

EPC Newsletter Issue 9 January 2011

FOCUS: SEPA MIGRATION

The Breakthrough for SEPA?

European Commission publishes proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros

31.01.11 BY GERARD HARTSINK

On 16 December 2010, the European Commission published a proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros. The explanatory memorandum accompanying the proposal states that "*full integration of the payment market will only be achieved once Union-wide payment instruments replace completely the national legacy instruments*". The proposal clarifies that the end dates to be established for compliance with the technical requirements refer to the point in time when these requirements "*need to be fulfilled by Union-wide credit transfers and direct debits*". The European Payments Council is in the process of evaluating the implications of this legislative initiative and will communicate the results of its detailed analysis shortly. Gerard Hartsink delivers a preliminary assessment of selected aspects of the proposal.

KEY INFORMATION IN THIS ARTICLE

The proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros (the 'proposal') states, in part, that credit transfers shall be carried out in accordance with this Regulation twelve months after it comes into force (Article 5 (1)); direct debits shall comply 24 months after it comes into force (Article 5 (2)).

According to Articles 5 (4) and 12–15 of the proposal, the forthcoming Regulation would confer powers to the European Commission to amend the Annex (technical requirements) through delegated acts.

The European Payments Council (EPC) invites the legislator to recognise that self-regulation by banks has generally proven to be the most efficient means to create and maintain innovative, effective, secure and stress-resistant payment systems. Articles 5 (4) and 12 – 15 should be deleted from the proposal.

In the view of the EPC, the forthcoming Regulation should refrain from mandating 'interoperability' between payment schemes (Article 4 (2)).

In the view of the EPC, the forthcoming Regulation should also refrain from making mandatory such features which are optional in the SDD Core Scheme or which could be provided as an Additional Optional Service (AOS) by a community of payment service providers or by an individual payment service provider in response to actual market demand (section 3 (c), (d) and (e) of the Annex to the proposal).

The scope of the Regulation as proposed in Article 1 (1) is too broad, since such a description would also encompass euro payments made via high value systemically important payment systems such as the European Central Bank's TARGET2 and Euro Banking Association's EURO1. These payment systems should be excluded.

Subject to further review, the EPC will comment on other key aspects of the proposal and provide detailed suggestions for amendments to the proposal for consideration by the legislator.

Setting deadlines for migration to the Single Euro Payments Area (SEPA) through EU Regulation provides planning security to all market participants

On 16 December 2010, the European Commission published a proposal for a Regulation establishing technical

requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009 (the 'proposal').

The European Payments Council (EPC) welcomes the European Commission's willingness to legislate on end dates for migration to SEPA in order to provide certainty to all market participants. The EPC takes this as an indication that the European Commission (the Commission) is committed to finalising the SEPA process initiated with adoption of Regulation 2560/2001 on cross-border payments in euro in December 2001. The understanding throughout the past decade shared with the Commission is that this process aims at replacing national euro payment schemes by the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes developed by the EPC. The forthcoming Regulation should result in the replacement of national legacy euro payment schemes by SEPA Schemes. In line with expectations expressed by the EU Finance Ministers, the European Parliament and the European Central Bank, the forthcoming Regulation must set end dates 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.

The explanatory memorandum accompanying the proposal states that "*full integration of the payment market will only be achieved once Union-wide payment instruments replace completely the national legacy instruments*". The proposal further states that credit transfers shall be carried out in accordance with this regulation twelve months after it comes into force; direct debits shall comply 24 months after it comes into force.

Article 5 (4) and 12-15, which specify that the European Commission could amend the technical requirements through delegated acts, should be deleted from the proposal

The Annex to the proposal lists the technical requirements to be met by euro credit transfers and direct debits as of the defined end date(s). These requirements are set out in an Annex for the following reason: by not including these requirements in the core legal text of the Regulation, the Commission could be authorised to amend these requirements through so called 'delegated acts' (Articles 5 (4) and 12-15 of the proposal) without having to obtain approval by the European Council and the European Parliament for such amendments. In other words, the Commission is now determined to take over the task of developing payment functionalities. According to the proposal, the Commission does not foresee any involvement of market participants (users and suppliers) in the process of identifying these technical requirements.

The proposal fails to deliver a convincing rationale which would justify the granting of such extensive and unilateral powers to the Commission ahead of the three year review foreseen under Article 16. Any modification to the payment functionalities already requires a minimum of two years for processing and implementation by both the demand and supply sides, as part of a recognised change management cycle in the industry.

These powers would be completely unnecessary if the final list of technical requirements in the Annex meets the test set out in Recital (10) of the proposal that any such requirements "*should not restrict flexibility and innovation but should be open to and neutral towards potential new developments and improvements in the payments market*". If indeed, the technical requirements to be included in the Annex to the proposal are all flexible and future-proof, as this recital explicitly asks for, then the Commission does not require extensive powers to review and amend these requirements through delegated acts ahead of the three year review clause mentioned above. Accordingly, the Commission would not need delegated powers. It is simply not warranted or efficient that standards should be defined and evolved by law on an ongoing basis.

Moreover, it is the EPC's view that it is inappropriate for the Commission to take on the role of a de-facto scheme manager and standard setter¹ responsible for the development of payment functionalities. This Regulation currently also disregards the basic principles of good governance and legal certainty: the technical requirements will impact the entire payment services user community on both the demand and supply sides.

The scope of the potential 'technical requirements', and consequently the scope of the delegation of powers to be conferred to the Commission, remains undefined. This lack of definition of the delegation of powers to the Commission as foreseen is not acceptable. The chosen terminology 'technical requirements' should furthermore be considered as misleading in light of the current content of the Annex to the proposal. The Annex not only includes

references to message formats and identifier standards but it also includes 'rules' which should not be commonly labelled as purely 'technical requirements'.

With regard to the delegated powers to be conferred to the Commission, the proposal fails to meet the key criteria applicable to EU Regulation: (a) there is a lack of proportionality of the delegated powers with respect to the intended objective of the proposal which is to ensure migration to SEPA; (b) the subsidiarity principle would suggest that self-regulation is better placed to achieve the stated objectives of Articles 5 (4) and 12 - 15, i.e. innovation in the payments market; (c) the proposal would incur additional costs and administrative burden on payment services users and payment service providers (PSPs). These would have to invest in the renewal of their payments applications to comply with standards and scheme rules defined by international standardisation organisations and European scheme management bodies and with 'technical requirements' set by the Commission. Such additional costs and administrative burden, however, would not be offset by any advantages.

Last but not least: Recital 22 of the proposal states that "*The Commission should be empowered to adopt delegated acts in accordance with Article 290 of the Treaty in respect of the update of the technical requirements for credit transfers and direct debits*".

Article 290 (1) of the Treaty on the Functioning of the European Union however, clarifies that a "*legislative act may delegate to the Commission the power to adopt non-legislative acts of general application to supplement or amend certain non-essential elements of the legislative act*". The EPC points out that the requirements set out in the Annex to the proposal were referred to as 'essential' requirements in previous drafts of this proposal. The EPC assumes that the term 'essential' formerly applied to describe these requirements was changed to 'technical' for the sole purpose of suggesting compliance of Articles 5 (4) and 12 - 15 of the proposal with the Treaty. The EPC confirms that the requirements set out in the Annex to the proposal are essential to the functioning of a payment scheme. In the view of the EPC, therefore, Article 5 (4) and 12 - 15 are not compatible with Article 290 of the Treaty.

The EPC is therefore in favour of deleting Articles 5 (4) and 12 - 15 from the proposal.

The EPC invites the legislator to recognise that self-regulation by banks has generally proven to be the most efficient means to create and maintain innovative, effective, secure and stress-resistant payment systems. It is the EPC's firm belief that innovation must not be hampered by the Commission's interference in the development process in the context of this regulation to the detriment of both the demand and supply sides.

The proposal should refrain from mandating 'interoperability' between payment schemes (Article 4 (2) of the proposal)

As requested by the political drivers of the SEPA vision, the EPC, in close dialogue with the user community, developed and launched the SCT Scheme and the SDD Schemes. At the end of 2010, 4499 PSPs have formally adhered to SCT and 3904 PSPs participate in the SDD Core Scheme. Of those, 3374 also offer SDD business to business services. Since November 2010, all PSPs in the euro area providing euro direct debit services domestically must be reachable for cross-border direct debits, as mandated by EU Regulation (EC) No 924/2009.

The Commission insists that on grounds of general public policy it would not be possible to mandate de jure migration to the single set of SEPA payment schemes developed by the EPC. The proposal therefore implies a theoretical scenario of multiple 'Union-wide' payment schemes existing in parallel and mandates 'interoperability' of such schemes. The concept of multiple, 'interoperable' payment schemes, however, disregards that an optimally efficient payment environment would require that all PSPs of all payment services users adhere to the exact same scheme rules and standards (which does not prevent competition on SEPA payment products and services), so that a payment is executed by parties which adhere to the rules and standards of the same payment scheme.

'Interoperability' between multiple competing euro credit transfer and direct debit schemes, respectively, would require onerous agreement at an extremely high level of detail to allow fully automated processing of payments across multiple payment schemes. It would do little to overcome the fragmentation of the euro payments market.

In the view of the EPC, reference to 'interoperability' of payment schemes should be deleted from the proposal.

The technical requirements proposed in section 3 (c), (d) and (e) of the Annex applicable to euro direct debits should be deleted from the proposal

Several of the technical requirements, applicable to direct debit transactions and proposed in section 3 of the Annex to the proposal, disregard the preferences of the vast majority of consumers in EU Member States using direct debits today. These requirements are oblivious to the consensus reached on the principles governing the Union-wide direct debit scheme currently in the market (the SDD Core Scheme developed by the EPC).

Specifically, the technical requirements proposed in section 3 (c), (d) and (e) would, if endorsed by the legislator, make mandatory such features which are optional in the SDD Core Scheme or which could be provided as an Additional Optional Service (AOS) by a community of payment service providers, or by an individual payment service provider, in response to actual market demand. This would make direct debits more costly for all and restrict competition among payment service providers. The technical requirements proposed in section 3 (c), (d) and (e) of the Annex to the proposal should be deleted.

The proposed technical requirements applicable to euro direct debits disregard the consensus of the broad majority of payment services users on the principles governing the SDD Scheme

The SDD Schemes are based on a 'creditor-driven mandate flow' (the creditor is the biller). This means that the payer completes and signs a paper-based mandate and sends it directly to the biller². The biller is responsible for storing the original mandate, together with any information regarding amendments relating to the mandate or its cancellation. In this scenario, the payer's bank does not receive any mandate-related information from its customer nor is the payer's bank responsible for checking the right of a biller to collect payment from a payer's account. The payer's bank receives the mandate-related information with the first collection. This model is used in a large number of EU Member States today - for example in Austria, Germany, the Netherlands and Spain. The latter four countries represent those EU Member States where direct debits are used much more often to make payments than in other countries. Out of 17,656 million direct debits processed in the euro area in 2008, according to the ECB Blue Book a total of 12,968 million direct debits or 73.45 percent were processed in Austria (841 million), Germany (8,424 million), the Netherlands (1,272 million) and Spain (2,431).

While the SDD Schemes build on this national, pre-SEPA direct debit model implemented in a large number of EU Member States today (the creditor-driven mandate flow), it is recognised that some EU Member States use an alternate pre-SEPA direct debit model. This alternate model is based on a 'debtor-driven mandate flow' (the debtor is the payer - a consumer, for example). This means that the biller informs the payer's bank that the payer has requested to make payments by direct debit. The payer's bank then informs the payer and issues the actual mandate. In this model, the mandate stays with the payer's bank. When a biller presents a direct debit collection to the payer's bank, the payer's bank might choose to check the authorisation of the biller to collect payment based on the mandate. This model is used, for example, in Belgium, Portugal, Italy³ and France today. Out of the total 17,656 direct debits processed in the euro area in 2008, according to the ECB Blue Book a total of 4,322 million or 24.48 percent were processed in Belgium (260 million), Italy (576 million), Portugal (221 million) and France (3,265).

The main difference between these two alternate direct debit models is in the expectation of the consumer. A consumer used to the debtor-driven mandate flow assumes that his bank verifies whether he has authorised a direct debit collection prior to debiting his account. Those consumers who are used to the creditor-driven mandate flow, by contrast, do not require such verification. As mentioned above, the vast majority of consumers in the European Union who make a direct debit payment today rely on the creditor-driven mandate flow; which is the model governing the SDD Scheme. In fact, the ratio of direct debits based on the creditor-driven mandate flow to those made on the debtor-driven mandate flow is 3:1.

The SDD Scheme caters to the needs of all payment services users

To help in meeting the preferences of consumers living in countries currently using the debtor-driven mandate flow, the SDD Core Scheme already includes various **optional features** which allow banks to offer services such as the verification of mandates by the payer's bank.

As each SDD mandate is identifiable based on the 'Unique Mandate Reference' and the 'Creditor Identifier', each SDD collection can be traced back - immediately and unmistakably - to the biller. As a result, any biller collecting

SDDs can be rapidly and unequivocally identified. Any gains based on a fraudulent direct debit collection would therefore not be sustainable. For these reasons, it is highly improbable that fraudulent individuals or businesses would choose SDD as a vehicle for fraudulent actions.

The SDD Core Scheme goes beyond the requirements of the Payment Services Directive (PSD), by granting consumers a 'no-questions-asked' refund right during the eight weeks following the debiting of a consumer's account. This means that 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.

Last but not least, banks must ensure that only trustworthy billers are able to collect payments via SDD. This is also in the interest of payment service providers as they would have to cover any losses resulting from fraudulent and / or erroneous direct debits.

The risk of any fraudulent or erroneous SDD collections is actually born by the biller's bank - never by the payer. The actual mitigation of these risks is based on the intervention of the payer's bank. The Commission and the European Central Bank confirmed that the SDD Scheme is based "*on proven national concepts, fully meets the respective legal requirements and - in some points - goes even further than required by the Payment Services Directive in order to better satisfy customer needs*"⁴. Both institutions also encouraged the EPC to give due consideration to the provision of additional features designed to further increase the trust in SDD services in particular by consumers used to the 'debtor-driven mandate flow'. The SDD Schemes, as outlined above, include these optional features.

Exclusion of high value payment systems from the scope of the Regulation

The scope of the Regulation as proposed in Article 1 (1) is too broad since such a description would also encompass euro payments made via high value systemically important payment systems such as the European Central Bank's TARGET2 and Euro Banking Association's EURO1. These payment systems should be excluded.

Subject to further review, the EPC will comment on other key aspects of the proposal

The EPC is in the process of evaluating the implications of this legislative initiative and will communicate the results of its detailed analysis shortly. Subject to further review, the EPC will comment on other key aspects of the proposal and provide detailed suggestions for amendments to the proposal for consideration by the legislator.

Gerard Hartsink is the Chair of the EPC.

Related links:

[European Commission Proposal for a Regulation establishing Technical Requirements for Credit Transfers and Direct Debits in Euros](#)

[EPC publication: SEPA Direct Debit for Consumers - a convenient and secure way to make payments](#)

Related articles in this issue:

[SEPA Scheme Change Management 2011 - Call to Stakeholders. Suggestions for changes to SCT and SDD must reach the EPC by end February 2011](#)

[The Good, the Bad, the Ugly* and a Knight in Shining Armour? European Commission requests unprecedented powers to determine payment functionalities. * "The Good, the Bad and the Ugly" \(Italian: *Il buono, il brutto, il cattivo*\) is a 1966 western film directed by Sergio Leone](#)

[Happy New Year? Post-crisis EU financial sector reform: the impact of 'Basel III' on payments](#)

[How to Migrate to SEPA. Experience in Belgium: what works and what is difficult?](#)

[Best of Class: the Netherlands. A case study in successful migration to SEPA](#)

Related article in previous issue:

[So What's in a Name? Explaining Payment Schemes, Instruments and Systems. Clarity on payment terms is critical in the debate over the approach to setting end dates for migration to SEPA through EU Regulation](#) (EPC Newsletter, Issue 8, October 2010)

¹If endorsed by the legislator, the forthcoming Regulation would also impact the governance of, for example, the International Organization for Standardization (ISO). The SCT and SDD schemes developed by the EPC are based on global standards such as ISO standards. The SCT and SDD Implementation Guidelines of the EPC are MIG's (Message Implementation Guidelines) of ISO.

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

³In Portugal and Italy both models - the creditor-driven mandate flow and the debtor-driven mandate flow - coexist.

⁴Joint letter of the European Commission and the European Central Bank to the EPC in March 2010.

ARTICLE168

FOCUS: SEPA MIGRATION

Best of Class: the Netherlands

A case study in successful migration to SEPA

31.01.11 BY FRISO SPINHOVEN

SEPA is a public harmonisation initiative driven by policy makers; it was launched by EU governments, the European Commission (the Commission) and the European Central Bank (ECB). It is designed to complete the EU internal market and monetary union.

The public sector accounts for up to 20 percent or more of electronic payments made in society. The Commission's *Third Survey on Public Administrations' Preparedness and Migration to SEPA*, published in October 2010, analyses the situation at the end of February 2010. This survey confirms that SEPA migration by public administrations generally lags behind that of other users, however, the survey also found that individual public entities and central governments in several EU Member

States are bucking the general trend and actively driving forward SEPA migration. This is the case in the Netherlands. Friso Spinhoven, the SEPA Programme Manager for the Dutch Central Government, highlights the strategy behind, and the challenges of, moving public payments to SEPA.

KEY INFORMATION IN THIS ARTICLE

The Ministry of Finance acts as coordinating body for the Dutch Central Government, but ministries are themselves responsible for the timely migration to SEPA.

The Ministry of Finance established the Dutch SEPA Platform for the Public Sector (SPPS) in June 2008. The aim of the platform is to promote the adoption of SEPA and to provide its members with a network for sharing knowledge and experience. Members represent together over 95 percent of public sector payment volumes.

At end 2010, substantial progress towards SCT migration had been made: the Dutch Central Government is one of the first large users of payment services to implement SEPA. Currently, eight out of eleven ministries have partially or fully migrated their domestic credit transfers to SEPA standards.

Public institutions outside the central government and the municipalities of Rotterdam and The Hague, the second and third largest local administrations in the Netherlands, are transitioning to SEPA as well.

