text, and therefore should be removed.

Gerard Hartsink is the Chair of the EPC.

Related links:

EPC Response to the European Commission Proposal for a Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros (SEPA Regulation)

EPC Webcast: Broadcast of the Media Briefing Hosted by the EPC on 25 October 2011

The Creditor-Driven Mandate Flow (CMF)

EPC Blog: European Commission Proposes Separate Deadlines for Migration to SEPA Credit Transfer and SEPA Direct Debit - EPC Advocates Setting One End Date

EPC Blog: Talking About SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

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EPC Survey on Mandate Checking Obligations in Existing Direct Debit Schemes

EPC Blog: SEPA and EU Governments - A Love-Hate Thing? Efforts Must be Stepped Up to Communicate the SEPA Objectives at National Level

Related articles in this issue:

Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator some insight on scheme development and rulebook release management

SEPA Governance: Setting the Record Straight. SEPA is European integration in action. This process allows any party to engage. There is no 'SEPA governance issue'

SEPA Scheme Rulebooks: Next Edition Available in November 2011! EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

Related articles in previous issues:

Direct Debit: Killing it Softly. Reflections on the likely demise of one of the most popular payment instruments in Europe (EPC Newsletter, Issue 11, July 2011)

The SEPA Regulation - A Progress Report. First reactions by European Parliament and Council of the European Union introduce important improvements to European Commission´s proposal for a SEPA Regulation (EPC Newsletter, Issue 10, April 2011)

[1]The mandate is the authorisation underlying a direct debit payment.

ARTICLE205

FOCUS: SEPA MIGRATION

Brave New World: the European Commission Becomes the SEPA Scheme Manager

The EPC offers the regulator some insight on scheme development and rulebook release management

27.10.11 BY JAVIER SANTAMARÍA

The forthcoming SEPA Regulation will establish technical requirements applicable to Union-wide credit transfer and direct debit schemes in euros. The Regulation will also give power to the European Commission to amend these technical requirements through delegated acts. In other words, the European Commission will be empowered to define the rules and technical standards governing the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks, which until now have been developed by the EPC in close dialogue with the entire payment user community. The EPC therefore calls on the European Union (EU) lawmaker to detail the future process of SEPA scheme development in the SEPA Regulation. The European Commission must ensure that this process is based on extensive market consultation and broad consensus among all stakeholders. In addition, the SEPA Regulation should align with current best industry practice: when updated SEPA Rulebooks are published one year prior to implementation ensuring banks and other service providers have adequate time to address the rulebook updates before they become binding for all scheme participants. Javier Santamaría takes a look at the brave new SEPA world and wonders to which extent (if at all) the requirements of payment service users will be respected in the future. He also offers the European Commission some

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helpful tips on effective scheme management.

Key Information in this Article

The forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros' (the SEPA Regulation) will give power to the European Commission to amend the technical requirements set out in this Regulation through delegated acts.

This means that the European Payments Council (EPC) will be under the legal obligation to align the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks with the technical amendments dictated by the European Commission.

The EPC will be obliged to make related changes to the SCT and SDD Rulebooks effective according to the timelines to be mandated by the European Commission. This means payment service providers participating in the SCT and SDD Schemes will have to comply with amendments as per the effective dates defined by the European Commission.

The EPC is therefore no longer empowered to ensure a predictable rulebook release management cycle.

The EPC urges the European Union legislator to align the forthcoming SEPA Regulation with current industry best practice regarding scheme development and release management which provides planning security to all market participants and ascertains the proper functioning of the euro payments market.

Dear SEPA stakeholders: please send requests regarding the SEPA Rulebooks to the European Commission, Rue de la Loi 200, 1049 Brussels, Belgium, copy EPC

In response to the requests of European authorities articulated since the late 1990s, the European Payments Council (EPC), in close dialogue with customer representatives, has developed the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes which are key elements required to realise the Single Euro Payments Area (SEPA). To-date, it is the responsibility of the EPC as the SEPA Scheme Manager to ensure that the schemes detailed in the SCT and SDD Rulebooks evolve in line with market needs. In this capacity, the EPC has established an open and inclusive change management process as well as a predictable rulebook release schedule, which provides planning and investment security to all SEPA stakeholders.

With the adoption of the forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation), the European Commission will assume the responsibility of SEPA Scheme Manager.

A SEPA payment scheme will have to comply with the technical requirements to be established with the SEPA Regulation. The SEPA Regulation will give power to the European Commission to amend these technical requirements through so-called delegated acts. In other words, the European Commission will be empowered to rewrite the technical requirements applicable to the SCT and SDD Rulebooks at its discretion. Approval of any such amendments by the European Union (EU) legislative bodies; i.e. the European Parliament and the Council representing EU Member States, is not required.

It remains the objective of the EPC that the SEPA Rulebooks evolve in response to proven market needs and reflect a broad consensus among all stakeholders. In addition, the EPC will continue to aim for a predictable rulebook release management. The EPC must however clarify to all SEPA stakeholders that it can no longer be held accountable in this regard. The EPC will have to ensure that the SCT and SDD Schemes are aligned with the technical requirements to be defined by the European Commission. SEPA stakeholders will have to implement operational changes to the SCT and SDD Schemes according to the timelines mandated by the European Commission.

The EPC also wishes to point out that SEPA stakeholders should not assume that the European Commission will respond to the requirements of payment service users as identified through market research and public consultations carried out by the EPC. As has been demonstrated during the legislative process leading to the imminent adoption of the SEPA Regulation, the European Commission reserves the right to rewrite the SEPA

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Schemes based on its own assessments. For details on the matter, refer to the article 'SEPA Regulation: Last Call to Legislators' (see 'related articles in this issue' below).

The EPC is committed to make every effort to engage in constructive dialogue with the European Commission and would therefore like to offer some insight on industry best practice regarding effective scheme management and rulebook release management.

The principles governing the evolution of the SEPA Schemes established by the EPC

The SEPA payment schemes as set out in the SCT and SDD Rulebooks include the Scheme Management Internal Rules (see 'related links' below) which define the change management process applicable to the rulebooks. The annual SEPA Scheme change management cycle implemented by the EPC leads to the publication of updated versions of the scheme rulebooks every November. The first step in the annual scheme change management cycle is the introduction of suggestions for changes to the schemes by any interested party. All stakeholders are invited to submit suggestions for changes to the EPC by the end of February each year.

In consideration of the suggestions received, the EPC SEPA Payment Schemes Working Group (SPS WG) develops a single consolidated change request document per rulebook. The preparation of the change request involves analysis of the suggestions for changes received, including a cost-benefit analysis where appropriate, dialogue with the initiator and, if appropriate, market research. Based on this analysis, the SPS WG decides whether to accept a suggestion for change or not.

Initiators of any suggestions for changes are notified of the decision taken by the SPS WG. All recommendations to modify the rulebooks received by the EPC - irrespective of whether they have been accepted into the change management process - are published on the EPC website, permitting such a list to be openly viewed by all stakeholders. The change requests are released for a three-month public consultation in May of each year. Taking into account comments received during the consultation, the SPS WG completes a change proposal for approval by the EPC Plenary every September. Proposed changes to the SEPA Schemes that find broad acceptance in the entire user community are incorporated into the new rulebook versions - regardless of whether such a change is proposed by a payment service provider (PSP) or customer representatives. Change requests that lack such broad support are not.

The EPC publishes in full all feedback received from any public consultation on the evolution of the SEPA Schemes on the EPC Website.

EPC SEPA Scheme Rulebook Release Management

To ensure the proper functioning of the euro payments market, which processes some 71.5 billion electronic euro payments annually, it is imperative that PSPs and their customers comply with the same version of applicable scheme rulebooks at any given time.

Providing planning security for all market participants and coordinated transition to amended scheme rulebooks, publication of new rulebook versions follows a predictable release management cycle. In accordance with industry best practice, PSPs and their suppliers have a one-year lead time to address rulebook updates prior to such updates taking effect. The EPC releases amended versions of the rulebooks once annually in November of each year. The updated versions of the rulebooks will then take effect in the third week of November of the following year to allow for alignment with SWIFT message releases.

The EPC ensures maximum awareness and engagement of all SEPA stakeholders in the scheme change management process

The EPC has a proven track record of consulting stakeholders on its deliverables including the evolution of the SCT and SDD Rulebooks. The principles governing scheme development as outlined above are highlighted on prominent sections of the EPC Website dedicated to the information needs of bank customers (see 'related links' below). The EPC Newsletter features in every issue an article which updates on the next stage in the annual

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scheme change management process and urges all stakeholders to engage (see 'related articles in previous issues' below). To ensure maximum transparency and awareness, the EPC publishes a press release to alert stakeholders on the annual public consultation addressing modifications that may be introduced into the SCT and SDD Rulebooks (see 'related links' below).

Last but not least, the EPC greatly appreciates the dialogue taking place in the EPC Customer Stakeholders Forum (CSF) established in 2007. CSF members represent a wide cross-section of interest groups acting at the European level including consumers, corporate and small and medium sized enterprises. The CSF is co-chaired by a representative of the demand side and the EPC Chair. The CSF specifically addresses the requirements of payment service users with regard to the SCT and SDD Schemes. The assumption is that CSF members representing the customer side engage in close dialogue with their member organisations representing bank customers at a national level. The 32 banking communities represented in the EPC are under the obligation to ensure proper stakeholder consultation at a national level during the annual public consultation on possible modifications to the SEPA Schemes.

The EPC calls on EU lawmakers to align the forthcoming SEPA Regulation with industry best practice regarding scheme development

The EPC calls on the EU legislator to align the forthcoming SEPA Regulation with current best industry practice regarding scheme development and rulebook release management. When exercising its delegated powers to amend the technical requirements applicable to the SCT and SDD Schemes, the European Commission must ensure that this process is based on extensive market consultation and broad consensus among all stakeholders. Also going forward, both the demand and supply sides must be able to rely on sufficient lead times to implement changes to SEPA Schemes as mandated by the European Commission.

The authorities should keep in mind that adapting the systems of some 4,000 PSPs participating in the SEPA Schemes, as well as those of millions of businesses and public administrations on the customer side, is a complex process to ensure the highest level of compliance, interoperability and security.

Javier Santamaría is the Chair of the EPC SEPA Payment Schemes Working Group.

Related links:

EPC Blog: Talking About SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

EPC Webcast: EPC Webinar of 25 October 2011

Scheme Management Internal Rules v2.1 - Extract - Chapter 3

EPC Website: SEPA Customers

EPC Website: SCT / SDD Rulebook Release Management and Scheme Development

EPC Press Release (May 2011): EPC Launches Annual Public Consultation on the SEPA Schemes and Calls on EU Lawmakers to Align Forthcoming SEPA Regulation with Industry Best Practice

Related articles in this issue:

SEPA Regulation: Last Call to Legislators. EPC invites European lawmakers to align Regulation with bank customer requirements

SEPA Governance: Setting the Record Straight. SEPA is European integration in action. This process allows any party to engage. There is no 'SEPA governance issue'

SEPA Scheme Rulebooks: Next Edition Available in November 2011! The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

Related articles in previous issues:

What is Your View? EPC invites stakeholders to participate in consultations on the SEPA Scheme Rulebooks and

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the SEPA Cards Standardisation Volume - Book of Requirements (EPC Newsletter, Issue 11, July 2011)

SEPA Scheme Change Management - Public consultation starts in May 2011 (EPC Newsletter, Issue 10, April 2011)

SEPA Scheme Change Management 2011 - Call to Stakeholders. Suggestions for changes to SCT and SDD must reach the EPC by end February 2011 (EPC Newsletter, Issue 9, January 2011)

SEPA Schemes: Next Generation. EPC publishes new versions of the SCT and SDD Rulebooks on 1 November 2010 (EPC Newsletter, Issue 8, October 2010)

SEPA Scheme Rulebooks: next Release. Public consultation ends in August 2010 (EPC Newsletter, Issue 7, July 2010)

SEPA Scheme Change Management 2010: Public Consultation. All stakeholders are invited to participate in the evolution of the SEPA Schemes (EPC Newsletter, Issue 6, April 2010)

SEPA Scheme Change Management Cycle 2010. Suggestions for changes must reach the EPC by end February 2010 (EPC Newsletter, Issue 5, January 2010)

New SEPA Scheme Rulebooks out now. EPC publishes new versions of the SCT and SDD Rulebooks on 1 November 2009 (EPC Newsletter, Issue 4, October 2009)

Rock the Vote. Public consultation on SEPA scheme development is going on now (EPC Newsletter, Issue 3, July 2009)

The Preview. Rulebook Release Management 2009 (EPC Newsletter, Issue 2, April 2011)

SEPA Schemes: EPC approves Release Schedule. Predictable release cycle ensures planning security (EPC Newsletter, Issue 1, January 2009)

ARTICLE196

FOCUS: ON INTEGRATION, INNOVATION AND COMPETITION

The Economy of Standards: the 'Pros' and 'Cons' of Standards Competition

An introduction to a comprehensive qualitative efficiency comparison using the example of payment cards

27.10.11 BY PROF. DR. KNUT BLIND

The April 2011 edition of the EPC Newsletter featured a commentary on the different factors impacting integration, innovation and competition in payments. This previous article also explored, among other things, how standardisation can potentially trigger innovation. The July 2011 edition of the EPC Newsletter further explored the subject reporting on research in progress carried out by the Innovation in Retail Payments Working Group established by the Committee on Payments and Settlement Systems (CPSS). The working group, which plans to complete its fact-finding exercise by the start of 2012, aims to identify the major factors which both drive and hamper innovation. One of the preliminary findings suggests that it is more efficient to compete on the basis of common standards than to compete for standards. Dr. Knut Blind, Professor of Innovation Economics at the Faculty of Economics and Management at the Berlin University of Technology, and Professor of Standardisation at the Rotterdam School of Management at the Erasmus University provides an additional perspective on the matter. In this article he analyses the 'pros' and 'cons' of standards competition and offers parameters which allow a comprehensive qualitative efficiency comparison between the immediate decision for

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one standard and the prolongation of standards competition. The principles underlying such a qualitative efficiency comparison are demonstrated, for illustrative purposes, using the example of standardisation in the area of payment cards. It should be noted that this article does not refer specifically to the work undertaken by the European Payments Council (EPC) in the area of SEPA payment schemes and frameworks.

Key Information in this Article

This article analyses the following question: how can multiple and parallel existing standards within the same technological area be fundamentally evaluated in terms of theoretical static efficiency and with respect to their dynamic effect on innovation and competition?

In a static environment, it is advantageous, from an economic efficiency perspective, to decide on one standard if there is no uncertainty about which standard is the best option.

It must however, also be taken into consideration that efficiency improvements could be gained by maintaining competition in the area of standards for a prolonged period of time.

The characteristics of the following parameters should be considered in order to make a comprehensive qualitative efficiency comparison between the immediate decision for one standard and the prolongation of standards competition: preference for network effect; local network effect; heterogeneity of preferences; costs of development and maintenance of standards; uncertainty about technical quality; length of life cycle; development potential including converter solutions; uncertainty about future user preferences.

There is not one answer: subject to this analysis, common standards may be the most efficient solution in one case, whereas competing standards may be preferable in another.

General economic considerations of standards competition

The objective of this article is to present some of the fundamental economic efficiency considerations of parallel standards. The following question is central to the analysis: how can multiple parallel existing standards, within the same technological area, be fundamentally evaluated in terms of theoretical static efficiency and with respect to their dynamic effect on innovation and competition?

Since there is some confusion regarding the term standard, also caused by its increasing diversity, the applied terminology must therefore be defined. A standard represents an agreement in respect of the standardisation of products, procedures or practices. Standards are published by formal standards organisations and bodies, based on a strict consensus process. Formal standards organisations and bodies also publish specifications, which are not developed by consensus. Research now focuses on the difference between formal, industry or consortia and company specific de facto standardisation (see Blind, Gauch & Hawkins 2010 for the differences of their perceived economic impacts). In this article, the term standard will be used because the development process is of secondary importance for the general economic analysis.

In traditional economics literature, a situation in which two incompatible technological standards compete with each other is compared with an alternative situation, in which competition arises within a technology or a standard after an agreement on one standard. In the industrial organisation models upon which the theory is based, it is basically assumed that standards in competition are not compatible with each other. Consequently, a market decision on one of the two standards is required for the complete network effects to materialise. This principle highlights the significance of other actors using a technology, which allows for collaboration or communication. It is these actors who make the market decision. The theoretical models do not address the coordination of standard setting processes or the economic efficiency assessment of the selection of a standard.

These earlier models basically assume that it is not possible to achieve a stable equilibrium in the competition between two incompatible standards. The models therefore further assume that through the forces of network effects a dominant standard would emerge, which would possibly capture 100 percent of the market in the

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long-term. The success of the video home system (VHS) format over the competing Betamax technology is often cited as an example, because the decision of a network is not only based on the actual number of users, but also on the expectations of market results. Consequently, within a short period of time, all users can decide on a specific standard. In effect, the opposing standard loses its attraction very quickly and therefore disappears from the market if the users who originally decided on it, do not incur high switching cost. Often, the technical advantage of a standard is not the decisive factor driving the market decision, rather the expectations generated with respect to the future possibilities of using the technology or the equipment.