The municipality of The Hague, the Dutch Parliament and the Central Fine Collection Agency are participating in the SDD pilot of the Dutch Banking Association. The first SDD transactions are expected to be executed during the first quarter of 2011.

Approach of the Dutch public sector

The Dutch State Treasury Agency, part of the Ministry of Finance, is responsible for the procurement and coordination of payment services for the whole of the Dutch Central Government. In 2008, when the payment services for the central government (excluding those of the Dutch tax authority) were put out to tender, it was decided that under the new contract, outgoing payments would be migrated to SEPA by the end of 2009. Within the central government, the Ministry of Finance is responsible for coordinating this initiative and setting the 2009 deadline; however there is no central steering body that plans and monitors the implementation of SEPA. Instead, the Financial and Economic Affairs directorate within each ministry is responsible and accountable for timely migration to SEPA and reports to the Ministry of Finance on its progress. As the central contracting party, the Ministry of Finance agrees on the overall migration strategy with the banks involved and IT partners, but project specific issues are dealt with by individual ministries.

To assist the central government departments in their migration efforts, the Ministry of Finance established the *Dutch SEPA Platform for the Public Sector (SPPS)* in June 2008. The aim of the platform is to promote the adoption of SEPA and to provide its members with a network for sharing knowledge and experience. It also offers a way for the participants to promote their interests among others in the Dutch SEPA Consultative Platform¹ and acts as a single point of contact for general issues encountered by parties outside the public sector.

In order to encourage SEPA adoption outside the central government, other public entities were invited to join the platform as soon as SPPS was formed. Among them are (associations of) regional and local administrations, non-departmental public bodies and public sector pension funds, together representing over 95 percent of public sector payment volumes. While these public entities are fully responsible for their own timely migration to SEPA, their involvement in the SPPS was designed to ensure that they had engagement and support throughout the process.

In June 2010, the Ministry of Finance set up a steering committee together with the five largest public organisations measured by payment volumes. The Dutch Tax Authority, the Central Fine Collection Agency (CJIB), the executive agency of the Ministry of Education (DUO), which pays out student grants, the *Sociale Verzekeringsbank (SVB)* which pays out state pensions and child support and the *Uitvoeringsinstituut Werknemersverzekeringen (UWV)*, which is responsible for the disbursement of unemployment and disability benefits, together represent roughly 340 million annual incoming and outgoing payment transactions. The committee also includes the municipality of Rotterdam, which was one of the first local administrations to implement SEPA. As the migration of each of these organisations is expected to have a significant impact on their respective customers, the aim of this steering committee is to work on a common approach and core message for external communication purposes and to provide a communication toolkit that organisations can use when migrating to SEPA. This approach enables all members of the committee to explain the transition to SEPA in a consistent way to debtors and creditors and avoids contradictory information and confusion. The core message will also be shared with other groups of users represented in the Dutch SEPA Consultative Platform and could serve as a starting point for a national communication campaign to prepare society at large for SEPA.

Migration status

As stated previously, the initial goal was to migrate all outgoing payments of the central government² by the end of 2009. Although this goal has not been fully reached, substantial progress has been made, making the Dutch Central Government one of the first large users of payment services to implement SEPA. Currently, eight out of eleven ministries have partially or fully migrated their domestic credit transfers to SEPA standards. Where migration is taking longer than planned, the majority of delays are due to the implementation of new enterprise resource planning (ERP) systems or required adjustments to the systems of current ERP platform providers. The real challenge however, is the migration of the Dutch tax administration, which has an annual volume of 140 million credit transfers and 100 million incoming payments, including 72 million direct debits. The size and complexity of both the IT environment and the organisation itself, together with the impact of SEPA migration on customers, means that full migration of the tax administration to SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) is not expected before 2013.

Public institutions outside the central government are transitioning to SEPA as well. *The Sociale Verzekeringsbank (SVB)*, which pays out state pensions and child support, already uses the SCT for one million cross border payments annually and is technically ready to migrate 42 million domestic credit transfers. SVB expects to fully migrate to SCT later this year, once it finalises the results of a risk analysis and a general communication campaign is in place to inform the public at large about SEPA. The municipalities of Rotterdam and The Hague, the second and third largest local administrations in the Netherlands, show good progress in preparing their IT environment for SEPA. Additionally, the municipality of The Hague, the Dutch Parliament and the Central Fine Collection Agency are participating in the SDD pilot of the Dutch Banking Association. The first SDD transactions are expected to be executed during the first quarter of 2011.

The adoption of SEPA by society at large; what is needed to make SEPA a success?

Although SEPA is expected to realise substantial economic benefits in the long term, there is an expectation that this will not be enough to lead to mass market adoption of the new standards³. Observing an "increasing recognition by all categories of stakeholders that a legally binding end-date may be necessary to achieve successful project completion"⁴, the Commission recently proposed a regulation to set an end-date for phasing out legacy payment products. This regulation will be a major step towards the realisation of a single market for euro payment services, forcing market participants to abolish national legacy euro payment schemes. To achieve successful completion however, it is important to establish the reasons for slow market uptake. A number of factors can explain the cautious approach towards SEPA; a few of these are examined below.

Firstly, the implementation of SEPA requires substantial IT investments on both sides of the market. In relatively efficient payment markets, such as the Dutch market, where the direct costs for using payment services and margins are modest, it will take longer to recover the cost of SEPA migration than is generally desirable for an investment decision. Secondly, SEPA products show little functional advantage over existing payment products. Their main feature is the same treatment of domestic and cross border payments. The innovative advantages that SEPA is expected to deliver, for example in the field of e-invoicing, have yet to materialise. Thirdly, in some countries, there is still a lack of clarity regarding the validity of existing direct debit mandates under the SDD scheme, which is an additional hurdle in the process of migration to SDD. Fourthly, low demand for the ISO 20022 XML message standards (the SEPA data formats)⁵, and differences in their interpretation and implementation by banks, have caused ERP providers to take a wait-and-see approach. This makes it more difficult for first movers to migrate to SEPA.

Finally, SEPA can best be described as a politically driven market initiative: as part of the realisation of the European Union's Lisbon Strategy, banks were urged to establish a set of harmonised electronic euro payment schemes within Europe. The banks took up this challenge by uniting themselves in the European Payments Council (EPC), but initially users only played a modest part in the development of SEPA standards. To help overcome this, in mid 2007 the EPC established the Customer Stakeholders Forum (CSF), which provides organisations representing customer interests on a European level with the opportunity to engage in the development of the SEPA payment schemes. However, it was only in 2010 that users were involved in a more formal way, when the SEPA Council was established by the Commission and the ECB. The SEPA Council's mandate is nevertheless limited to the provision of guidance and statements and has no powers to impose binding measures⁶. Formal involvement of user representation in decision making processes would therefore be needed to create a broader social basis for the development of payment schemes within SEPA, as users are still dependent on the willingness of banks to take their needs into account.

It would also be highly desirable to see a more unified interpretation of the ISO 20022 XML message standards among payment service providers. The ambiguity that exists can lead to a requirement for users to make additional IT investments when switching banks. Not only does this hinder competition, but as governments are legally required to put their payment services out for tender, they are likely to be faced with one or more new banks (and subsequently various interpretations of the ISO 20022 XML message standards) every couple of years.

Proposed regulation establishing end dates is a major milestone on the road to

SEPA

As a market driven approach has shown slow rates of SEPA migration, the end-date regulation proposed by the Commission will be a major milestone on the road to the integration of euro payment services. In order to really incentivise migration, however, it is desirable that the definitive end-dates are known as soon as possible, since a lot still needs to be done: payment service providers need to invest in processing capacity, users and IT companies need to scale up their implementation efforts and consumers and SMEs must be informed of the oncoming changes. On top of that, it is important to clarify the legal status of existing direct debit mandates in all countries. In short, the regulation is an important step, but not a sufficient one to make SEPA a success.

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Related links:

[Commission's Third Survey on Public Administrations' Preparedness and Migration to SEPA \(October 2010\)](#)

[ECOFIN Conclusions on SEPA of December 2009](#)

[Translations of the EPC publication 'SEPA for the Public Sector' in all EU languages courtesy of the European Central Bank](#)

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[Preparation for SEPA by Public Administrations in France. France's public administrations are among the country's leading users of cashless payment systems \(EPC Newsletter, Issue 8, October 2010\)](#)

[Yes, we can - Part I. Luxemburg: a case study in successful migration to SEPA \(EPC Newsletter, Issue 3, July 2009\)](#)

[Yes we can - Part II. Belgium: a case study in successful migration to SEPA \(EPC Newsletter, Issue 4, October 2009\)](#)

¹The *Dutch SEPA Consultative Platform* is a working group of the *National Forum on the Payment System* (Maatschappelijk Overleg Betalingsverkeer or MOB) and was established to help make the Dutch launch of SEPA as smooth as possible, uniting the Dutch Central Bank, commercial banks and representatives of various user groups.

²Excluding those of the Dutch tax authority and the executive agency of the Ministry of Education

³See for example the 7th progress report by the European Central Bank:

<http://www.ecb.int/pub/pdf/other/singleeuropaymentsarea201010en.pdf?bc6e6db873419f8348fd0a75e7369694>

⁴Paragraph 1 of the explanatory memorandum of the EC's proposal for a regulation, which can be found at http://ec.europa.eu/internal_market/payr
http://ec.europa.eu/internal_market/payments/docs/sepa/com_2010_775_en.pdf

⁵The realisation of SEPA therefore requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats as specified by the EPC for the exchange of SEPA payments like direct debits and credit transfers represent such a common data set. The SEPA data formats are based on the global ISO 20022 message standards.

⁶See http://ec.europa.eu/internal_market/payments/docs/sepa/council/mandate_en.pdf

ARTICLE157

FOCUS: SEPA MIGRATION

How to Migrate to SEPA

Experience in Belgium: what works and what is difficult?

31.01.11 BY JAN VERMEULEN

As also reported in the article 'Best of Class: the Netherlands' in this issue of the EPC Newsletter, there are notable exceptions to the general attitude of 'wait-and-see' among EU Member States when it comes to SEPA. Since the launch of the SEPA Credit Transfer Scheme (SCT), Belgium has demonstrated a unique commitment to migrate domestic payments to the SEPA schemes and standards and remains the front-runner among all SEPA countries. To-date, Belgium boasts a 33 percent SCT migration rate (the average rate in the euro area as of October 2010 remains under 10 percent). Jan Vermeulen of the National Bank of Belgium reports on the Belgian approach to migration and how to effectively overcome obstacles along the way.

KEY INFORMATION IN THIS ARTICLE

At end 2010, Belgium had achieved a 33 percent SCT migration rate (the average rate in the euro area as of October 2010 remains under 10 percent).

The successful approach to SEPA migration in Belgium is due to the following factors:

- Coordinated approach of the banking sector cooperating through the Belgian banking association; supported by the National Bank of Belgium and the National SEPA Committee
- Federal government orchestrated early SCT uptake by public sector which spearheaded SEPA implementation and triggered implementation by other sectors with a focus on the 'big billers'
- Early engagement of IT community which provided the tools to facilitate the transition to SEPA
- Coordinated and early communication of SEPA objectives to the public at large
- Availability of a paper SEPA Credit form.

The focus is now on identifying the best approach to foster SDD implementation.

This author welcomes the regulatory initiative launched by the European Commission to set end dates for migration to SEPA through EU Regulation. There should be clarity on the specific dates for migration to SCT and SDD as soon as possible to orchestrate effective communication to the market.

The natural environment of Belgium: a small country with a highly concentrated banking sector

There are a number of factors facilitating SEPA migration in Belgium. To begin with, although there are around 100 banks in the country, four take around 80 percent of the payment industry market share. Some 15 other banks are relatively active in the payments area with smaller volumes and about 80 banks are less concerned with the payments industry, specialising in specific niche business sectors. Other stakeholders within this community are also well organised and easy to reach.

Regardless of their size or focus area, all banks participate in one, well organised federation, which has created all the necessary, basic banking standards for payments (www.febelfin.be). Organising consultations between banks in this environment is easier compared to a larger country with wide-spread and different banking networks.

SEPA 'Twin-Peaks' governance model

Banks, supported by the National Bank of Belgium, develop the interbank migration, while the central bank organises the national SEPA Committee supported by the banks. The banking federation and the central bank each have their own, well defined mandate and support each other whenever possible. For example, a central bank representative acts as observer/chairman or secretary depending on the group/committee within the banking federation. The bridge between the two forums is monitored by the SEPA Program Officer. In practice, a straightforward cooperation successfully serves both parties.

The cooperation is further strengthened by the fact that the Automated Clearing House (ACH) is run by the central bank on behalf of the banks. This obliges the central bank to implement all technical SEPA requirements in its own technical infrastructure and to follow closely all technical updates. This in turn stimulates bilateral communication on SEPA issues between both parties.

Public authorities paving the way

Very early in the process the question arose of how to convince the general payment service user such as corporates and individuals to move to SEPA. It was recognised that this could be achieved by encouraging public services to lead the process. From that time on, the National Bank of Belgium used its moral persuasion powers with the public authorities to engage them in the SEPA process.

Once the decision was taken at a ministerial level to move forward, the public administrations worked intensively and in a coordinated manner towards SEPA migration. This rapidly produced visible results for all citizens. For example, requests for car tax and personal income tax payments were sent out using the SEPA Credit Transfer (SCT) format. This visibility was an important incentive to convince the other stakeholders to start SEPA migration. At the same time, consumers were introduced to the new account identifiers IBAN (International Bank Account Number) and BIC (Business Identifier Code) in an efficient way.

Top-down approach: from public authorities and 'big-billers' to the citizen

Following the engagement of public authorities, the 'big billers' such as utility companies which send out huge volumes of invoices for water, electricity, gas and telecom payments, were invited to move towards the new standards, which encouraged other business to follow.

In parallel, different types of trade federations reaching relevant stakeholders including SMEs, corporates and insurance companies were encouraged to communicate the SEPA objectives to their members. IT providers, particularly within the Enterprise Resource Planning sector, were given specific attention as they deliver the accountability and payments software necessary to implement SEPA to the bulk of SMEs and independent professionals. Consumer organisations were also informed about SEPA.

SEPA becomes tangible for consumers through SEPA paper credit transfer

Although in practice the paper credit transfer form is an 'invitation to pay' sent with invoices and is rarely used for initiating a credit transfer payment as most customers use online banking, the traditional Belgian credit transfer form was nonetheless converted into a SEPA paper version to further increase visibility of the new format when issuing invoices. Citizens use this SCT form when inputting the relevant data in online banking applications. The adoption of this new layout by public administrations, big billers and other beneficiaries is creating awareness for the transition to SEPA among Belgium citizens.

<http://www.nbb.be/doc/ts/products/protocols/e/voorbeeldformulieren.pdf>

Limited start-up of SEPA Direct Debit (SDD) due to low use of direct debit by public authorities

The successful migration to SCT in Belgium, as described above, is largely the result of the early engagement of the public sector. This model, however, cannot be replicated with regard to SDD. Belgian public administrations - contrary to the customs in other countries - do not collect taxes using a direct debit product. Therefore they are

unable to pioneer the use of SDD. Perhaps it may be worthwhile considering the use of the new SDD for the collection of tax payments in Belgium.

Cards: who is doing what, when?

Although all parties agree that a European card scheme would be a welcome new entrant in the payments market, no significant progress has been noted for years. Banks await new card schemes to arrive. Three initiatives (of which one is Payfair, a Belgian one) for new schemes have been launched and wait for banks to join (issue / acquire) them. Payment system operators are ready to process new schemes. And payment service users (merchants and consumers) are keen on a new European card to come. Everybody is waiting for everybody: this situation is often called a 'dead-lock' situation. I sincerely hope the first half of this expression is irrelevant in this case.

EU Regulation on end dates for SEPA migration will create the necessary sense of urgency to step up SEPA migration efforts

As in any other EU Member State to-date, there is no pressing need for payment service users to migrate to SEPA. Facing investment needs, usage of SCT and SDD can be delayed as long as national legacy euro payment schemes for credit transfer and direct debit exist.

SEPA is basically a change process which is not generally perceived to generate equal, immediate and tangible benefits for all stakeholders. To ensure full migration, it is therefore necessary to set an extinction date for legacy credit transfers and direct debits as proposed in the draft Regulation published in December 2010, which establishes technical requirements for credit transfers and direct debits in euros.

This will allow us to announce the end of the existing nationally formatted payment instruments to all payment service users. Precise end dates are however not yet known, which might complicate communication. The regulatory proposal states that credit transfers shall be carried out in accordance with this Regulation twelve months after its entry into force; direct debits shall comply 24 months after entry into force. Stakeholders such as enterprises might need more than one year of preparation to migrate to SCT. This underlines the importance of ongoing communication efforts by payment service providers, the regulators and authorities. Our National SEPA Forum will organise a continuous process of updating the members on the progress of the new regulation's adoption process.

Jan Vermeulen is a Senior Payments Systems expert at the National Bank of Belgium and the SEPA Program Officer in Belgium. He organizes the National SEPA Committee within the National Bank of Belgium.

Related links :

[Febelfin: SEPA in Belgium](#)

[National Bank of Belgium](#)

[Federal Government of Belgium](#)

[Third progress report on the migration towards SEPA in Belgium](#)

[Commission's Third Survey on Public Administrations' Preparedness and Migration to SEPA \(October 2010\)](#)

[ECOFIN Conclusions on SEPA of December 2009](#)

[Translations of the EPC publication 'SEPA for the Public Sector' in all EU languages courtesy of the European Central Bank](#)

Related articles in this issue:

[Best of Class: the Netherlands. A case study in successful migration to SEPA](#)

[The Breakthrough for SEPA? European Commission publishes proposal for a Regulation establishing technical](#)

[requirements for credit transfers and direct debits in euros](#)

Related articles in previous issues:

[Preparation for SEPA by Public Administrations in France. France's public administrations are among the country's leading users of cashless payment systems](#) (EPC Newsletter, Issue 8, October 2010)

[Yes, we can - Part I. Luxemburg: a case study in successful migration to SEPA](#) (EPC Newsletter, Issue 3, July 2009)

[Yes we can - Part II. Belgium: a case study in successful migration to SEPA](#) (EPC Newsletter, Issue 4, October 2009)

ARTICLE161

FRINGE OBSERVATIONS ON SEPA

The Good, the Bad, the Ugly* and a Knight in Shining Armour?

European Commission requests unprecedented powers to determine payment functionalities

31.01.11 BY JAVIER SANTAMARÍA

One of the most industriously cultivated political myths in the Brussels fish bowl is that users of payment services across all SEPA countries and customer segments would share a common vision with regard to SEPA payment schemes - and that the European Payments Council (EPC) would disregard this vision. The myth implies that dialogue between the demand and supply sides in the payments market would have broken down. Javier Santamaría refutes the myth and points to reality instead. The European Commission now seeks unlimited executive powers to decree payment functionalities top-down and entirely at its discretion. Consultation of market participants is not foreseen. The moral of the story? In response to an imaginary market failure, the regulator excludes the market, on both the demand and supply sides, from the process. The 'Fringe Observations on SEPA' highlight aspects transcending the day-to-day management of the process aimed at making SEPA a reality in the foreseeable future.

* *"The Good, the Bad and the Ugly"* (Italian: *Il buono, il brutto, il cattivo*) is a 1966 western film directed by Sergio Leone.

KEY INFORMATION IN THIS ARTICLE

Payment Service Providers (PSPs) operating in a competitive market must distinguish their services and performance to acquire paying customers (the end users). Hence, it is of vital importance that the SEPA payment schemes, developed by the EPC, enable PSPs to design SEPA products and services that meet specific customer needs.

Regarding the ideal design of a SEPA payment scheme, the viewpoints of European Payments Council (EPC) members are as distinct (and occasionally mutually exclusive) as are those of payment services users – and each EPC member will make every effort to channel the requirements of their customers into the schemes.

Statements which imply that the demand and supply sides of the payments market would each act as a unified, homogenous and monolithic front are a distortion of reality.

It is a standard exercise in SEPA to bridge different payment practices and customer expectations in the process of SEPA scheme development.

The development of payment schemes through self-regulation by banks in close dialogue with customers represents the established approach in all national banking communities – and in SEPA.

This model ensures an optimally efficient, systemically stable and competitive payments market. It also incentivises innovation as a result of market pressures.

The proposal for a SEPA Regulation published in December 2010 (Articles 5 (4) and 12 – 15) envisages conferring unlimited executive powers on the European Commission to decree payment functionalities entirely at its discretion. Consultation of market participants is not foreseen.

To ensure that core principles of good governance continue to be observed in the euro payments market it is necessary that Articles 5 (4) and 12 - 15 are deleted from the proposal for a SEPA Regulation.

The bad and the ugly?

The European Parliament's Resolution on SEPA of March 2010 states that *"the SEPA decision-making process is currently at the discretion of the European Payments Council (EPC), where only banks take decisions on SEPA products neglecting end-users requests"*¹. I would like to invite the members of the European Parliament to reconsider this statement.

The EPC does not take decisions on the overall SEPA process - this is the responsibility of the public authorities and relevant political bodies at a European and national level.

The EPC is exclusively responsible for the development of SEPA payment schemes and frameworks - not the overall management of the SEPA process. The latter is the responsibility of the relevant public authorities and political bodies including the European Commission (the Commission), the Economic and Financial Affairs Council (ECOFIN), the European Parliament, the European Central Bank (ECB) / Eurosystem and European Union (EU) governments.

The EPC never discusses or takes decision on SEPA products

We do not tire of explaining the material difference between a SEPA payment *scheme* and SEPA *products and services*: the EPC is responsible, among others, for the development and maintenance of SEPA payment *schemes* as defined in the SEPA Credit Transfer (SCT) Scheme Rulebook and the SEPA Direct Debit (SDD) Scheme Rulebooks. The Scheme Rulebooks contain sets of rules and standards for the execution of SEPA payment transactions that have to be followed by payment service providers (PSPs). These can be regarded as instruction manuals which provide a common understanding on how to move funds from account A to account B within SEPA. The rules and standards which make up a payment scheme are defined by PSPs in the collaborative space - that is the EPC.

The particular SEPA payment products and services offered to the customer are developed by individual, or groups of, PSPs or operating in a competitive environment. The SEPA schemes developed by the EPC in close dialogue with the user community provide flexibility and options which enable PSPs to add features and services of their choice to the actual payment product.

The EPC does not "neglect" end user requests. EPC members have a fundamental interest in promoting the needs of their customers.

The EPC does not 'neglect' end-user requests - for rather obvious reasons: PSPs operating in a competitive market must distinguish their services and performance to acquire paying customers (the end users). Hence, it is of vital importance that the SEPA payment schemes developed by the EPC enable PSPs to design SEPA products and services that meet specific customer needs.

The EPC currently consists of 74 members acting on behalf of banks, banking communities and payment institutions from 32 SEPA countries. More than 350 professionals representing all sizes and sectors of the banking industry within Europe are directly engaged in the work programme of the EPC. These payment professionals are committed to the SEPA vision and to the highly diversified customer base of the banking sectors and national communities on whose behalf they speak in the EPC.

It is also important to remember that the individuals engaged in EPC scheme development are not academics or lobbyists delegated to work for the EPC, but full-time payment professionals who interact daily with their local customers and manage payments in the real world. In addition, EPC members receive feedback from customer consultations on the SEPA schemes carried out at a national level and profit from the dialogue which is taking place in the EPC Customer Stakeholder Forum (CSF) since mid 2007. It may therefore be safely assumed that they know what their customers want.

Regarding the ideal design of a SEPA payment scheme, the viewpoints of EPC members are as distinct (and occasionally mutually exclusive) as are those of payment service users - and each EPC member will make every effort to channel the requirements of their customers into the schemes.

Observations on the term 'payment service users': the requirements of consumers, corporates, SMEs and public entities acting as payers and payees - within and across 32 SEPA countries

Paying is an activity that cannot be undertaken in isolation. It must rest on an underlying economic transaction (a service being provided or a product being sold) in which the starring roles are performed by a seller - who is the payee and the one that gets the money - and a buyer - who is the payer and gives the money. The underlying relationship is hence deeply asymmetrical and requirements from both ends may differ greatly. That a payment instrument is easy and safe to use would be subscribed to by both payers and payees. With regard to the cost of using a payment instrument, payers and payees agree that it should be borne by the other party. This is where the similarities between the requirements of payers and payees usually end.

Payment service users, however, are not only divided into payers and payees. They encompass consumers, corporates and SMEs - which may be active domestically, regionally or globally - and public administrations, for example. Expectations with regard to payments among these different customer segments differ widely. 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. Consumer requirements related to direct debits illustrate the fact: 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. As a result, it is virtually impossible to translate the expectations of each national user group into mandatory elements of the SDD Scheme.

The division is not between users and suppliers: the art is in the process of building consensus across different payment cultures and customer expectations

Statements which imply that the EPC - or the demand side in the SEPA payments market - would each act as a unified, homogenous and monolithic front are a distortion of reality.

It is a standard exercise in SEPA to bridge different payment practices and customer expectations, while going through the painstaking process of forging agreement on the countless technical and procedural details that make up a European payment scheme. At the end of the day, 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 for the majority. This requires the ability to differentiate between the needs of particular customer segments in specific national markets on the one hand, and the overall requirements of the broader customer base on the other.

Proposed changes to the SEPA schemes that find broad acceptance in the entire user community are taken forward - regardless of whether such a change is proposed by PSPs or customer representatives. Change requests that lack such broad support are not. To identify whether any change request finds broad support in the entire SEPA market, the EPC does not roll the dice, but engages in an annual open scheme change management process. This includes a three month public consultation of all market participants. As pointed out above, in most instances a specific change request will be supported (or opposed) jointly by a particular user group and banking representatives catering to this particular user group.

The European institutions closely monitoring EPC activities should be the first to recognise that the process of consensus building inevitably means that not all requests can be taken forward. To construe this as "negligence" of the EPC to honour user requirements is erroneous.

The question is why does this myth continue to be propagated?

Translating customer requirements into a payment scheme: the principle of self-regulation by PSPs operating in a network industry

Only by chance will a payer and payee share a common PSP (i.e. both holding an account in the same bank). In the more frequent scenario, a payment transaction involves the following four parties: the payer, the payer's bank, the payee and the payee's bank. Hence, there is a need to establish a network of providers that are able to communicate with each other; i.e. exchange funds between bank accounts held at different banks in a fast, secure and efficient manner. In other words, banks need to agree on the rules and standards governing a payment scheme - for example, payment schemes stipulating the rules and standards to execute a credit transfer or a direct debit. Traditionally, payment schemes are developed by PSPs operating in a cooperative and interbank environment. In the pre-SEPA era, it was the responsibility of national banking communities to develop and maintain payment schemes for euro credit transfer and direct debits. In SEPA, this task is performed by the stakeholders cooperating in the EPC.

In an industry body such as the EPC, banks representing the payers and banks representing the payees each defend their position and strike a balance. With their customers' (payment service users) interests in mind (for the reasons outlined above), banks strive to reach an agreement which is acceptable to both parties (payers and payees) and which releases enough efficiency to satisfy their different needs or requirements.

This model relies on the specific position of banks² as the intermediary whose role it is to find the right point of equilibrium between the two parties; payees and payers. Banks are forced to satisfy both the payers and the payees, their customers. It is a case of supply meeting demand.

Self-regulation by banks in close dialogue with all customer segments ensures an optimally efficient, systemically stable and competitive payments market. This model also incentivises industry to innovate as a result of market pressures. The reluctance of payment service users to migrate voluntarily to SEPA confirms this conclusion: the vast majority of users in SEPA lack the incentive to move, because they are sufficiently satisfied with existing payment services - created based on the model described above.

This being said, and with my hand firmly pressed to my European heart, I fully support the SEPA vision. However, I share the view that SEPA is not a market-driven initiative and will require regulatory intervention to succeed; i.e. end dates for migration to SEPA must be established through EU Regulation. There is, however, no rationale

whatsoever to obliterate the proven model of scheme development in the process. Yet this is precisely the goal now pursued by the Commission.

The proposal for a SEPA Regulation published in December 2010 envisages unlimited executive powers of the Commission to determine payment functionalities

On 16 December 2010 the Commission published its proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009. Articles 5 (4) and 12 through 15 of the proposal envisage that unlimited executive powers shall be conferred on the Commission to amend - at its sole discretion - the technical requirements to be met by euro credit transfer and euro direct debit schemes through delegated acts. The fact must be stressed that these technical requirements are set out in an annex to the proposed regulation for the following reason: by not including these requirements in the core text of the regulation, the Commission would be authorised to amend these requirements without having to obtain approval by the European Council (Representatives of EU Governments) and the European Parliament of such amendments. In other words, the Commission is now determined to take over the task of developing payment functionalities.

According to the regulatory proposal, the Commission does not foresee any involvement of market participants (users and suppliers) in the process of identifying these technical requirements.

(By the way: the core legal text of this regulatory proposal - commonly referred to as the 'SEPA Regulation' - does not mention the Single Euro Payments Area once. The SEPA initiative is only referred to in the explanatory memorandum and the Recitals accompanying the core legal text ... but this peculiar fact will have to be analysed on another occasion).

If it isn't broken, don't fix it

We have established that statements which imply that the EPC - or the demand side in the SEPA payments market - would act as a unified, homogenous and monolithic front are a distortion of reality. We have further demonstrated that PSPs cooperating in the EPC - if only out of pure self-interest - respond to customer needs. The following question therefore still requires an answer: why is the myth so industriously cultivated that the EPC would 'neglect' user requests?

The myth serves a purpose because the myth implies that the market does not work in the area of scheme development. The myth supplies the rationale for the regulator to claim the role of a knight in shining armour, ready to rescue payment services users supposedly disregarded by the supply side. Hence, the myth conveniently (if rather obviously) paves the way to a new reality. If endorsed by the legislator, the regulator will enjoy unprecedented powers to decree requirements applicable to euro credit transfer and direct debit schemes which will have to be met by all market participants - users and suppliers.

The hope remains, however, that EU lawmakers recognise that the established model of developing payment schemes - through self-regulation by banks in close dialogue with all payment services users - is the most appropriate approach to create an optimally efficient payments environment. To ensure that core principles of good governance continue to be observed in the euro payments market, it is necessary that Articles 5 (4) and 12 -15 are deleted from the proposal for a regulation establishing technical requirements for credit transfers and direct debits in euros.

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](#)'. This publication clarifies the roles and responsibilities of the different actors involved in the SEPA process.

[Regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation \(EC\) No 924/2009 of 16 December 2010.](#)

Related articles in this issue:

[SEPA Scheme Change Management 2011 - Call to Stakeholders. Suggestions for changes to SCT and SDD must reach the EPC by end February 2011](#)

[The Breakthrough for SEPA? European Commission publishes proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros](#)

Related articles in previous issue:

[An Epic Voyage: the SEPA Odyssey. Looking to Homer provides useful insight on the integration of the euro payments market \(EPC Newsletter, Issue 8, October 2010\)](#)

¹<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0057+0+DOC+XML+V0//EN>

²The term 'bank' is used in a non-discriminatory fashion and does not exclude payment service providers that are not banks.

ARTICLE160

EPC LATEST NEWS

SEPA Scheme Change Management 2011 - Call to Stakeholders

Suggestions for changes to SCT and SDD must reach the EPC by end February 2011

31.01.11 BY JAVIER SANTAMARÍA

The SEPA payment schemes developed by the European Payments Council (EPC) in close dialogue with the user community evolve over time to reflect changes in market needs and updates in standards. Each SEPA scheme rulebook - SEPA Credit Transfer (SCT), SEPA Core Direct Debit and SEPA Business to Business Direct Debit (SDD) - contains in Annex the Scheme Management Internal Rules which define the change management process applicable to the rulebooks. The first step in the annual SEPA scheme change management cycle is the introduction of suggestions for changes to the schemes by any interested party. The EPC invites stakeholders to submit suggestions for changes to the EPC by 28 February 2011 (a link to the relevant documentation is included at the end of this article). Javier Santamaría explains the process.

KEY INFORMATION IN THIS ARTICLE

The annual SEPA scheme change management process is based on the following principles:

Any stakeholder may introduce suggestions for changes to the SCT and SDD scheme rulebooks.

All suggestions for changes to the Scheme rulebooks will be evaluated by the EPC SEPA Payment Schemes Working Group (SPS WG) and channelled into a single change request per rulebook to be released for a three-month public consultation in May 2011.

Updated versions of the rulebooks will be published following approval by the EPC Plenary in September 2011. These rulebook releases will take effect in November 2012.

Deadline to submit suggestions for changes to the SCT and SDD scheme rulebooks is **28 February 2011**. A link to the relevant documentation is included at the end of this article.

Get involved!

The SCT and SDD Schemes evolve based on a transparent change management process providing all

stakeholders with the opportunity to introduce suggestions for changes to the SEPA schemes. The principles governing the evolution of the SEPA Schemes are set out in section 3 of the SEPA Scheme Management Internal Rules (see link below).

In consideration of the suggestions received, the EPC SEPA Payments Working Group (SPS WG) develops a single change request per rulebook. The preparation of the change request involves analysis of the suggestions for changes received, including a cost-benefit analysis, dialogue with the initiator and, if appropriate, market research. Based on this analysis, the SPS WG decides whether to accept a suggestion for change into the change management process or not. Initiators of any suggestions for changes are notified of the decision taken by the SPS WG. All suggestions to modify the rulebook 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 will be released for a three-month public consultation in May 2011.

Taking into account comments received during the consultation, the SPS WG completes a change proposal for approval by the EPC Plenary in September 2011.

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

As a result of this annual change cycle, the SCT and SDD Schemes incorporate numerous features introduced by end users.

Deadline to submit suggestions for changes to the SCT and SDD scheme rulebooks is **28 February 2011**.

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

Related links :

[Scheme Management Internal Rules - Extract - Chapter 3 \(this chapter describes the principles governing EPC scheme development\)](#)

[Template for proposing a Suggestion for a Change to a SEPA Scheme](#)

Related article in this issue:

[The Good, the Bad, the Ugly* and a Knight in Shining Armour? European Commission requests unprecedented powers to determine payment functionalities. * "The Good, the Bad and the Ugly" \(Italian: *Il buono, il brutto, il cattivo*\) is a 1966 western film directed by Sergio Leone.](#)

Related articles in previous issues:

[So what's in a Name? Explaining payment schemes, instruments and systems. Clarity on payment terms is critical in the debate over the approach to setting end dates for migration to SEPA through EU Regulation \(EPC Newsletter, Issue 8, October 2010\)](#)

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

ARTICLE165

EPC LATEST NEWS

Update EPC Plenary Meetings

Main decisions taken in December 2010

31.01.11 BY GERARD HARTSINK

Gerard Hartsink summarises the main decisions taken at the December 2010 meeting of the EPC Plenary. These main decisions are highlighted in the information box below.

KEY INFORMATION IN THIS ARTICLE

Main decisions of the EPC Plenary in December 2010 included:

- Approval of version 5.0 of the SEPA Cards Standardisation Volume – Book of Requirements taking into consideration that chapters 5 (security requirements) and 6 (certification) are subject to further amendments.
- Approval of the Resolution 'Preventing Card Fraud in a Mature EMV Environment'.
- The Plenary declared that the convention on a basic standard for euro retail cross-border credit transfers in the countries of the EU and the Interbank Charging Principles (ICP) Convention are obsolete as they are based on outdated legislation and have been superseded by a combination of the Payment Services Directive, Regulation 924/2009 and EPC's SEPA Credit Transfer (SCT) Rulebook.
- Approval for publication of documentation relevant to Certification Authority Supervisory Board (CASB). The CASB will handle applications from certification authorities who wish to become EPC approved in offering e-Mandate Services.
- It was resolved to establish an e-Commerce Payments Working Group.
- It was resolved to carry out an analysis of the business-to-business needs regarding SCT.

Update of the SEPA Cards Standardisation Volume and Approved Resolution 'Preventing Card Fraud in a Mature EMV Environment'

The SEPA Cards Standardisation Volume - Book of Requirements defines functional and security standards requirements as well as evaluation methodology designed to achieve interoperability based on open and free standards within SEPA. The Plenary approved version 5.0 of the Standardisation Volume - Book of Requirements for publication with qualifications regarding chapters 5 and 6 and acknowledging that a future update will be considered in the course of 2011. Approval of chapters 5 (security requirements) and 6 (certification) was deferred pending additional changes.