Ultimately, the proliferation of a standard is largely dependent on its path. This means that the actual market result is determined by the behavior and the preferences of customers and property characteristics of the current product generation, and in particular by the users' decisions in earlier periods or in the phases in which the entire market selected one of the two standards. These processes are not easily reversible, since strong network effects through a large installed user base are not necessarily compensable by a predominantly superior technology.

Since the company, which - in the commercial environment - holds the 'winning standard' anticipates a strong and long-term monopoly position, the incentives to come out on top of the 'winner takes all' game, are intensely pronounced. The investments made by commercial competitors to win the standardisation game can exceed the expected return several times over.

The alternative: settlement on one standard or on compatible standards in the cooperative space

The alternative to a competition between two incompatible standards is a settlement on one standard or on compatibility between standards in the cooperative space. In this case, the competition between incompatible standards becomes a competition within a standard, which is driven by the traditional competition parameters of price, quality, product characteristics and services in the commercial space. The decision between common and multiple standards regularly depends on how great the differences are with respect to the expected profits and the tactical options in the subsequent phase of market competition.

In the discussion regarding the 'pros' and 'cons' of standards competition, the trade-off between the static efficiency, the best allocation of resources in an economy given the set of technologies, and dynamic efficiency, which includes the development of better technologies to improve the efficiency of production over time, is obvious. In a static environment, it is fundamentally advantageous, from an economic efficiency perspective, to decide on one standard, if there is no uncertainty about which standard is the best option. The various dynamic models contrast the static efficiency gain from the immediate decision for one standard with numerous efficiency improvements, which could be gained by maintaining standards competition. The characteristics of the following parameters derived from the literature should thus be considered in order to make a comprehensive qualitative efficiency comparison between the immediate decision for one standard and the prolongation of a standards competition (Blind 2011).

See Table 1: Relevant parameters for an efficiency analysis, their characteristics and the corresponding efficient solution (Blind 2011)

The above mentioned eight parameters were identified based on the review of the theoretical literature regarding the comparison between the agreement on one standard and the configuration of standards competition. To allow a better understanding of the model, a qualitative efficiency comparison is carried out, for illustrative purposes, using the example of standardisation in the area of payment cards.

An example of a qualitative efficiency comparison using the example of standards competition in the case of payment cards

To clarify: the following example simply serves to highlight the principles of a qualitative efficiency comparison underlying a decision whether to develop common standards or whether to allow for competition of standards. This example should not be read as an academic analysis of the cards market including all its complexities. The example relies on assumptions made for the sake of explaining the model. The example differentiates as regards

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the term 'customer' (demand side), which in the cards domain are: (1) consumers making payments with cards, and (2) businesses accepting card payments (merchants).The specific question covered by this basic qualitative efficiency comparison is whether work should be undertaken in the cooperative space to achieve open, free and compatible standards, which would allow for interoperability in the Single Euro Payments Area (SEPA) cards market.

Based on the parameters used in the comparison, the following 'pros' for unified card standards or - more precisely - interoperable cards standards could be identified:

For the consumers using and the merchants accepting payment cards, standards allowing for interoperability throughout the SEPA cards market would certainly be the most attractive solution in the short term. The efficiency gains resulting from network effects would allow consumers to use their payment card across 32 countries with the same ease and convenience as in their home country, whereas the merchants would benefit from increased competition between the different providers servicing card-accepting merchants.

The alternative of multiple and most likely not interoperable standards would at least make it more difficult for consumers to use their payment card across SEPA. This second option is certainly not preferable, but technologically and economically feasible.

If there are strong regional preferences and regionally concentrated transactions, i.e. local network effects, then the lack of interoperability in the SEPA cards market could be justified. In this context, the term local is synonymous with 'national'. The use of cards within 'national technology isles' only could be justified, at least from the perspective of consumers, in case of strong local (national) network effects. This scenario would however be incompatible with the concept of creating one domestic euro payments market spanning all 32 SEPA countries. It is also assumed that within SEPA there will be an increased rate of cross border transactions and consequently a diminishing relative relevance of these local (national) network effects in the long term. Furthermore, a certain level of heterogeneity of preferences in relation to card payments still exists, but is assumed to disappear, again in the long term, with the completion of SEPA. Last but not least, the scenario of 'national technology isles' would deprive merchants from taking advantage of increased competition between service providers that should result from SEPA-wide interoperable standards.

On the demand side, high uncertainty about future user preferences might also justify multiple standards. In the case of payment cards however, the variants in user preference is assumed to be rather limited, i.e. consumers and merchants mainly ask for compatibility and security of the cards. Requests for additional features do not seem to be very high. Consequently, the demand for multiple standards resulting from uncertainties on the demand side is rather limited.

Based on the parameters used in the comparison, the following 'cons' against a uniform standard and most likely an interoperable solution could be identified:

The costs of development and maintenance are certainly arguments against the maintenance of a variety of standards. There might however be a degree of uncertainty about the technical quality of the possible future standards. The higher the uncertainty about the performance of the technologies behind the various standards, the stronger the rationale for having multiple and most likely not interoperable solutions - at least until the competition reveals the superiority, attractiveness and acceptance of optimal solutions.

Since the investment for payment cards and other devices used to facilitate card payments face a longer life cycle than other information technology-based consumer goods, the decision for a specific standard has a longer lasting implication. Consequently, an erroneous choice in favour of an inferior solution produces inefficiencies for a rather long period of time. Therefore, it can be justified to bear the costs of competing and probably not interoperable standards for a longer period until the competition reveals with more certainty the superior standard. This standard should then solely be implemented for the whole life cycle of the devices used to facilitate card payments.

If the technological progress in the area of cards is rather dynamic and promising, the early decision for one specific or a set of interoperable standard(s) could deprive the supply side from reaping the benefits of future innovations. These uncertainties on the supply side would therefore support the existence of multiple and most likely not interoperable standards for a longer period of time.

Summarising the 'pros' and 'cons' according to this set of criteria, no final conclusion can ultimately be drawn. At

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first glance, the arguments for common standards, allowing for interoperability in the SEPA cards market, are overwhelming. It should be considered however, to grant some flexibility, including not perfectly interoperable solutions, in order to make use of technological progress in the payment card technologies and possible advancement in the applications.

The analysis in this particular case has to also take into consideration that creating a SEPA for cards based on common interoperable standards seems to be a political mandate, which, or so we assume, is based on a well substantiated rationale.

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Related link(s):

http://www.inno.tu-berlin.de/menue/home/parameter/en/

http://www.rsm.nl/home/faculty/academic_departments/technology_and_innovation/faculty/faculty/blind

http://www.fokus.fraunhofer.de/en/elan/wir_sind/themen/public_innovation/index.html

Blind (2011); An economic analysis of standards competition: The example of the ISO ODF and OOXML standards, Telecommunications Policy Volume 35, Issue 4, May 2011, Pages 373-381
http://www.sciencedirect.com/science/article/pii/S0308596111000218

Blind et al. (2010): How stakeholders view the impacts of international ICT standards, Telecommunications Policy Volume 34, Issue 3, April 2010, Pages 162-174
http://www.sciencedirect.com/science/article/pii/S0308596109001293

Related articles in this issue:

ISO 20022 Message Standards: Too Many Flavours? Domestic specifications of the SEPA data formats risk preventing market harmonisation

Beyond the Hype: Making Mobile Payments Work. 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' and second edition of 'EPC White Paper on Mobile Payments'

Paper Invoices - Thy Days are Numbered. A further progress report on electronic invoicing

Related articles in previous issues:

On Innovation

A Closer Look at Innovation in Retail Payments. Central bank research in preparation: a report on first findings of working group established by the Committee on Payment and Settlement Systems (EPC Newsletter, Issue 11, July 2011)

Innovacompegration (This is Not a Typo). Reflections on the best approach to innovation, integration and competition in payments (EPC Newsletter, Issue 10, April 2011)

On Market Integration

Arrested Development. Inconsistencies between European Commission´s objectives threaten to hamper SEPA progress (EPC Newsletter, Issue 11, July 2011)

Light at the End of the (Harmonisation) Tunnel. 'Third Progress Report on the State of SEPA Migration' prepared by the European Commission Services confirms: mandatory end dates for migration to pan-European payment instruments are required (EPC Newsletter, Issue 11, July 2011)

SEPA in the Context of the Financial Crisis. Retail payments business proves to be resilient (EPC Newsletter, Issue 7, July 2010)

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Every Road Has Got to End Somewhere: the Need for a SEPA Migration End Date. Re-emphasised by the European Central Bank (EPC Newsletter, Issue 2, April 2009)

On Bananas and the Integration of Euro Payments. The SEPA commitment of EU governments [see, in particular, the section headlined 'SEPA - much ado about nothing?' on the importance of European Union financial integration as outlined by the European Central Bank] (EPC Newsletter, Issue 2, April 2009)

ARTICLE200

FRINGE OBSERVATIONS ON SEPA

SEPA Governance: Setting the Record Straight

SEPA is European integration in action. This process allows any party to engage. There is no ‘SEPA governance issue´

27.10.11 BY JAVIER SANTAMARÍA

The European Payments Council (EPC) always aims to cater to the requirements of the broad majority of SEPA stakeholders. The EPC Newsletter therefore regularly comments on the political aspects which impact the SEPA process; one of the top three subjects of interest identified with the EPC Newsletter reader survey carried out in October 2010. 'SEPA governance' is one such political topic pursued with a vengeance at each meeting of every SEPA debate club active at European level. Related agenda items regularly surmise that there would be something fundamentally wrong with 'SEPA governance'. Javier Santamaría explains that the term 'SEPA governance' is misleading because it does not apply: SEPA is a European Union (EU) integration initiative governed by EU institutions which are subject to EU law. Anyone who is unaware of how to engage in the EU decision-making processes will find relevant information in this article. The assumption however is that those lobbying organisations industriously propagating the 'SEPA governance issue' are perfectly aware of how to work the EU institutions. So, perhaps, this debate is merely a pretext to reinforce that other myth, namely, that there would be something wrong with the composition of the EPC? Considering the multiple channels which allow any interest group to influence EU policies and that in the future the European Commission will be responsible for the evolution of the SEPA payment schemes (to-date the task of the EPC), the 'governance issue(s)' can be put to rest. The focus now should be on coordinating mass migration to the SEPA Schemes rather than spending more time and resources on discussing red herrings.

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Key Information in this Article

The SEPA programme is a European Union (EU) integration initiative. EU policy is shaped in accordance with EU law and within the framework of the EU institutions, i.e. the European Commission, the European Parliament and the Council representing EU Member States.

Subject to applicable procedures, any interest group is free to engage in dialogue with the EU institutions.

The European Commission conducts public consultations and establishes expert groups allowing interested parties to articulate their views. SEPA-related matters are addressed by the Payment Systems Market Expert Group (PSMEG), which represents stakeholders from both demand and supply sides. The PSMEG is currently being reconstituted to ensure increased representation of consumers and civil society.

The new 'Transparency Register', operated by the European Parliament and the European Commission, provides citizens with direct and single access to information about the thousands of lobbying organisations engaged in activities aimed at influencing the EU decision making process.

The legislative process leading to the adoption of the forthcoming SEPA Regulation confirms that lobbying organisations representing specific interest groups have successfully channelled their views into this Regulation.

In the future, the European Commission will mandate the technical requirements applicable to the SEPA payment schemes incidentally developed by the European Payments Council in close dialogue with the entire payment user community. It is the responsibility of the European Commission to define the new rules applicable to scheme development.

Anyone who feels that the EU decision-making process is at fault is certainly free to challenge the EU institutions on the matter, however, should refrain from muddying the waters by fabricating a 'SEPA governance issue'.

The SEPA debate must now focus on how to orchestrate mass migration to the harmonised SEPA payment schemes within the next 24 months.

On specks and logs (or white elephants and red herrings)

Those of you who follow the 'Fringe Observations on SEPA' in the EPC Newsletter are aware that in this section, guidance is regularly sought from the ancients in an attempt to make sense out of the many peculiarities inherent to the politics affecting the Single Euro Payments Area (SEPA). The aim is to always clearly define the subject under consideration (not exactly a given in the political SEPA debate). The topic in this edition is what some have identified as the so-called 'SEPA governance issue'. Those who raise this issue claim that there would be something fundamentally wrong in the way this European Union (EU) integration initiative is managed, citing a lack of adequate stakeholder involvement. The claim calls to mind the 'Sermon on the Mount' (New Testament, Matthew 7:4), which states: "How can you think of saying to your friend, 'let me help you get rid of that speck in your eye,' when you can't see past the log in your own eye?"[1]

A clear course of action in response to erroneous judgements is offered as well (New Testament, Matthew, 7:5): "Hypocrite! First get rid of the log in your own eye; then you will see well enough to deal with the speck in your friend's eye"[2]. Regardless of whether one is a believer in scripture or not; we know good advice when we see it. It is time to finally introduce the white elephant[3], which has comfortably settled in the middle of the room for too long; i.e. to call a red herring[4] a red herring.

There is no such thing as a 'SEPA governance issue'. SEPA was never a demand-driven initiative, but was launched by the European Commission, the European Central Bank (ECB) and EU governments as a follow-up action to the introduction of the euro and an important measure to further strengthen the EU internal market. These political institutions therefore promote the process of EU market integration according to their mandate. The SEPA initiative evolves in line with established opinion building and decision making processes applicable to any EU initiative and ensures fair representation of all parties concerned.

How to share your views with the European Commission: participate in expert groups and public consultations

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The European Commission is a politically independent collegial institution, which embodies and defends the general interests of the EU and promotes European integration. The European Commission already identified the need for further integration of the European payments market in 1990. At the time, the European Commission published a report titled "Making Payments in the Internal Market", which outlined a community vision of a single payments area.

The European Commission regularly establishes separate expert groups made up of EU government representatives on the one hand and market participants (demand and supply sides) on the other. The complete list of European Commission expert groups can be viewed on the European Commission Website (see 'related links' below). Recently, the European Commission launched a call for experts to participate in the re-cast Payment Systems Market Expert Group (PSMEG). This follows the European Commission's decision to adjust the composition of the PSMEG, which regularly discusses SEPA-related matters, so that (1) the participation of representatives of consumers and civil society is increased and (2) a better balance between payment service users and providers is ensured. The European Commission will select a maximum of 40 experts for participation in the PSMEG (deadline to submit an application was 7 October 2011). The experts will be appointed for four years. The seats will be allocated as follows:

- At least 15 members shall represent the payment services industry.
- At least 15 members shall represent payment users, including companies, associations and consumers (the latter shall be represented by at least seven members).
- Private bodies closely involved in the prevention of payment fraud.

The tasks of the PSMEG are to:

- Assist the European Commission in the preparation of legislative acts or policy initiatives regarding payment systems, including fraud prevention issues related to the payment industry and users.
- Provide insight concerning the practical implementation of that policy.
- Exchange views on up-to-date best practices and ensure monitoring of potential issues of concern for the market.

The European Commission also regularly conducts public consultations on specific policy issues. In 2009, for example, the European Commission carried out an extensive public consultation to identify whether there would be a need to establish mandatory deadlines for migration to SEPA through EU Regulation. For more information on this consultation, refer to the related press release of the European Commission (see 'related links' below).

How Brussels works: thousands of lobbyists representing all European interest groups engage in dialogue with the European Commission, the European Parliament and the European Council

The European Commission enjoys the privilege of initiating proposals for European legislation. As such, the European Commission tabled the proposal for a 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation), in December 2010. Legislative proposals introduced by the European Commission are subject to consideration and decision by the EU legislator, i.e. the European Parliament and the Council representing EU Member States.

The European Parliament is the only elected EU decision-making body. The members of the European Parliament represent the interests of some 500 million European citizens. The European Parliament called on the European Commission to set definitive deadlines for migration to the SEPA payment schemes in March of 2009 and again in March 2010.

The governments of EU Member States are represented in the European Council. This Council acts in so called configurations. One of these configurations is the Economic and Financial Affairs Council (ECOFIN), which represents EU finance ministers. EU governments committed to the SEPA vision in the Lisbon Agenda of 2000. The ECOFIN tasked the European Commission in December 2009 to assess whether legislation is needed to set binding end dates for migration to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes and to draft a related proposal if required.

Subject to applicable procedures, any accredited lobbying group and individual lobbyist represented in Brussels is

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free to engage in dialogue with the European Commission, the European Parliament and the Council representing EU Member States on EU policy and related legislative initiatives.

According to the Association of Accredited Lobbyists to the European Union (AALEP), figuring out the number of Brussels-based lobbyists "is indeed difficult"[5]. The AALEP estimates that there are currently some 2,000 individual lobbyists active in Brussels. As of mid October 2011, the European Parliament Website lists 1172 organisations represented by individuals holding a long-term access pass to the Parliament (see 'related links' below). Interest representatives can be private, public or non-governmental bodies. They can provide the European Parliament with knowledge and specific expertise in numerous economic, social, environmental and scientific areas. According to the European Parliament Website, these organisations can play a "key role in the open, pluralist dialogue on which a democratic system is based and act as an important source of information for members of the Parliament in the context of the performance of their duties". The new 'Transparency Register', operated by the European Parliament and the European Commission (see 'related links' below), provides "citizens with direct and single access to information about who is engaged in activities aiming at influencing the EU decision making process, which interests are being pursued and what level of resources are invested in these activities". As of mid October 2011, there were 1852 registrants (lobbying organisations) listed in the 'Transparency Register'. This register also states however, that an additional 2639 organisations are still in the process of transferring from the old European Commission 'Register of Interest Representatives' to the new 'Transparency Register'. Other sources such as, for example, 'The Lobby Planet Guide' (see 'related links' below), report that there are an estimated 15,000 to 30,000 lobbyists targeting EU decision makers, making the EU quarter in Brussels "home to one of the highest concentrations of lobbyists in the world"[6]. While we find it a little disquieting that no reliable data on the matter is available, we can note, in any case, that there are 'many' lobbyists engaged in active dialogue with the EU institutions.