The Plenary also approved the Resolution 'Preventing Card Fraud in a Mature EMV Environment', which identifies the appropriate measures to fight fraud in a mature chip and PIN card ecosystem.

See also the link to a separate article on this subject below.

Obsolescence of conventions for cross-border payments in euros and the ICP

The *Convention for Cross-border Payments in Euros* and the *Interbank Charging Principles (ICP) Convention*, introduced in 2002 and 2003 respectively, were the first market conventions on pan-European payments in euros published by the EPC. The *Convention for Cross-border Payments in Euros* provides a standard for the execution of a 'basic' pan-European credit transfer. As for the *ICP Convention*, it proposes a set of principles regarding certain aspects of processing credit transfers in euros inside the European Union. On 15 December 2010, the EPC resolved that both these conventions are declared obsolete as they are based on outdated legislation and have been superseded by a combination of the Payment Services Directive, Regulation 924/2009 and EPC's SEPA Credit Transfer (SCT) Scheme Rulebook.

See also the link to a separate article on this subject below.

Approval for publication of documentation relevant to the Certification Authority Supervisory Board (CASB)

The CASB will handle applications from certification authorities (CAs) who wish to become EPC approved in offering e-mandate Services. As previously reported, the SEPA Direct Debit (SDD) Schemes include the optional e-Mandate feature; i.e. the option to create a mandate through an electronic channel. The e-mandate option provides an additional means of authorising direct debit collections. The e-mandate solution is based on secure, widely used online banking services offered by banks today. The e-mandate solution is an optional service supported and offered by banks to their customers.

The EPC e-Mandates e-Operating Model spells out the requirements to be met by EPC-approved CAs. It is the role of the EPC approved CAs to securely qualify legitimate validation service providers and routing service providers. The CAs will issue certificates to validation service providers and routing service providers that meet the requirements of the EPC e-Mandates e-Operating Model. The EPC approved Certification Authorities provide a common trust (and hence liability) model enabling secure message flows between the validation service providers and the routing service providers facilitating the e-mandate service. Thanks to the CAs, there is no need for the parties involved in the e-mandate process flow to establish bilateral agreements.

To access documentation relevant to the CASB click [here](#).

EPC establishes an e-commerce Payments Working Group

The Plenary decided that more research needs to be done in the area of e-payments so that to ensure that EPC decisions to be taken in the future in this area are soundly based. In parallel to completing the work already mandated with regard to the SEPA e-payments Framework, i.e. completion of the proof of concept and finalisation of the framework, it was agreed that some basic work needs to be done in order to establish exactly what the EPC could / should further contribute in the area of e-payments. A white paper is being developed as a first step and a working group is set up both to continue the current work and to undertake the research recommended. The Plenary resolved that a new EPC e-commerce Payments Working Group be established to commence operations in March 2011.

Analysis of the business-to-business needs regarding SEPA Credit Transfer

Since the concept of a SCT Rulebook was first introduced, there have been various suggestions from market players indicating that there are several requirements for additional features and services specific for the business to business (B2B) use of credit transfers. In subsequent discussions in the EPC's Customer Stakeholder Forum (CSF) the concept of a service level agreement (SLA) for SCT or an optional rulebook was brought forward by the stakeholders, which sets out a number of topics that would need to be addressed for inclusion in such a document. The Plenary resolved that the SEPA Payment Schemes Working Group be requested to carry out a study, for review in March 2011, as to whether there is a market need to initiate work to accommodate specific B2B credit transfer requirements.

Gerard Hartsink is the Chair of the EPC.

Related articles in this issue:

[Work in Progress. The EPC approves update of the SEPA Cards Standardisation Volume and a new Resolution 'Preventing Card Fraud in a Mature EMV Environment'](#)

[The King is Dead, Long Live the King. The EPC Repeals the Convention for Cross-border Payments in Euros and the Interbank Charging Principles \(ICP\) Convention](#)

[Building a Single Market for e-commerce payments. The SEPA e-Payment Framework - from design via proof of concept to market](#)

Related article in previous issues:

[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).

ARTICLE162

EPC LATEST NEWS

Your Points of View

What our readers think of the EPC Newsletter

31.01.11 BY THE EPC NEWSLETTER EDITORIAL BOARD

During the last quarter of 2010, the EPC commissioned an independent online insight provider to undertake a survey on the EPC Newsletter. The activity aimed to identify how readers perceived the newsletter, its relevance to their work and recommendations for future issues. Over 380 EPC Newsletter readers participated in this study offering support for this medium, with 92.9 percent identifying that the information in the newsletter is useful to them. Participants in the study also offered valuable recommendations to improve this regular communication tool, including thoughts on article content, layout and the length of the newsletter. In this article, the EPC provides an overview of this activity, the results that were generated and how EPC plans to adapt the newsletter to meet the requirements outlined by its readers. Although not all recommendations can be accommodated at this stage, the EPC has noted and recorded all comments for future reference. The EPC would like to thank all stakeholders who offered their views on the EPC Newsletter for taking the time to participate and assist the EPC in evolving this communication platform to meet the requirements of its audience.

KEY INFORMATION IN THIS ARTICLE

Summary of key results from the EPC Newsletter Readers Survey 2010

- 80.8 percent found the newsletter to be important
- 92.9 percent identify that the information within the newsletter is useful
- 72.4 percent can understand and relate to the content within the articles
- 69.2 percent feel the length of the articles is appropriate
- Only 8.7 percent think the design layout of the newsletter could be improved.

The following topics were highlighted as the top three when asked what content respondents would like to see more of:

- Legal and regulatory aspects relevant to the SEPA process
- SEPA Direct Debit
- Political aspects impacting the SEPA process.

Points of View - What our readers think of the EPC Newsletter

The EPC Newsletter offers a communication platform to document the opinions and research results on a range of important topics which have been contributed by industry professionals actively engaged in SEPA. Issued quarterly, it is a regular and vital source of information to a variety of stakeholders working within the European payments landscape.

During the last quarter of 2010, the EPC commissioned an independent online insight provider to undertake a survey which aimed to identify how readers perceived the newsletter, its relevance and accessibility to content, i.e. ease of understanding the information shared.

To engage respondents, the EPC highlighted the opportunity to participate in the study in its last October 2010 newsletter, and undertook a further email dispatch to the entire EPC Newsletter database in November 2010 to encourage feedback and liaised directly with journalists to source qualitative insight.

The EPC's aim of sourcing the views of 200 readers was nearly doubled, as 380 of you took part in the study as well as nine journalists. The EPC would like to thank all stakeholders who offered their views on the EPC Newsletter for taking the time to participate and assist the EPC in evolving this communication platform to meet the requirements of its audience.

The results

The online survey incorporated seven multiple-choice questions, with an option for readers to provide further comments if desired. Details regarding the respondent's location and company position were also requested but not mandatory. Nearly 100 comments were received and each has been thoroughly reviewed by the EPC Newsletter Editorial Board. Here is an overview of the key findings that were generated.

- **How important is the EPC Newsletter to you? (Figure 1)**

88.8 percent found the newsletter to be important, with 55.5 percent stating it as very important. One reader summarised: *"The presentation and coverage is very good, and some of the articles are really thought provoking... I sincerely appreciate the work done at EPC to produce such an excellent newsletter."*

- **How useful do you find the information provided in the EPC Newsletter to your needs and activities? (Figure 2)**

92.9 percent identify that the information within the newsletter is useful, with 42.4 percent highlighting that the EPC Newsletter is extremely useful. One respondent with a background in consulting commented: *"The information provided is of prime importance to non-bank players. It is detailed in explanations and comprehensive in scope, which suits a complex and quickly evolving matter... it constitutes a practical and reliable vade-mecu."* Another respondent from the public sector added: *"The EPC Newsletter is very useful in my everyday job, where I am responsible for issues concerning non-cash payments, SEPA etc."*

- **How accessible is the information in the EPC Newsletter? By 'accessible' we mean is it easy to read and understand? (Figure 3)**

72.4 percent can understand and relate to the content within the articles, with one respondent adding: *"I would like to thank the EPC colleagues for their efforts to inform the community on this hot topic of the European financial market. To provide all stakeholders with their adequate information needs is a cumbersome task. Nevertheless, providing the information regularly with the appropriate level of information is very well received!"*

At the same time, **27.6 percent** identified that the newsletter could be improved with regards to simplifying language and shortening the length of the document. *"(There is) quite a lot of text per article. I would welcome more diagrams, tables etc - where appropriate - which would make reading easier,"* commented one reader.

- **Considering the complex subject matter covered, do you believe that the articles are the appropriate length? (Figure 4)**

69.2 percent stated that the articles are an appropriate length and offers the correct level of detail. As outlined above, however, there were also a number of additional comments requesting a shorter more concise newsletter. Based on this additional feedback when evaluating the responses, the survey indicated that although readers generally appreciated the need for detailed articles, the length of the newsletter as a whole, i.e. the number of articles per issue, should be reviewed.

- **What information would you like to see more of? (Figure 5)**

From a predefined list, legal and regulatory aspects relevant to the SEPA process, SEPA Direct Debit and the

political aspects impacting the SEPA process were highlighted as the top three areas that readers would like to receive more information on.

In order of demand (from highest scoring to the lowest scoring) the following subjects were then chosen: SEPA Credit Transfer, general standardisation requirements, SEPA for Mobile, general technical issues, SEPA Cards Framework, SEPA Cards Standardisation Volume - Book of Requirements and SEPA for Cash.

Other topics were added by respondents including a request for more information on implementation case studies and best practice, mobile payments in terms of security, governance and technology, input on legal and compliance issues, as well as innovation projects. Requests were also made to receive more updates on EPC work in progress.

Duplication between articles was one area that readers would like to see less of, as it was noted that the same key messages have been communicated in multiple features. A recommendation to use less emotive language was also highlighted as it can undermine the very valid points that are being communicated. Other respondents, however, commented that the commentaries and editorial pieces are highly appreciated as these are 'thought-provoking' and amusing to read.

- **What do you think about the layout of the EPC Newsletter and the web links provided for further information? (Figure 6)**

Only **8.7 percent** think the design layout of the newsletter could be improved. *"The structure where the articles are summarised and briefed first and additional information is accessible via the links is good. It is excellent that links are added to the most relevant documentation,"* added one reader. In contrast, the survey also generated responses which requested that highlighting and underlining words should be kept to minimum and footnotes should be used throughout the text to ensure consistent referencing.

Translated versions of the EPC Newsletter were also requested.

Recommendations and EPC response

The findings generated have been reviewed by the EPC Newsletter Editorial Board and the EPC Communication Task Force and many key recommendations were identified. On matters such as information that respondents would like to see more of, the EPC will work with the relevant bodies to source the details requested. In other areas such as translations, the EPC does not have the resource to deliver this requirement across all SEPA countries.

Below are some further thoughts that the EPC will aim to respond to with immediate effect:

Length of the newsletter. Whilst almost 70 percent of respondents indicated that the length of each article is appropriate, many of the individual comments received stated that there are too many features per issue. A reduced number of articles will encourage more stakeholders to read the newsletter. The EPC will therefore generally aim to limit the number of articles to twelve / fourteen per issue, a reduction of content by about 20 percent compared to previous issues.

Frequency of publication. A number of respondents proposed to increase the frequency of publication to monthly / bi-monthly. By doing a shorter monthly update the number of articles could be reduced and more 'newsworthy and timely' stories communicated. The frequency of publication, however, is determined by the frequency of EPC Plenary meetings as most of the topics covered are subject to decisions at these gatherings. As such, the EPC has to maintain quarterly publication of the EPC Newsletter. Additional communication channels, such as social media platforms, could be developed allowing the EPC to engage with stakeholders on a more regular basis. This is currently being reviewed and considered by the EPC.

Ensure detailed reporting on relevant legal and regulatory issues. More than 40 percent of respondents indicated the need for increased coverage of legal and regulatory issues relevant to the SEPA process. It is assumed that this figure is partially influenced by the fact that the survey took place at a time when the market was expecting a formal proposal for a Regulation establishing end dates for euro credit transfers and direct debits for compliance with technical requirements to be tabled by the European Commission. The EPC will therefore continue

to give priority to reports on the regulatory developments immediately impacting the SEPA process.

Creating a more concise contents page. Several respondents indicated the need for a concise content page which would facilitate a 'quick scan' of all articles and allow readers to review key stories. This function is in fact already available, however, perhaps we have not highlighted this feature clearly enough. Whilst subscribers receive on the day of publication an email dispatch of the newsletter with a short, concise 'teaser' on each article, we also provide the requested content page on the EPC web site. The content page of the current issue of the EPC Newsletter is available on the EPC web site at <http://www.europeanpaymentscouncil.eu/newsletter.cfm>. As requested by respondents to the survey, this content page features summaries of all the articles included in one edition and offers a link to the full individual article.

Adjust layout of article pages. Going forward, more graphs, figures and information boxes containing bullets featuring the main information of an article will be included, where appropriate. These information boxes will provide a 'snapshot' of the main statements included in the article. This new feature will accommodate the needs of those readers who prefer a 'quick read' as opposed to the 70 percent of respondents who are comfortable with the current length of individual articles.

Simplify language. Making the language even less technical ensures that the communication is clear, concise and understandable to as wide an audience as possible. This can often assist in reducing article length.

Provide EPC Newsletter in PDF format. Several respondents indicated the need to download the newsletter in PDF format. This feature is also already available; however, we might not have pointed this out clearly enough. By going to the content / start page of the EPC Newsletter at <http://www.europeanpaymentscouncil.eu/newsletter.cfm> and clicking on the PDF icon in the upper right hand corner, it is possible to download the entire issue in PDF. It is also possible to download individual articles in PDF format by following the link 'Read More' which leads to the full article. On each individual article page there is also the PDF icon in the upper right hand corner of the page. Finally, several readers suggested that the PDF versions should not include images, photos and / or figures but text only. We have adapted this functionality accordingly, i.e. the PDF versions now contain the text only.

Facts and figures on SEPA migration: several respondents requested concise updates on SEPA migration based on latest data available. This feature is also already available; however, we might not have highlighted this clearly enough. The newsletter features in every edition an article headlined 'Facing the Facts in (*month of newsletter publication*)' which provides this information. This article links to the SEPA Indicators compiled by the European Central Bank¹. These indicators reflect the share of SEPA transactions as a percentage of the total volume of transactions generated by bank customers in the euro area and by country.

The EPC strives to continually improve its communication with stakeholders and greatly welcomes all feedback we received!

The members of the EPC Newsletter Editorial Board are: EPC Chair Gerard Hartsink, EPC Vice Chair Claude Brun, EPC SEPA Payment Schemes Working Group Chair Javier Santamaría, EPC Cards Working Group Chair Ugo Bechis, EPC Cash Working Group Chair Leonor Machado, EPC M-Channel Working Group Chair Dag-Inge Flatraaker, EPC Legal Support Group Chair Kevin Brown, EPC Standards Support Group Chair Petri Aalto, EPC Information Support Group Chair Ruth Wandhöfer, EPC Nominating and Governance Committee Chair Thomas Egner, EPC Audit Committee Chair Michael Montoya, EPC Scheme Management Committee Chair Myra Kinghorn and EPC Secretary General Marco Musto.

¹ECB SEPA Indicators: <http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html>

ARTICLE163

LEGAL AND REGULATORY ISSUES

Happy New Year?

Post-crisis EU financial sector reform: the impact of 'Basel III' on payments

31.01.11 BY DERMOT TURING

The post-crisis financial sector reforms carried out at European Union (EU) level will have a major impact on payment service providers. Future editions of this newsletter will feature additional detailed analysis of EU financial reform legislation affecting payments and cash management services.

This article provides an overview of related legislation now in the pipeline and comments, specifically, on the revised prudential framework which has been settled by the Basel Committee of Banking Supervision. The impact of the 'Basel III' reforms on the payment services sector needs careful thought, as the new metrics for liquidity, leverage and stable funding will all affect the kind of services which payments banks make available, as will the new risk-weighting regime for exposures to large financial institutions. Dermot Turing, Partner in the international financial regulatory team at Clifford Chance, takes a look.

KEY INFORMATION IN THIS ARTICLE

Prudential requirements are the most significant among the numerous legal and regulatory changes affecting banks:

- 'Basel III' proposals will make payment services more costly for banks to provide
- Banks will have to set aside liquid assets for settlement-related facilities
- Banks will need stable funding to support settlement-related facilities
- Uncommitted facilities will no longer be exempt from regulatory capital requirements
- Exposures to financial institutions will require additional regulatory capital

Banks and other payment service providers are taking cover from an avalanche of regulation following the financial crisis of 2008. The European authorities have launched dozens of legislative and regulatory initiatives, many of which affect the payments and cash management space, a selection of which is set out in the table below.

Initiative	Main objective	Implementation date
SEPA mandatory end-date regulation	Retirement of non-SEPA euro payment schemes	2012 and beyond (6 months after date of publication in EU Official Journal; according to regulatory proposal published on 16 December 2010, migration end dates for euro credit transfers and direct debits will be set 12 and 24 months after the Regulation comes into force, respectively)
Electronic money directive	Harmonise rules applicable to electronic money issuers to PSD	30 April 2011
e-invoicing	Legal and technical harmonisation, interoperability, data model for e-invoices	Work begins June 2011
Settlement finality directive	Facilitate interoperability between insolvency-protected payment schemes	30 June 2011
Financial collateral directive	Enable bank loans to be used as collateral	30 June 2011
ECB Oversight frameworks for SEPA credit transfer and direct debit schemes	Regulatory oversight of payment schemes	Assessment methodology expected during 2011

Modification of regulation (EC) No 924/2009	Direct debit interchange fee sunset date tied to non-SEPA schemes retirement	As for SEPA mandatory end-date regulation
Netting directive	Enhance close-out netting in insolvency	Commission initiative expected mid 2011

The table does not include national proposals or non-European level initiatives such as the revision by the Committee on Payment and Settlement Systems (CPSS) of their Core Principles for Systemically Important Payment Systems. The CPSS is a sister-committee of the Basel Committee, tasked with promoting sound and efficient payment and settlement systems, and its ten 'Core Principles' set out the basic regulatory framework for payment systems world-wide.

The list goes on and there is a great deal for banks to think about.

How 'Basel III' affects transaction banking services

In this article we take a look outside the EEA - but not outside the geographical boundaries of SEPA - where, over the border in Basel, the new post-crisis capital requirements for banks have been developed. The consolidated 'Basel III' text was published by the Basel Committee on Banking Supervision on 16 December 2010, and contains important provisions which will affect banks that provide access to payment systems for their clients or other settlement-related facilities.