It is the objective of the lobbyists to raise awareness for the concerns and needs of their constituencies. Naturally, they also do this with regard to the SEPA initiative in general and the proposal for a SEPA Regulation in particular, if relevant to their constituencies. Using the SEPA Regulation as a vehicle, individual lobbying organisations succeeded in rewriting the SDD Scheme and other aspects of the SEPA programme in line with the views of the specific interest groups they say they represent. This proves that statements which claim a lack of influence on the SEPA initiative by all stakeholders do not reflect the political reality. For details on the subject, refer to the article 'SEPA Regulation: Last Call to Legislators' (see 'related articles in this issue' below).

The SEPA Regulation will also effectively end any controversy raised - erroneously - by some parties regarding the evolution of the SEPA payment schemes, developed by the European Payments Council (EPC) in close dialogue with the entire payment user community. Moving forward, the European Commission will act as the sole arbitrator regarding the rules and technical standards which make up a SEPA Scheme. For details on this matter, refer to the article 'Brave New World: the European Commission Becomes the SEPA Scheme Manager' (see also 'related articles in this issue' below).

The focus must shift from politics to the real issues; i.e. how to move the market to SEPA

There is no 'SEPA governance issue'. On the contrary, the debate regarding this particular EU integration initiative has been extensive and open to all interest groups at every juncture of the process. Anyone who, despite the above, feels that the EU decision-making process would be at fault is certainly free to challenge the EU institutions on the matter, however, should refrain from muddying the waters by fabricating a 'SEPA governance issue'.

Reinforcing the notion of flawed 'SEPA governance' against all evidence is detrimental to promoting the SEPA programme which first and foremost benefits bank customers. It is therefore hoped that the principal moderators of the political SEPA debate, i.e. the European Commission and the ECB, will take this phantom discussion off the agenda. Both institutions jointly chair the SEPA Council, which brings together representatives from both the demand and supply sides of the payments market. For more information on the SEPA Council, refer to the ECB SEPA Website and the European Commission SEPA Website (see 'related links' below). This body was established by the European Commission and the ECB in June 2010, to promote the realisation of an integrated euro retail payments market by ensuring proper stakeholder involvement at a high level and by fostering consensus on the next steps towards the full realisation of SEPA. A principal objective of the SEPA Council is to monitor and support

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SEPA migration. Dedicating a substantial part of the two annual meetings of the SEPA Council to non-existent 'SEPA governance' issues hardly helps the market to move forward.

The forthcoming SEPA Regulation, expected to be adopted by the EU legislator in 2011, will establish deadline(s) for the replacement of national euro credit transfer and direct schemes by harmonised SEPA payment schemes. These deadlines could apply as early as 2013 for SCT and 2014 for SDD. Educating payment service users on the steps required by them to comply with the SEPA Regulation; i.e. orchestrating the mass migration to SCT and SDD in the real world, must be the focus now. To achieve this goal, it will be necessary to close ranks and coordinate efforts rather than to spend more time and resources on discussing red herrings over coffee and cake.

Javier Santamaría represents Banco Santander. Banco Santander is a member of the European Payments Council.

Related links:

EPC Publication: Shortcut to Who is Who in SEPA

European Commission Website: Register of Commission Expert Groups and Other Similar Entities

European Commission Press Release (September 2009): Single Euro Payments Area (SEPA): Commission Consultation Shows General Support for End-Date for SEPA Migration

European Parliament Website: Lobbyists accredited to the European Parliament

The Transparency Register for Organisations and Self-Employed Individuals Engaged in EU Policy-Making and Policy Implementation

The Lobby Planet Guide

European Commission SEPA Website

European Central Bank SEPA Website

EPC Blog: SEPA - Are Corporates Ready to Make the Move?

EPC Blog: Talking About SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

EPC Webcast: Broadcast of the Media Briefing Hosted by the EPC on 25 October 2011

Related articles in this issue:

SEPA Regulation: Last Call to Legislators. EPC invites European lawmakers to align Regulation with bank customer requirements

Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator some insight on scheme development and rulebook release management

SEPA Scheme Rulebooks: Next Edition Available in November 2011! EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

Related article in previous issue:

The Good, the Bad, the Ugly and a Knight in Shining Armour? - European Commission requests unprecedented powers to determine payment functionalities (EPC Newsletter, Issue 9, January 2011)

EPC Newsletter articles published in the section 'Fringe Observations on SEPA'

[1] http://nlt.scripturetext.com/matthew/7.htm.

[2] Ibid.

[3] "Elephant in the room" is an English metaphorical idiom for an obvious truth that is being ignored or goes unaddressed (Wikipedia).

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[4]Red herring is an idiomatic expression referring to the rhetorical or literary tactic of diverting attention away from an item of significance. The American Heritage Dictionary of the English Language, Fourth Edition. Retrieved February 04, 2009, from dictionary.reference.com (Widipedia).

[5]http://www.aalep.eu/Reconciling_the_number_of_brussels_based_lobbyists.

[6]http://www.spectrezine.org/corporate-europe-observatory%E2%80%99s-lobby-planet-guide-update-out-now.

ARTICLE198

EPC LATEST NEWS

SEPA Scheme Rulebooks: Next Edition Available in November 2011!

The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

27.10.11 BY JAVIER SANTAMARÍA

In November 2011 the European Payments Council (EPC) releases updated and enhanced versions of the SEPA Credit Transfer (SCT) Rulebook and the SEPA Direct Debit (SDD) Rulebooks. To ensure planning security for all market participants, publication of the new rulebook versions follows a predictable release management cycle. In accordance with best industry practice, payment service providers (PSPs) and their suppliers have sufficient time to address the rulebook updates ahead of November 2012 when these revised rulebooks will come into effect. PSPs which participate in the SCT and SDD Schemes are reminded that the rulebook versions and adjacent implementation guidelines which were published in November 2010 take effect on 19 November 2011. The SCT and SDD Schemes evolve based on an open change management process providing all stakeholders with the opportunity to participate; i.e. to introduce suggestions for changes to the SEPA Schemes. The limited number of requests for additional elements introduced into the new rulebook versions demonstrates the maturity of the SEPA Schemes and highlights that they are fit for purpose. Javier Santamaría outlines the new elements incorporated into the next generation of the SCT and SDD Rulebooks. In addition, he comments on accusations made by some specific interest groups which claim - erroneously - that the EPC would 'ignore end user requests'. The opposite is the case: the EPC scheme change management process ensures that the SCT and SDD Schemes meet the requirements of the broad majority of all payment service users in the 32 SEPA countries.

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Key Information in this Article

The European Payments Council (EPC) publishes the SEPA Credit Transfer Rulebook version 6.0, the SEPA Core Direct Debit Rulebook version 6.0 and the SEPA Business to Business Direct Debit Rulebook version 4.0 and adjacent implementation guidelines in November 2011.

These updated versions of the rulebooks will take effect on 17 November 2012.

The evolution of the SEPA payment schemes is subject to an open and inclusive change management process set out prominently on the EPC Website. Changes to the schemes reflect feedback received from the entire stakeholder community during annual public consultations.

Some suggestions for changes to the schemes repeatedly brought forth by specific interest groups may fail to find broad support on both the demand and supply sides of the entire European payment market. As a result, the EPC cannot incorporate such requests into the SEPA payment schemes.

In the view of the EPC it is inappropriate to describe a process designed to identify majority views as 'ignoring user requests' – a claim frequently, if erroneously, made by some interest groups.

Alert to Payment Service Providers Participating in the SEPA Credit Transfer and / or the SEPA Direct Debit Schemes!

In November 2010, the European Payments Council (EPC) published

- The SEPA Credit Transfer (SCT) Rulebook version 5.0
- The SEPA Core Direct Debit (SDD Core) Rulebook version 5.0
- The SEPA Business to Business Direct Debit (SDD B2B) Rulebook version 3.0

These rulebook versions have been updated to include version 3.0 of the SEPA Scheme Management Internal Rules approved by the EPC Plenary in October 2011.

The rulebook versions that take effect on 19 November 2011 are therefore the SCT Rulebook version 5.1, the SDD Core Rulebook version 5.1 and the SDD B2B Rulebook version 3.1.

Amendments to the SEPA Scheme Management Internal Rules are of a purely administrative nature and have no operational impact whatsoever.

Limited number of change requests demonstrates that SEPA Schemes are fit for purpose

The SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes evolve based on an open change management process set out in the SEPA Scheme Management Internal Rules (see 'related links' below), which provide all stakeholders with the opportunity to participate; i.e.to introduce suggestions for changes to the schemes. The European Payments Council (EPC) is required to evaluate the feasibility of such suggestions based on a catalogue of fixed criteria also set out in the SEPA Scheme Management Internal Rules. Any proposed changes to the schemes are subject to a three-month public consultation. Proposed changes to the schemes that find broad acceptance in the entire user community are taken forward. Change requests that lack such broad support are not - regardless whether such a change is proposed by a payment service provider (PSP) or a customer representative. As a result of this annual change cycle, the SCT and SDD Schemes incorporate numerous features introduced by end users.

The limited number of requests for additional elements to be introduced into the updated versions of the rulebooks again demonstrates the maturity of the SCT and SDD Schemes and highlights that they are fit for purpose. The EPC publishes the new versions of the rulebooks and accompanying implementation guidelines (see 'related links' below) in November 2011:

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- The SCT Rulebook version 6.0;
- The SDD Core Rulebook version 6.0;
- The SDD Business to Business (B2B) Rulebook version 4.0.

The rulebook versions published in November 2011 take effect in November 2012

To ensure planning security for all market participants, publication of new rulebook versions follows a predictable release management cycle (see 'SCT / SDD Rulebook Release Management and Scheme Development'). In accordance with industry best practice, PSPs and their suppliers have a one-year lead time to address rulebook updates prior to such updates taking effect. The EPC releases updated versions of the rulebooks annually in November of each year. The updated versions of the rulebooks will then take effect in the third week of November of the following year to allow for alignment with SWIFT message releases.

The SCT Rulebook version 6.0, the SDD Core Rulebook version 6.0 and the SDD B2B Rulebook version 4.0 will take effect on 17 November 2012.

New elements introduced into the SCT Rulebook

The SCT Rulebook version 6.0 includes a new optional element which allows the payer's bank[1] to include additional information on the reason for a recall in fraud cases. This new element contributes to improving risk management, fraud prevention and prevention of criminal activities given that the payee's bank has to take different actions subject to the type of fraud.

New elements introduced into the SDD Rulebooks

Based on the standard time cycle of the SDD Core Scheme, the payer's[2] bank must receive the request for a first direct debit collection or for a one-off direct debit collection at least five business days prior to the due date. The SDD Core Rulebook version 6.0 includes the possibility to use a shorter time cycle for the presentation of both first and recurrent direct debit payments by allowing the biller's bank to send the payments to the payer's bank at least one inter-bank business [3] day prior to the due date[4]. This option caters for the needs of certain businesses which require a shorter time cycle for direct debit payments than the standard cycle. The option allows for time critical business transactions, e.g. security related transactions and insurance collections for example. It should be noted that all PSPs must continue to support the standard time cycle of the SDD Core Scheme, irrespective of any agreements to use the new optional time cycle. For more information, refer to the article 'SDD for Billers: the SDD Core Scheme Timelines' (see 'related articles in this issue' below).

Both the SDD Core Rulebook version 6.0 and SDD B2B Rulebook version 4.0 include an extended timeline for the reversal procedure. A reversal takes place when a payee concludes that a collection should not have been processed, i.e. that the payer was debited in error, and the payee has to reimburse the payer with the full amount of the erroneous collection. The extended timeline will give payees more time to initiate a reversal in case errors are detected.

The SDD Implementation Guidelines have been updated to make the creditor identifier case and space insensitive. Billers collecting payments under the SDD Schemes are obliged to obtain a creditor identifier which relates to a legal entity, or an association that is not a legal entity, or a person assuming the role of the biller. The creditor identifier, in connection with the mandate reference [5], allows the payer and the payer's bank to verify each SDD payment and to process or reject the direct debit according to the payer's instructions. This update simplifies the processing of refunds and complaints. For more information, refer also to the article 'SEPA Direct Debit for Billers: the Creditor Identifier (Go Get It!)' (see 'related articles in previous issues' below).

The SDD B2B Rulebook version 4.0 includes a new reject and return code. This new code specifies that the collection is rejected or returned because the payer's account is a consumer account. Services and products based on the SDD B2B Scheme are however only available to businesses; the payer must not be a private individual (consumer).

Some suggestions for changes to the SEPA Scheme Rulebooks are not taken

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forward. Does this mean that the EPC 'ignores' user requests? No, it does not.

As previously reported, the process of SEPA scheme development can be compared to designing a car model: the basic model must meet key market requirements. At the same time, the model must be flexible enough to include options to add extras on demand. This concept provides maximum choice to customers while avoiding that a majority of customers has to buy features they do not need. The SEPA payment schemes developed by the EPC in close dialogue with the entire payment user community are based on this concept. In other words, the schemes include mandatory elements to be observed by all PSPs as well as optional elements allowing PSPs to offer specific features in response to market demand.

Each annual EPC scheme change management cycle demonstrates that the requirements of bank customers with regard to the SEPA payment schemes differ widely across and within the various customer segments. Payment service users are not only divided into payers and payees (whose payment needs are different). Bank customers encompass a wide range of interest groups including consumers, public administrations, corporates and small and medium-sized enterprises (SMEs). Corporates and SMEs may be active domestically, regionally or globally. In a multi-country environment such as SEPA, even within a specific customer segment, there exist very different schools of thought as to which specific features should be included in a payment scheme or not. As a matter of fact, expectations with regard to payments among and within these various customer segments often are contrary or even mutually exclusive. As a result, it is virtually impossible to translate the expectations of each and every single interest group into mandatory elements of the SCT and / or SDD Schemes.

The requirements of payment service users differ widely within and across various customer segments in the 32 SEPA countries

Not surprisingly, the EPC receives very different suggestions for changes to the SCT and SDD Rulebooks from specific interest groups representing a particular customer segment and / or customers of a particular SEPA community.

To illustrate the point: subject to local practice, consumers living in one SEPA country prefer a direct debit model which relies on assumptions not readily shared by consumers living in another SEPA country. In consequence, consumers in a few SEPA countries expect that their bank validate whether the consumer authorised a direct debit collection prior to debiting the consumer's account. Data provided by the European Central Bank (ECB) as well as every public consultation and recent market research carried out by the EPC however, show that almost 75 of
consumers making direct debit payments in the European Union today do not request such compulsory mandate 6
checks. For details on the subject, refer to the EPC Blog 'Talking about SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today' (see 'related links' below). In line with the expectations of the majority of payment service users, the SDD Core Scheme therefore enables PSPs to offer mandate checks and other mandate management features on an optional basis in response to customer demand.

Corporate needs with regard to the timelines governing the SDD Core Scheme are another example of highly distinct expectations within the same customer segment: corporates in one SEPA country prefer an extended timeline for the execution of a direct debit collection; corporates in another country however demand that a direct debit can be initiated and collected on a same-day basis. The SDD Core Scheme must strike a balance between these mutually exclusive expectations articulated within the same user group. The scheme therefore mandates that the biller (and, in consequence, the biller's bank) must respect the following timelines: the payer's bank must receive the request for a first direct debit collection or for a one-off direct debit collection at least five business days prior to the due date. For subsequent direct debit collections, the payer's bank must receive such a request at least two business days prior to the due date. The updated SDD Core Scheme Rulebook version 6.0, which will take effect in November 2012, however includes the option to use a shorter time cycle for the presentation of both first and recurrent direct debit payments as outlined above.

The scheme change management process established by the EPC identifies the requirements of the broad majority of the entire SEPA payment community

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The scheme change management process established by the EPC is designed to identify the majority views within the entire SEPA payment market (demand and supply) as to which features should be included in the schemes either as mandatory or optional elements - and which features should not be included at all.

It is well known that specific interest groups introduce the same set of suggestions for changes to the schemes each year albeit these change requests consistently fail to find broad support within the entire European payment market. This is evidenced with the consultation reports (see 'related links' below) which detail in full all feedback received during the annual public consultation on the evolution of the SEPA Schemes. As a result, the EPC, which is bound to respect the majority views, cannot incorporate such requests into the scheme rulebooks.