Everybody knows that 'Basel III' represents a big shake-up of the way bank capital is calculated, but little emphasis has yet been placed on the impact on transaction services businesses. Banks active in providing payment services typically provide short-term liquidity to their clients, usually in connection with access to clearing and settlement mechanisms. For example, a client wanting to participate in a payment system may need to have standby liquidity to cover time-gaps between cash outflows and cash inflows. The bank which provides an agency service enabling that client to have access to the payment system may therefore provide an uncommitted credit facility to give the client the liquidity it needs. These facilities oil the wheels of the financial system.

Historically, they have not caused banks particular difficulty from a regulatory capital perspective, because a commitment which is 'unconditionally cancellable at any time without notice' is zero-weighted for computation of risk-weighted assets under 'Basel II' for standardised banks, and banks allowed to calculate capital on the more sophisticated internal-ratings basis will likely take a similar view as to the appropriate risk weighting. See below for how 'risk-weighting' works.

'Basel III' is going to change that. 'Basel III' introduces new regulatory metrics to sit alongside the old risk-weighted-asset regime. These are the 'liquidity coverage ratio' (LCR) and the 'net stable funding ratio' (NSFR), which both measure liquidity, and the 'leverage ratio', which is a very blunt comparison of capital to lending. All three metrics operate in a way which discourages banks from entering into commitments in the context of clearing and settlement services.

Understanding the 'liquidity coverage ratio' (LCR)

The LCR requires banks to look at cash inflows and cash outflows over a 30-day timeframe in scenarios where the markets are under stress. LCR works by measuring the net cash outflow experienced by a bank, and says that banks have to cover the expected outflow by having to hand readily-liquidated assets such as government bonds. Banks will thus need to tie up valuable collateral whenever they enter into a facility which the regulator thinks will lead to cash flowing out of the bank in stressed conditions. National supervisors will be expected to consider whether uncommitted liquidity lines will be drawn on under the assumed stress events, and if so to factor that into the LCR calculation. Furthermore, where a bank provides clearing, custody or cash management relationships in which the customer is reliant on the bank to perform these services, the LCR calculations assume that 25 percent of any associated deposits will be withdrawn during the period of stress. Furthermore, national banking supervisors (and, at European level, the amendments to the Capital Requirements Directive) may impose more stringent liquidity management standards in relation to other contingent funding liabilities.

Understanding the 'net stable funding ratio' (NSFR) and 'leverage ratio'

The NSFR looks at the ratio of stable funding compared to the regulator's view of what is required. NSFR works by comparing the assets of the bank (which will consist largely of the loans made by the bank) with the bank's sources of funding. Longer-term assets will need to be supported by more stable sources of funding such as retail deposits. Where a bank has provided an unconditionally revocable credit line - an uncommitted line - national banking supervisors will also be able to specify a requirement for stable funding to support the credit line. Banks which fund their activities from a mixture of sources may need to commit precious retail funding to support clearing and settlement services provided to non-retail customers.

The leverage ratio is a simple comparison of the bank's capital and the bank's assets - as with all businesses, the idea is to make sure that the bank is not doing too much business with too little capital. But some things which are not technically 'assets', such as undrawn lending facilities, are treated as if they had been drawn but 'weighted' to reflect their undrawn nature. Unconditionally, cancellable commitments will not be zero-weighted for the purposes of calculating the leverage ratio, as they have historically been for the calculation of risk-weighted-asset capital requirements under 'Basel I' and 'Basel II'. Instead they are weighted at 10 percent, requiring an allocation of regulatory capital.

Changes in the risk-weighting system

In addition to these three new measures, there is a change to the risk-weighting system which will make it more costly in terms of regulatory capital for banks to be exposed to other large financial institutions, such as other banks. Risk-weighting is at the heart of 'Basel I' and 'Basel II', and works as a more sophisticated version of the leverage ratio idea. Each asset of the bank is 'risk-weighted' according to the likelihood of default by the borrower to whom the bank lent its money - and the bank must hold more capital to provide against the riskier assets. The change which 'Basel III' will make is that a 'multiplier' of 1.25 will be factored into the highly-involved equation under which banks must calculate regulatory capital, whenever they have lent money to another regulated financial institution whose total assets are greater than or equal to US \$100 billion. Some experts believe this will increase the 'risk weighting' of exposures to large financial institutions by 20 to 30 percent. Higher capital requirements means that the bank would generate a smaller return for each shareholder unless it increases its income. As much payments activity takes place in the interbank market, the cost of using intermediaries - for example, using a 'nostro' bank to enable access to foreign markets - seems likely to rise to compensate.

These developments make the provision of 'wholesale banking services less attractive. Where this might lead is difficult to predict, but one possible outcome is that banks which do not have easy access to retail deposits and liquid collateral will find it necessary to increase the costs of services.

Derмот Turing is a Partner in the international financial regulatory team at Clifford Chance.

Related link(s):

'Basel III' document published by the Basel Committee on Banking Supervision on 16 December 2010:

<http://www.bis.org/publ/bcbs188.pdf>

<http://www.bis.org/publ/bcbs190.pdf>

Related articles in this issue:

[The Breakthrough for SEPA? European Commission publishes proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros](#)

[The King is Dead, Long Live the King. The EPC Repeals the Convention for Cross-border Payments in Euros and the Interbank Charging Principles \(ICP\) Convention.](#)

[Reaping the Benefits of Electronic Invoicing for Europe. A summary of the European Commission Communication issued in December 2010.](#)

ARTICLE155

LEGAL AND REGULATORY ISSUES

The King is Dead, Long Live the King

The EPC repeals the Convention for Cross-border Payments in Euros and the Interbank Charging Principles (ICP) Convention

31.01.11 BY RUTH WANDHÖFER

The *Convention for Cross-border Payments in Euros* and the *Interbank Charging Principles (ICP) Convention*, introduced in 2002 and 2003 respectively, were the first market conventions on pan-European payments in euros published by the European Payments Council (EPC). The *Convention for Cross-border Payments in Euros* provides a standard for the execution of a 'basic' pan-European credit transfer. As for the *ICP Convention*, it proposes a set of principles regarding certain aspects of processing credit transfers in euros inside the European Union (EU). On 15 December 2010, the EPC resolved that both these conventions are declared obsolete as they are based on outdated legislation and have been superseded by a combination of the Payment Services Directive, Regulation 924 / 2009 and EPC's SEPA Credit Transfer (SCT) Scheme Rulebook. Ruth Wandhöfer recalls the original purpose of these conventions and explains the need to now declare these obsolete.

KEY INFORMATION IN THIS ARTICLE

In December 2010, the European Payments Council (EPC) formally repealed the Convention for Cross-border Payments in Euros and the Interbank Charging Principles (ICP) Convention, introduced in 2002 and 2003 respectively.

At the time, these conventions marked an important self-regulatory response to the former Directive 97 / 5 / EC on cross-border credit transfers and the former Regulation (EC) No 2560 / 2001 on cross-border payments in euros.

Directive 97 / 5 / EC on cross-border credit transfers and Regulation (EC) No 2560 / 2001 on cross-border payments in euros have been superseded by the Payment Services Directive (PSD) and Regulation (EC) No 924 / 2009.

Both conventions have also effectively been superseded by the EPC's SEPA Credit Transfer Scheme (SCT) launched in January 2008.

Reference to the Convention for Cross-border Payments in Euros and the ICP Convention is no longer permissible.

The key features of the repealed conventions

Introduced in 2002 and 2003 respectively, the *Convention for Cross-border Payments in Euros* and the *Interbank Charging Principles (ICP) Convention* have historic significance as the first market conventions concerning pan-European payments in euros published by the EPC. Both conventions were agreed by the EPC, which was created in 2002, at a very early stage in the SEPA process. At the time, these conventions marked an important self-regulatory response to the call by the European institutions for more efficient and cheaper cross-border euro payments as set out in the following two regulatory interventions:

- Directive 97 / 5 / EC on cross-border credit transfers, which established minimum information and performance requirements for cross-border credit transfers, aimed at ensuring that funds could be transferred throughout the EU rapidly, reliably and inexpensively.
- The former Regulation (EC) No 2560 / 2001 on cross-border payments in euros which stated that the charges levied on payments in euros between different member states must be the same as those levied on corresponding payments in euros within a member state.

The stated objective of the *Convention for Cross-border Payments in Euros* was to develop "a standard for the efficient and low-cost execution of euro retail cross-border credit transfers", falling under the scope of Directive 97 / 5 / EC on cross-border credit transfers. The key features of this convention included:

- A maximum execution time of three banking business days following the date of acceptance (two days for the sending bank to transfer the funds to the beneficiary bank and a further day for the beneficiary bank to credit the beneficiary's account).
- The credit transfer should be executed on a 'fully automated basis from debiting of the originator's account to crediting the beneficiary's account'. To this end, sending banks were required to adhere to the specific technical 'Definition of Straight Through Processing [STP] for Euro Transactions', which formed the technical appendix to both conventions.

The *ICP Convention*, as a complementary deliverable, proposed a number of additional processing principles for these 'EU Regulation-compliant basic cross-border credit transfers' including the following:

- Sender and beneficiary of such basic cross-border euro payment to only be responsible for the fees of their own bank.
- Intermediary bank charging principle: no deduction from the principal amount.
- The MT102+/MT103+ SWIFT¹ messages to be considered as the appropriate payment message standards for EU regulation-compliant basic cross-border credit transfers in euros.

So what has changed?

Whilst both conventions served their purpose well and achieved positive results, since their adoption a number of significant changes have taken place in the market as well as in the legal environment, which make these conventions obsolete.

In the SEPA environment, both conventions have effectively been superseded by the EPC's SEPA Credit Transfer (SCT) Scheme launched in January 2008. The SCT Scheme further develops the general concepts agreed in the *Convention for Cross-border Payments in Euros* and the *ICP Convention*. The material difference between the conventions and the SCT Scheme is that payment service providers (PSPs) were expected to voluntarily observe the principles set out in the conventions. These principles, however, could not be enforced. By contrast, the SCT Scheme is a multilateral contract which establishes obligations that can be enforced. Scheme participants, i.e. PSPs adhering to the SCT Scheme, must comply with the obligations set out in the SCT Rulebook.

Furthermore, both conventions are based on outdated EU legislation. Directive 97 / 5 / EC on cross-border credit transfers and Regulation (EC) No 2560 / 2001 on cross-border payments in euros have been superseded by Regulation (EC) No 924 / 2009 and the Payment Services Directive (PSD). As a result of this, key features of the conventions are no longer aligned with applicable regulation.

For example, the one day additional processing time that a beneficiary bank could previously take to credit the funds to the beneficiary's account has been overtaken by the PSD's requirement in Article 73(1), requiring immediate crediting of the beneficiary upon receipt of funds by the beneficiary's PSP. Furthermore, there is no longer any basis within current EU payments legislation to support the maintenance of a standardised industry

definition of what an STP message is, as set out in the appendix to the old conventions. Neither does the current legal environment provide the ability for banks to potentially levy additional so-called 'non-STP charges' in case the criteria of the industry definition of STP, as laid down in these conventions, are not complied with.

Regulatory reality, therefore, made the *Convention for Cross-border Payments in Euros* and the *ICP Convention* already obsolete in November 2009, when both Regulation (EC) No 924 and the PSD came into force. It became apparent during 2010, however, that some market participants continue to occasionally reference these conventions, in particular, to justify their charging principles. For example, individual PSPs were continuing to levy charges claiming that a transaction would not be compliant with the STP principles set out in these conventions. As pointed out above, such claims (and related charges) are no longer compatible with existing EU legislation.

The declaration of obsolescence

To emphasise the fact that reference to the *Convention for Cross-border Payments in Euros* and the *ICP Convention* is no longer permissible, the EPC decided that a clear and unambiguous statement to the market was required to the effect that these conventions are obsolete and should not be quoted from or used in future operational practices or inter-bank / PSP dialogues. Hence the EPC stated on 15 December 2010 "that the convention on a basic standard for euro retail cross-border credit transfers in the countries of the EU and the Interbank Charging Principles (ICP) Convention, are declared obsolete as based on outdated legislation and being superseded by a combination of the PSD, Regulation 924 / 2009 and EPC's SCT Rulebook. The EPC shall remove all references to these conventions from the EPC website" .

Ruth Wandhöfer Chairs the PSD Expert Group and is a member of the EPC Plenary. She also Chairs the EPC Information Security Support Group.

Related link:

[EPC Resolution: Obsolescence of conventions for cross-border payments in euros and the ICP](#)

Related articles in this issue:

[The Breakthrough for SEPA? European Commission publishes proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros](#)

[Happy New Year? Post-crisis EU financial sector reform: the impact of 'Basel III' on payments](#)

¹SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 9,500 banking organisations, securities institutions and corporate customers in 209 countries. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest. For more information visit www.swift.com.

ARTICLE159

OPINION AND EDITORIAL

Reaping the Benefits of Electronic Invoicing for Europe

A summary of the European Commission Communication issued in December 2010

31.01.11 BY CHARLES BRYANT

Whilst e-invoicing is outside the scope of the EPC, it is recognised that there is a strong linkage between e-invoicing and the SEPA programme. The EPC

KEY INFORMATION IN THIS ARTICLE

European Commission publishes Communication 'Reaping the Benefits of Electronic Invoicing for Europe' on 2 December 2010.

Newsletter therefore provides regular updates on progress achieved in this area. On 2 December 2010, the European Commission published an important Communication setting out its plans to encourage the adoption of e-invoicing and put into practice the recommendations of its Expert Group on e-invoicing.

The Communication identifies four priority items designed to foster market uptake: (1) ensure a consistent legal environment for e-invoicing; (2) achieve mass adoption by reaching SMEs which represent 99 percent of European businesses; (3) stimulate an environment that creates maximum reach by improving the interoperability of e-invoicing solutions and (4) promote an e-invoice standard data model. In addition, the Commission recommends establishing multi-stakeholder fora on e-invoicing at national and European level. A Commission Communication is a policy document with no mandatory or legal authority. The Commission takes the initiative of publishing a Communication when it wishes to set out its own thinking on a topical issue. Charles Bryant highlights and comments on the main conclusions of the Commission's Communication on e-invoicing.

The Commission recommends the following four priority action items:

1. Ensure a consistent legal environment for e-invoicing
2. Achieve mass adoption by reaching SMEs which represent 99 percent of European businesses
3. Stimulate an environment that creates maximum reach by improving the interoperability of e-invoicing solutions and
4. Promote an e-invoice standard data model.

In addition, the Commission recommends establishing multi-stakeholder fora on e-invoicing at national and European level to facilitate information exchange and identify best practices.

ISO (International Organization for Standardization) produced a Financial Invoice content standard based on the ISO20022 message standards and consistent with the UN / CEFACT CII Data model with the addition of support for linking invoices to the financial supply chain.

The political context of the European Commission Communication on e-invoicing

The European Commission launched in March 2010 the *Europe 2020 Strategy* (see link below) to exit the financial crisis and prepare the EU economy for the challenges of the next decade. *Europe 2020* sets out a vision to achieve high levels of employment, a low carbon economy, productivity and social cohesion, to be implemented through concrete actions at EU and national levels¹. The *Digital Agenda for Europe* (see link below) is one of the seven so-called flagship initiatives of the *Europe 2020 Strategy*; it defines the key enabling role that the use of Information and Communication Technologies (ICT) will have to play if Europe wants to succeed in its ambitions for 2020². Promoting the mass adoption of electronic invoicing is one objective of the *Digital Agenda for Europe*. Electronic invoicing - or e-invoicing - is a solution for the secure exchange of electronic invoices inclusive of the relevant data between suppliers and buyers involving the upgrade of their sales and procurement systems.

The Commission wants to see e-invoicing become the predominant method of invoicing by 2020. It is committed to working with EU Member States and all other stakeholders. The European Commission Communication 'Reaping the benefits of electronic invoicing for Europe' of 2 December 2010 (see link below) addresses the following priorities:

- To ensure legal certainty and a clear technical environment
- To encourage open and interoperable e-invoicing solutions
- To support uptake by setting up organisational structures, including national fora and a European Multi-Stakeholder Forum.

Benefits resulting from the mass adoption of e-invoicing

The purpose of electronic invoicing is to streamline the administration of the billing and payment process by eliminating paper handling for both buyers and suppliers. The Communication points to the benefits of providing invoice data in digital form: shorter payment delays, fewer errors, reduced costs and the potential for fully integrated

processing, especially when fully automated in a structured format. The latter is the source of most of the economic benefit. Consumers may also achieve convenience benefits, subject to the normal range of consumer protections. For society as a whole there are considerable environmental benefits. Mass adoption would lead to significant economic benefits and generate savings of the order of euro 240 billion over a six year period.

The Communication references the work accomplished by the Commission's Expert Group on e-invoicing

The Communication references the work accomplished by the Commission's Expert Group on e-invoicing which produced its Final Report at the end of 2009 (see link below), including a proposal for a *European Electronic Invoicing (EEI) Framework*. Its main recommendations were:

- Meeting the needs of SME's as a priority focus
- Harmonisation and the provision of clarity for the legal and VAT framework based on equality of treatment between paper and e-invoices and supported by a Code of Practice.
- The creation of an e-invoicing eco-system that provides maximum interoperability and reach
- The adoption of a common e-invoice content standard and data model - the UN / CEFAC³ Cross-Industry Invoice
- The establishment of an organisational process for implementation.

The report was subject to public consultation and the majority of respondents agreed with the main findings. This process was concluded with a major conference held in April 2010, under the auspices of the Spanish EU Presidency.

The current landscape in Europe

The Communication points out that in some Member States public sector initiatives have made e-invoicing mandatory for public procurement and these projects are critical to accelerate adoption. At European level there is the PEPOL project (Pan-European Public Procurement On-line). In the opinion of the Commission, this solution could be reused for business to business transactions.

According to the Communication, the SEPA programme could create a launching path for a successful e-invoicing initiative by promoting full process integration across the financial supply chain. Whilst they are distinct projects, e-invoicing could benefit SEPA migration.