The EPC understands that in the eyes of these specific interest groups it may be frustrating that the broad majority of the SEPA payment community continuously rejects their proposals. In the view of the EPC it is inappropriate however to describe a process designed to identify majority views as 'ignoring user requests' - a claim frequently, if erroneously, made by some interest groups. For details on the subject, refer also to the article 'SEPA Governance: Setting the Record Straight' (see 'related articles in this issue' below).

The EPC has established an open and inclusive scheme change management process. It is hoped that the European Commission, which will assume the responsibility of SEPA scheme management in the future, will also adhere to best practice in this regard.

It is a standard EPC exercise to bridge different payment practices and customer expectations throughout the painstaking process of forging agreement on the countless technical and procedural details that make up a European payment scheme. European integration - in this case, developing harmonised SEPA payment schemes - is only possible if all parties engaged in the process are willing to aim for a solution that caters to the majority of payment service users. The EPC scheme change management process represents best political and industry practice established to achieve this objective.

It is hoped that the European Commission, which in future will take on the responsibility of SEPA scheme management based on the new and extensive powers granted to the Commission with the forthcoming SEPA Regulation, will adhere to the principles governing scheme development established by the EPC. For details on this subject, refer to the article 'Brave New World: the European Commission Becomes the SEPA Scheme Manager' (see 'related articles in this issue' below).

Javier Santamaría is the Chair of the EPC SEPA Payment Schemes Working Group.

Related links:

Links to the updated versions of the SCT and SDD Rulebooks and related implementation guidelines as well as reports covering the entire feedback received during the annual public consultation on SCT and SDD scheme development will be added by mid November 2011.

Scheme Management Internal Rules v2.1 - Extract - Chapter 3

EPC Website: SCT / SDD Rulebook Release Management and Scheme Development

EPC Blog: Talking about SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

EPC Webcast: EPC Webinar of 25 October 2011

EPC Press Release (May 2011): EPC Launches Annual Public Consultation on the SEPA Schemes and Calls on EU Lawmakers to Align Forthcoming SEPA Regulation with Industry Best Practice

Related articles in this issue:

SEPA Governance: Setting the Record Straight. SEPA is European integration in action. This process allows any party to engage. There is no 'SEPA governance issue'

Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator

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some insight on scheme development and rulebook release management

SEPA Direct Debit for Billers: the SDD Core Scheme Timelines. EPC Newsletter series provides support for billers preparing migration to the SDD Schemes

SEPA Regulation: Last Call to Legislators. EPC invites European lawmakers to align Regulation with bank customer requirements

Related articles in previous issues:

The Good, the Bad, the Ugly and a Knight in Shining Armour? European Commission requests unprecedented powers to determine payment functionalities (EPC Newsletter, Issue 9, January 2011)

What is Your View? EPC invites stakeholders to participate in consultations on the SEPA Scheme Rulebooks and the SEPA Cards Standardisation Volume - Book of Requirements (EPC Newsletter, Issue 11, July 2011)

SEPA Scheme Change Management - Public consultation starts in May 2011 (EPC Newsletter, Issue 10, April 2011)

SEPA Scheme Change Management 2011 - Call to Stakeholders. Suggestions for changes to SCT and SDD must reach the EPC by end February 2011 (EPC Newsletter, Issue 9, January 2011)

SEPA Schemes: Next Generation. EPC publishes new versions of the SCT and SDD Rulebooks on 1 November 2010 (EPC Newsletter, Issue 8, October 2010)

SEPA Scheme Rulebooks: next Release. Public consultation ends in August 2010 (EPC Newsletter, Issue 7, July 2010)

SEPA Scheme Change Management 2010: Public Consultation. All stakeholders are invited to participate in the evolution of the SEPA Schemes (EPC Newsletter, Issue 6, April 2010)

SEPA Scheme Change Management Cycle 2010. Suggestions for changes must reach the EPC by end February 2010 (EPC Newsletter, Issue 5, January 2010)

New SEPA Scheme Rulebooks out now. EPC publishes new versions of the SCT and SDD Rulebooks on 1 November 2009 (EPC Newsletter, Issue 4, October 2009)

Rock the Vote. Public consultation on SEPA scheme development is going on now (EPC Newsletter, Issue 3, July 2009)

The Preview. Rulebook Release Management 2009 (EPC Newsletter, Issue 2, April 2011)

SEPA Schemes: EPC approves Release Schedule. Predictable release cycle ensures planning security (EPC Newsletter, Issue 1, January 2009)

[1]The technical terms used in the SEPA Credit Transfer Rulebook refer to the payer as 'originator' and to the payee as 'beneficiary'. The term bank is used in a non-discriminatory fashion and does not exclude payment service providers which are not banks.

[2]The technical terms used in the SEPA Direct Debit Scheme Rulebooks refer to the payer as 'debtor' and to the biller as 'creditor'.

[3]The 'Trans-European Automated Real-time Gross Settlement Express Transfer System' (TARGET) calendar is used to identify inter-bank business days. This calendar is published by the European Central Bank. Settlement of funds, resulting form direct debit payments, always takes place on an inter-bank business day.

[4]The SEPA Direct Debit Schemes allow payers and billers to anticipate the precise date (due date), when their account will be debited or credited, respectively. The due date is assigned by the biller and should be agreed with the payer in the contract underlying a direct debit collection (a newsletter subscription, for example).

[5]The mandate is the authorization underlying a direct debit collection. Each mandate must include a 'unique mandate reference'.

[6]The mandate is the authorisation underlying a direct debit collection.

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ARTICLE203

EPC LATEST NEWS

EPC Plenary Meeting Update

Main decisions taken in September 2011

27.10.11 BY GERARD HARTSINK

Gerard Hartsink summarises the main items agreed in the European Payments Council (EPC) Plenary meeting, which took place in September 2011. During the meeting, the EPC Plenary agreed to publish a press release commenting on the European Commission's antitrust investigation into the standardisation process for payments over the internet undertaken by the EPC. The EPC Plenary approved updated versions of the SEPA Scheme Rulebooks, as well as documentation covering the EPC's work in the area of mobile payments, for publication. The EPC carried out a survey to identify mandate checking obligations of existing national direct debit schemes in SEPA. The EPC Plenary agreed to share the results of this survey with the European Union legislator for consideration. The main decisions are highlighted in the information box at the start of this article.

Key Information in this Article

Main items agreed by the European Payments Council (EPC) Plenary in September 2011:

The EPC Plenary agreed to publish a press release commenting on the European Commission’s antitrust investigation into the standardisation process for payments over the internet undertaken by the EPC.

The EPC Plenary approved the SEPA Credit Transfer Rulebook version 6.0, the SEPA Core Direct Rulebook version 6.0, and the SEPA Business to Business Direct Debit Rulebook version 4.0, and related implementation guidelines for publication in November 2011. These updated scheme rulebooks will take effect in November 2012.

The EPC carried out a survey to identify mandate checking obligations of existing national direct debit schemes in SEPA. The EPC Plenary agreed to share the results of this survey with the European Union (EU) legislator for consideration in the process leading to the adoption of the ‘Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro’ (the SEPA Regulation). The findings demonstrate that more than 73 percent of all direct debit payments in the EU are executed on the accounts of consumers who today, do not request such mandate checks.

The EPC Plenary approved the ‘Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines’ developed by EPC, as well as the second edition of the ‘EPC White Paper on Mobile Payments’, for publication by the end of 2011.

EPC press release commenting on the European Commission's antitrust investigation into the EPC's standardisation process for payments over the internet

The European Payments Council (EPC) Plenary agreed to publish a press release commenting on the European Commission's antitrust investigation into the standardisation process for payments over the internet undertaken by the EPC (see 'related links' below). The EPC fully understands that there is strong public interest in the European Commission's antitrust investigation into the EPC's work in the area of Single Euro Payments Area (SEPA) online payments. It is always the EPC's intention to be as open and transparent as possible in its communications with its stakeholders and the media. In this instance however, and at this moment in time, the EPC has decided not to make public comments beyond the EPC's media statement of 27 September 2011 due to the pending proceedings. The

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EPC wishes to clarify however, that it has a proven track record of consultation of and interaction with stakeholders on EPC's deliverables.

Approval of updated versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

The EPC Plenary approved the SEPA Credit Transfer Rulebook version 6.0, the SEPA Core Direct Rulebook version 6.0 and the SEPA Business to Business Direct Debit Rulebook version 4.0 and related implementation guidelines for publication in November 2011. These updated scheme rulebooks will take effect in November 2012. For detailed information on new elements introduced into the SEPA payment schemes, refer to the article 'SEPA Scheme Rulebooks: Next Edition Available in November 2011!' (see 'related articles in this issue' below).

The EPC would also like to alert all SEPA stakeholders that the forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation) is very likely to have significant impact on the future process applicable to SEPA scheme development and rulebook release management. The SEPA Regulation will give power to the European Commission to amend the technical requirements set out in this Regulation through delegated acts. This means that the EPC will be under the legal obligation to align the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks with the technical amendments determined by the European Commission. The EPC will be obliged to make related changes to the SCT and SDD Rulebooks effective according to the timelines mandated by the European Commission. This means payment service providers participating in the SCT and SDD Schemes will have to comply with amendments as per the effective dates defined by the European Commission. The EPC is therefore no longer able to ensure a predictable rulebook release management cycle. For details on this subject, refer to the article 'Brave New World: the European Commission Becomes the SEPA Scheme Manager' (see 'related articles in this issue' below).

Survey carried out by the EPC to identify mandate checking obligations of existing national direct debit schemes in SEPA

The EPC carried out a survey to identify mandate checking obligations of existing national direct debit schemes in SEPA. The EPC Plenary agreed to share the results of this survey with the European Union (EU) legislator for consideration in the process leading to the adoption of the 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation).

The findings of the EPC survey demonstrate that more than 73 percent of all direct debit payments in the EU are executed on the accounts of consumers who today, do not request such mandate checks. The average number of direct debit payments per consumer each year is 68 in countries with a direct debit model not supporting these checks. In countries with more complex direct debit scheme models, this average is around 23. The findings are in line with the experience of bank customers; namely, that millions of direct debits are securely and correctly collected in Europe every day - without checks required to be performed by law. It is the view of EPC that the EU legislator should take into account proven preferences of the majority of direct debit users. As such, the forthcoming SEPA Regulation should refrain from making compulsory mandate checks which are optional in the SDD Core Scheme. Instead, mandate checking options should be agreed between payment service providers and their customers.

For more information on the results of and commentary on this EPC survey, refer to the link to the survey and related EPC Blog (see 'related links' below).

Approval of 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' developed by EPC, as well as the second edition of the 'EPC White Paper on Mobile Payments' for publication by the end of 2011

Following a public consultation the EPC will publish the final version of the 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' in the fourth quarter of 2011.

These guidelines will enable the quick development of mobile solutions by:

- Promoting open standards.

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- Describing key stakeholder roles.
- Positioning EPC responsibilities in relation to other industry bodies.
- Recommending adequate security levels for mobile payment value chain.

By the end of 2011, the EPC will also publish the second edition of the 'EPC White Paper on Mobile Payments'. This updated version will include a new section on remote mobile payments as well as a high level mobile wallets description.

For detailed information on these soon-to-be launched documents detailing the EPC's work in the area of SEPA mobile payments, refer to the article 'Beyond the Hype: Making Mobile Payments Work' (see 'related articles in this issue' below).

Gerard Hartsink is the Chair of the EPC.

Related links:

EPC Press Release (27 September 2011): EPC Comments on the European Commission's Investigation into its Standardisation Process for Online Payments

EPC Survey on Mandate Checking Obligations in Existing Direct Debit Schemes

EPC Blog: Talking About SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

Related articles in this issue:

SEPA Scheme Rulebooks: Next Edition Available in November 2011! The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator some insight on scheme development and rulebook release management

Beyond the Hype: Making Mobile Payments Work. 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' and second edition of 'EPC White Paper on Mobile Payments'

Related article in previous issue:

Direct Debit: Killing it Softly. Reflections on the likely demise of one of the most popular payment instruments in Europe (EPC Newsletter, Issue 11, July 2011)

ARTICLE206

SEPA MARKET UPTAKE

SEPA Migration: Facts and Figures

The state-of-play in October 2011

27.10.11 BY ETIENNE GOOSSE

Each issue of the EPC Newsletter monitors the latest available data reflecting the rate of SEPA market uptake. In addition to providing a SEPA migration progress report, this article also discusses the progress of the legislative process aimed at the adoption of a European Union 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros'. This forthcoming legislative act is commonly referred to as the SEPA Regulation, which will set deadlines for the replacement of existing national euro credit transfer and direct debit schemes by harmonised European payment schemes. Etienne Goosse tables the facts and figures.

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Key Information in this Article

Data reflecting the progress of migration to the Single Euro Payments Area (SEPA) cited in this article represents the latest figures available at the time of EPC Newsletter publication (27 October 2011).

As of August 2011, the share of SEPA Credit Transfers (SCTs), as a percentage of the total volume of credit transfers generated by bank customers, amounts to 20.12 percent in the euro area (European Central Bank (ECB) SEPA Indicators).

As of August 2011, the share of SEPA Direct Debit (SDD), as a percentage of the total volume of direct debits generated by bank customers, amounts to 0.13 percent (ECB SEPA Indicators).

At the end of the second quarter 2011, 86.31 percent of cards, 93.66 percent of points of sale (POS) and 96.68 percent of automated teller machines (ATMs) in SEPA were EMV-compliant. EMV is an industry standard to implement chip (and personal identification number (PIN) security) for card transactions.

According to the 'SEPA Survey 2011', an online survey carried out by the ECB and the European Commission of over 350 companies, 22 percent of corporates in the euro zone are already using SCT for more than half of their payments and 24 percent no longer use domestic transfers.

As of October 2010 (latest data provided by the European Commission), the SCT migration rate for the replying public administrations in the euro area was 14.5 percent (European Commission's 4th Survey on Public Administrations' Preparedness and Migration to SEPA published in February 2011).

The proposal for a European Union (EU) European Union 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros' (the 'SEPA Regulation) published by the European Commission in December 2010 states, in part, that credit transfers will be carried out in accordance with this Regulation twelve months after it comes into force; and that direct debits shall comply 24 months after it comes into force.

The Economic and Monetary Affairs Committee (ECON) of the European Parliament and the European Economic and Financial Affairs Council (ECOFIN, comprising the EU Finance Ministers) have reviewed the European Commission's proposal and are currently collectively engaged in a so-called "trialogue" on this forthcoming legislative act. It is expected that this Regulation will be adopted by the end of 2011 or the start of 2012.

Percentage of banks in SEPA offering SEPA Credit Transfer services

The European Payments Council (EPC) launched the SEPA Credit Transfer (SCT) Scheme in January 2008. As of October 2011, 4,503 payment service providers (PSPs) in 32 countries offer SCT services. Today, the PSPs delivering SCT services represent more than 95 percent of payment volumes in Europe. Due to mergers and acquisitions, the absolute number of SCT participants (PSPs offering SCT services) has slightly decreased compared to previous Single Euro Payments Area (SEPA) market uptake reports featured in this newsletter. The EPC SCT Participant Register, which lists scheme participants, is publicly available at http://epc.cbnet.info/content/adherence_database.

Percentage of SCT transactions compared to the total volume of credit transfers generated by customers

According to the SCT indicators compiled by the European Central Bank (ECB), the share of SCT transactions as a percentage of the total volume of credit transfers generated by bank customers, amounts to 20.12 percent as of August 2011. The ECB SCT Indicators can be viewed at http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html.

A figure of 100 percent would indicate that only SEPA services are used and have fully replaced non-SEPA instruments. The SCT Indicators are based on aggregated data provided by clearing and settlement infrastructures in the euro area processing SEPA transactions. This data avoids double counting by excluding, for example, SEPA transactions sent via links between infrastructures. The data also excludes 'on-us' transactions (SCTs between accounts at the same bank) as well as transactions cleared between banks bilaterally or via correspondent banking. The ECB SCT Indicators also show SCT market uptake by country.

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Percentage of banks in SEPA offering SEPA Direct Debit services

The EPC launched the SEPA Core Direct Debit (SDD Core) Scheme and the SDD Business to Business Direct Debit (SDD B2B) Scheme on 2 November 2009. As of October 2011, 3,921 PSPs, representing more than 80 percent of SEPA payments volume have signed up to SDD Core Scheme. Of those, 3,441 PSPs also adhere to SDD B2B Scheme. The separate EPC Participant Registers for the SDD Core and SDD B2B Schemes list the scheme participants taking part in these SDD Schemes. These registers are publicly available at http://epc.cbnet.info/content/adherence_database.

All branches of banks in the euro area must be reachable for cross-border direct debits; e.g. the SDD Core Scheme, since 1 November 2010 as mandated by Regulation (EC) No 924/2009 (Article 8).

Percentage of SDD transactions compared to the total volume generated by customers

According to the SDD indicators compiled by the ECB, as of August 2011 the share of SDD Core transactions, as a percentage of the total volume of direct debits generated by bank customers, amounts to 0.13 percent. The ECB SDD Indicators can be viewed at http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html.

The figures are based on aggregated data from several clearing and settlement infrastructures / systems located in the euro area. As such, SDD transactions which are cleared bilaterally or processed within the same institution are excluded from this indicator.