The Communication, however, recognises that e-invoicing is still fragmented on national lines and the full potential is untapped. Exchanging electronic invoices is too complex and costly on account of technical and regulatory barriers particularly for SMEs, leading to a market penetration of only around 5 percent of invoices, even though 42 percent of large enterprises send or receive e-invoices. In consequence, the adoption rate remains low and there is fragmentation in e-invoicing services with over 400 solution and service providers in Europe.

The Communication addresses a number of additional potential barriers to adoption in the current legal and technical environment:

- Through the options available to Member States, the current legal provisions for VAT have produced a disjointed set of requirements, creating complexity especially for those operating across border. However on 13 July 2010 the European Council adopted Directive 2010 / 45 / EU amending Directive 2006 / 112 / EC (see link below). This Directive, which will be transposed by 1 January 2013, sets out new VAT rules for e-invoicing and removes current obstacles by creating equal treatment with paper invoices. Businesses will be free to send and receive e-invoices providing they maintain adequate 'business controls'.
- Other legal rules covering accounting, auditing, data protection, archiving and customs are also to be reviewed with a view to removing barriers to uptake of e-invoicing. Some e-invoicing solutions make use of e-signatures and the Commission also plans to revise the current Directive on e-signatures to facilitate a more comprehensive and coordinated approach.
- Interoperability of e-invoicing solutions provides trading parties with the ability to exchange e-invoices across multiple technologies and organisational boundaries based on common legal requirements, business processes and technical standards. Attention is needed in this area to enhance reach for trading parties.

- There is no generally accepted global invoice content standard resulting in the need to support multiple formats and provide conversion facilities. Several standards bodies are working on invoicing standardisation.

A strategy to foster uptake

The Communication identifies four key priorities to foster uptake:

1. Ensure a consistent legal environment for e-invoicing: Care will be taken to ensure a consistent and timely transposition of the new VAT Directive and to ensure a common understanding of the new rules. Member States will be encouraged to take advantage of the flexibility in the current Directive by allowing invoices to be sent or made available by 'other electronic means'. The Commission has commissioned a study on alternative collection methods for VAT. Proposals for revision of the e-signatures Directive will be made.
2. Achieve mass adoption by reaching SME's who represent 99 percent of European businesses: Apply the 'Think Small First' principle in assessing future requirements and asking Member States and standards bodies to do the same. To organise awareness raising activities and promote the participation of SMEs in digital supply chains.
3. Stimulate an environment that creates maximum reach: Further actions at the organisational and technical level are required to improve the interoperability of e-invoicing. CEN⁴ is asked to prepare a Code of Practice based on the work of the Expert Group. CEN should analyse the need and proposes actions for the adoption of interoperable addressing and routing procedures.
4. Promote an e-invoice standard data model: The UN/CEFACT Cross Industry Invoice (CII) should be adopted as the common reference semantic data model. All market actors are encouraged to comply with this standard. CEN should design implementation guidelines and work with other standards bodies on further development, including other complementary e-business messages.

Member States and stakeholders are invited to endorse the four key priorities and actions. The Commission will review progress in 2013 and propose further actions as required.

Organising deployment through the establishment of multi-stakeholder e-invoicing fora

The Commission encourages Member States to develop strategies for promoting e-invoicing and coordinating national initiatives, especially with the SME sector in mind. Each Member State should put in place by June 2011 a national multi-stakeholder forum for the advocacy of e-invoicing with participation of the public sector and of users.

The Commission will establish for a three year period a European Multi-Stakeholder Forum, to be called the *European E-Invoicing Forum* (see link below) composed of delegates from the national fora and representatives of relevant European associations from the user's community, the European Central Bank and the Data Protection Working Party. It will be asked to monitor development of the market and adoption (including improved statistical monitoring), exchange experience and best practice for interoperable solutions, point out problems, propose solutions and support the adoption of the standard data model. It should be noted that the service provider community, including those banks that are active in providing e-invoicing services, are not explicitly included in representation at European level in the new Forum. It would be a mistake not to formally include the supply side of the industry in such a Forum, given the expected network effects that such a community could and will strive to provide.

The Commission also advocates the leading by example by its own activities and the activities of other EU institutions.

Commentary on the Commission's Communication on e-invoicing

The Commission recognises that the mass adoption of e-invoicing will contribute to Europe's global competitiveness and generally presents a welcome and practical set of measures. All stakeholders need to think how they might want to contribute to making this happen to save money and improve satisfaction at many levels.

The Communication correctly states that commonly accepted standards for content and interoperability would clearly help to foster uptake. However, the Communication does not mention an important recent development; i.e.

the fact that recently ISO (International Organization for Standardization) produced a Financial Invoice content standard based on the ISO20022 message standards and consistent with the UN / CEFACT CII Data model with the addition of support for linking invoices to the financial supply chain.

Specifically, ISO 20022⁵ has developed four new messages under Trade Services Initiation to support e-invoicing: the 'InvoiceFinancingRequest', the 'InvoiceFinancingRequestStatus', the 'InvoiceFinancingCancellationRequest' and the 'FinancialInvoice'. The messages cater for the exchange of invoice information to request payment from the buyer. They also facilitate the initiation and management of invoice financing requests in the customer-to-bank space.

While the prime function of the ISO 20022 'FinancialInvoice' is a request from the seller to the buyer for payment, this message can also serve to evidence an invoice in support of a financial service including invoice factoring, letters of credit, and bank payment obligations. In addition, this message standard enables web based services such as electronic bill payment and presentment. It can also be used to transfer invoice information via third parties, including e-invoicing service providers. In some countries the invoice is a key document supporting a tax declaration, reclamation and cross-border customs declaration.

The transaction related information in these messages is harmonised with credit transfer and direct debit transaction messages as set out in the relevant ISO 20022 messages. These messages fit within the *European Electronic Invoicing (EEI) Framework* developed by the Commission's Expert Group on e-invoicing and thus encourage interoperability through standardisation. To complement the ISO 20022 messaging standards applicable to e-invoicing, SWIFT⁶ is exploring options to provide for the exchange of e-invoice messages over its network. The aim is to establish an interoperable ecosystem for e-invoicing among service providers.

This is a very promising and practical development and it is important that this initiative is positioned well publicly and no scope for misunderstandings is created. Maximum coherence and convergence between UN / CEFACT, ISO and CEN is crucial to support the uptake of e-invoicing.

It must also be noted that the analysis regarding potential obstacles to the uptake of e-invoicing suggested in the Commission's Communication disregards the fact that - in spite of these obstacles - e-invoicing is developing already owing to the availability of many solutions. In general, the Communication tends to overstate the hurdles and thus may deter enterprises on the grounds that until these issues are addressed they should not move. Contrary to that assessment it is important to stress that e-invoicing is perfectly possible today.

The Communication does not explicitly cover the potential role of banks in this area. However, banks should be very interested in the wave of dematerialisation happening so close to the core payments franchise. There are many opportunities to enter a new services market for delivering and presenting e-invoices, to improve and defend the value and quality of payments, to provide financing facilities based on the invoice information flow, to better understand customer credit risk and to provide ancillary services such as electronic safekeeping. Banks are well aware that many of their SME customers are engaged in intra-EU trade: e-invoicing has a key role to play in supporting this trend as well as the efficiency of their domestic business. As e-invoicing becomes more widespread banks have strong assets to deploy such as their SME franchise, their on-line banking channels, secure inter-bank networks, deep experience of standards deployment and a track record in alliances with specialist IT providers of various kinds.

In short, a bank interested in transforming itself from a classical payments processor into a financial supply chain services provider will need to consider carefully the opportunities now in view.

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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 Communication: EUROPE 2020 - A strategy for smart, sustainable and inclusive growth](#)

[\(March 2010\)](#)

[European Commission Communication: A Digital Agenda for Europe \(May 2010\)](#)

[European Commission's Expert Group on e-Invoicing Final Report](#)

[E-Invoicing 2010 - European Market Guide](#) jointly prepared and updated by EBA and Innopay. It provides readers with general information about e-invoicing and the market for services and solutions. In addition, this market guide reflects issues which need to be addressed.

The Council of the European Union adopted on the 13 July the Directive amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing. More information is available at http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/115789.pdf

Related articles in previous issues:

[Gaining Momentum. A progress report on e-Invoicing](#) (EPC Newsletter, Issue 7, July 2010)

[Food for Thought. The EC Expert Group on e-Invoicing Final Report](#) (EPC Newsletter, Issue 5, January 2010)

¹EUROPE 2020 - A strategy for smart, sustainable and inclusive growth - COM (2010) 2020.

²The Digital Agenda for Europe is built upon wide consultations, in particular on inputs from the Digital Competitiveness Report 2009 - COM(2009) 390; the Commission's 2009 public consultation on future ICT priorities; the Conclusions of the TTE Council of December 2009, the Europe 2020 consultation and strategy; and the ICT Industry Partnership Contribution to the Spanish Presidency Digital Europe Strategy; the own-initiative report of the European Parliament on 2015.eu and the Declaration agreed at the informal Ministerial meeting in Granada in April 2010. All these are available at: http://ec.europa.eu/information_society/eeurope/i2010/index_en.htm.

³The United Nations, through its Centre for Trade Facilitation and Electronic Business (UN/CEFACT), supports activities dedicated to improving the ability of business, trade and administrative organizations, from developed, developing and transitional economies, to exchange products and relevant services effectively. Its principal focus is on facilitating national and international transactions, through the simplification and harmonisation of processes, procedures and information flows, and so contribute to the growth of global commerce. For more information visit <http://www.unece.org/Welcome.html>

⁴The European Committee for Standardization (CEN) is a business facilitator in Europe, removing trade barriers for European industry and consumers. Its mission is to foster the European economy in global trading, the welfare of European citizens and the environment. Through its services it provides a platform for the development of European Standards and other technical specifications. CEN is a major provider of European Standards and technical specifications. It is the only recognized European organisation according to Directive 98/34/EC for the planning, drafting and adoption of European Standards in all areas of economic activity with the exception of electrotechnology (CENELEC) and telecommunication (ETSI). CEN's 31 National Members work together to develop voluntary European Standards (ENs). For more information visit <http://www.cen.eu/cen/pages/default.aspx>.

⁵The International Organisation for Standardization (ISO) is a global organisation of national standards bodies. ISO 20022 aims to give the financial industry a standard platform for the development of messages. For more information visit www.iso20022.org.

⁶SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 9,500 banking organisations, securities institutions and corporate customers in 209 countries. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest www.swift.com.

ARTICLE156

SEPA FOR CARDS

Work in Progress

The EPC approves update of the SEPA Cards Standardisation Volume and a new Resolution 'Preventing Card Fraud in a Mature EMV Environment'

31.01.11 BY UGO BECHIS AND CÉDRIC SARAZIN

In December 2010, the European Payments Council (EPC) approved version 5.0 of the SEPA Cards Standardisation Volume - Book of Requirements taking into consideration that chapters 5 (security requirements) and 6 (certification) are subject to further amendments. The Standardisation Volume defines functional and security standards requirements as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA. Also in December 2010, the EPC approved the Resolution 'Preventing Card Fraud in a Mature EMV Environment'. Both documents, together with the SEPA Cards Framework, are key deliverables of the EPC designed to promote the creation of a SEPA for Cards. Ugo Bechis and Cédric Sarazin report in detail on the new elements incorporated into the SEPA Cards Standardisation Volume - Book of Requirements and identify the appropriate measures to fight fraud in a mature chip and PIN card ecosystem as set out in the related EPC Resolution.

KEY INFORMATION IN THIS ARTICLE

Version 5.0 of the SEPA Cards Standardisation Volume – Book of Requirements (BoR) includes the following new elements:

- Chapter 3: new references to EMV and mobile payments related documentation and several new definitions have been added to this section: 'acceptance environments'; 'Attended' environments and 'Unattended Non PIN' environments, 'Acceptance Environments for Remote Transactions'.
- Chapter 4 (functional scope and requirements) now includes additional functional requirements applicable to transactions initiated by a card such as 'Cards Services', 'Acceptance Technologies', 'Acceptance Environments', 'Cardholder Verification Methods'. In scope are now ATM cash withdrawal transactions, 'Chip Contactless EMV Based' technologies, 'Contactless with Mobile' technologies, 'Unattended non PIN Acceptance Environment' and the usage of 'Mobile Code for Card Authentication'.
- Chapter 5 (security requirements) has been updated to cover both cards and terminal requirements, however, this chapter is subject to further consultation.
- Chapter 6 (certification) remains unchanged compared to version 4.0 of the Standardisation Volume – BoR published in December 2009. The future version of chapter 6 will reflect the results of the ongoing discussions between the EPC and CAS on the adoption of a European Certification framework and the set up of the European Certification Body.

The EPC Resolution 'Preventing Card Fraud in a Mature EMV Environment' defines measures to achieve the following objectives:

- Limit the potential impact of an incomplete migration to EMV outside SEPA on SEPA issuing
- Reducing fraud in card-not-present environments
- Protection of payment data, notably from data compromise.

A brief overview of EPC deliverables in the area of cards

The EPC has developed the SEPA Cards Framework (SCF). The aim of the SCF is to enable a consistent customer experience when making or accepting payments and cash withdrawals in euros with cards that have achieved a very high levels of security. The SCF outlines high level principles and rules that when implemented by the card industry will deliver this consistent user experience to both cardholders and merchants.

The objectives of a SEPA for Cards will be achieved to the greatest extent possible through the use of open and free standards available to all parties within the card payment value chain. The EPC is carrying out a cards standardisation programme designed to remove technical obstacles preventing a consistent customer experience throughout the SEPA cards market and to allow a higher process efficiency along the overall card chain. In 2009, the EPC promoted the creation of the Cards Stakeholders Group (CSG) together with representatives of five sectors also active in the cards domain including retailers, vendors - such as manufacturer of card payment devices and related IT systems, processors, card schemes and banks.

Creating this body makes it possible to pinpoint the expectations of a broad range of stakeholders while ensuring a strong co-management in the process of identifying standards requirements and implementation best practices that

will promote interoperability in the SEPA cards market. The CSG develops the SEPA Cards Standardisation Volume - Book of Requirements (BoR) which defines the functional and security standards requirements as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA.

Last but certainly not least, card fraud prevention is a top priority of the EPC.

The EPC Card Fraud Prevention Task Force was established in 2003, and from the very beginning included non-bank stakeholders. It was also at this time that the EPC committed to migrate all SEPA cards and terminals to chip and PIN (personal identification number) based on the global EMV standards by the end of 2010¹. Nearing the completion of this migration, the EPC Card Fraud Prevention Task Force now focuses on identifying and promoting measures to fight card fraud in a mature chip and PIN environment.

The EPC approves version 5.0 (chapters 1 - 4) of the SEPA Cards Standardisation Volume - BoR - further work on chapters 5 and 6 remains in progress

In December 2010, following the positive review by the CSG, the EPC approved version 5.0 of the Standardisation Volume - BoR for publication with qualifications regarding chapters 5 and 6 and acknowledging that a future update will be considered in the course of 2011. Approval of chapters 5 (security requirements) and 6 (certification) was deferred pending additional changes.

Changes incorporated into version 5.0 of the Standardisation Volume - BoR compared to version 4.0

Chapter 3 of the Standardisation Volume - BoR contains references, abbreviations and definitions. Changes to this section include new references to EMV and mobile payments related documentation as well as new abbreviations related to mobile payments. In addition, several new definitions have been added to this section. For example definitions on 'acceptance environments' describe the various environments in which a card payment may take place such as 'attended' environments (a situation where the transaction occurs 'face-to-face') or 'unattended non-PIN' environments (situations such as parking meters or highway tolls). Definitions on 'acceptance environments for remote transactions' specify types of payments made where the cardholder is neither physically present at the acceptor nor at an unattended terminal, as is the case when payments are made online.

Chapter 4 (functional scope and requirements) now includes additional functional requirements applicable to card transactions. The subsections of this chapter were updated to include 'Cards Services' (the types of transactions), 'Acceptance Technologies' (how the card is read), 'Acceptance Environments' (where the transaction is made), and 'Cardholder Verification Methods' (how the transaction is verified, i.e. PIN or signature). The specific items focused on are ATM cash withdrawal transactions as well as 'chip contactless EMV based' technologies and 'contactless with mobile' technologies. In addition, the 'unattended non-PIN acceptance environment' and the usage of 'mobile code for card authentication' are covered. Descriptions and diagrams related to these items were adapted accordingly. The functional requirements were adjusted to reflect these changes.

Chapter 5 (security requirements) has been updated to cover both card and terminal requirements, however, this chapter is subject to further amendments resulting from consultation of stakeholders. With regard to the amendments that have been made, this chapter now includes a section on 'Security Objectives' covering, specifically, 'transaction protection', 'smartcard', 'user authentication', 'execution protection' (how the card enforces protection of its services), 'data protection', and 'services protection' (how the card enforces its own security to protect its services).

A new section titled 'Assurance Level' describes the evaluation methodology designed to provide assurance of a product's security properties. Last but not least, chapter 5 outlines the 'EPC Security Requirements'. These requirements are based on PCI POS PED 2.0 developed by the Payment Cards Industry Security Standards Council² and have been extended to address the perceived threats and vulnerabilities of European markets. These 'EPC Plus' requirements include, as targets for evaluation, further elements impacting the point of interaction such as secure software download, privacy shielding, local input and output of data, application separation, and support for secure communications of data with external entities like an acquirer and code review.

Chapter 6 (certification) remains unchanged compared to version 4.0 of the Standardisation Volume - BoR

published in December 2009.

Currently, cards and terminals need to be certified for each market and card scheme subject to different criteria and procedures. To-date, the certification of cards and terminals takes place based on requirements also defined at a national level. Moving forward, the goal is to establish a European certification framework enabling the manufacturers of cards and terminals to obtain a single certification that is recognised in all 32 SEPA countries. Thus by having a standard SEPA certification process, vendors can take advantage of greater economies of scale. To this end, considerations are underway to create a 'European Certification Body'.

The future version of chapter 6 will reflect the results of the ongoing joint work between the EPC and CAS on the adoption of a European Certification Framework and the establishment of the European Certification Body. The design of the architecture (certification framework) allowing for the trusted and common security and functional evaluation and certification of cards and terminals at a SEPA level is essential to cater to the needs of more than 500 million cardholders and millions of merchants. The SEPA cards and terminal certification framework will ensure that any card or terminal certified by an accredited body can be deployed and used anywhere throughout SEPA.