SEPA for cards: tracking EMV roll-out

As reported in previous issues of the EPC Newsletter, good progress is being made in the realisation of a SEPA for cards. The EPC's SEPA Cards Framework (SCF) outlines high level principles and rules that when implemented by the card industry, will deliver a consistent user experience to both cardholders and merchants when making or accepting euro payments or cash withdrawals. The SCF recognises the EMV standard for SEPA-wide acceptance of card payments. EMV is an industry standard to implement chip (and personal identification number (PIN) security) for card transactions to combat fraud. An important indicator on the progress in this area is the number of cards, POS and automated teller machines (ATMs) in the market that use chip and PIN for the authorisation of a card payment. More specifically, the percentage of EMV-compliant cards, POS and ATMs in SEPA is monitored.

At the end of the second quarter of 2011, 86.31 percent of cards, 93.66 percent of POS and 96.68 percent of ATMs in SEPA were EMV-compliant.

The progress of EMV roll-out, based on these EPC findings and other relevant data on the subject, are reflected by the ECB SEPA Card Indicators at http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html.

Corporate SEPA readiness

Gtnews reports in October 2011 that "according to the SEPA Survey 2011, an online survey carried out by the ECB and the European Commission on over 350 companies, 22 percent of corporates in the euro zone are already using SCT for more than half of their payments and 24 percent no longer use domestic transfers. In the next two years, the percentage of companies that will make payments with the SCT is estimated to reach 57 percent. Confirmation of the progress made by SEPA in the adoption of new payment instruments also comes from the figures of the three-year study 'Economic and Strategic Assessment of the Payments Business', conducted by CeTIF - Università Cattolica in collaboration with Capgemini Italia and SIA. The research involved a panel made up of the main Italian banking groups representing more than 70 percent of the Italian payments market where, in 2009, there was a total of around 1 billion transactions with a growth of estimated volumes at around 10 percent in 2010. In line with what emerged from the survey by the ECB and the European Commission, SCTs amount to more than 6 percent of total [corporate] transactions (estimate 2010), compared with 0.6 percent in the previous year. (...) Thus, the SCT was the payment instrument with the highest growth since the volumes have increased by 977 percent, rising from nearly 1.1 million transactions in 2009 to about 11.8 million in 2010." A link to this article in gtnews is included under

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'related links' below.

Public sector: SEPA ready?

In February 2011, the European Commission published its 4th Survey on Public Administrations´ Preparedness and Migration to SEPA (see 'related links' below). The survey reflects migration by the public sector as of October 2010. The main findings of the survey are:

- Public administrations' (PAs) migration to SCT has accelerated at an impressive pace over the last eight months. For the reporting period, the SCT migration rate for the replying PAs in the euro area was 14.5 percent versus 2.7 percent in the previous survey. For the first time, SCT migration by PAs exceeded the corresponding rate for the overall market (14.5 percent versus 9.6 percent in October 2010).
- In particular PAs in Finland, Belgium, Austria, Spain, France and Germany have made significant progress over the last eight months.
- Migration to SDD however, remains marginal due to the fact that in the case of many PAs, direct debits are generally not used. In October 2010, the SDD migration rate for the replying PAs in the euro area was 0.24 percent (again a higher rate than for the overall market).

Setting a deadline for migration to SEPA

As confirmed by the findings of a study requested by the European Commission in 2007, the benefits for bank customers inherent to the SEPA harmonisation exercise are contingent upon swift migration to a single set of SEPA payment instruments by both the demand and the supply sides[1]. The EPC recognises the value of setting a deadline for migration to SEPA services. An end date for phasing out legacy euro payment instruments creates awareness, ensures planning security for all market participants and confirms the commitment to making SEPA a reality. In line with expectations expressed by EU Finance Ministers, the European Parliament and the ECB, the EPC believes that end dates must be set for the phasing out of existing national euro credit transfer and euro direct debit schemes to ensure that the high costs of running multiple payment schemes in parallel can be eliminated.

In December 2010, the European Commission published a proposal for an EU 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros' (commonly referred to as the 'SEPA Regulation'). This proposal states, in part, that credit transfers will be carried out in accordance with this Regulation twelve months after it comes into force; and that direct debits shall comply 24 months after it comes into force.

The European Commission's proposal for a SEPA Regulation was reviewed by the Economic and Monetary Affairs Committee (ECON) of the European Parliament and the European Economic and Financial Affairs Council (ECOFIN, comprising the EU Finance Ministers)[2] during the first half of 2011. Both institutions identified possible amendments to the European Commission's proposal. The ECON together with the ECOFIN and the European Commission are currently collectively engaged in a so-called " trialogue" on this forthcoming legislative act. It is expected that the SEPA Regulation will be adopted by the end of 2011 or the start of 2012. Fore more information, refer to the articles 'SEPA Regulation: Last Call to Legislators' and 'Brave New World: the European Commission Becomes the SEPA Scheme Manager' (see 'related articles in this issue' below).

Etienne Goosse is the EPC Secretary General.

Related links:

EPC Blog: SEPA - Are Corporates Ready to Make the Move?

Fore more information on co-decision or the 'ordinary legislative procedure' governing the European Union legislative process, click here

European Commission Proposal for a Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros (December 2010)

EPC Response to the European Commission Proposal for a Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros

Opinion of the European Central Bank on a Proposal for a Regulation Establishing Technical Requirements for

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Credit Transfers and Direct Debits in Euros (April 2011)

Economic and Monetary Affairs Committee (ECON) of the European Parliament: Final Report on the Proposal for a Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euros (July 2011)

European Commission Services' Fourth Survey on Public Administrations´ Preparedness and Migration to SEPA (February 2011)

European Commission Services' Third Annual Progress Report on the State of SEPA Migration (May 2011)

SEPA Council: Formal Declaration on End-Date(s) (June 2010)

Economic and Financial Affairs Council (EU Finance Ministers): SEPA Conclusions of December 2009

Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on Cross-order Payments in the Community and Repealing Regulation (EC) No 2560/2001

EPC Publication 'SEPA for the Public Sector'

Translations of the EPC Publication 'SEPA for the Public Sector' in all EU Languages Courtesy of the European Central Bank in Cooperation with EU National Central Banks

The EPC Website features a dedicated page 'SEPA Migration - Reports, Case Studies and Indicators'. This page includes EPC Newsletter articles reporting on the migration experience in the different SEPA countries. To view this page, click here

Gtnews: Twenty-Two Percent of Corporates Already Using SEPA, Finds Survey

The gtnews story cited above is based on a press release by SIA: Increase in the Use of SEPA Payments in the Eurozone but the End-Date for the Adoption of the New Standards Must be Set Rapidly

Related articles in this issue:

UNIQA Group Austria: 'SEPA is an Excellent and Necessary Idea!'. Migration experience of this leading insurance company confirms: business is better with SEPA

SEPA Scheme Rulebooks: Next Edition Available in November 2011! The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

SEPA Direct Debit for Billers: the SDD Core Scheme Timelines. EPC Newsletter series provides support for billers preparing migration to the SDD Schemes

SEPA Regulation: Last Call to Legislators. EPC invites European lawmakers to align Regulation with bank customer requirements

Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator some insight on scheme development and rulebook release management

Related articles in previous issues:

EPC Newsletter articles published in the section 'SEPA Case Studies': Learn from the SEPA migration experience of early movers in the business and public Sectors!

Light at the End of the (Harmonisation) Tunnel. Third Progress Report on the State of SEPA Migration Prepared by the European Commission Services confirms: mandatory end dates for migration to pan-European payment instruments are required (EPC Newsletter, Issue 11, July 2011)

Time to Prepare the Eulogy - 'Six Feet Under' for the Magnetic Stripe in SEPA. Eurosystem recommends migration to chip-only cards (EPC Newsletter, Issue 10, April 2011)

The Magnetic Stripe: Why it's Hard for Americans to Say Good-Bye. In the US, clinging to old-fashioned payment methods is more than just a bad habit (EPC Newsletter, Issue 10, April 2011)

So What's in a Name? Explaining payment schemes, instruments and systems. Clarity on payment terms is critical

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in the debate over the approach to setting end dates for migration to SEPA through EU Regulation (EPC Newsletter, Issue 8, October 2010).

[1]SEPA: Potential Benefits at Stake (Capgemini) available at http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=2 http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=283.

[2]The ECOFIN is a configuration of the European Council representing EU Member States.

ARTICLE207

SEPA CASE STUDIES

UNIQA Group Austria: 'SEPA is an Excellent and Necessary Idea!´

Migration experience of this leading insurance company confirms: business is better with SEPA

27.10.11 BY THOMAS WEISSMANN (INTERVIEW)

The case studies featured in the EPC Newsletter highlight the lessons learnt by individual businesses and public administrations, which have completed migration to SEPA payment schemes. Almost two years ago, the EPC Newsletter featured the results of the 'SEPA Readiness Survey 2009' by Deloitte, which focused on the corporate sector. Main findings of the survey indicated that those corporates with a dedicated SEPA team and strategy in place will derive significant benefits from implementation. The survey results also indicated that early movers have the most to gain. The UNIQA Group Austria, a leading insurer active in 27 countries across Central and Eastern Europe, confirms these predictions. UNIQA Group Austria started its SEPA migration project at the beginning of 2008 and today enjoys the benefits which result from the implementation of harmonised SEPA Schemes. Thomas Weissmann, project manager with the group, clarifies: "SEPA is an excellent and necessary idea. It should be kept in mind however that the dimensions of the SEPA migration project are comparable to those associated with the transition to the euro currency almost a decade ago". The UNIQA Austria Group migration experience reflects the most important lesson shared by all early movers on the customer side: preparation is everything. Any business which has not yet set up its SEPA team should do so now.

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Key Information in this Article

UNIQA Group Austria, which is one of the leading insurance groups in Central and Eastern Europe, services approximately 7.5 million customers in 21 regional markets.

UNIQA Group Austria started its Single Euro Payments Area (SEPA) migration project at the beginning of 2008. The project covered transition to both the SEPA Credit Transfer (SCT) and the SEPA Direct Debit (SDD) Schemes.

The following challenges were identified: adaptation of processes to the timelines stipulated in the SDD Schemes; conversion of customer account information to the International Bank Account Number (IBAN) and the Business Identifier Code (BIC) as well as communication with customers and business partners who were either unfamiliar with SEPA or – even if they were aware – had not yet started the migration process.

UNIQA Group Austria confirms that the investment in SEPA generates tangible benefits:

- Migration to the harmonised SCT and SDD Schemes allows for more efficient account reconciliation.
- Being able to collect direct debits throughout Europe using the harmonised SDD Schemes streamlines the management of the payment business.

The company is confident that the investment in SEPA will generate a financial return in the mid term.

UNIQA Group Austria services customers across Central and Eastern Europe

The UNIQA Group Austria is one of the leading insurance groups in Central Europe. In the eleven years since its formation, the UNIQA group has quickly established itself in both the Austria domestic and the Central and Eastern European markets. More than 40 operational insurance companies out of the entire UNIQA group currently have a premium volume of more than 6.2 billion euros - of which about 38 percent is generated outside of Austria. With approximately 22,000 employees, 7.5 million customers serviced group-wide and nearly 16.5 million policies in 21 regional markets, UNIQA is among the most dynamic corporate groups in Europe.

In Austria, UNIQA is one of the leading insurance groups, with a market share of approximately 22 percent and more than 6,500 employees. In addition to the publicly listed corporate parent UNIQA Versicherungen AG, the group includes UNIQA Sachversicherung AG, UNIQA Personenversicherung AG, Raiffeisen Versicherung AG, Salzburger Landes-Versicherung AG, CALL DIRECT Versicherung AG, FinanceLife Lebensversicherung AG as well as other service and financing companies. UNIQA enjoys a brand awareness of 93 percent among the Austrian public and is the undisputed top brand for 51 percent of Austrians. UNIQA is also the clear innovation leader among the top ten Austrian insurers. 40 percent of Austrians consider UNIQA to be especially innovative.

Outside of Austria, UNIQA is active in the Czech Republic, Hungary, Slovakia, Croatia, Poland, Italy, Switzerland, Germany, Liechtenstein, Slovenia, Romania, Bosnia and Herzegovina, Bulgaria, Serbia, Montenegro and the Ukraine, Albania, Macedonia and Kosovo as well as Russia. In Austria alone, the group processes approximately five million credit transfers with a volume of some 3,500 million euros and 20 million direct debits with a volume of some 4,200 million euros annually.

The UNIQA Group Austria SEPA project - questions and answers

EPC Newsletter: When did your organisation decide to set up the Single Euro Payments Area (SEPA) implementation project?

Thomas Weissmann: UNIQA Group Austria decided to set up the SEPA implementation project in June 2007.

EPC Newsletter: What motivated your organisation to set up a SEPA implementation project despite the fact that to-date there is no legal obligation for customers to implement SEPA payment schemes and standards?

Thomas Weissmann: Our experience with regard to the UNIQA euro-project; i.e. the change-over to the common currency, has shown that it is strictly necessary to start activities related to a project of these dimensions as soon as possible. From a project management perspective, the transition to SEPA is comparable to the introduction of the euro.

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EPC Newsletter: Did your organisation opt to implement SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD)?

Thomas Weissmann: Yes, we implemented both SCT and SDD.

EPC Newsletter: Did you set up a SEPA implementation team? If so, which departments of your organisation were involved in the project?

Thomas Weissmann: We created a 'SEPA Core' project team, which consisted of several colleagues whose main responsibility was to coordinate SEPA implementation. Eventually, almost all departments of our group were involved in the project. Internal communication was key to engage all departments concerned, as many did not immediately realise how SEPA would impact their operations. Eventually however, it became clear how SEPA impacts the entire payment business; i.e. collections and disbursements of premiums, claims and losses, remittances for bills, salaries, commissions, fees and more.

EPC Newsletter: Is SEPA implementation viewed as a stand-alone project or is it part of a review of processes and applications beyond payments?

Thomas Weissmann: We set up SEPA implementation as a stand-alone project.

EPC Newsletter: Did your organisation opt to upgrade the existing IT architecture or to implement new IT applications and enterprise resource planning (ERP) systems?

Thomas Weissmann: We continued to work with our existing systems which were updated to achieve SEPA compliance.

EPC Newsletter: What were the main challenges in the SEPA implementation project?

Thomas Weissmann: We were able to achieve technical compliance with the SEPA Schemes and standards quite smoothly. The conversion of account information from the local identifiers to the International Bank Account Number (IBAN) and the Business Identifier Code (BIC) was however, very complex. With regard to the implementation of SDD, the main challenge was definitely to adjust our processes to the timelines for a collection as defined in the SDD Core Rulebook, as these are very different from the timelines we observe in the existing Austrian direct debit scheme.

EPC Newsletter: In order to share further information with our readers - keeping in mind that the process of collecting a payment by direct debit is initiated by the biller, the biller (and, in consequence, the biller's bank) must respect the following timelines under the SEPA Core Direct Debit Scheme (SDD Core). The payer's bank must receive the request for a first direct debit collection or for a one-off direct debit collection at least five business days prior to the due date. For subsequent direct debit collections, the payer's bank must receive such a request at least two business days prior to the due date. For reference, the updated version of the SDD Core Rulebook, which will be published in November 2011 and take effect in November 2012, includes a new optional element regarding timelines applicable to the presentation of direct debit collections. There are two related articles in this edition of the EPC Newsletter (see 'related links' below).

What were the other specific challenges you identified during the SEPA implementation process?

Thomas Weissmann: The real challenge was the communication with customers and business partners who were either unfamiliar with SEPA or - even if they were aware - had not yet started the migration process.

EPC Newsletter: Is it possible to quantify the investment necessary to implement the SEPA payment schemes and standards?

Thomas Weissmann: It is not yet possible to quantify the entire expenditure invested in order to achieve SEPA compliance. We expect however, that the investment will be in line with our original estimates. We also expect that the investment will generate a return due to the fact that our customers' premium payments will be transferred to our accounts faster using the SEPA Schemes. We are still in the process of specifying the timeframe as to when this return on investment will materialise as well as finalising related figures.

EPC Newsletter: In your view, what are the main benefits of SEPA implementation?

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Thomas Weissmann: There are two main benefits for UNIQA Group Austria associated with SEPA implementation: firstly, migrating to the harmonised SEPA payment schemes allows for more efficient account reconciliation; secondly, being able to collect direct debits throughout Europe using the harmonised SDD Schemes is also a principal advantage for us. In our opinion, SEPA implementation is an excellent and necessary idea to harmonise and simplify the extremely different payment-systems existing throughout Europe today. The initiators of the SEPA process and the professionals involved in realising this initiative deserve our respect and our great compliments.

EPC Newsletter: Mr Weissmann, thank you very much.

Thomas Weissmann is project manager at UNIQA Group Austria.

Related links:

UNIQA Group Austria

EPC Blog: SEPA - Are Corporates Ready to Make the Move?

EPC Publication: Shortcut to Business - the 10 Best Reasons to Practice SEPA

EPC Publication 'SEPA for Business'

The EPC Website features a dedicated page 'SEPA Migration - Reports, Case Studies and Indicators'. To view this page click here.