EPC Resolution on card fraud prevention in a mature chip and PIN environment

In December 2010, the EPC also approved the Resolution 'Preventing Card Fraud in a Mature EMV Environment'. At the end of the third quarter of 2010, EMV compliance was 79 percent for cards, 95 percent for POS (points of sale) and 95 percent for ATMs.

The following trends can be observed in the mature chip and PIN environment:

- Card fraud prevention as such represents a major financial and operational cost saving opportunity for banks.
- The situation is considered to be under control when the card is present and the chip can be used (in face-to-face payments and cash withdrawals).
- Fraud is migrating rapidly to points of least resistance, i.e. non-chip countries outside SEPA based on the fraudulent use of magnetic stripes on cards which have been previously 'skimmed' (i.e. copied) by fraudsters.
- Instances of card-not-present fraud (i.e. card payments in e-commerce, by telephone or mail order) are increasing and represent up to 70 percent of the total fraud in some systems.

The EPC's Resolution 'Preventing Card Fraud in a Mature EMV Environment' identifies the following measures to fight fraud in a mature chip and PIN card ecosystem.

Limiting the potential impact of an incomplete migration to EMV outside SEPA on SEPA issuing

Through cross-regional liability shifts³, global schemes should ensure that SEPA issuers and acquirers are shielded from any negative impact of an absent or incomplete global migration to EMV outside SEPA. For markets that have started their plans for a mature EMV environment, the implementation of the liability shift within non-SEPA markets should be effective by 2015 at the latest.

For non-SEPA markets, the implementation of this Resolution would also benefit from the persuasion power of European regulators such as the European Central Bank (ECB) and the European Commission and the action of European banks with global presence.

The EMV chip environment is key to ensure security and fraud protection. The EPC Resolution calls additionally for restriction of magnetic stripe fallback and the option to adopt chip only issuing.

The EPC therefore reaffirms its statement on magnetic stripe fallbacks⁴: card schemes should aim to restrict the use of magnetic stripe fallback to exceptional cases (without of course putting at risk business continuity requirements, or compromising card issuers ultimate right to accept fallback transactions). PAN key entry as a fallback should be prohibited⁵.

Finally, the EPC expects that SEPA card schemes grant issuers the option to adopt a chip-only approach, be it by issuing chip only cards or by allowing them to refuse magnetic stripe transactions if they so wish, providing that

there is clear and formal communication to the cardholder.

Reducing fraud in card-not-present environments (e-Commerce and orders by mail or telephone)

The EPC recommends that cards schemes and their members implement within SEPA the following measures:

E-commerce on the issuing side: issuers and card schemes shall provide evidence at the latest **by end 2013** that appropriate authentication solutions are in place. Such solutions should be interoperable between schemes to avoid acceptance barriers. These could be harmonised based on authentication methods used for online banking. Such authentication solutions could be:

- Risk-based authentication
- Challenge-response mechanism
- Dual channel authentication such as SMS
- Hardware based authentication such as a token or chip reader
- Virtual cards
- Or any innovative solutions considered effective by payment schemes.

These authentication methods should be combined with appropriate risk management tools.

E-commerce on the acquiring side: card schemes will have to provide evidence at the latest **by end 2013** that they are able to support such authentication solutions on the acquiring side.

Mandatory usage of 'CVX2'⁶ in all card-not-present environments: from 1 January 2012 onwards, card schemes will have to mandate at a minimum that in all card-not-present environments, and for cards capable of transactions in such environments

- Acquirers have to acquire and transmit 'CVX2' values or their equivalent.
- Issuers have to decline any authorisation request made with a false 'CVX2' value or its equivalent ('CVX2 mismatch').

For *recurring* payment transactions, where the merchant has stored the card number and the expiry date but not the 'CVX2' or its equivalent, the presence of the 'CVX2' value is only required for the initial transaction.

An exception applies for merchants having implemented or submitted plans to acquirers to comply with the above listed authentication mechanisms listed above with regard to e-commerce on the acquiring side.

Card schemes may also allow exceptions or temporary waivers for specific, low-fraud sectors, as long as these represent less than 10 percent of the SEPA acceptance basis.

For environments not responding to waivers, issuers should be advised to decline any authorisation request not carrying a 'CVX2' value or its equivalent ('CVX2 missing').

The main objective of the usage of 'CVX2' or its equivalent is to prevent cross-contamination (i.e. the reuse in card-not-present environments of data potentially compromised in chip / magstripe cardpresent environments). This is achieved by requiring the presence of a data element (the 'CVX2' or its equivalent) which is not present in other card-present environments (chip or magstripe transactions).

Protection of payment data, notably from data compromise

As a general principle, the storage or the transportation of sensitive data in a secure way should be limited to data strictly necessary to handle cards transactions. The EPC will consider endorsement of Data Security Standards (DSS), and promote use of DSS among the members of the CSG. The CSG will be invited to deliver its view on migration to DSS.

In such a migration plan, data protection (e.g. encryption) efforts should focus on sensitive card data that could be misused for card transactions. These efforts should capitalise on a risk based approach and take into consideration EMV migration. Measures should be put in place to make the use of compromised data difficult (e.g. dynamic EMV and 'eCVx' based transactions or end-to-end data encryption). 'Sensitive data' will be defined in the Standardisation

Volume - BoR. To that end, EPC will cooperate with the relevant stakeholders to include data protection or encryption requirements in the Standardisation Volume - BoR, agree on a European approach on data security standards and increase European influence in global organisations (e.g. PCI SSC).

As regards standard implementation, the recommendation to use 'CVX2' or an equivalent for all card-not-present transactions should be considered as a priority to avoid cross contamination between secure and non-secure environments (see above). Consequently, DSS should only be mandated when sensitive data is stored or not protected and should only be enforced on a risk-based prioritised approach keeping in mind the reduced risk inherent to EMV.

Next steps

Following the successful implementation of chip and PIN in Europe and all its beneficial effects on card fraud reduction, the EPC has taken the necessary decisions to contain the increase of fraud in non-chip environments. In 2011, the EPC Cards Working Group will analyse further measures to effectively fight card fraud. The EPC Resolution 'Preventing Card Fraud in a Mature EMV Environment' could be reflected in other card reference documents and also, potentially, new voluntary measures such as the neutralisation of magnetic stripes on European cards might be considered.

This approach is in line with a further priority of the EPC's activities in the area of cards; i.e. to ensure consistency of the SCF and the Standardisation Volume - BoR as well as the related implementation specifications developed by relevant standardisation initiatives. The SCF and the Standardisation Volume - BoR are both aimed at setting the conditions for a better, more cost efficient and richer card services and product offer, whatever the card product or scheme may be. It is up to schemes and banks to take advantage from these improved conditions to the benefit of the overall market, the customers first and all the card stakeholders.

Ugo Bechis is the Chair of the EPC Cards Working Group. Cédric Sarazin is the Chair of the EPC Card Fraud Prevention Task Force.

Related links:

[SEPA Cards Framework](#)

[SEPA Cards Standardisation Volume \(version 5.0\)](#)

[EPC Resolution 'Preventing Card Fraud in a Mature EMV Environment'](#)

Related article in previous issue:

[New Business Opportunities with Chip and PIN. How to create added value based on EMV technology](#) (EPC Newsletter, Issue 7, July 2010).

¹The EPC's SEPA Cards Framework (SCF) recognises the EMV standard for SEPA-wide acceptance of payments with cards at very high levels of security. EMV is an industry standard to implement chip and PIN security for card transactions.

²For more information on PCI SSC visit <https://www.pcisecuritystandards.org/about/index.shtml>

³EMV liability shifts are interbank scheme rules which put the financial responsibility in case of fraud on the party which did not invest in the EMV chip card or terminal.

⁴Magnetic stripe fallbacks are used in case the payment terminal would have a problem to process the transaction with the chip of the card. This consists of going back to the magnetic stripe type of transaction. This possibility is sometimes used by fraudsters who want to exploit the weaknesses of the magnetic stripe even on chip cards.

⁵PAN key entry occurs as a fallback when a magnetic stripe or a chip cannot be read. To complete a PAN key-entry transaction, only the PAN, expiration date, and customer signature are necessary, making this technique easily susceptible to fraud from cardholder data compromised in any acceptance channel. While PAN key entry requires the forgery of the cardholder signature, this method of cardholder verification is potentially less reliable as it may be either incorrectly verified by a merchant or simply not checked. This method of data entry is restricted, controlled, and used infrequently in a mature EMV environment, thus limiting PAN key-entry fraud. (PCI DSS Applicability in an EMV Environment - A Guidance Document, October 2010 © 2010 PCI Security Standards Council, LLC)

⁶The 'CVX2' is a set of 3 or 4 numbers printed on the back of the cards which are requested from the cardholder when he does a transaction on the internet or over the phone. These numbers not being present in magnetic stripe or chip transaction data, if the 'CVX2' were mandated for all card-not-present transactions, would stop fraudsters who capture data in a card-present environment and try to use the card to make fraudulent payments in card-not-present environments.

ARTICLE164

SEPA FOR CASH

More Market Integration

EPC recommendations regarding proposed Regulation for the professional cross-border road transportation of euro cash

31.01.11 BY LEONOR MACHADO

Nine years after the introduction of euro coins and banknotes, cash-in-transit companies (CITs) continue to operate exclusively within national boundaries due to differences in legalities between EU Member States. In the summer of 2010, the European Commission introduced a proposal for a Regulation on the professional cross-border euro cash transport by road between euro area Member States. The European Parliament's Committee on Economic and Monetary Affairs (ECON) aims to have adopted its report on the proposal by the end of February 2011. The proposal is scheduled for adoption by the European Parliament in early April 2011. To ensure that the forthcoming Regulation will provide the best regulatory framework to create a market for cross-border transportation, the European Payments Council recommends amending several of its provisions. Leonor Machado has the details.

KEY INFORMATION IN THIS ARTICLE

The proposal for a Regulation on professional cross-border euro cash transport by road between euro area Member States, is expected to be adopted by the European Parliament in April 2011.

The European Payments Council (EPC) recommends amending the proposal for the forthcoming Regulation as follows:

- CIT cash transport of foreign currencies and other precious valuables between euro countries should be covered by the forthcoming Regulation.
- The provision which would mandate that the majority of cash deliveries / pick-ups during the day must be carried out on the territory of the host Member State(s) should be deleted.
- Any CIT company registered and licensed (or, where licensing is not required, equivalently authorized and effectively providing such services for at least twelve months) by a Member State of origin should be able to offer cross-border cash transport provided it complies with the security dispositions in force in the host Member State(s).

Creating a market for the transportation of cash across borders will generate tangible benefits for all market participants

Existing barriers to cross-border cash transportation prevent providers and users of these services from fully reaping the benefits and efficiency gains of a harmonised market. In the view of the European Payments Council (EPC), the proposal to regulate the professional cross-border road transportation of euro cash between euro area Member States (hereafter referred to as 'the proposal') is fully in line with the objectives of the Single Euro Cash Area (SECA). SECA aims to increase the efficiency of the wholesale cash processing cycle, which comprises the processes required to put euro banknotes and coins into circulation and to transport them. In SECA, as envisioned by the EPC, cash-in-transit companies (CITs) should be able to establish cross-border cash transportation routes.

If CITs were able to use the most efficient routes for transporting cash - even if it involved using the closest cash centre located just across the border - the current security risks related to the transportation of euro banknotes and

coins would be significantly reduced. In addition, CITs could render their services to a wider range of clients across the euro market. At the same time, professional cash users, such as credit and payment institutions, would be able to shop for the best service available - whether it was offered by the nearest National Central Bank (NCB) branch or CIT cash centre in another EU Member State. By the same token, retailers, vending machine operators and other professional cash handlers would enjoy the benefits of increased competition in the cash transportation market.

Incentivising cross-border cash transportation would also promote the objectives of the European Central Bank's Roadmap to increase convergence of NCB cash services. The Roadmap seeks to make basic cash handling functions performed by different NCBs interchangeable across the euro area.

The professional cross-border road transportation of cash is also a key factor when ensuring greater logistical and cost efficiencies in the cash circulation chain. This will ultimately benefit all end users of euro coins and banknotes.

To realise the potential benefits associated with facilitating the professional cross-border road transportation of cash, however, the EPC believes it is necessary to amend several provisions tabled with the proposal.

Certain precious valuables to be allowed during cross-border CIT cash transportation

The EPC recommends that the proposal should cover CIT cash transportation of foreign currencies and other precious valuables between euro countries. The transportation of these valuables should be allowed during any single cross-border journey together with euro cash when picked up at retail points, credit and payment institution branches. This would lead to the rationalisation of daily journeys performed by CIT companies and result in reduced costs for their clients. Organising parallel journeys solely for non-euro valuables would be less efficient as the volumes are much lower.

Majority of cash pick-ups / deliveries in the host EU Member State(s) considered a handicap

The EPC welcomes the fact that the proposal allows for the possibility of both point-to-point and retail transportations and that no maximum limit is set for the number of cash pick-ups / deliveries by a CIT vehicle during the day. The proposal however, states that the majority of cash deliveries / pick-ups during the day should be carried out on the territory of the host EU Member State(s). In the view of the EPC, such a restriction would substantially reduce the potential to scale up cross-border transport routes and would therefore jeopardise the development of a meaningful cross-border cash transport market. A study carried out at the request of the European Commission clearly demonstrated that the cross-border transportation market is, by definition, limited but has the potential to increase significantly, both in the short and the long term. A provision stipulating that the majority of cash deliveries / pick-ups during the day must be carried out on the territory of the host EU Member State(s), however, would limit market growth.

Curtailing market growth would also impact the potential of the 'virtual' NCB cash centre model, envisaged by the ECB's roadmap to increase convergence of NCB cash services in the euro zone. Such a 'virtual' NCB network would further encourage the design of optimal cross-border transportation routes. The EPC therefore strongly recommends that the provision which would make it mandatory for the majority of cash deliveries / pick-ups during the day to be carried out on the territory of the host EU Member State(s) is deleted from the proposal.

Hurdle of CIT cross-border license

The proposal states that CIT companies wishing to offer cross-border cash transportation services must apply for a specific CIT cross-border license. The EPC is concerned that there is an imbalance between the costs and effort required to obtain such a cross-border license and the future volume share of cross-border cash transportation within the total volume of professional cash transportation by road. The EPC believes that CIT companies will either be dissuaded from offering cross-border cash transportation services or will pass on the cost of the cross-border license to its professional clients, thereby affecting the pricing of their goods and services to the private consumer.

The EPC recommends that any CIT company registered and licensed (or, where licensing is not required,

equivalently authorised and with at least twelve months' experience of effectively providing such services) by an EU Member State of origin, can simply start offering cross-border cash transportation services, provided it complies with the security dispositions (means of transport, firearms, personal, convoy and accompanying procedures) that are in force in the host EU Member State(s).

Cash is costly - for everybody

Consumers continue to have a great affection for cash because it is real, instantaneous and apparently free. The costs of transportation within the wider cash cycle however, are significant and are financed via the pricing of services and products provided by retailers, credit and payment institutions. The EPC is therefore glad to see that the legislator is keen to create the required regulatory framework to achieve the most cost-efficient distribution of cash. The EPC therefore calls on the legislator to amend the proposal for Regulation on the professional cross-border road transportation of euro cash between euro area Member States, along the lines detailed in this article.

The EPC stresses that the forthcoming Regulation must not provide for dispositions which could negatively impact current security levels and / or increase the cost for users of professional national road transportation of cash services in the Member States concerned.

Way forward

The Committee on Economic and Monetary Affairs (ECON) of the European Parliament has indicated its intention to adopt its report on the proposal by the end of February 2011. The proposal is scheduled for adoption by the European Parliament in early April 2011.

Leonor Machado is the Chair of the EPC Cash Working Group.

Related links:

[European Commission: Commission Proposals on the professional cross-border transportation of euro cash \(July 2010\) COM\(2010\)377 final](#)

[Single Euro Cash Area \(SECA\) Framework](#)

[Improving Euro Zone Cash Processing Harmonisation and Efficiency within SEPA](#)

[EU White Paper on cross-border Euro Cash Transport](#)

[EPC Position Paper on EU White Paper on cross-border Cash Transport](#)

[European Commission - final Report on potential Market for professional cross-border Transport of Euro Cash](#)

Related articles in previous issues:

[The Single Euro Cash Area. Towards a more efficient European cash society](#) (EPC Newsletter, Issue 8)

[Significant Growth in cashless Payments in Europe. Yet cash will remain predominant payment method in 2014](#) (EPC Newsletter, Issue 6, April 2010)

[Cashing out. National Central Banks commit to optimise cash handling in SECA: a progress report](#) (EPC Newsletter, Issue 4, October 2009)

ARTICLE166

SEPA STANDARDS

Building a Single Market for e-Commerce Payments

The SEPA e-Payment Framework - from design via proof of concept to market

31.01.11 BY JOHN HOLSBERG AND JAVIER SANTAMARÍA

In response to the rapidly increasing volumes of e-Commerce payment transactions, the European Payments Council (EPC) committed to develop the SEPA e-Payment Framework. The SEPA e-Payment Framework facilitates online payments with an e-Payment guarantee for web retailers followed by a SEPA Credit Transfer (SCT). It is designed to support interoperability between e-Payment schemes existing in the market already today that could migrate from a national environment to a SEPA environment. The SEPA e-Payment Framework is a framework which facilitates online payments. The SEPA e-Payment Framework is not a code of conduct for web merchants on how they should deliver goods and services in time at the appropriate level of quality to consumers. The commercial relations between buyers and sellers of goods and services are not a part of the framework. The EPC and three existing e-Payment schemes; i.e. EPS (Austria), GiroPay (Germany) and iDEAL (Netherlands), agreed to launch a proof of concept (PoC) exercise based on the draft SEPA e-Payment Framework Service Description. This exercise is carried out in the first quarter of 2011. The first release of the e-Payment Framework, expected to be published mid 2011, will benefit from the PoC results. John Holsberg and Javier Santamaría deliver a progress report.

KEY INFORMATION IN THIS ARTICLE

The SEPA e-Payment Framework facilitates online payments with an e-Payment guarantee for web retailers, followed by a SEPA Credit Transfer (SCT). It is designed to support interoperability between e-Payment schemes existing in the market already today that could migrate from a national environment to a SEPA environment.