Related articles in this issue:

SEPA Scheme Rulebooks: Next Edition Available in November 2011! The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

SEPA Direct Debit for Billers: the SDD Core Scheme Timelines. EPC Newsletter series provides support for billers preparing migration to the SDD Schemes

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SEPA Direct Debit for Billers: the Creditor Identifier (Go Get It!). EPC Newsletter series provides support for billers preparing migration to the SDD Schemes (EPC Newsletter, Issue 11, July 2011)

SEPA Direct Debit for Billers: The SDD Mandate. EPC Newsletter series provides support for billers preparing migration to the SDD Schemes (EPC Newsletter, Issue 10, April 2011)

Facing Up to the IT Challenge. Choosing the right IT strategy for SEPA compliance (EPC Newsletter, Issue 8, October 2010)

SEPA Survey 2009: Corporate Readiness on the Rise. The findings confirm that early movers have everything to gain (EPC Newsletter, Issue 5, January 2010)

ARTICLE197

SEPA DIRECT DEBIT (SDD)

SEPA Direct Debit for Billers: the SDD Core Scheme Timelines

EPC Newsletter series provides support for billers preparing migration to the SDD Schemes

27.10.11 BY JAVIER SANTAMARÍA AND HERMAN SEGERS

This is the third article in a series which provides information on specific aspects of the SEPA

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Direct Debit (SDD) Schemes, relevant in particular to billers preparing for migration to SDD. In this context, the European Payments Council (EPC) invites readers to be mindful of the forthcoming European Union (EU) Regulation, which is expected to set a deadline for the replacement of existing national euro direct debit schemes with harmonised European direct debit schemes. Keeping in mind that the process of collecting a payment by direct debit is initiated by the biller, the biller (and, in consequence, the biller's bank) must respect the timelines defined in the SDD Core Rulebook for the execution of a direct debit collection. In this article, Javier Santamaría and Herman Segers detail the timelines governing the SDD Core Scheme. These may differ significantly from those established by existing national direct debit schemes. The EPC also developed the SDD Business to Business (SDD B2B) Scheme. The timelines of the SDD B2B Scheme differ from those of the SDD Core Scheme and will be described in a separate article scheduled for publication in the January 2012 EPC Newsletter.

Key Information in this Article

The standard time cycle of the SEPA Core Direct Debit (SDD Core) Rulebook is: the payer's bank must receive the request for a first direct debit collection or for a one-off direct debit collection at least five business days prior to the due date. For subsequent direct debit collections, the payer's bank must receive such a request at least two business days prior to the due date.

The due date is assigned by the biller and should be agreed with the payer in the contract underlying a direct debit collection. The due date may be later than the date agreed between the payer and the biller if the due date is not a banking business day or in case of other exceptional circumstances.

Billers might also wish to keep in mind that, exceeding the requirements of the Payment Services Directive (PSD), the SDD Core Scheme grants consumers a 'no-questions-asked' refund right during the eight weeks following the date that a consumer's account was debited. During this time any funds collected by SDD will be credited back to the consumer's account upon request.

In the event of unauthorised direct debit collections, the consumer's right to a refund extends to thirteen months as stipulated in the PSD.

In November 2011, the European Payments Council (EPC) will publish updated versions of the SEPA Scheme Rulebooks. The updated versions will take effect in November 2012. The SDD Core Rulebook version 6.0 includes the possibility to use a shorter time cycle for the presentation of both first and recurrent direct debit payments, by allowing the biller's bank to send the payments to the payer's bank at least one inter-bank business day prior to the due date.

The SEPA Direct Debit (SDD) Schemes in a nutshell

The SDD Core and the SDD Business to Business (SDD B2B) Schemes developed by the European Payments Council (EPC) - like any other direct debit schemes - are based on the following concept: 'I request money from someone else, and, with his prior approval, I can credit it to myself'. For the first time ever, SDD Schemes enable consumers to make cross-border direct debit payments throughout the 32 Single Euro Payments Area (SEPA) countries[1]. At the same time, the SDD Schemes can of course be used domestically. The payer and the biller[2] must each hold an account with a payment service provider (PSP) located within SEPA. The accounts may be held in either euro or in any other currency. The transfer of funds (money) between the payer's bank[3] and the biller's bank always takes place in the euro currency. Currency conversion aspects are out of scope of the scheme.

For more information on the SDD Schemes, refer to the EPC publication 'Shortcut to SEPA Direct Debit' (see 'related links' below). This four page publication summarises the main features of the SDD Schemes in non-technical terms, including their key benefits. Detailed information on the SDD Schemes is available on the EPC Website (see 'related links' below).

What a difference a day makes

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To understand the timelines governing the SDD Core Scheme, the following terms need to be introduced:

- **Due date**: the SDD Schemes allow payers and billers to anticipate the precise date (due date), when their account will be debited or credited, respectively. The due date is assigned by the biller and should be agreed with the payer in the contract underlying a direct debit collection (a newsletter subscription, for example).
- **Settlement date**: the day on which settlement[4] takes place; i.e. the day when the funds are transferred between the bank of the payer and the bank of the biller.
- **Debit date**: the day on which the payer's account is debited.

Keeping in mind that the process of collecting a payment by direct debit is initiated by the biller, the biller (and, in consequence, the biller's bank) must respect the following timelines under the SDD Core Scheme: the payer's bank must receive the request for a first direct debit collection or for a one-off direct debit collection at least five business days prior to the due date. For subsequent direct debit collections, the payer's bank must receive such a request at least two business days prior to the due date. The updated version of the SDD Core Rulebook, which will be published in November 2011 and take effect in November 2012, includes a new optional element regarding timelines applicable to the presentation of direct debit collections. This new optional element will be further explained below.

The SDD Core Scheme defines a 'calendar day', a 'banking business day' and an 'interbank business day'. A calendar day is any day of the year. A banking business day means, in relation to a bank, a day when a bank is open for business, as required for the execution of an SDD payment. An inter-bank business day is when banks are open for business between banks. The 'Trans-European Automated Real-time Gross Settlement Express Transfer System' (TARGET) calendar is used to identify inter-bank business days. To avoid frequent changes to TARGET closing days due to national holidays for example and thus the introduction of uncertainties into financial markets, a long-term calendar for TARGET closing days has been established and applied since 2002. This calendar is published by the European Central Bank. Settlement of funds, resulting from direct debit payments always takes place on an inter-bank business day.

Prior to the due date, the biller must observe the following steps: the biller must obtain a mandate from the payer. A mandate is signed by the payer to authorise the biller to collect a payment and to instruct the payer's bank to pay those collections. The mandate can be issued in paper or electronic format. The mandate expires 36 months after the last initiated collection. The signed mandate must also be stored by the biller as long as the mandate is valid and for at least 14 months after the last collection.

The biller must send a 'pre-notification', an invoice for example, to the payer at least 14 calendar days before collecting the payment, unless a different time line has been agreed between the payer and the biller. The pre-notification includes the due date and the amount of the collection. The pre-notification may be sent only once even for recurrent direct debit collections if the due dates and the amounts of future collections are stated. For example: a publisher (biller) may send a single pre-notification annually to the newspaper subscriber (payer) if this pre-notification states that the amount of the monthly subscription fee will be collected. The biller must send the payment messages to their bank in line with the agreement with that bank, so that the biller's bank is able to provide the payment message to the bank of the payer at least two inter-bank business days before the due date. The biller's bank must then send the payment messages to the bank of the payer via a Clearing and Settlement Mechanism (CSM) [5]. The payment messages must be at the disposal of the bank of the payer at least two inter-bank business days before the due date. The bank of the payer can store the payment message or offer any other service to the payer during the period between the receipt of the payment message and the due date. If the due date falls on a day which is not an inter-bank business day, then the settlement date will be the next inter-bank business day.

On the due date, the account of the payer is debited and the amount of the payment presented by the biller's bank is settled, i.e. the funds are automatically transferred from the bank of the payer to the bank of the biller. As from the due date, the bank of the biller can credit the account of the biller, according to the agreement between the biller and his bank. If the status of the account of the payer does not allow the bank to debit the account, due to insufficient funds for example, then the bank may continue to try to debit the payer's account until five days after the due date.

After the due date: up to five inter-bank business days after the due date, the bank of the payer may return a

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payment and refuse to debit the account of the payer, due to insufficient funds or because the bank is unable to accept the payment for other reasons. It could be the case, for example, that the account is closed or blocked for direct debit. In another scenario, the payer might request the bank to return the payment as the payer does not agree with the execution of the payment. Five inter-bank business days is the limit for the bank of the payer to send a 'return' message to the bank of the biller through a CSM. The CSM will settle the amount of the return to the benefit of the bank of the payer, as the amount of the original payment has already been settled on the due date.

Billers might also wish to keep in mind that exceeding the requirements of the Payment Services Directive (PSD)[6], the SDD Core Scheme grants consumers a 'no-questions-asked' refund right during the eight weeks following the debit date of a consumer's account; e.g. during this time any funds collected by SDD will be credited back to the consumer's account upon request. In the event of unauthorised direct debit collections, the consumer's right to a refund extends to thirteen months as stipulated in the PSD. An unauthorised collection is a collection which is not covered by a mandate. The latest day for the settlement of a refund transaction is two inter-bank business days after the date on which the deadlines specified above come to an end.

The general rule and applicable exceptions

The due date, debit date and settlement date are the same for a direct debit payment. This general rule applies when the bank of the payer and the bank of the biller are materially able to settle on a due date.

Banks however, may have IT problems which make it impossible to settle on that date. Further, even if the CSM executing the settlement action is open for business on due date, other entities in a country may be closed on a specific day when this day is a public holiday in the country. Also, even if the bank of the payer is able to debit the payer's account on due date, the account of the payer may show an insufficient balance to allow the debit of the account.

Therefore, exceptions to this general rule apply. If for any reason the payment is delayed, then the due date must be replaced by the next possible date by the biller or their bank. At inter-bank level, a given due date may never be changed. If the due date falls on a day which is not an inter-bank business day, then the settlement date will be the next inter-bank business day. If the settlement date falls on a day which is not a banking business day for the payer's bank, then the debit date will be the next banking business day. If the bank of the payer cannot debit the payer's account on the due date (for example, there are insufficient funds), then the debit can be executed later.

The SDD Core Scheme also defines timelines applicable to the execution of 'R-transactions' such as, for example, rejects and refunds. These timelines will be described in a separate article addressing 'R-transactions' scheduled for publication in a future edition of the EPC Newsletter.

New optional element introduced into updated version of the SDD Core Rulebook allows for shorter timelines

In November 2011, the EPC will publish updated versions of the SEPA Scheme Rulebooks. The updated versions will then take effect in November 2012. The SDD Core Rulebook version 6.0 includes the possibility to use a shorter time cycle for the presentation of both first and recurrent direct debit payments by allowing the biller's bank to send the payments to the payer's bank at least one inter-bank business day prior to the due date. This option caters for the needs of certain businesses which require a shorter time cycle for direct debit payments than the standard cycle. It allows for time critical business transactions, e.g. security related transactions and insurance collections for example. It should be noted that all PSPs participating in the SDD Core Scheme must continue to support the standard time cycle of the SDD Core Scheme, irrespective of any agreements to use the new optional time cycle.

Billers should contact their bank to learn more about the possibilities to use these shorter timelines, as in certain EU countries banks of payers may accept to operate also under these timelines, while other banks may not support this option.

Javier Santamaría is the Chair of the EPC SEPA Payment Schemes Working Group. Herman Segers is a former Secretary General of the EPC. He also served as the editor of the SDD Rulebooks for many years.

Related links:

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The EPC Website features a section dedicated to SDD. To view this section, click here.

EPC Publication: Shortcut to the SEPA Direct Debit Schemes

EPC Publication: SEPA Direct Debit for Consumers - a Convenient and Secure Way to Make Payments

EPC Blog: Talking About SEPA Direct Debit: The EPC Invites European Lawmakers to Consider Results of EPC Survey on Direct Debit Models Existing in SEPA Today

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Brave New World: the European Commission Becomes the SEPA Scheme Manager. The EPC offers the regulator some insight on scheme development and rulebook release management

Related articles in previous issues:

SEPA Direct Debit for Billers: the Creditor Identifier (Go Get It!) (EPC Newsletter, Issue 11, July 2011)

Direct Debit: Killing it Softly. Reflections on the likely demise of one of the most popular payment instruments in Europe (EPC Newsletter, Issue 11, July 2011)

SEPA Direct Debit for Billers: The SDD Mandate (EPC Newsletter, Issue 10, April 2011)

The Quantum Leap for SEPA Direct Debit. From 1 November 2010, all banks in the euro area are reachable for SEPA Core Direct Debit (EPC Newsletter, Issue 8, October 2010)

Have it Your Way! The EPC e-Mandate option: a secure way to authorise a SEPA Direct Debit payment (EPC Newsletter, Issue 6, April 2010)

SEPA Survey 2009: Corporate Readiness on the Rise - The findings confirm that early movers have everything to gain (EPC Newsletter, Issue 5, January 2010)

Refunds and Returns Revisited. Questions and answers on the correlation between the PSD and the SDD Schemes (EPC Newsletter, Issue 4, October 2009)

Creditors: Help is Here. EPC introduces rules on the use of legacy mandates under the SDD Scheme (EPC Newsletter, Issue 2, April 2009)

[1]SEPA currently consists of the 27 EU Member States plus Iceland, Liechtenstein, Norway, Monaco and Switzerland.

[2]The technical terms used in the SDD Scheme Rulebooks refer to the payer as 'debtor' and to the biller as 'creditor'.

[3]The term bank is used in a non-discriminatory fashion and does not exclude payment service providers which are not banks.

[4]Settlement is 'an act that discharges obligations in respect of funds or securities transfers between two or more parties.' Committee on Payment and Settlement Systems.

[5]In the SEPA context, a payment system in the meaning of a 'funds transfer system' is referred to as a 'Clearing and Settlement Mechanism' (CSM). A funds transfer system enables the exchange of funds (money) and messages between two payment service providers (PSPs) executing a payment transaction. These funds transfer systems can be PSPs as well as separate business - public or private - entities (which may or may not be owned by banks). CSMs are also referred to as infrastructures.

[6]Directive 2007/64/EC of the European Parliament and of the Council of 13 November, 2007 on payment services in the internal market is generally referred to as the Payment Services Directive (PSD). The PSD was implemented by most European Union (EU) Member States by 1 November, 2009. The PSD aims at establishing a modern and comprehensive set of rules applicable to all electronic payment services - not just SEPA services - in the EU.

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ARTICLE204

OPINION AND EDITORIAL

ISO 20022 Message Standards: Too Many Flavours?

Domestic specifications of the SEPA data formats risk preventing market harmonisation

27.10.11 BY RUTH WANDHÖFER, MICHAEL STEINBACH AND MATTHIAS HABERKORN

In the pre- SEPA euro payments market, dozens of different data formats are in place to process payments across different national and European clearing systems. The realisation of a harmonised euro payments market therefore requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats specified by the European Payments Council (EPC) are detailed in the implementation guidelines released by the EPC with regard to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks. The SEPA data formats are binding for the exchange of SEPA payments between payment service providers (PSPs) which are SCT and / or SDD Scheme participants. The use of the SEPA data formats in the customer-to-bank communication is recommended by the EPC, yet not made mandatory. These data formats are based on the global ISO 20022 message standards developed by the International Organization for Standardization (ISO). The authors of this article point out that today, some hundred different specifications based on the EPC implementation guidelines are available. In their view, this fragmentation poses a serious obstacle in achieving the SEPA objective of market harmonisation. Going forward, the focus should be on further aligning the interpretation of the ISO 20022 messages rather than translating the specifics of existing national formats into this global format.

The views expressed are those of the authors and therefore should not be reported as representing the views of the European Payments Council.

Key Information in this Article

The SEPA data formats, based on the ISO 20022 message standards developed by the International Organization for Standardization (ISO), are detailed in the implementation guidelines released by the European Payments Council (EPC).

The use of the SEPA data formats is mandatory for the exchange of SEPA payments between payment service providers (PSPs), which participate in the SEPA Credit Transfer and / or SEPA Direct Debit Schemes. The use of the SEPA data formats in the customer-to-bank communication is recommended by the EPC, yet not made mandatory.

The use of the SEPA data formats in the customer-to-bank communication is recommended by the EPC, yet not mandated.

The authors of this article suggest that the existence already of multiple interpretations of the ISO 20022 message standards; i.e. multiple domestic SEPA formats, threaten to undermine key objectives of the SEPA initiative:

- Increased competition in the SEPA payment market as a result of market harmonisation.
- Improved efficiency in multi-country payment processing at a PSP-to-PSP (or PSP-to-infrastructure) level.
- Improved efficiency and provider choice for users.

The authors outline an alternative approach pursued by the Common Global Implementation (CGI) initiative, a global industry forum which brings together representatives of both the demand and supply sides. The CGI has recently published implementation guidelines covering payments, collections and reporting based on the ISO 20022 message standards.

The views expressed are those of the authors and therefore should not be reported as representing the views of the European Payments Council.

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Concerning the differences between two-wheelers and the need for multi-lane highways

A bicycle path is only meant for bicycles. That seems obvious enough - the clue is in the name. What happens however if one day someone drives along the path on a motorbike? Nobody really cares enough to try to stop them. Why? Because the motorbike also has two wheels, and given that not many cyclists have discovered this particular path yet, the risk of a serious accident seems small. An observant onlooker might say: "Yeah, but that's not a bicycle", however someone might argue that the traffic authorities only determined that a vehicle must have two wheels in order to use this path. Nobody told the motorcyclist that they were not allowed to add some additional extras to the bicycle, such as a motor for example.