The SEPA e-Payment Framework is a framework which facilitates online payments. The SEPA e-Payment Framework is not a code of conduct for web merchants on how they should deliver goods and services in time at the appropriate level of quality to consumers. The commercial relations between buyers and sellers of goods and services are not a part of the framework.

The European Payments Council (EPC) and three existing e-Payment schemes; i.e. EPS (Austria), GiroPay (Germany) and iDEAL (Netherlands), agreed to launch a proof of concept exercise based on the draft SEPA e-Payment Framework Service Description.

This proof of concept (PoC), to be carried out in 2011, provides the scheme owners with the opportunity to put the framework (version 0.9) to the test and to identify the possible need for adaptation.

The next version of the SEPA e-Payment Framework (Release 1.0), which will form the basis for implementation, will benefit from comments received both during the PoC and earlier consultations.

It is currently expected that Release 1.0 of the SEPA e-Payment Framework will be submitted to the EPC Plenary for approval in June 2011. Once approved, e-Payment schemes using the SCT will be able to enroll in the framework.

The vision: a single market for e-Commerce payments

The explanatory statement tabled with the motion for a European Parliament Resolution on completing the internal market for e-Commerce in September 2010 (see link below), stresses that "e-Commerce is a vital force of the internet and an important catalyst to achieving the aims of the EU 2020 strategy for the internal market". According to this statement, in 2009, one consumer out of three in Europe bought at least one item online, but only seven percent of European consumers have done so in another EU Member State. Covert research by the EU into e-Commerce practices showed that 60 percent of customer attempts to buy items across EU borders fail, with the transaction or shipping declined by the vendor, even though the buyer could have saved at least ten percent by e-shopping abroad (even including shipping costs) in half of the 11,000 cases investigated.

The *Centre for Parliamentary Studies*, which will hold a symposium titled 'Streamlining the EU Internal Market - Removing Barriers to Facilitate e-Commerce' in February 2011 (see link below), comments: "In the digital age the

implementation of the single market has not expanded in line with the rapid growth of the online retailing sector. The €106bn e-Commerce market is one of the most dynamic aspects of the European economy and one which has huge potential for growth and can play a significant role in the recovery of the European internal market, safeguard consumer confidence and boost economic progress. E-Commerce has grown steadily in the last few years, expanding by an annual average rate of 10 percent in the UK, Western Europe and Scandinavia, with Southern and Eastern Europe following closely behind. In the UK alone e-Commerce will account for a third of all transactions in 2010, worth £56bn, with the 50 percent mark likely to be passed this decade and with a similar story across the Benelux region, Scandinavia and Germany.¹ The *Centre for Parliamentary Studies* further states that "the existing regulatory framework does nothing to remove the many obstacles in the way of an effective single online market. Many retailers are put off by the 27 different consumer-protection laws and variances in VAT rules, electronic waste regulations and postal systems. These restrictions are directly hindering the growth and competitiveness of SMEs, which represent 99 percent of EU firms."

The report 'Online Payments 2010' (see link below) confirms that great divides in e-Commerce maturity and IT development throughout the EU persist: "Generally speaking, the Nordic countries in addition to the Netherlands and the UK are most advanced while countries in South and Eastern Europe are less advanced. However, those currently lagging behind are making great strides in catching up. Access to broadband Internet has increased strongly in the new EU member states. For example, in Romania broadband access grew from 8 percent in 2007 to 23 percent in 2009. Also the proportion of consumers having purchased goods online has grown significantly. Eastern Europe is bound to catch up and may even leap ahead." To create a single market for e-Commerce, the authors point out, it is also necessary to overcome "the lack of international or interoperable payment methods".

In response to the rapidly increasing volumes of e-Commerce payment transactions and spearheading innovation in payments, the European Payments Council (EPC) committed to develop the SEPA e-Payment Framework which outlines the specific rules and standards allowing buyers in SEPA to purchase goods and services from web retailers.

The concept of the SEPA e-Payment Framework

The SEPA e-Payment Framework facilitates online payments with an e-Payment guarantee for web retailers followed by a SEPA Credit Transfer (SCT). The SEPA e-Payment Framework is a framework which facilitates online payments. The SEPA e-Payment Framework is not a code of conduct for web merchants on how they should deliver goods and services in time at the appropriate level of quality to consumers. The commercial relations between buyers and sellers of goods and services are not a part of the framework. The framework is also designed to support the e-Payment schemes existing in the market already today that could migrate from a national environment to a SEPA environment. E-Payment schemes make it possible for banks to deliver payments to their customers which allow online buyers to have euro payments debited from their own current account. The e-Payment schemes existing today, however, only work within national borders. An e-Payment scheme compliant with the SEPA e-Payment Framework would enable a buyer using the internet to visit the web shop of an online merchant regardless where he is located in SEPA, and to pay the merchant using both his own internet banking services and his current bank account ². The EPC has defined minimum criteria, including legal and security aspects, which would have to be met by an e-Payment scheme in order to be 'SEPA-compliant'.

To achieve interoperability between e-Payment schemes, it is necessary that these e-Payment schemes adopt the common business and compliance requirements as well as the technical and other aspects defined in the framework. Firstly, the e-Payment guarantee is considered to be an essential element of the framework. This binding commitment is handled by each e-Payment scheme owner, modifying the contract it has with its participating banks to bind the bank to honouring any guarantee that it issues.

Secondly, the EPC must be able to uphold the reputation of the SEPA logo in the marketplace and the credibility of the SEPA e-Payment Framework overall. The ability to grant the use of the SEPA logo to an e-Payment scheme that makes use of an SCT payment and the ability to remove its use imply that each e-Payment scheme must enter into a contractual relationship with the EPC, via the SEPA e-Payment Framework. The EPC will address the question of whether the grant of use of the logo could entail any liabilities for the EPC in cases of non-compliance with the framework.

Thirdly, e-Payment schemes enrolling in the framework must be able to demonstrate and offer full (including commercial) interoperability. This implies that payers and payees who have access to different enrolling e-Payment schemes must be able to complete each e-Payment transaction.

Proof of concept and go-to-market

The EPC and the three existing e-Payment schemes, i.e. EPS (Austria), GiroPay (Germany) and iDEAL (Netherlands), agreed to launch a proof of concept exercise based on the draft SEPA e-Payment Framework Service Description developed by the EPC. This proof of concept (PoC), to be carried out in 2011, provides the scheme owners with the opportunity to put the framework (version 0.9) to the test and to identify the possible need for adaptation. The next version of the SEPA e-Payment Framework (Release 1.0), which will form the basis for implementation, will benefit from comments received both during the PoC and earlier consultations.

It is currently expected that release 1.0 of the SEPA e-Payment Framework will be submitted to the EPC Plenary for approval in June 2011. Once approved, e-Payment schemes using the SCT will be able to enroll in the framework.

Meeting customer needs in the emerging single market for e-Commerce

The following scenario illustrates the convenience of making an e-Payment under the SEPA e-Payment Framework: you have a current account with a bank in the Netherlands. You are spending time in Austria. You want to buy a ticket for a concert in Vienna at 2 am from a German online merchant for the event at 8 pm the same day. In this instance, your Dutch-based bank will issue a payment guarantee to the German online merchant in real-time, so that the merchant can release your ticket for the concert immediately. The merchant will be sure that the money will arrive by SCT on his account in due time.

This scenario is contingent upon the following: your Dutch-based bank must offer internet banking services and SCT services. The merchant's German-based bank must be able to receive SCT payments, i.e. it must adhere to the EPC's SCT Scheme. At the same time, the German bank and the German merchant must be participants in the same e-Payment scheme. This e-Payment scheme must be compliant with the SEPA e-Payment Framework.

The SEPA e-Payment Framework therefore provides a convenient and secure means of making payments online. As such, the framework contributes to achieving a single market for e-Commerce - to the benefit of European consumers and web retailers.

John Holsberg is the Chair of the EPC e-Payments Task Force and member of the EPC SEPA Payment Schemes Working Group. Javier Santamaría is the Chair of the EPC SEPA Payment Schemes Working Group.

Related links:

European Parliament Resolution on completing the internal market for e-Commerce, September 2010:
<http://www.europarl.europa.eu/sides/getDoc.do?language=EN&reference=A7-0226/2010>

[Online payments 2010 - Increasingly a global game \(Report Innopay\)](#)

Symposium 'Streamlining the EU Internal Market - Removing Barriers to Facilitate e-Commerce', 22 February 2011: for details visit <http://publicpolicyexchange.co.uk/events/BB22-PPE2.php>

Related articles in this issue:

[Reaping the Benefits of Electronic Invoicing for Europe. A summary of the European Commission Communication issued in December 2010](#)

¹Centre for Parliamentary Studies: Symposium 'Streamlining the EU Internal Market - Removing Barriers to Facilitate e-Commerce', Abstract and Programme.

²To enable customers to make e-Payments across all SEPA countries it is also necessary to provide a payment vehicle that allows the exchange of funds between any accounts held in SEPA. Obviously, at this point the SEPA Credit Transfer (SCT) is the only payment instrument that can be used for domestic and cross-border electronic payments in Europe.

ARTICLE158

SEPA MARKET UPTAKE

Facing the Facts in January 2011

The EPC Newsletter tracks the progress of SEPA migration

31.01.11 BY MARCO MUSTO

Every issue of the EPC Newsletter monitors the latest available data reflecting the rate of SEPA market uptake. Marco Musto tables the facts and the figures.

KEY INFORMATION IN THIS ARTICLE

Data cited in this article represents the latest data available as of the publication date of this issue of the EPC Newsletter (31 January 2011).

As of November 2010, the share of SEPA Credit Transfer (SCT) as a percentage of the total volume of credit transfers generated by bank customers amounts to 10.4 percent (ECB SEPA Indicators).

As of November 2010, the share of SEPA Direct Debit (SDD) as a percentage of the total volume of direct debits generated by bank customers amounts to 0.08 percent (ECB SEPA Indicators).

As of the end of the third quarter of 2010, EMV compliance was 79 percent for cards, 95 percent for POS (points of sale) and 95 percent for ATMs.

As of February 2010, the SCT migration rate for the replying public administrations in the euro area was 2.73 percent (Commission's Third Survey on Public Administrations' Preparedness and Migration to SEPA published in October 2010).

The proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros published by the European Commission in December 2010, states, in part, that credit transfers shall be carried out in accordance with this Regulation twelve months after it comes into force; direct debits shall comply 24 months after it comes into force.

Percentage of banks in SEPA offering SEPA Credit Transfer services

The European Payments Council (EPC) launched the SEPA Credit Transfer Scheme (SCT) in January 2008. As of January 2011, nearly 4500 banks in 32 countries offer SCT services for euro payments. The payment service providers offering SCT services today represent more than 95 percent of payment volumes in Europe. Due to mergers and acquisitions, the absolute number of SCT scheme participants has slightly decreased compared to previous SEPA Market Uptake Reports featured in this newsletter. The EPC SCT Participant Register, which lists scheme participants (payment service providers offering SCT services), is publicly available at http://epc.cbnet.info/content/adherence_database.

Percentage of SEPA Credit Transfer transactions compared to total volume generated by customers

According to the SCT indicators compiled by the European Central Bank (ECB), the share of SCTs as a percentage of the total volume of credit transfers generated by bank customers amounts to 10.4 percent as of November 2010.

The ECB SCT indicators are publicly accessible 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.

Percentage of banks in SEPA offering SEPA Direct Debit services

The EPC launched the SEPA Core Direct Debit Scheme (SDD Core) and the SEPA Business to Business Direct Debit Scheme (SDD B2B) on 2 November 2009. As of January 2011, 3904 banks representing more than 80 percent of SEPA payments volume have signed up to the SDD Core Scheme. Of those, 3374 banks also adhere to the SDD B2B Scheme. The EPC Participant Registers for the SDD Core and the SDD B2B Schemes list scheme participants (payment service providers offering SDD Core and / or SDD B2B services) and 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. SDD Core, since 1 November 2010 as mandated by Regulation (EC) No 924/2009 (Article 8). In April 2010, the Commission services published a "Note on Application of Article 8 of Regulation (EC) No 924/2009 - Reachability for Direct Debit Transactions". This guidance note states that it is the location of the branch of a credit institution (whether it is inside or outside the euro area), and not the location of the parent company, that determines whether the reachability obligation and deadline applies. Furthermore, no distinction should be made between branches with head offices located outside the EU and those with head offices inside the EU.

Percentage of SEPA Direct Debit transactions compared to total volume generated by customers

According to the SDD indicators compiled by the ECB, the share of SDD Core as a percentage of the total volume of direct debits generated by bank customers amounts to 0.08 percent as of November 2010. The ECB SDD indicators are publicly accessible 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 the previous issues of the EPC Newsletter, good progress is being made in the realisation of a SEPA for Cards, which aims to enable a consistent customer experience when making or accepting payments with cards throughout the euro zone. The EPC's SEPA Cards Framework (SCF) outlines high level principles and rules which will deliver this consistent experience when implemented by banks and card schemes. The SCF recognises the EMV standard for SEPA-wide acceptance of payments with cards at very high levels of security. EMV is an industry standard to implement chip and PIN security for Point of Sale (POS) card transactions. An important indicator on the progress in this area is the number of cards, POS and 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.

According to latest findings, at the end of the third quarter of 2010, EMV compliance was 79 percent for cards, 95 percent for POS (points of sale) and 95 percent for ATMs. 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>.

Public sector: SEPA ready?

No new or additional information has become available since reporting the following in the previous issue of the EPC Newsletter: *The Commission's Third Survey on Public Administrations' Preparedness and Migration to SEPA* (October 2010) analyses the situation as of end February 2010 and confirms that public administrations clearly lag behind other users in terms of preparedness and migration to SEPA. The weighted SCT migration rate for the replying public administrations in the euro area was 2.73 percent. This is significantly below the overall SCT migration rate in the euro area (6.2 percent in February 2010).

On the positive side, or so the survey concludes, it should be noted that when compared to the last survey, the SCT migration rate by public administrations has increased (from 1.5 percent in September 2009) and is expected to rise further by the end of 2010, when individual public administrations at central government or federal level in Belgium, Germany, France and Portugal plan to migrate their domestic traffic to SCT. The expected migration of a large share of payments initiated by central and local governments in France (contributing 60 million payments) and the migration of full payments traffic by the Federal Labour Agency in Germany (251 million payments), will substantially increase the public administration migration rate for SCT.

With regard to SDD migration, the results show that with the exception of Belgium and Germany, public administrations have not yet started to migrate to SDD. The weighted SDD rate for the replying public administrations in the euro area was only 0.06 percent. Although this figure is low it exceeds the overall SDD migration rate for the euro area (0.04 percent in February 2010). This figure is, however, expected to progressively increase after 1 November 2010, when the reachability obligation under Regulation (EC) No 924/2009 on cross-border payments in the European Community came into force for euro area banks. On the other hand, it must be recognised that the use of direct debits by public administrations is generally very low or even nil.

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 sides¹. 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 the EU Finance Ministers, the European Parliament and the European Central Bank, 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 the Seventh Progress Report on SEPA published by the ECB / Eurosystem in October 2010 it is stated that the "Eurosystem expects SCT and SDD to become the credit transfer and direct debit schemes used for euro payments in the EU. After the SEPA migration end date, they will have replaced national legacy credit transfer and direct debit schemes for euro payments". The European Parliament called on the European Commission to set a "clear, appropriate and binding end date, which date should not be later than 31 December 2012, for migrating to SEPA products"². On 2 December 2009, the Economic and Financial Affairs Council (ECOFIN - comprising the Economics and Finance Ministers of the EU Member States) considered "that establishing definitive end-dates for SDD and SCT migration would provide the clarity and the incentive needed by the market, ensuring that the substantial benefits of SEPA are rapidly achieved and that the high costs of running both legacy and SEPA products in parallel can be eliminated". At its inaugural meeting in June 2010, the SEPA Council - bringing together representatives of both the demand and supply sides including the EPC - endorsed a formal declaration stressing their "strong support for the establishment of end-date(s) for migration to SEPA Credit Transfers and SEPA Direct Debits by means of legislation at EU level".

On 16 December 2010, the European Commission published a proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros. The explanatory memorandum accompanying the proposal states that "full integration of the payment market will only be achieved once Union-wide payment instruments replace completely the national legacy instruments". The proposal clarifies that the end dates to be established for compliance with the technical requirements refer to the point in time when these requirements "need to be fulfilled by Union-wide credit transfers and direct debits". The proposal states, in part, that credit transfers shall be carried out in accordance with this Regulation twelve months after it comes into force; direct debits shall comply 24 months after it comes into force.

Marco Musto is the Secretary General of the EPC.

Related links :

[European Commission Proposal for a Regulation establishing technical Requirements for Credit Transfers and](#)

[Direct Debits in Euros \(December 2010\)](#)

[European Central Bank \(ECB\): Single Euro Payments Area - Seventh Progress Report \(October 2010\)](#)

[Commission's Third Survey on Public Administrations' Preparedness and Migration to SEPA \(October 2010\)](#)

[Translations of the EPC publication 'SEPA for the Public Sector' in all EU languages courtesy of the European Central Bank](#)

[SEPA Council: Formal Declaration on End-Date\(s\) \(June 2010\)](#)

[ECOFIN Conclusions on SEPA of December 2009 \(October 2010\)](#)

[Regulation \(EC\) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation \(EC\) No 2560/2001](#)

[European Commission: Note on Application of Article 8 of Regulation \(EC\) No 924/2009 - Reachability for Direct Debit Transactions](#)

Related articles in this issue:

[The Breakthrough for SEPA? European Commission publishes proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros](#)

[Best of Class: the Netherlands. A case study in successful migration to SEPA](#)

[How to Migrate to SEPA. Experience in Belgium: what works and what is difficult?](#)

Related articles in previous issues:

[So what's in a Name? Explaining payment schemes, instruments and systems. Clarity on payment terms is critical in the debate over the approach to setting end dates for migration to SEPA through EU Regulation](#) (EPC Newsletter, Issue 8, October 2010)

[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)

[Preparation for SEPA by Public Administrations in France. France's public administrations are among the country's leading users of cashless payment systems](#) (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)

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

²European Parliament Resolutions on the Implementation of the Single Euro Payments Area:
<http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2009-0139&language=EN&ring=B6-2009-0111> (March 2009) and
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0057+0+DOC+XML+V0//EN> (March 2010)

ARTICLE167