The situation for Single Euro Payments Area (SEPA) transactions is broadly comparable. The general idea is that SEPA payment transactions are processed based on a common set of data to be exchanged in a common syntax; i.e. the SEPA data formats. The SEPA data formats are detailed in the SEPA implementation guidelines, released by the European Payments Council (EPC), with regard to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks (see 'related links' below). The SEPA data formats are binding for the exchange of SEPA payments between payment service providers (PSPs) that are SCT and / or SDD Scheme participants. The use of the SEPA data formats in the customer-to-bank communication is recommended by the EPC yet not made mandatory. The SEPA data formats do not constitute an exclusive European standard. Rather, the SEPA data formats are based on the global ISO 20022 message standards developed by the International Organization for Standardization (ISO).

It is expected that there should be a common understanding on the use and interpretation of the ISO 20022 message standards, as specified in the EPC implementation guidelines (i.e. only bicycles are allowed on this path). This is however, not the case. The market reality today is that multiple specifications based on the EPC implementation guidelines are in use, which has resulted in subtle (and sometimes not so subtle) differences in the application of the standard. The bicycle path is increasingly populated also by motorcycles and other types of vehicles which only very remotely resemble what is commonly considered a bicycle.

Insufficient attention is being paid to the fact that a wide variety of message formats are currently being used in the PSP-to-PSP domain, despite the fact that the EPC has clearly defined the inter-PSP SEPA format. If this were to continue to be the case as SEPA migration continues to gain momentum, there would be major risks to efficiency, interoperability and competition. So far however, many PSPs and clearing and settlement mechanisms (CSMs)[1] have not been able to resist the urge to adjust these when implementing their own solutions.

Vision versus reality

Why is that? The role of the EPC in defining the SEPA data formats involves identifying all necessary data elements for making SEPA payments, as defined in the SEPA Scheme Rulebooks within the global ISO 20022 message standard. These 'core' data elements are indicated by yellow shading in the EPC's implementation guidelines, released with respect to the SCT and SDD Schemes. To allow communities of banks participating in the SEPA Schemes to provide additional optional services (AOS) based on the schemes, the EPC has also identified data elements within the global standard that can be used for this purpose. These data elements are indicated by white shading in the SEPA implementation guidelines.

The implementation guidelines could therefore be regarded as a framework rather than as a prescriptive solution which allow a degree of interpretation. As a result, many market participants felt able to take the basic SEPA format and modify it - often according to the information included in their former domestic formats. Examples of the types of modifications that have been witnessed include: the interpretation and usage rules of fields in the mask are different; a field that was optional in the SEPA Rulebook is made mandatory by that local implementation rule or, in the other extreme, is no longer allowed; or something is added as a file header. Specifications of the ISO 20022 message standards developed by national CSMs also often seem to aim at perpetuating local habits; i.e. differences, rather than embrace harmonisation and therefore competition.

At first sight, this might even look like a positive thing to do if the motivation was to meet existing user needs in, for example, a national community. Maintaining this position of flexibility and variation at the PSP-to-PSP level in the

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future however, would come at a heavy price - in terms of severely limiting the benefits of enhanced efficiency, cross-border competition between all SEPA PSPs and more choice for customers. After all, a standard can only deliver competition and enhanced efficiency for the market if implemented in a harmonised and consistent way. At a time when the need to complete the European Union (EU) single market has never been higher up the agenda, it would be a huge irony if the SEPA initiative were to result in additional fragmentation rather than the harmonised environment it is meant to be delivering. Indeed, a harmonised SEPA outcome is a key contributor to the broader EU agenda as set out in the EU 2020 Strategy and the EU Digital Agenda (see 'related links' below).

As a consequence of the lack of harmonisation, multi-country payment processing at a PSP-to-PSP (or PSP-to-CSM) level currently requires the handling of multiple domestic SEPA formats, which effectively replicates the legacy environment where every country had different local rules and formats for their payment process. If this situation were to continue, the upgrade to the open ISO 20022 XML standard framework would therefore add little value to the efficiency and integration of the European payment market.

A global perspective on ISO 20022

Moving briefly away from the European story, let us take a look at what is happening with the ISO 20022 message standards at a global level. In addition to enabling a more streamlined way of processing transactions between PSPs, ISO 20022 is fast establishing itself as the 'best of breed' when it comes to simplifying customer connectivity to PSPs. As a result, corporate customers are increasingly embracing these message standards.

This tangible success has been brought about through the international collaboration within the Common Global Implementation initiative (CGI), a global industry forum which brings together leading corporate customers, banks, service providers and standard bodies. Created in October 2009, CGI currently includes 47 members and has recently published implementation guidelines covering payments, collections and reporting (note that reporting is not taken care of in the SEPA environment!).

The CGI approach to ISO 20022 XML enables the user to benefit from a common business process to improve payment initiation and accounts receivable automation, including reliable transfer of the remittance advice or the remittance advice reference through the banking/PSP chain. In practice, this means that customers can take their cash management to the next level with help of a single global implementation. Customers are able to make use of a single common global template to send and receive all their payments around the world, including reporting. The concept of 'data overpopulation' allows customers to effectively provide all of their information to the bank/PSP using ISO 20022 XML, removing the requirement to follow local business rules. Therefore the complexity of the country-rule led payments process, which customers are usually subjected to, is instead pushed on to the bank/PSP side. The bank/PSP that is part of the CGI then ensures that only the relevant information is passed to the respective clearing in order to execute the transaction. This delivers a very simple and efficient approach for the customer, facilitating the integration process with banks/PSPs, reducing implementation cost and at the same time enabling the customer to switch bank/PSPs easily - between those that are part of the CGI - which is an important benefit from a competition as well as risk management perspective. Whilst the EPC customer-to-bank implementation guidelines (recommended by EPC) would require customers to follow the SEPA business rules and only send the information that is defined therein, the CGI approach, by enabling 'overpopulation', allows the elimination of any requirement on customers to specifically filter the data for such a process.

Additionally, the PSPs supporting this initiative see an increased benefit in achieving more global coherence amongst payment systems standards and formats with a view to aligning around the ISO 20022 XML message standards, as this would simplify their task immensely. This is quite a different approach to that being followed by some European players and communities as described above, which instead see a benefit in a more fragmented and locally flavoured approach to ISO 20022 XML, even in a SEPA context.

Let us recall the original SEPA objectives - and apply the lessons learnt

Suffice to say that in Europe, as much as at a global level, the true value that can be provided by PSPs to their customers lies in a coherent standard approach that leverages the ISO 20022 message standards as much as possible. Therefore SEPA should move to the next level, i.e. a situation should be created which allows PSPs to process ISO 20022 transactions and enables their customers to access these services in a harmonised way. This

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would result in more customer choice and competition in the payments market, domestic as well as cross-border, to the benefit of all types of users of all sizes. The initial track record of SEPA in this regard leaves room for much improvement. It is expected however, that adoption of the forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation) will set mandatory deadlines for migration to the SEPA payment schemes and thereby give new momentum to the market.

So will motorbikes disappear from the bicycle path in the future?

Coming back to our introductory analogy, the question at this point is whether we will manage to get the motorcycles off the bicycle path. In the European context, the answer needs to be a firm 'yes!' In the interests of road safety and traffic management, motorbikes and bicycles cannot be allowed to share the same lane in any great numbers. It is crucial that the SEPA supply side wakes up quickly to the need to adopt a much more consistent and harmonised approach to the use of the ISO 20022 message standards in the PSP-to-PSP domain as well as the customer-to-PSP space. Otherwise SEPA too would risk frequent traffic accidents and breakdowns.

Ruth Wandhöfer is a member of the EPC Plenary. She also chairs the EPC Information Security Support Group. Michael Steinbach is a member of the EPC Plenary. Matthias Haberkorn is SEPA Programme Manager at Equens.

Related links:

EP Publication: Shortcut to the SEPA Data Format

EPC Website: ISO 20022 Message Standards (SEPA Data Formats)

To view the implementation guidelines developed by the EPC, refer to the following pages on the EPC Website: SEPA SEPA Credit Transfer and SEPA Direct Debit

European Commission Communication: EUROPE 2020 - A Strategy for Smart, Sustainable and Inclusive Growth (March 2010)

European Commission Communication: A Digital Agenda for Europe (May 2010)

Related articles in this issue:

SEPA Scheme Rulebooks: Next Edition Available in November 2011! The EPC publishes new versions of the SEPA Credit Transfer and SEPA Direct Debit Rulebooks

The Economy of Standards: the 'Pros' and 'Cons' of Standards Competition. An introduction to a comprehensive qualitative efficiency comparison using the example of payment cards

Related articles in previous issues:

Searching for Enlightenment? The new book 'ISO 20022 For Dummies' has all the answers! (EPC Newsletter, Issue 8, October 2010)

The Global Data Highway. The ISO 20022 catalogue of financial services messages: a progress report (EPC Newsletter, Issue 8, October 2010)

Going all the Way. EPC guidelines on customer reporting of SEPA Credit Transfers and SEPA Direct Debits (EPC Newsletter, Issue 4, October 2009)

Improving the Bottom Line. ISO 20022 meets key corporate expectations (EPC Newsletter, Issue 3, July 2009)

The Silent Revolution. The impact of ISO 20022 on payments services in general and SEPA in particular (EPC Newsletter, Issue 3, July 2009)

Take Payments to the Next Level. Benefits of ISO 20022 for bank customers: improved control and increased efficiency (EPC Newsletter, Issue 3, July 2009)

[1]In the SEPA context, a payment system in the meaning of a 'funds transfer system' is referred to as a 'Clearing and Settlement Mechanism'

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(CSM). A funds transfer system enables the exchange of funds (money) and messages between two PSPs executing a payment transaction. These funds transfer systems can be PSPs as well as separate business - public or private - entities (which may or may not be owned by PSPs). CSMs are also referred to as infrastructures.

ARTICLE201

SEPA FOR MOBILE

Beyond the Hype: Making Mobile Payments Work

EPC 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' and second edition of ‘EPC White Paper on Mobile Payments´

27.10.11 BY DAG-INGE FLATRAAKER

There has been a lot of activity and media focus on mobile payments (m-payments) over the last twelve months. This has included handset manufacturers announcing the future release of near-field-communication (NFC) capable mobile phones to platform providers launching e-payment wallets. The wide-spread industry engagement is important to establish confidence in this emerging ecosystem. It is however, important to acknowledge that much work is still required. Without doubt, it takes time to transition from a trial within a contained environment with defined stakeholders and limited risk, to a global mass market deployment that requires significant investments and multiple commercial relationships. In this article, Dag-Inge Flatraaker provides EPC Newsletter readers with an overview of the challenges faced by m-payment stakeholders, reports on the imminent release of the 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' developed by the European Payments Council (EPC), as well as the soon-to-be published second edition of the 'EPC White Paper on Mobile Payments'.

Key Information in this Article

Following a public consultation the European Payments Council (EPC) will publish the final version of the ‘Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines’ in the fourth quarter of 2011.

These guidelines will enable the quick development of mobile solutions by:

- Promoting open standards.
- Describing key stakeholder roles.
- Positioning EPC responsibilities in relation to other industry bodies.
- Recommending adequate security levels for mobile payment value chain.

In 2012, the EPC will develop the ‘Mobile Remote Payments Interoperability Implementation Guidelines’ covering both SEPA Credit Transfer and SEPA Cards.

Also by end 2011, the EPC will publish the second edition of the ‘EPC White Paper on Mobile Payments’. This updated version will include a new section on remote mobile payments as well as a high level mobile wallets description.

A challenging market

The mobile payments (m-payments) market can be divided into two clear areas of activity: remote m-payments, where two parties are able to send and receive or exchange funds using the mobile channel, irrespective of where they are located; and contactless m-payments, where the mobile device needs to be 'waved' in close proximity to a point-of-sale (POS) terminal. The European Payments Council (EPC) aims to support the advancement of both markets to ensure the development of a sustainable infrastructure. To understand the priorities of the EPC, it is important to understand the challenges faced by this industry, some of which can be summarised as follows:

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- **The establishment of a new cohesive ecosystem.** As with any emerging technology, different approaches need to be taken by organisations to test the market and understand what works and what does not. At the same time, however, this can create proprietary 'closed' solutions and the implementation of 'bridging' technologies which support short term goals, but are not necessarily scalable. The result is a fragmented landscape that requires long-term sustainability and flexibility for future market and regulatory needs.
- **The continual and rapid advancement of the technology.** Mobile technology offers vast potential and is evolving at a significant pace; no-one quite knows the ultimate offering of this platform. From a business planning perspective this creates two problems: due to the resource investments made, organisations need to be sure that an implementation is profitable; and the solution has to be adaptable to future market requirements, regulatory changes and unknown malicious threats.

In addition to the advancement of the technology, the way people communicate and interact with each other is also changing. Social media is an example of this. Payment technology will also need to support financial transactions on this medium, such as person to person payments, and typically the mobile device will be one of the preferred platforms.

- **The integration of new market participants.** As a new ecosystem, m-payments present opportunities for new technical and business stakeholders. For example, the role of the trusted service manager (TSM), which is a technical partner(s) that supports banks and mobile operators by facilitating the secure management and provisioning of m-payment applications. The integration of these stakeholders requires clear roles and responsibilities as well as the highest level of service and security to the end-user.
- **The need to develop the whole package.** To ensure m-payment technology reaches its full potential it is important that all elements of the ecosystem are considered. As an example, the ability to make m-payments is important but the solution offers so much more in terms of advertising and brand engagement. For instance, loyalty points can automatically be aligned with payments with no need to carry a separate plastic card, or an NFC-capable poster can be used to promote a local retail outlet, sending a short message service (SMS) with directions and a discount directly to the mobile handset.

Customer focus

With all these factors to consider, it is also important to remember that the key focus needs to centre on the end-user and his/her expectations; consumers want to make payments when and where it suits them and mobile technology has the potential to achieve ultimate user convenience. To ensure an attractive ecosystem is established and convenience delivered, interoperability has to be achieved. For example, from a contactless m-payment perspective, every m-payment enabled handset needs to work with every contactless POS terminal. If such choices are restricted, it will limit the appeal of the technology.

Banks and payment institutions also need to ensure that the right framework is in place to support the delivery of 24/7 m-payment services. This includes regulatory expectations, security, real-time availability and the over-the-air lifecycle management of applications once live in the field. For many stakeholders this will require additional resource investment.

The EPC aims to contribute to the evolution of a sustainable mobile ecosystem

As the proliferation of mobile phones continues and service levels increase throughout the European Union (EU), the mobile phone is considered an ideal platform for Single European Payment Area (SEPA) payment instruments. The EPC is engaged in m-payments to support the convergence of different markets and the advancement of this next generation payment platform. Its aim is to avoid further market fragmentation, achieve market interoperability and establish cross-stakeholder cooperation. With the development of SEPA, there is also an expectation from SEPA stakeholders - consumers and merchants - that a Europe-wide and consistent landscape is not only created, but also maintained long-term. The EPC aims to work with industry to facilitate this by establishing the necessary standards to initiate and receive credit, debit and cards payments through mobile devices.

The development of standards and rules on cooperation in the customer to bank space is particularly important to ensure that responsibilities are defined and the highest level of security is provided, without impacting innovation or

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competition between players. As many new commercial relationships are being formed, with no benchmark to work from, the development of guidelines and specifications also provides the market with the required framework.

With its intention to create a service framework sufficient to reach potentially all payers/payees in the European Economic Area and to create a secure environment for the multiple players, the EPC has, and will continue to provide the market with a number of documents. These have not been created in isolation, but in collaboration with other key technical and business associations operating in this space to mitigate the risk of standards fragmentation, and after public consultation.

Imminent releases: 'EPC Mobile Contactless Payments Interoperability Implementation Guidelines' and second edition of the 'EPC White Paper on Mobile Payments'

The next significant deliverable from the EPC is its forthcoming publication, 'Mobile Contactless Payments Interoperability Implementation Guidelines', which is expected in the fourth quarter of 2011. This document builds on EPC's previous work to focus on the interoperability of processes in the contactless m-payment application lifecycle management, when the m-payment application is stored on one of three secure elements (SE) types: UICC, embedded SE or secure micro SD card. The document also deals with aspects of a mobile contactless payment transaction and the technical and security requirements.

After an analysis of specifications and guidelines from industry bodies such as EMVCo, GlobalPlatform and Mobey Forum to ensure that existing work in this area was leveraged, a preliminary version of this document was made available for public consultation in April 2011. When the external consultation of this work closed on 17 June 2011, the EPC had received 31 sets of comments, all of which are currently being processed.

Once the new document goes live, it will enable the quick development and implementation of mobile solutions by promoting the use of open standards; describing the roles of stakeholders; outlining the position of the EPC in relation to other industry bodies; and recommending an adequate level of security for the whole mobile payment value chain in order to establish confidence in this environment.

The EPC is committed to supporting equally both contactless and remote m-payments. Within this latter environment, the EPC has been analysing use cases for mobile remote card and SEPA Credit Transfer (SCT) payments. Work so far has identified a number of gaps with respect to features needed such as confirmation to the beneficiary that a transaction has been undertaken. This work will be integrated into the second edition of the 'EPC White Paper on Mobile Payments' which is scheduled for release by year-end 2011.This document will also provide a high-level mobile wallets description by the EPC.

What next?

Interoperability and security of the m-payments infrastructure across Europe continues to be a key concern for the EPC. In a similar approach to the contactless m-payments interoperability implementation guidelines, the EPC will be developing a framework for remote m-payments in 2012 covering both SCT and SEPA Cards. With regard to contactless m-payment activity, the EPC will maintain its interoperability guidelines to ensure appropriate alignment with the SEPA Cards Framework and to keep its content state-of-the-art in the rapidly evolving market.

Looking to the future, the EPC recognises the importance of this ecosystem and the rapid evolution of the technology. It will therefore continue its efforts to reach out and intensify its dialogue with relevant m-payment stakeholders including other industry and standardisation bodies and engaging in public consultations.

Related links:

Links to the final 'EPC Mobile Contactless Payments Interoperability Implementation Guidelines' and second edition of the 'EPC White Paper on Mobile Payments' will be added once these documents have been published (expected fourth quarter of 2011).

EPC Website: SEPA for Mobile

Related article in this issue:

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[Paper Invoices - Thy Days are Numbered. A further progress report on electronic invoicing]

Related articles in previous issues:

[EPC Newsletter articles previously published in the 'SEPA for Mobile' section]

ARTICLE199

OPINION AND EDITORIAL

Paper Invoices - Thy Days are Numbered

A further progress report on electronic invoicing

27.10.11 BY CHARLES BRYANT

E-invoicing is outside the scope of the European Payments Council (EPC) however, it is recognised that there is a strong linkage between e-invoicing and the SEPA programme, which is expected to serve as a stepping stone towards further dematerialisation of business processes. The EPC Newsletter therefore provides regular updates on progress achieved in this area. Charles Bryant reports on latest activities aimed at promoting the uptake of e-invoicing and highlights opportunities for payment service providers in this new market. He also points out that European authorities have identified progress on e-invoicing as a principal policy goal. Given the potential role of banks in furthering the cause, this author finds it surprising that the banking industry is under-represented in the new 'European Union Multi Stakeholder Forum on e-Invoicing', which is chaired by the European Commission.

Key Information in this Article

Latest data demonstrates that electronic invoicing (e-invoicing) in Europe is now rapidly growing at 32 to 35 percent annually. Substantial progress is also being achieved in Brazil and Mexico where the government sector is leading the way as well as in North America and the Asia-Pacific regions.

European e-invoicing service providers recently created a trade association to: represent the industry in the public policy debate; jointly carry out projects in the cooperative space; and promote adoption.

The ‘buyer-centric model’; i.e. demand expressed in particular by large and multinational enterprises as well as public sector agencies, remains key to driving the adoption of e-invoicing in the business to business (B2B) and business to government (B2G) segments.

Payment service providers (PSPs) are considering their options in this emerging market. Areas of activity include electronic bill presentment, integrating e-invoicing with activities in relation to electronic payments, authentication services and online banking. PSPs also increasingly recognise that e-invoicing can add value to supply chain finance.

The EU Multi-Stakeholder Forum on e-Invoicing, which is chaired by the European Commission, held its first meeting in September 2011 and defined its first year work programme.

E-Invoicing continues its rapid European and global market adoption

Latest data presented in September 2011 at the EXXP Summit, which highlights developments in the areas of electronic invoicing (e-invoicing) and electronic billing (e-billing), demonstrates that e-invoicing in Europe is now rapidly growing at 32 to 35 percent annually. In Europe, the Scandinavian countries have established a firm lead: up to 15 percent or more of all invoices are issued electronically. The Directive amending Directive 2006/112/EC on the common system of value added tax (VAT) as regards the rules on invoicing adopted by the Council of the

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European Union in 2012, will further boost the trend. This Directive, which European Union (EU) Member States should implement by 2013, seeks to harmonise national regimes applicable to VAT and ensure equal treatment of paper and e-invoices. As a result, it should be possible to handle cross-border and multi-state invoicing with minimum variation, provided that tax authorities take steps to align their policies.

In addition, European e-invoicing service providers recently created a trade association to: represent the industry in the public policy debate; jointly carry out projects in the cooperative space; and promote adoption. A formal announcement of the launch of this association is expected shortly.

In other global regions, substantial progress is also being achieved in Brazil and Mexico where the government sector is leading the way and in North America and the Asia-Pacific regions.

The 'buyer-centric model' remains a key driver of progress

The 'buyer-centric model'; i.e. demand expressed in particular by large and multinational enterprises as well as public sector agencies, remains key to driving the adoption of e-invoicing in the business to business (B2B) and business to government (B2G) segments. Based on this model, a company or a public entity as a buyer / payer mandates the use of e-invoicing to its supply chain. Subject to the migration path of choice, the buyer has two options to switch to e-invoicing:

1. The buyer interacts directly with the sellers; i.e. sellers feed the e-invoices and other documents directly to the buyer.
2. The buyer tasks a service provider to collect e-invoices or invoice data intended for the buyer. The buyer's service provider then creates a direct connection with the suppliers who send e-invoices or invoice data to the service provider. The service provider performs checks and may create the original invoice and then feeds the e-invoices into the system of the buyer. Archives are maintained and electronic signatures may be added.

In both cases, getting the sellers on board and active is the key challenge of the process, especially in the small and medium sized enterprises (SME) sector.

As e-invoicing develops there is much debate about the role of standards and whether a single standard will take hold. Although this is unlikely in the short to medium term, the lack of common standards is not an obstacle to the adoption of e-invoicing due to the fact that service providers have the tools to perform format conversion. Larger players however do prefer structured messaging standards such as United Nations / Electronic Data Interchange For Administration, Commerce and Transport (UN/EDIFACT)[1] and eXtensible Markup Language (XML)[2]. In the SME world, the Portable Document Format (PDF) is increasingly used (as a substitute for paper). While the PDF approach can be regarded at best as an interim solution on the road to adopting true e-invoicing, it is rather common even for buyers representing large enterprises today to receive both a structured information message; i.e. an e-invoice, and a signed legible PDF. This is a popular model.

Banks and e-invoicing

As this new market is developing, stakeholders within the banking community are showing varying degrees of interest in e-invoicing. Payment service providers (PSPs) which see a business case consider offering services, for example, in the bank to customer (B2C) space based on electronic bill presentment (EBPP). Others look at B2B e-invoicing with a view to further integrate activities in relation to payments and online banking. Last but not least, e-invoicing can clearly add value to supply chain finance. Given the cost of handling paper invoices and the time it takes to obtain approval of payment based on a paper invoice, the opportunity to lend against an approved receivable is lost. E-invoicing accelerates the process and creates a platform of approved high quality assets on the basis of which funds can be made available to cash strapped suppliers, often SMEs. Indeed many liquid large enterprises have instituted dynamic discounting programmes for their supply chains, on the grounds that it generates a higher return than money market returns by means of discounts, and equally importantly liquefies and helps to stabilise their critical supply chain partners. This whole area could benefit from further interest and participation by banks as a way of diversifying financing models and filling the SME 'financing gap'.

Banks are also beginning to play a role in partnership with technical service providers to leverage their installed

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customer base through online banking and offering a facility to create and deliver invoices.

In addition, banks are seeing an opportunity in the B2C segment as an e-billing consolidator for their customers, for example in the Nordic countries, Belgium, the Netherlands, Switzerland, and Portugal. Typically, utilities and other mass-billers recognise the benefits of distributing invoices or summaries of invoices through online banking facilities as a complement to their own portals.

European Commission pushes for progress

The European Commission and EU Member States are convinced that e-invoicing is an important factor driving policy goals such as economic growth, market harmonisation and proliferation of digital technologies. To ensure engagement of relevant stakeholders domestically, the European Commission has requested that EU Member States create National Stakeholder Forums for e-invoicing. Sixteen out of the 27 EU Member States have followed suit and more are expected to do so shortly. The European Commission is also chairing a new 'EU Multi-Stakeholder Forum on e-Invoicing', which gathers representatives from the national forums mentioned above as well as a number of user associations active at a European level and other invited participants. The 'EU Multi-Stakeholder Forum on e-Invoicing', held its first meeting in Brussels on 13 September 2011 and will conduct a programme of work over a three year period. During the first year, the forum will focus on the following activities:

- Monitor adoption.
- Generate robust statistics.
- Analyse experience.
- Identify good practice.
- Address barriers to cross-border e-invoicing.
- Develop an approach to allow for increased standardisation.

Unfortunately, the service provider community and the banking industry are so far under-represented in this forum and it is hoped that this imbalance will be rectified shortly. Given the synergies between the invoice, payments and liquidity it is short-sighted not to include the payments industry as well as the supply side of the industry generally in this EU forum created to promote the adoption of e-invoicing.

Charles Bryant is a consultant active in the e-invoicing and payments area. He advises the Euro Banking Association, and OB10, the global e-invoicing service provider. He represents the UK in the EU Multi-Stakeholder Forum on e-Invoicing.

Related links:

European Commission Communication: Reaping the benefits of electronic invoicing for Europe (December 2010)

European Commission Decision: Setting up the European Multi-Stakeholder Forum on Electronic Invoicing (December 2010)

European Commission's Expert Group on e-Invoicing Final Report

Related article in this issue:

Beyond the Hype: Making Mobile Payments Work. EPC 'Mobile Contactless SEPA Card Payments Interoperability Implementation Guidelines' and second edition of 'EPC White Paper on Mobile Payments'

Related article in previous issue:

Reaping the Benefits of Electronic Invoicing for Europe. A summary of the European Commission Communication issued in December 2010 (EPC Newsletter, Issue 9, January 2011)

[1]United Nations/Electronic Data Interchange for Administration, Commerce and Transport (UN/EDIFACT) is the international EDI standard developed under the United Nations. (Wikipedia).

[2]Extensible Markup Language (XML) is a set of rules for encoding documents in machine-readable form. (Wikipedia).

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ARTICLE195

LEGAL AND REGULATORY ISSUES

Payment Services Directive Delayed Onset: Getting Ready for 'D + 1'

As of 2012 a payment must be credited to the account of the payee´s bank by the next business day

27.10.11 BY DERMOT TURING

The EPC Newsletter regularly reports on European Union (EU) financial legislation affecting payments and cash management services. One regulatory development which comes into force on 1 January 2012 is the deferred effect of Article 69 of the Payment Services Directive (PSD). This Article provides that a payer's payment service provider (PSP) must ensure that a payment is credited to the account of the payee's PSP by the end of the next business day after the point in time of receipt of the payment instruction. In other words, PSPs have to get the money to the recipient's PSP by the day after they get the transfer instructions. Dermot Turing, Partner in the international financial regulatory team at Clifford Chance, analyses the impact of this provision known as the requirement to execute on 'D+1'.

Key Information in this Article

Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market, is generally referred to as the Payment Services Directive (PSD). The PSD was implemented by most European Union (EU) Member States by 1 November, 2009.

The PSD aims to establish a modern and comprehensive set of rules, applicable to a wide range of payment services in the EU. As such, the PSD is not restricted to Single Euro Payments Area (SEPA) transactions.

Article 69 of the PSD establishes that a payer's payment service provider (PSP) must ensure that a payment is credited to the account of the payee's PSP by the end of the next business day after the point in time of receipt of the payment instruction. This particular PSD provision, commonly referred to as 'D+1', comes into effect on 1 January, 2012.

This article specifically analyses the impact of the PSD 'D+1' requirement on deferred-execution payment transactions and 'R-transactions' (rejects, refusals, returns, reversals, recalls and refunds).

PSPs working towards compliance with 'D+1' should be mindful that the imminent review of the PSD by the European Commission, as well as the forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' (the SEPA Regulation), will require further changes to client documentation and operational processes.

Working towards compliance

As reported in the 'Legal and Regulatory Issues' sections of the EPC Newsletter, there are currently a host of regulatory initiatives in the pipeline, which will affect banks and other businesses providing payment services. One important change which will take effect shortly is a provision of the Payment Services Directive (PSD), which stipulates that from 1 January 2012 onwards a payment must be credited to the account of the payee's bank[1] by the end of the next business day after the point in time of receipt of the payment instruction. This particular PSD provision is commonly referred to as the 'D+1' requirement.

Banks which are currently working towards compliance to execute payment transactions in line with 'D+1', might want to pay particular attention to its impact on deferred-execution payment transactions and 'R-transactions' (rejects, refusals, returns, reversals, recalls and refunds).

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Impact of 'D+1' on deferred-execution payment instructions

The principal area of difficulty is with deferred-execution payment instructions. Article 64 (2) of the PSD allows a payment service provider (PSP) and its customer to agree to delay the execution of payment instructions to a particular future date - for example, to pay rent at the end of the month. It may be desirable, in some cases, for the PSP to 'earmark' the funds which the customer will need for the future payment. When a PSP 'earmarks' funds in an account, it is essentially blocking them for further use by the client, although the client will continue to receive interest on the funds (where applicable) because they have not yet actually been transferred.

Without 'earmarking', PSPs which accept deferred-execution instructions may take a degree of credit risk on their customers. For example, if a bank commits itself irrevocably to make a credit transfer on the (future) execution date, which may happen if the bank puts in payment instructions into an inter-bank clearing and settlement system, then the customer may have withdrawn the funds in its account before the actual execution date arrives. If the bank has no choice about the timing of its commitment, the bank will wish to carefully consider whether it is willing to offer the payment service concerned. In some cases, deferred-execution will not cause a problem. An example of this is when a customer makes an online credit transfer instruction on a Friday evening and then wants to make an automatic teller machine (ATM) withdrawal over the weekend. If the two debits exceed the customer's Friday afternoon balance, the bank may want to disallow the ATM withdrawal. Can the bank therefore 'earmark' the funds, which are committed to the online credit transfer, even though the transfer will not be executed until the clearing systems open on Monday? Here the answer is yes because the PSD is framed in terms of 'business days'. This means that the online credit transfer instruction is going to be executed within the 'D+1' timeframe.

Another example of transactions where 'D+1' does not apply, is cash movements associated with securities processing. In various securities contexts a payment is committed several days in advance of the actual transfer: for example where an agent bank provides a settlement service relating to stock-exchange trades where the trade is done on day 'T' and settlement occurs on day 'T+3' or 'T+2'. In these cases the PSD does not apply, because Article 3(i) of the PSD exempts payment transactions related to securities asset servicing from its scope, so the bank is free to 'earmark' the funds if it wishes to do so.

Impact of 'D+1' on R-transactions

There are a number of processes, commonly called R-transactions, which are designed to allow PSPs to reject a payment. The Single Euro Payments Area (SEPA) scheme rulebooks, developed by the European Payments Council (EPC), refer to rejects, refusals, returns, reversals, recalls and refunds. R-transactions can also get tangled up in the 'D+1' rule: some R-transactions may have to be processed within a 'D+1' timeframe.

This might seem surprising because most people would think that R-transactions are simply a continuation of, or adjunct to, the original payment instruction, and that there is no real meaning to the 'point in time of receipt' when you are looking at an R-transaction. The European Commission however, seems to think that some R-transactions should be treated as completely separate payment transactions as evidenced in its answers to frequently asked questions (see link below) about the PSD. There is therefore a danger that the European Commission and the courts will think that the 'D+1' timeframe applies to some R-transactions as well as the main payment transaction.

PSPs who wish to offer their clients R-transaction services may therefore be subject to the very tight 'D+1' processing timetable set out under PSD Article 69, at least for some types of R-transaction. It may be prudent to agree with clients that these transactions will be treated as deferred-execution transactions.

More change is on the way

Banks are working hard to comply with the implementation of 'D+1'. Unfortunately however, the ramifications may (as explained above) require some adaptation or augmentation of client documentation for some services as well as operational change.

In this context, PSPs should keep in mind that the forthcoming 'Regulation Establishing Technical Requirements for Credit Transfers and Direct Debits in Euro' - the SEPA Regulation - will not only set end dates for the process of migrating national euro-denominated payment schemes to the pan-European SEPA schemes, but also supplement

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the PSD in various ways. This could require yet more changes to client documentation and will certainly involve more operational upheaval. Further down the road the PSD will be reviewed by the European Commission and the revised prudential framework, which has been settled by the Basel Committee of Banking Supervision (Basel III) will be implemented. This is all going to cost money, and PSPs will need to factor the possible financial impact into their strategic thinking, IT planning and client relationship management.

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Related links:

Directive 2007/64/EC on Payment Services in the Internal Market (Payment Services Directive - PSD)

PSD Expert Group: PSD Guidance Document (August 2009)

PSD Expert Group: Addendum to PSD Guidance Document (June 2010)

European Commission: Questions and Answers on the Transposition of the PSD

Related article in this issue:

SEPA Regulation: Last Call to Legislators. EPC invites European lawmakers to align Regulation with bank customer requirements

Related articles in previous issue:

EPC Newsletter articles published in the section 'Legal and Regulatory Issues'

[1]The term 'bank' is used in a non-discriminatory fashion and does not exclude payment service providers which are not banks.

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